News release

Smiths Group plc announces interim results for the six months ended 31 January 2017

London, Friday 24 March 2017

For immediate release

Strong operational performance, further progress on strategic initiatives

Key points

- Group headline revenue in line on an underlying[1] basis; up 18% on a reported basis
- Group headline operating profit up 8% on an underlying[1] basis; up 27% on a reported basis
- Cash conversion strong at 115% with a 44% increase in free cash flow
- Headline basic EPS up 30% at 45.7 pence per share
- Proposed interim dividend of 13.55 pence per share, up 2.3%
- Operational improvements support increased R&D investment in long-term growth opportunities
- Balance sheet strengthened by business disposals and improved pension funding
- Morpho Detection acquisition in final stages, with approval and completion expected shortly

Interim results for the six months ended 31 January 2017

	Headline*				Statutory	
	2017 £m	2016 £m	Reported growth	Underlying growth	2017 £m	2016 £m
Revenue	1,616	1,372	18%	0%	1,617	1,372
Operating profit	277	217	27%	8%	377	183
Operating margin	17.1%	15.8%	130 bps	150 bps	23.3%	13.3%
Pre-tax profit	248	189	31%	10%	346	168
Basic EPS	45.7p	35.2p	30%		76.5p	32.8p
Headline free cash-flow	252	174	44%			
Dividend	13.55p	13.25p	2.3%		13.55p	13.25p
Return on capital employed	16.3%	15.4%	90 bps			

*In addition to statutory reporting, Smiths Group reports its continuing operations on a headline basis. Definitions of headline metrics, and information about the adjustments to statutory measures are provided in the notes to the financial statements

Andy Reynolds Smith, Group Chief Executive, said:

"In the past six months we have made good progress to focus our portfolio and run our businesses better. Strong cash conversion and improved margins across the Group provide us with additional resources to invest for the future. By laying the foundations for organic growth through targeted investments and by taking a disciplined approach to acquisitions and disposals, we are building a bigger, better and more focused Smiths.

"While sales were flat for the first six months of the year, Smiths Group delivered good underlying profit growth. Once again, Smiths Detection delivered strong growth in revenue and profit, offsetting declines at Smiths Medical and John Crane, and reinforcing our view that the acquisition of Morpho Detection makes compelling sense and will increase our exposure to a growing market. We are in the final stages of securing all necessary regulatory approvals, and expect to complete the acquisition

[1] Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

shortly. In tough markets, John Crane continued to show resilience with a modest return to growth in the aftermarket, which now accounts for two-thirds of the division's revenue. Smiths Medical had a weak first half and performance at Smiths Interconnect and Flex-Tek was in line with expectations.

"In September, we set out a new strategy for Smiths. We're now implementing measures across the Group that we believe, in the medium term, will deliver our twin priorities of chosen market outperformance and world-class competitiveness. We've made good progress, generating over £330m of proceeds from the disposal of three non-core businesses, investing for growth with increased R&D spend and introducing the Smiths Excellence System.

"Overall, the outlook for 2017 is unchanged. Group performance is expected to be slightly weighted towards the second half, albeit with a more balanced split between the first and second half than we saw last year. We expect some improvement in Smiths Medical's revenue performance in the second half. John Crane's first-fit end markets are expected to remain tough, somewhat counterbalanced by continued resilience in aftermarket. We anticipate sales growth at Smiths Detection in the second half, albeit at lower levels than we saw in the first half, and margins will moderate given contract mix and investment in new products. Smiths Interconnect and Flex-Tek are expected to continue to perform in line with the first half. We expect cash conversion to continue to be strong as the rate of progress on inventory management improves. The depreciation of sterling is expected to provide a tailwind to reported revenue and operating profit, should current rates prevail."

Statutory reporting

Statutory reporting takes account of all items excluded from headline performance. On a statutory basis, pre-tax profit from continuing operations was £346m (2016: £168m) and basic earnings per share were 76.5p (2016: 32.8p).

See Accounting policies for an explanation of the presentation of results and note 3 to the accounts for an analysis of non-headline items.

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Presentation

The presentation slides and a live webcast of the presentation to analysts are available at www.smiths.com/results at 09.00 (UK time) on Friday 24 March. A recording of the webcast is available later that day. A live audio broadcast of the presentation is also available by dialling (no access code required):

UK toll free: 0808 237 0062

International: +44 (0)20 3427 0662

US/Canada toll free: +1 866 928 6048

An audio replay is available for thirty days on the following numbers (access PIN 683518#)

UK toll free: 0808 237 0026

International: +44 (0)20 3426 2807

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Photography

Original high-resolution photography and broadcast quality video is available to the media from the media contacts above or from http://www.smiths.com/images.aspx.

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Chief Executive's review

Group results overview

Group headline revenue was in line on an underlying[1] basis. John Crane revenue fell 4% on an underlying[1] basis as the continuation of difficult trading conditions in global energy drove reduced sales in first-fit, down 15% in the period. Aftermarket revenue returned to growth, up 3% on an underlying[1] basis, as activity levels stabilised and a number of significant contract wins led to a growing aftermarket order book. Smiths Medical revenue fell 2% on an underlying[1] basis, mainly driven by softness in Infusion Systems and Vascular Access, and only partially offset by growth in Vital Care as we look to reposition our business. Smiths Detection revenue was up 12% on an underlying basis[1], delivering good growth across all end-use markets with the exception of Ports & Borders; aftermarket sales continued to grow. On an underlying[1] basis, Smiths Interconnect revenue was down 1% and Flex-Tek revenue grew 2%. Group revenue grew 18% on a reported basis, as the benefits of foreign exchange were only partially offset by the impact of disposals.

Group headline operating profit of £277m was up 8% on an underlying[1] basis and up 27% on a reported basis. The Group's operating profit margin increased by 150 basis points on an underlying basis, with margin expansion in all divisions reflecting trading performance in addition to cost control, business improvement and restructuring activities.

The Group delivered an improvement in cash generation with a cash conversion rate of 115%. Headline free cash flow of £252m increased 44% and net debt of £635m reduced by £367m excluding valuation adjustments, reflecting the benefit of the disposal of non-core assets, improved cash generation and a significantly lower pension contribution compared to the prior year.

Strategy implementation

In September, we set out our vision to establish Smiths as one of the world's leading technology companies, based on a strategy of outperforming our chosen markets and achieving world-class competitiveness, supported by a strong financial framework. In the first half of this year, we have taken a number of further steps to deliver these priorities, laying the foundations for future growth and a bigger, better, more focused Smiths Group.

Outperforming our chosen markets

As we position Smiths Group for long-term growth, we are targeting organic and inorganic opportunities that offer the best levels of sustainable growth and value creation. We are building market-leading positions in our chosen markets with a more focused portfolio of businesses that embody the essential characteristics of where Smiths Group creates value:

- good competitive positioning in attractive growth markets;
- strength in technology differentiation, including digital capabilities;
- asset-light operations; and
- a high proportion of aftermarket service revenue.

After a detailed review of the competitiveness of our businesses and the attractiveness of the markets in which they operate, we assess that more than 60% of our revenue is derived from businesses that are well positioned. Our view is that the remainder either can be improved, through measures such as smarter investment in R&D, improved competitiveness, revised channels to market and a stronger position in emerging markets, or divested. In order to focus the portfolio on those areas with the greatest potential for value creation and long-term growth, we have accordingly begun a disciplined programme of select disposals. To date we have completed the sale of John Crane's Artificial Lift, Smiths Medical's Wallace and Smiths Interconnect's Power businesses, which together accounted for £150m of revenue, for a total consideration of £334m. In April last year, we announced the proposed acquisition of Morpho Detection for $710m. This acquisition will better position us to meet customer requirements for high-technology, cost-efficient solutions and services, including software. We are in the final stages of securing all necessary regulatory approvals, which requires the disposal of Morpho Detection's Trace business, and expect to complete the acquisition shortly. We look forward to bringing Morpho Detection into Smiths Group.

Across the Group, we continue to focus on activities that will deliver longer-term organic revenue growth. John Crane has made progress in diversifying its end markets and the disposal of Artificial Lift significantly reduces the division's exposure to commoditised aspects of upstream oil and gas segments. A higher proportion of revenue now comes from non-oil and gas markets, with contract wins in the first half with customers in the pulp and paper, chemical and power markets. Further opportunities are being targeted in biotech, marine, military and aerospace. Smiths Medical continued to reposition its product portfolio towards higher-growth segments, with R&D spend in the first half increasing to 6.8% of sales. We launched products across the portfolio and expect the rate of new product launches to accelerate towards the end of 2017 and into 2018. Smiths Detection secured key certifications which will support future growth, including approval from the Civil Aviation Administration of China (CAAC) for the IONSCAN 600 and European Civil Aviation Conference (ECAC) approval for the HI-SCAN 6040aTiX. As European

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[1] Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

regulators focus on moving towards automatic detection of explosives in cabin baggage, this advanced checkpoint screening solution is the first in the industry to be awarded the new European Explosive Detection Systems (EDS) certification EDS CB C1 for its automated explosives detection capability. The restructuring of Smiths Interconnect to prioritise customers who seek more sophisticated and differentiated technology solutions is enabling the division to increase its focus on product platforms over bespoke solutions.

We have also revised our approach to targeting growth in key geographies, such as China and Asia-Pacific. Asia accounts for c.10% of Smiths Group revenues today, a figure that we consider too low. With long-term growth dynamics such as increasing trade and infrastructure investment, growing energy and industrial demand and ever-greater requirements for quality healthcare solutions, these are attractive markets for Smiths Group where we can differentiate ourselves with customers. We need to make a step change in our approach that demonstrates our long-term commitment to the region and that invests in building capacity and talent to meet the scale of our ambitions for sustainable above-market growth in the future. Roland Carter, President, Smiths Interconnect, has agreed to become Smiths Group Asia President in order to lead the important work of energising our commercial presence, developing our operations and our people, and building the Smiths Group brand with key customers and stakeholders across the region. Roland will continue to report to me as a member of the Executive Committee in this role.

Achieving world-class competitiveness

A key conclusion of our strategic review was that there is material opportunity to improve competitiveness by ensuring robust and consistent execution across Smiths Group, focused on continuous improvement, speed and efficiency. We have begun to roll out the Smiths Excellence System across the Group and, while it will take time to yield sustainable benefits, key activities in the first half of this year included:

- *Customer Excellence*
  We are improving our approach to channel to market management and strategic pricing, with a focus on developing opportunities for aftermarket support and servicing. For example, as part of the strategic reorganisation of Smiths Interconnect, on 1 March we announced that the division would unify a number of its technology brands in order to position Smiths Interconnect as a more comprehensive solutions provider across the breadth of these solutions.
- *People Excellence*
  We have established a leadership development programme and culture change programme that will build a learning organisation that attracts, retains, develops, engages and inspires the very best people. An example of this approach is a partnership on a series of leadership programmes with the University of California, Los Angeles (UCLA).
- *Technology Excellence*
  We have established a Group-wide New Product Innovation process that will ensure our product and service vitality is strong and will sharpen our focus on commercialisation. The Group-wide *i*^{3} innovation forum has approved the first projects under the £10m central Innovation Fund to build digital and related capabilities that can be leveraged across Smiths Group. These projects aim to increase internal capability in both hardware and software and to lay foundations in the areas of software monetisation, machine learning, Internet of Things (IoT) cloud platforms and high speed data transmission.
- *Production Excellence*
  We have made progress in developing a culture of Continuous Improvement and lean enterprise, supported by the correct structures, processes, enablers, measures and people skills. These measures are focused on delivering sustainable efficiency savings that can help fund innovation in order to fuel organic growth.
- *Programme Excellence*
  We have implemented a gated programme management process and increased our focus on rigorous contract management across the Group.
- *Supply Chain Excellence*
  We are beginning to see some signs of improvement in inventory turns. Although initially modest, I am confident that we can create the momentum to deliver sustainable improvements in working capital management.

Dividend

The Board has a progressive dividend policy for future payouts, with the aim of increasing dividends in line with the long term underlying growth in earnings. This policy will enable us to retain sufficient cash flow to finance our investment in the drivers of growth and to meet our financial obligations. In setting the level of dividend payments, the Board will take into account prevailing economic conditions and future investment plans, along with the objective to maintain minimum dividend cover of around 2.0. The Board has declared an interim dividend of 13.55p per share (2016: 13.25p per share). The interim dividend will be paid on 28 April to shareholders registered at close of business on 7 April. The ex-dividend date is 6 April.

Outlook

Overall, the outlook for 2017 is unchanged. Group performance is expected to be slightly weighted towards the second half, albeit with a more balanced split between the first and second half than we saw last year. We expect some improvement in Smiths Medical's revenue performance in the second half. John Crane's first-fit end markets are expected to remain tough, somewhat counterbalanced by continued resilience in aftermarket. We anticipate sales growth at Smiths Detection in the second half, albeit at lower levels than we saw in the first half, and margins will moderate given contract mix and investment in new products. Smiths Interconnect and Flex-Tek are expected to continue to perform in line with the first half. We expect cash conversion to continue to be strong as the rate of progress on inventory management improves. The depreciation of sterling is expected to provide a tailwind to reported revenue and operating profit, should current rates prevail.

Business review

	% of Group revenue		Headline operating profit margin		Headline return on capital employed	
	2017	**2016**	**2017**	2016	**2017**	2016
John Crane	**27%**	29%	**20.8%**	19.9%	**21.3%**	22.7%
Smiths Medical	**29%**	30%	**21.0%**	20.5%	**16.3%**	14.9%
Smiths Detection	**20%**	17%	**16.8%**	12.4%	**14.7%**	10.9%
Smiths Interconnect	**14%**	14%	**11.3%**	9.7%	**11.3%**	9.2%
Flex-Tek	**10%**	10%	**18.3%**	17.6%	**32.8%**	32.3%
Group	**100%**	100%	**17.1%**	15.8%	**16.3%**	15.4%

John Crane

John Crane provides engineered products and services to global energy and process industry customers. John Crane's revenue is currently comprised of 64% aftermarket sales. Approximately half of revenue is derived from the oil and gas and petrochemical sector (of which approximately 85% is downstream and 15% midstream), with the other half coming from other industries including Chemicals, Pharmaceuticals, Power and Pulp & Paper.

	2017 £m	2016 £m	Reported growth	Underlying growth
Revenue	435	393	11%	(4)%
Headline operating profit	90	78	16%	(4)%
Headline operating margin	20.8%	19.9%	90bps	
Statutory operating profit	87	72	22%	
Return on capital employed	21.3%	22.7%	(140)bps	

Performance

Revenue fell 4% on an underlying[1] basis as difficult market conditions continued throughout global energy markets. The decline was driven by reduced sales in first-fit with aftermarket returning to modest growth. Reported revenue increased by 11% driven by foreign exchange translation benefits, partially offset by the impact of the disposal of Artificial Lift.

Underlying[1] aftermarket revenue returned to growth and was up 3% as activity levels stabilised and a number of significant contract wins led to a growing aftermarket order book, reflecting the resilience of this business. There were pockets of geographic strength but weaknesses remained in North America. Aftermarket revenue represented 64% of total revenue (2016: 58%). Underlying[1] first-fit sales were down 15% in the period, driven by continuous volatility in global energy markets, especially in North America. We continued to focus on expanding the installed base and increased our investment in first-fit projects.

Revenue from emerging markets represented 23% of John Crane sales, slightly below the prior year, reflecting headwinds in certain Latin American markets and challenging conditions in China.

Headline operating profit was down 4% on an underlying[1] basis, as lower sales and strategic investments in first-fit projects were only partially offset by strong cost control. As a result, headline operating profit margin increased by 90 basis points to 20.8%. The difference between statutory and headline operating profit primarily reflects £3m restructuring and £3m litigation costs net of £4m gain on the sale of the Artificial Lift business.

Return on capital decreased 140 basis points to 21.3%, principally due to lower underlying profits.

John Crane's Artificial Lift business was sold in November 2016. Artificial Lift was held for sale at the year ended 31 July 2016. The business performance of Artificial Lift is included within the financial summary and results presented above. In the first half of 2017, Artificial Lift sales were £11m, operating loss was £2m and net assets were £24m.

John Crane continued to invest in research and development projects in 2017 to meet customers' challenges. Specific developments included:

- Sense™, a predictive diagnostics platform for John Crane products currently under development and in field trials. The system replaces manual inspection of equipment, by processing industrial sensor data and using state of the art algorithms to monitor operation and provide performance deviation alarms. Using advanced statistical methods, insights are developed to diagnose and predict future events. In current field trials, Sense™ has successfully helped customers to identify equipment problems and procedural issues in their plants, and provided data to support equipment upgrades and work process modifications. Based on these results, we are now extending field trial activity to more customers.

[1] Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

- Several material development projects are progressing through the phases of our technology development process. These include research into the tribological properties of graphene; the use of nanoparticles in the processing of ceramic materials in order to enhance mechanical properties; and the development of capabilities for the additive manufacturing of metals, polymers and ceramics, which has the potential to significantly reduce cycle time and the cost of complex components within John Crane products.

Smiths Medical

Smiths Medical supplies medical devices and consumables that are vital to patient care globally. Our products include Infusion Systems, Vascular Access, Vital Care and Specialty Products. 83% of Smiths Medical's sales are from consumable and disposable products.

	2017 £m	2016 £m	Reported growth	Underlying growth
Revenue	472	411	15%	(2)%
Headline operating profit	99	84	18%	7%
Headline operating margin	21.0%	20.5%	50 bps	
Statutory operating profit	189	72	161%	
Return on capital employed	16.3%	14.9%	140bps	

Performance

Revenue declined 2% on an underlying[1] basis, driven by Infusion Systems and Vascular Access. Reported revenue grew 15% with favourable foreign exchange translation effects, partially offset by the impact of the disposal of Wallace and the underlying revenue decline.

Infusion Systems underlying[1] revenue declined 2% due to softness in ambulatory infusion hardware and disposables. Vascular Access underlying[1] revenue decreased 4%, as growth in cardiothoracic and ports products was offset by declines in sharps safety and peripheral intravenous catheters (PIVC). Vital Care underlying[1] revenue growth of 1% was driven by tracheostomy and chronic obstructive pulmonary disease (COPD) products. Specialty Products underlying[1] revenue declined 4% due to a reduction in patient monitoring sales.

Sales into emerging markets decreased 12% in the first half on an underlying[1] basis, with continued strength in India (+24%) and South East Asia (+8%) more than offset by issues such as economic challenges in Venezuela and the timing of orders from key customers in China.

Headline operating profit grew 7% on an underlying[1] basis, as operational efficiencies and tight cost controls more than offset revenue declines and continued pricing pressure in the sector. As a result, headline operating margin of 21.0% was 50 basis points higher than the prior year. The difference between statutory and headline operating profit reflects the £100m profit on disposal, net of £6m of restructuring charges and £4m amortisation of intangible assets.

Return on capital employed increased 140 basis points to 16.3%, reflecting improved profitability that supported greater capital expenditure in new product development, capacity and manufacturing tooling.

Smiths Medical's Wallace product line was sold in November 2016. Wallace sales in H1 2017 were £5m, operating profit was £3m and net assets sold were £32m.

Research and development investment increased to 6.8% of sales in the period (2016: 5.8%), as the first wave of new products approached launch, including new offerings in infusion systems, PIVC, tracheostomy and temperature management. Many of these are expected to launch late in the second half of 2017 and into 2018. In the first half, new product launches included a Closed Blood Sampling System, the ViaValve Winged Safety intravenous catheter and MedFusion Smart Pump programming, the latter driving stronger sales in our hospital infusion market.

[1] Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Smiths Detection

Smiths Detection is a global authority on the manufacture, application and management of world class detection and screening technology. It delivers customised security solutions to protect society from the threat and illegal passage of explosives, prohibited weapons, contraband, toxic chemicals and narcotics. 35% of sales are from the aftermarket.

	2017 £m	2016 £m	Reported growth	Underlying growth
Revenue	318	240	33%	12%
Headline operating profit	54	30	80%	51%
Headline operating margin	16.8%	12.4%	440 bps	
Statutory operating profit	47	28	68%	
Return on capital employed	14.7%	10.9%	380bps	

Performance

Revenue grew 12% on an underlying[1] basis, with growth in all end-use markets other than Ports & Borders. Overall aftermarket revenue grew by 5%, accounting for 35% of total revenue (2016: 38%), as initiatives continued to increase service attach rates and the sales of premium service contracts. On a reported basis, revenue grew 33%, boosted by favourable foreign exchange translation effects.

Transportation underlying[1] revenue growth of 12% was driven by strong performances in the EMEA region, including major deliveries to Abu Dhabi and Berlin Brandenburg airports. Ports & Borders sales declined 14% on an underlying[1] basis, as an encouraging performance in EMEA that included major deliveries in Kuwait and Italy was more than offset by the impact of the completion of key programmes in Nicaragua and Indonesia last year. Military underlying[1] revenue growth of 21% was driven by the continued benefit of a number of long term contracts, mostly in the US and the UK. Critical infrastructure revenue increased by 24% on an underlying[1] basis, with growth in all regions as a number of key contracts came on stream, such as the US Federal Protection Service, and in the UAE. There is continued pricing pressure in some end-use markets, with high levels of competition to win large programme contracts and, in the unregulated parts of the market, ongoing challenge from lower-priced competitors.

Headline operating profit grew 51% on an underlying[1] basis, as increased sales, aftermarket growth and favourable business mix were reinforced by the implementation of business improvement initiatives, value engineering and good programme management discipline. As a result, headline operating margin was up 440 basis points to 16.8%. The difference between statutory and headline operating profit includes £6m costs associated with the Morpho acquisition.

Return on capital employed increased 380 basis points to 14.7%, driven by improved profitability.

Smiths Detection continued to invest in research and development in the period, accounting for 6.3% of sales, 5.4% excluding customer funded R&D (2016: 5.6% and 4.9%, respectively.). The launch of a number of new digital products to benefit the aviation segment included Checkpoint.Evo^{plus} and the HI-SCAN 6040aTiX:

- Checkpoint.Evo^{plus} is an advanced screening and management platform, which integrates independent components and sensors into a single, intelligent solution producing invaluable operational data and supporting new functions such as centralised remote screening and directed search.
- As European regulators focus on moving towards automatic detection of explosives in cabin baggage, through the new EU 2015/1998 standard, the HI-SCAN 6040aTiX advanced checkpoint screening solution has become the first product in the industry to be awarded the new European Explosive Detection Systems (EDS) certification EDS CB C1 for its automated explosives detection.

Smiths Interconnect

Smiths Interconnect is a global provider of technically differentiated radio frequency and electronic components and subsystems for critical applications in the commercial aviation, defence, space, medical, rail, semiconductor test, wireless communications and industrial markets.

	2017 £m	2016 £m	Reported growth	Underlying growth
Revenue	230	196	17%	(1)%
Headline operating profit	26	19	37%	15%
Headline operating margin	11.3%	9.7%	160 bps	
Statutory operating profit	45	13	244%	
Return on capital employed	11.3%	9.2%	210bps	

[1] Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

Performance

Revenue was down 1% on an underlying[1] basis, with broadly flat Connectors sales offset by lower Microwave revenue. Revenue grew 17% on a reported basis, boosted by foreign exchange translation benefits, partially offset by the impact of the disposal of the Power business.

Connectors revenue was broadly stable on an underlying[1] basis, driven by the expansion of performance capabilities of semiconductor test socket technology for a key account. Microwave revenue declined 3% on an underlying[1] basis, partially offset by gains in the space market where we increased our product content with GEO (Geostationary Earth Orbit) and LEO (Low Earth Orbit) satellite programmes. Orders were strong in the commercial satcom market, bolstered by two orders from an in-flight entertainment and communications provider to continue outfitting commercial aircraft with KU-band wireless connectivity. Continued strength in the defence market also contributed to a strong order backlog.

Headline operating profit grew 15% on an underlying[1] basis and the headline operating margin increased 160 basis points to 11.3%, driven by the benefit of restructuring activity and continued procurement savings. The difference between statutory and headline operating profit primarily reflects £22m profit on disposal.

Return on capital employed increased 210 basis points to 11.3%, driven by improved profitability and control of working capital.

In January 2017, Smiths Interconnect's Power business was sold. For 2017, sales were £47m and operating profit was £7m and net operating assets were £138m.

Research and development spend was in line with last year, with restructuring enabling increased focus on product platforms over bespoke solutions.

Flex-Tek

Flex-Tek provides engineered components that heat and move fluids and gases for the aerospace, medical, industrial, construction and domestic appliance markets.

	2017 £m	2016 £m	Reported growth	Underlying growth
Revenue	161	132	22%	2%
Headline operating profit	30	23	28%	7%
Headline operating margin	18.3%	17.6%	70 bps	
Statutory operating profit	37	30	23%	
Return on capital employed	32.8%	32.3%	50bps	

Performance

Revenue grew 2% on an underlying[1] basis, with growth in all segments except Fluid Management. On a reported basis, foreign exchange translation benefits lead to revenue growth of 22%.

Construction revenue grew 3% on an underlying[1] basis, with both Gastite and Thermaflex benefiting from growth in the US housing market. Fluid Management revenue was down 3% on an underlying[1] basis, primarily due to order timing, although the aerospace market for aircraft components otherwise remained strong. Heat Solutions revenue was up 10% on an underlying[1] basis, with growth in all segments, particularly in heat kits used in US residential construction. Flexible Solutions revenue was in line with last year on an underlying[1] basis, driven by growth in the medical segment, partially offset by a decline in the floor care market.

Headline operating profit of £30m delivered a margin of 18.3%, 70 basis points above last year. Margins expanded in all segments with the exception of Fluid Management, due to a less favourable product mix. Improvements in profitability were driven by fixed costs absorption combined with procurement and value engineering savings. The difference between statutory and headline operating profit primarily reflects the £8m reduction in the Titeflex Corporation subrogation claims due to increasing US discount rates.

Return on capital employed increased 50 basis points to 32.8%, driven by improved profitability.

[1] Underlying excludes the impact of acquisitions and divestments, and the effects of foreign exchange translation

2017 performance review

As a global business, Smiths Group is exposed to a number of different industries and macroeconomic trends. The nature of our diversified portfolio means that we are well placed to mitigate exposure to any specific sector or industry, as is reflected in the results for the first half of 2017.

Group revenue was in line on an underlying basis, with a strong performance at Smiths Detection, growth at Flex-Tek and a return to growth for John Crane's aftermarket offset by declines in John Crane's first-fit and in Smiths Medical and Smiths Interconnect.

Headline revenue

Reported headline revenue increased by £244m (+18%) to £1,616m (2016: £1,372m), including the positive effects of foreign currency translation (+£251m) and the adverse impact of disposals (-£15m). On an underlying basis, revenue was flat as growth in Smiths Detection (+£33m; +12%) and Flex-Tek (+£4m; +2%) was almost entirely offset by declines in John Crane (-£18m; -4%), Smiths Medical (-£9m; -2%) and Smiths Interconnect (-£2m;-1%) year-on-year.

Headline operating profit

Reported headline operating profit of £277m was £60m higher than prior year (2016: £217m) including the positive effects of foreign currency translation (+£39m) and the impact of disposals (-£1m). On an underlying basis operating profit increased 8%, with improvements in all divisions. Operating margin increased by 130 basis points to 17.1% (2016: 15.8%), with improvements in all divisions as sales growth was combined with favourable mix, cost savings and efficiencies.

John Crane margins improved by 90 basis points to 20.8% (2016: 19.9%) despite weaker sales and investment in strategic first-fit projects, benefiting from the disposal of Artificial Lift, favourable mix and strong cost control actions. Smiths Medical delivered a 50 basis point margin increase to 21.0% (2016: 20.5%) with efficiencies and cost control offsetting lower sales and pricing pressure. Smiths Detection's margin was up 440 basis points to 16.8% (2016: 12.4%) due to sales growth, combined with favourable mix and efficiencies. Smiths Interconnect improved its operating margin by 160 basis points to 11.3% (2016: 9.7%) reflecting the benefit of restructuring combined with procurement savings. Operating margins of 18.3% in Flex-Tek were 70 basis points higher than last year (2016: 17.6%) reflecting higher sales combined with efficiency savings.

Operating profit on a statutory basis, after taking account of the items excluded from the headline figures, was £377m (2016: £183m) – see note 3 for information on the excluded items. The increase was driven by the £126m profit on disposal of businesses. Other non-headline charges are £8m lower at £26m reflecting the benefit of lower amortisation of acquired intangible assets (£3m) and no charges for pension de-risking (2016: £11m charge) offset by acquisition costs for Morpho (£6m).

Headline finance costs

Headline finance cost during the period totalled £29m, £1m higher than the previous period. The small increase reflects the lower rates on cash deposits in the period and the effects of a weaker pound, offsetting the benefit of the 2016 bond repayment.

Non-headline items relating to continuing activities excluded from headline profit before tax

These items amounted to a credit of £98m compared to a charge of £21m in 2016. They comprised:

- £126m gain on the three disposals in the period: £4m on John Crane Artificial Lift, £100m on Smiths Medical Wallace and £22m on Smiths Interconnect Power;
- £6m charge for acquisition costs;
- amortisation of intangible assets acquired in business combinations of £6m (2016: £9m). The ongoing amortisation charge relates principally to technology and customer relationships;
- £3m charge (2016: £2m) in connection with John Crane, Inc. asbestos litigation;
- £8m credit (2016: £7m credit) in connection with Titeflex Corporation litigation;
- £15m charge for restructuring (2016: £15m) in respect of the Fuel for Growth programme;
- £4m operating charge post-retirement benefit schemes (2016: £15m charge);
- £1m gain on retirement benefit finance (2016: £1m charge); and
- £nil of financing gains (2016: £17m gain including £19m gain on contributing government bonds to a pension scheme).

Research and development

The Group invested £73m in R&D (2016: £55m), equivalent to 4.5% of revenue (2016: 4.0%). Of that, £69m was funded by the Company compared with £52m in 2016, an underlying increase of 13%. The Group actively seeks funding from customers to support R&D and this amounted to £4m (2016: £3m). Under IFRS, certain development costs are capitalised, and this amounted to £20m in the period (2016: £9m). The gross capitalisation is shown as

an intangible asset. Where customers contribute to the costs of the development, the contribution is included as deferred income and disclosed within trade and other payables.

Taxation
The headline tax charge for 2017 of £66m (2016: £49m) represented an effective rate of 26.5% on the headline profit before taxation (2016: 26.0%). On a statutory basis, the tax charge on continuing activities was £43m (2016: £38m).

The Group aims to take advantage of global manufacturing, research and development and other tax incentives, to allocate its capital in the most tax-efficient manner where the regulatory environment allows, and to ensure the effective and timely management of its tax filings and compliance.

An effective tax rate of between 26% and 27% is expected in the year ending 31 July 2017, benefiting from credits in the year from the successful resolution of prior year risks and other tax management activities. The global corporate tax regulatory environment is currently undergoing significant change and we anticipate this will have the effect of increasing the effective tax rate of the Group in the coming years. We currently expect our effective tax rate to be in the region of 30% to 31% in 2018 and to remain around that level thereafter.

Earnings per share
Basic headline earnings per share from continuing activities were 45.7p (2016: 35.2p). The reported 30% increase was driven by higher operating profit partly offset by an increase in the effective tax rate to 26.5% from 26.0%.

On a statutory basis, the basic earnings per share from continuing activities were 76.5p (2016: 32.8p), reflecting the impact of the profit on disposal of businesses.

Cash generation and net debt
Operating cash generation remained strong, with headline operating cash-flow of £320m (2016: £218m), representing 115% (2016: 101%) of headline operating profit. See note 14 to the accounts for a reconciliation of headline operating cash and free cash-flow to statutory cash-flow measures.

Headline free cash-flow increased by £78m to £252m, reflecting the £102m increase in headline operating cash-flow, offset by a £21m increase in cash tax payments from £25m to £46m. Total free cash-flow, stated after all legacy costs, interest and taxes but before acquisitions and dividends, increased by £104m to £176m, reflecting the increase of £78m in headline free cash-flow, a £40m reduction in contributions to legacy defined benefit pension schemes and £8m higher litigation spend.

On a statutory basis, net cash inflow from operations was £225m (2016: £121m).

Net debt at 31 January 2017 was £635m, a reduction of £343m in the period. With the majority of the Group's net debt held in currencies other than pounds sterling to hedge the underlying asset base of the Group, the ongoing decline in the value of sterling resulted in a foreign exchange translation-driven increase of £36m in net debt. On an underlying basis, excluding foreign exchange and the associated £12m gain on hedging, net debt reduced by £367m, reflecting £320m proceeds of disposals and good operational cash generation.

At the end of the period, the Group had gross debt of £1,451m (31 July 2016: £1,409m) and cash reserves of £816m (31 July 2016: £431m). Of this gross debt, £286m (31 July 2016: £270m) falls due for repayment within one year.

In February 2017, the Group issued a new bond for €650m with a 2% coupon. The bond will be used principally to repay the €300m 2017 and $175m 2018 bonds.

Acquisitions and Disposals
In April 2016 we announced the acquisition of Morpho Detection for US$710m. The transaction is expected to complete during 2017, subject to regulatory clearances, and following completion will be merged with Smiths Detection. Following the regulatory requirement to dispose of Morpho Detection's Trace business, our annual cost synergies expectations are c.$20m by the third full year after closing.

In November 2016 we completed the disposal of our Artificial Lift business in John Crane for US$39.5m.

In November 2016, we completed the disposal of our Wallace business in Medical for a total enterprise value of £140m.

In January 2017, we completed the disposal of the Power business in Interconnect for an enterprise value of £162m.

Dividend
The Board has declared an interim dividend of 13.55p per share (2016: 13.25p per share). The interim dividend will be paid on 28 April to shareholders registered at close of business on 7 April.

Retirement benefits

In 2016, agreement was reached on the triennial valuations with the Trustees of both major UK pension schemes. As a result, total required cash contributions to defined benefit pension schemes will fall substantially from £124m in 2016 to between £50m and £60m, depending on foreign exchange rates, in 2017. As part of the company's commitment to de-risking its pension liabilities, in October 2016 the Trustee of the Smiths Industries Pension Scheme entered into a bulk annuity buy-in agreement covering liabilities of £254m and in February 2017 the Trustee of the TI Group Pension Scheme entered a similar agreement covering liabilities of £130m.

As required by IFRS, the balance sheet reflects the net surplus or deficit in retirement benefit plans, taking assets at their market values at 31 January 2017 and evaluating liabilities at period-end AA corporate bond interest rates.

The tables below disclose the net status across a number of individual plans. Where any individual plan shows a surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one plan is not available to fund the IAS 19 deficit of another plan. The net pension position is a surplus of £51m at 31 January 2017 from a surplus of £80m at 31 July 2016. The buy-ins reduce the IAS 19 surplus on the scheme, since the insurance assets are valued on the same basis as the insured liabilities.

The accounting basis under IAS 19 does not necessarily reflect the funding basis agreed with the Trustees and, should the schemes be wound up while they had members, they would need to buy out the benefits of all members. The buyouts would cost significantly more than the present value of scheme liabilities calculated in accordance with IAS 19.

	31 January 2017	31 July 2016	31 January 2016
Surplus/(deficit)			
Funded plans	191	217	249
Unfunded plans	(140)	(137)	(120)
Total surplus	51	80	129
Retirement benefit assets	265	328	361
Retirement benefit liabilities	(214)	(248)	(232)
	51	80	129

Return on capital employed

The return on capital employed (ROCE) is calculated over a rolling 12-month period and the percentage that headline operating profit comprises of monthly average capital employed. Capital employed comprises total equity adjusted for goodwill recognised directly in reserves, post-retirement benefit-related assets and liabilities net of tax, litigation provisions relating to non-headline items net of tax, and net debt. ROCE increased 90 basis points to 16.3% (2016: 15.4%) as a result of improved profitability. ROCE increased in all divisions except John Crane as a result of lower profits following revenue decline.

Exchange rates

The results of overseas operations are translated into sterling at average exchange rates. The net assets are translated at period-end rates. The principal exchange rates, expressed in terms of the value of sterling, are shown in the following table.

	31 January 2017	31 January 2016		31 July 2016	
Average rates:					
US dollar	1.26	1.51	Dollar strengthened 16%	1.46	Dollar strengthened 14%
Euro	1.16	1.37	Euro strengthened 16%	1.32	Euro strengthened 12%
Period-end rates:					
US dollar	1.26	1.42	Dollar strengthened 12%	1.32	Dollar strengthened 5%
Euro	1.17	1.31	Euro strengthened 11%	1.19	Euro strengthened 2%

Risk management

The principal risks and uncertainties affecting the business activities of the Group and relevant mitigating activities were set out on pages 52-60 of the Annual Report for the year ended 31 July 2016, a copy of which is available at the Company's website at www.smiths.com.

Developments since the Annual Report

In the view of the Board, the risks and uncertainties affecting the Group for the remaining six months of the financial year continue to be those set out briefly below and more fully in the Annual Report.

The key risks and uncertainties are summarised below:

Economic outlook and geo-political environment

Economic and financial market conditions may lead to recession and may cause adverse effects on customers or suppliers with consequential capacity or cash-flow implications for Smiths Group.

Compliance with legislation and regulations

A complex legislative and regulatory environment applies to the Group's activities such that failure to comply could have a significant impact on the financial results.

Pension funding

Defined benefit pension scheme obligations are funded by Group companies based on actuarial assumptions. Changes in discount rates, inflation, returns or mortality could lead to material changes in funding requirements.

Financial risks

Financial risk, whether from foreign exchange fluctuations, availability of funding, changes in tax rates or availability of insurance cover may cause adverse effects on the Group's net assets, earnings or liquidity.

Product liability and litigation

Product liability claims and litigation, particularly given the Group's significant sales exposure to the US market, may have a significant impact on the financial results.

Global supply chain and business/process transformation

Reliance on sole suppliers or concentration of manufacturing in the supply chain – especially in areas exposed to natural catastrophe – may result in disruption to the supply of products.

Government customers

A significant share of revenues are from governments or influenced by governments. Many such governments are reducing expenditure in the present economic environment with consequential risks to revenue.

Technology and innovation

Product innovation is key to long-term revenue growth. Failure of the Group to innovate its products and services could materially affect market share and sales growth.

Talent and succession planning

Suitably qualified personnel are an important asset that underpins the Group's success. Failure to attract or retain such personnel may result in weaker growth and returns.

Programme delivery

Failure to deliver products and services according to contractual obligations may lead to higher costs, liquidated damages or other penalties.

Acquisitions and disposals

Acquisitions are subject to execution risk and may be more difficult to integrate than expected so that the full benefits are not realised.

Information technology and cyber-security

Information systems are subject to security risk and play an important part in business processes, both internally and externally.

Statement of directors' responsibilities

The Interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report in accordance with the Disclosure and Transparency Rules ("DTR") of the United Kingdom Financial Conduct Authority ("FCA"). The DTR require that the accounting policies and presentation applied to the half-yearly figures must be consistent with those applied in the latest published annual accounts, except where the accounting policies and presentation are to be changed in the subsequent annual accounts, in which case the new accounting policies and presentation should be followed, and the changes and the reasons for the changes should be disclosed in the Interim report, unless the FCA agrees otherwise.

The directors confirm that this condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union, and that the interim management report herein includes a fair review of:

- the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements as required by DTR 4.2.7;
- the principal risks and uncertainties for the remaining six months of the year as required by DTR 4.2.7; and
- related party transactions that have taken place in the first six months of the current financial year that have materially affected and changes in the related party transactions described in the previous annual report that could have materially affected the financial position or performance of the group during the first six months of the current financial year as required by DTR 4.2.8.

Having reassessed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the Interim report.

The directors of Smiths Group plc are listed in the Smiths Group plc Annual Report for the year ended 31 July 2016, except for the following changes to the membership of the board have occurred since the Annual Report was approved on 27 September 2016:

- On 1 January 2017 Noel Naval Tata joined the Board as an independent non-executive director.

For and on behalf of the Board of Directors:

Andy Reynolds Smith
Chief Executive

Chris O'Shea
Chief Financial Officer

23 March 2017

Independent review report to Smiths Group plc

Report on the condensed interim financial statements

Our conclusion

We have reviewed Smiths Group plc's condensed interim financial statements (the "condensed interim financial statements") in the Interim report of Smiths Group plc for the six month period ended 31 January 2017. Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The condensed interim financial statements comprise:

- ·the consolidated balance sheet as at 31 January 2017;
- ·the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- ·the consolidated cash-flow statement for the period then ended;
- ·the consolidated statement of changes in equity for the period then ended; and
- ·the explanatory notes to the condensed interim financial statements.

The condensed interim financial statements included in the Interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the condensed interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the condensed interim financial statements and the review

Our responsibilities and those of the directors

The Interim report, including the condensed interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the condensed interim financial statements in the Interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of condensed interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London

23 March 2017

(a) The maintenance and integrity of the Smiths Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the condensed interim financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement (unaudited)

Year ended 31 July 2016			Period ended 31 January 2017			Period ended 31 January 2016		
Total £m		Notes	Headline £m	Non-headline (note 3) £m	Total £m	Headline £m	Non-headline (note 3) £m	Total £m
	Continuing operations							
2,949	Revenue	2	1,616	1	1,617	1,372		1,372
(1,600)	Cost of sales		(869)	(1)	(870)	(749)		(749)
1,349	Gross profit		747		747	623		623
(403)	Sales and distribution costs		(223)		(223)	(192)		(192)
(575)	Administrative expenses		(247)	(26)	(273)	(214)	(34)	(248)
16	Other operating income							
	Profit on business disposal	12		126	126			
387	**Operating profit**		**277**	**100**	**377**	**217**	**(34)**	**183**
3	Interest receivable		1		1	2		2
(62)	Interest payable		(30)		(30)	(30)		(30)
15	Other financing gains/(losses)			(3)	(3)		14	14
3	Other finance income/(charges) – retirement benefits			1	1		(1)	(1)
(41)	Finance costs		(29)	(2)	(31)	(28)	13	(15)
346	**Profit before taxation**		**248**	**98**	**346**	**189**	**(21)**	**168**
(85)	Taxation	5	(66)	23	(43)	(49)	11	(38)
261	**Profit for the period**		**182**	**121**	**303**	**140**	**(10)**	**130**
	Attributable to							
259	Smiths Group shareholders		181	121	302	139	(10)	129
2	Non-controlling interests		1		1	1		1
261			**182**	**121**	**303**	**140**	**(10)**	**130**
	Earnings per share	4						
65.6p	Basic				76.5p			32.8p
64.9p	Diluted				75.6p			32.5p
	Dividends per share (declared)	13						
13.25p	– interim				13.55p			13.25p
28.75p	– final							
42.00p					**13.55p**			**13.25p**

Consolidated statement of comprehensive income (unaudited)

Year ended 31 July 2016 £m		Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m
261	**Profit for the period**		**303**	**130**
	Other comprehensive income			
(40)	Actuarial (losses)/gains on retirement benefits	6	(62)	33
10	Taxation recognised on actuarial movements		9	1
(30)	**Other comprehensive income and expenditure which will not be reclassified to the consolidated income statement**		**(53)**	**34**
	Other comprehensive income which will be, or has been, reclassified			
420	Exchange gains		107	196
	Cumulative exchange gains recycled on disposal		(31)	
	Fair value gains/(losses) and reclassification adjustments			
(2)	– deferred in the period on available for sale financial assets			(3)
(19)	– reclassified to income statement on available for sale financial assets			(19)
(238)	– deferred in the period on cash-flow and net investment hedges		(62)	(113)
	– reclassified to income statement on cash-flow and net investment hedges		21	(1)
131	**Total other comprehensive income**		**(18)**	**94**
392	**Total comprehensive income**		**285**	**224**
	Attributable to			
386	Smiths Group shareholders		285	222
6	Non-controlling interests			2
392			**285**	**224**

Consolidated balance sheet (unaudited)

	Notes	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Non-current assets				
Intangible assets	7	1,640	1,642	1,742
Property, plant and equipment	8	319	280	315
Financial assets – other investments		9	10	9
Retirement benefit assets	6	265	361	328
Deferred tax assets		253	226	246
Trade and other receivables		71	35	51
Financial derivatives		5	12	29
		2,562	**2,566**	**2,720**
Current assets				
Inventories		484	490	478
Current tax receivable		57	36	62
Trade and other receivables		660	639	745
Cash and cash equivalents	9	816	461	431
Financial derivatives		11	14	13
		2,028	**1,640**	**1,729**
Assets of business held for sale				24
Total assets		**4,590**	**4,206**	**4,473**
Non-current liabilities				
Financial liabilities				
– borrowings	9	(1,165)	(1,267)	(1,139)
– financial derivatives		(4)	(1)	(1)
Provisions for liabilities and charges	11	(296)	(264)	(305)
Retirement benefit obligations	6	(214)	(232)	(248)
Deferred tax liabilities		(103)	(79)	(95)
Trade and other payables		(28)	(25)	(29)
		(1,810)	**(1,868)**	**(1,817)**
Current liabilities				
Financial liabilities				
– borrowings	9	(286)	(180)	(270)
– financial derivatives		(14)	(18)	(19)
Provisions for liabilities and charges	11	(88)	(87)	(94)
Trade and other payables		(511)	(460)	(536)
Current tax payable		(49)	(53)	(72)
		(948)	**(798)**	**(991)**
Liabilities of business held for sale				(5)
Total liabilities		**(2,758)**	**(2,666)**	**(2,813)**
Net assets		**1,832**	**1,540**	**1,660**
Shareholders' equity				
Share capital		148	148	148
Share premium account		354	351	352
Capital redemption reserve		6	6	6
Revaluation reserve		1	1	1
Merger reserve		235	235	235
Retained earnings		1,416	966	1,205
Hedge reserve		(342)	(177)	(301)
Total shareholders' equity		**1,818**	**1,530**	**1,646**
Non-controlling interest equity		14	10	14
Total equity		**1,832**	**1,540**	**1,660**

Consolidated statement of changes in equity (unaudited)

	Notes	Share capital and share premium £m	Other reserves £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non-controlling Interest £m	Total equity £m
At 31 July 2016		500	242	1,205	(301)	1,646	14	1,660
Profit for the period				302		302	1	303
Other comprehensive income								
Exchange gains/(losses) net of recycling				77		77	(1)	76
Actuarial losses on retirement benefits and tax				(53)		(53)		(53)
Fair value losses					(41)	(41)		(41)
Total comprehensive income for the period				**326**	**(41)**	**285**		**285**
Transactions relating to ownership interests								
Exercises of share options		2				2		2
Purchase of own shares				(9)		(9)		(9)
Dividends								
– equity shareholders	13			(114)		(114)		(114)
Share-based payment				8		8		8
At 31 January 2017		**502**	**242**	**1,416**	**(342)**	**1,818**	**14**	**1,832**

	Notes	Share capital and share premium £m	Other reserves £m	Retained earnings £m	Hedge reserve £m	Equity shareholders' funds £m	Non-controlling Interest £m	Total equity £m
At 31 July 2015		497	242	743	(63)	1,419	9	1,428
Profit for the period				129		129	1	130
Other comprehensive income								
Exchange gains				195		195	1	196
Actuarial gains on retirement benefits and tax				34		34		34
Fair value losses				(22)	(114)	(136)		(136)
Total comprehensive income for the period				**336**	**(114)**	**222**	**2**	**224**
Transactions relating to ownership interests								
Exercises of share options		2				2		2
Purchase of own shares				(7)		(7)		(7)
Dividends								
– equity shareholders	13			(111)		(111)		(111)
– non-controlling interests							(1)	(1)
Share-based payment				5		5		5
At 31 January 2016		**499**	**242**	**966**	**(177)**	**1,530**	**10**	**1,540**

Consolidated cash-flow statement (unaudited)

Year ended 31 July 2016 £m		Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m
358	**Net cash inflow from operating activities**	14	**225**	**121**
	Cash-flows from investing activities			
(23)	Expenditure on capitalised development		(19)	(8)
(11)	Expenditure on other intangible assets		(3)	(5)
(74)	Purchases of property, plant and equipment		(29)	(29)
1	Disposals of property, plant and equipment		2	1
(9)	Investment in financial assets			(8)
(8)	Acquisition of businesses			(8)
	Disposals of businesses		320	
(124)	**Net cash-flow used in investing activities**		**271**	**(57)**
	Cash-flows from financing activities			
3	Proceeds from exercise of share options		2	2
(8)	Purchase of own shares		(9)	(7)
(163)	Dividends paid to equity shareholders		(114)	(111)
(14)	Cash inflow/(outflow) from matured derivative financial instruments		(2)	3
1	Increase in borrowings		1	1
(151)	Reduction and repayment of borrowings		(1)	(1)
(332)	**Net cash-flow used in financing activities**		**(123)**	**(113)**
(98)	**Net increase /(decrease) in cash and cash equivalents**		**373**	**(49)**
495	Cash and cash equivalents at beginning of the period		430	495
33	Exchange differences		10	12
430	**Cash and cash equivalents at end of the period**		**813**	**458**
	Cash and cash equivalents at end of the period comprise			
161	– cash at bank and in hand		307	130
270	– short-term deposits		509	331
(1)	– bank overdrafts		(3)	(3)
430			**813**	**458**

Reconciliation of net cash-flow to movement in net debt

Year ended 31 July 2016 £m		Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m
(818)	**Net debt at start of period**	9	**(978)**	**(818)**
(98)	Net increase/(decrease) in cash and cash equivalents		373	(49)
(1)	Increase in borrowings		(1)	(1)
151	Reduction and repayment of borrowings		1	1
52	**Movement in net debt resulting from cash-flows**		**373**	**(49)**
(2)	Capitalisation, interest accruals and unwind of capitalisation of fees		(6)	(10)
(23)	Fair value movement from interest rate hedging		12	(16)
(187)	Foreign exchange gains and losses		(36)	(93)
(160)	**Movement in net debt in the period**		**343**	**(168)**
(978)	**Net debt at end of period**	9	**(635)**	**(986)**

Notes to the Interim report (unaudited)

1 Basis of preparation

The condensed interim financial statements cover the six month period ended 31 January 2017 and has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, in accordance with International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Services Authority. It is unaudited but has been reviewed by the auditors and their report is attached to this document.

The interim financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 July 2016, which were prepared in accordance with IFRS as adopted by the European Union and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Accounting policies

The condensed interim financial information has been prepared on the basis of the accounting policies applicable for the year ending 31 July 2017.

These accounting policies are consistent with those applied in the preparation of the financial statements for the year ended 31 July 2016.

Significant judgements, key assumptions and estimates

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these consolidated financial statements are set out below.

Revenue recognition

The timing of revenue recognition on contracts depends on the assessed stage of completion of contract activity at the balance sheet date. This assessment requires the expected total contract revenue and costs to be estimated based on the current progress of the contract. Revenue of £27m (31 July 2016: £42m) has been recognised in the period in respect of contracts in progress at the period end with a total expected value of £204m (31 July 2016: £175m) and cumulative revenue recognised to date of £158m (31 July 2016: £137m). A 5% reduction in the proportion of the contract activity recognised in the current period would have reduced operating profit by less than £1m for both Smiths Detection and Smiths Interconnect (31 July 2016: less than £1m).

Smiths Detection also has multi-year contractual arrangements for the sale of goods and services. Where these contracts have separately identifiable components with distinct patterns of delivery and customer acceptance, revenue is accounted for separately for each identifiable component. Judgement is applied in the identification of the components of the contract, and the allocation of contract revenue to each component.

Smiths Medical has rebate arrangements in place with some distributors in respect of sales to end customers where sales prices have been negotiated by Smiths Medical. Rebates are estimated based on the level of discount derived from sales data from distributors, the amount of inventory held by distributors and the time lag between the initial sale to the distributor and the rebate being claimed. The rebate accrual at 31 January 2017 was £29m (31 July 2016: £28m).

Contract profitability

Smiths Detection has multi-year contractual arrangements for the sale of goods and services. Margins achieved on these contracts can reflect the impact of commercial decisions made in different economic circumstances. In addition, contract delivery is subject to commercial and technical risks which can affect the outcome of the contract. At 31 January 2017 there was a £4m (31 July 2016: £4m) balance sheet liability in respect of ongoing onerous contracts. No other contracts had been assessed as being at significant risk of becoming onerous.

Taxation

The Group has recognised deferred tax assets of £52m (31 July 2016: £87m) relating to losses and £109m (31 July 2016: £120m) relating to the John Crane, Inc. and Titeflex Corporation litigation provisions. The recognition of assets pertaining to these items involves judgement by management as to the likelihood of realisation of these deferred tax assets. This is based on a number of factors, which seek to assess the expectation that the benefit of these assets will be realised, including expected future levels of operating profit, expenditure on litigation, pension contributions and the timing of the unwind of other tax positions. It has been concluded that there are sufficient taxable profits in future periods to support recognition. A 5% reduction in expected future operating profits would reduce the level of deferred tax recognised by £10m (31 July 2016: £9m), and a 5% increase in expected future operating profits would increase the level of deferred tax recognised by £12m (31 July 2016: £11m).

Retirement benefits

The consolidated financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Group uses previous experience and independent actuarial advice to select the values of critical estimates.

At 31 January 2017 there is a retirement benefit asset of £265m (31 July 2016: £328m), principally relating to UK schemes, which arises from the rights of the employers to recover the surplus at the end of the life of the scheme. If the pension schemes were wound up while they still had members, the schemes would need to buy out the benefits of all members. The buyouts would cost significantly more than the present value of the scheme liabilities calculated in accordance with IAS 19: Employee benefits.

Receivables provisions

If the carrying value of any receivable is higher than the fair value, the Group makes provisions writing down the balance to its fair value. The fair value of receivables is considered individually for each customer and incorporates past experience and progress with collecting receivables.

At 31 January 2017 the gross value of receivables partly provided for, or more than three months overdue, was £78m (31 July 2016: £83m) and there were provisions of £34m (31 July 2016: £31m) against these receivables. Consequently, these receivables were carried at a net value of £44m (31 July 2016: £52m).

Inventory provisions

The calculation of inventory provisions requires judgement by management of the expected value of future sales. If the carrying value of inventory is higher than the expected recoverable value, the Group makes provisions writing inventory down to its net recoverable value. Inventory is initially assessed for impairment by comparing inventory levels to recent utilisation rates and carrying values to historical selling prices. A detailed review is completed for inventory lines identified in the initial assessment considering sales activity, order flow, customer contracts and current selling prices.

At 31 January 2017, there were provisions of £65m (31 July 2016: £70m) against gross inventory of £550m (31 July 2016: £548m).

A 10% increase in the proportion of raw materials provided for would increase the provision by £19m (31 July 2016: £20m) and a 10% increase in the proportion of finished goods provided for would increase the provision by £23m (31 July 2016: £23m).

Impairment

Goodwill is tested at least annually for impairment and other assets, including intangible assets acquired in business combinations, are tested if there are any indications of impairment, in accordance with the accounting policy set out below. The recoverable amounts of cash generating units and assets are determined based on value in use calculations unless future trading projections cannot be adjusted to eliminate the impact of a major restructuring. The value in use calculations require the use of estimates including projected future cash-flows and other future events.

Provisions for liabilities and charges

As previously reported, John Crane, Inc., a subsidiary of the Group, is currently one of many co-defendants in litigation relating to products previously manufactured which contained asbestos. Provision of £251m (31 July 2016: £252m) has been made for the future defence costs which the Group is expected to incur and the expected costs of future adverse judgments against John Crane, Inc. Whilst published incidence curves can be used to estimate the likely future pattern of asbestos related disease, John Crane, Inc.'s claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. Therefore, because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of the related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred. John Crane, Inc. takes account of the advice of an expert in asbestos liability estimation in quantifying the expected costs.

As previously reported, Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received a number of product liability claims regarding this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability. Provision of £85m (31 July 2016: £94m) has been made for the costs which the Group is expected to incur in respect of these claims. However, because of the significant uncertainty associated with the future level of claims, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement. It has also had to defend itself against proceedings brought by other parties, including product liability and insurance subrogation claims. Provision is made for any expected costs and liabilities in relation to these proceedings where appropriate, though there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred.

All provisions may be subject to potentially material revisions from time to time if new information becomes available as a result of future events. See note 11 for details of the assumptions and disclosures on the sensitivity of the provision calculations.

Presentation of results

In order to provide users of the accounts with a clear and consistent presentation of the underlying performance of the Group's ongoing trading activity, Smiths Group plc presents its results in the income statement with amounts relating to costs of acquisitions and disposals (including transition services), amortisation of acquired intangibles, impairments, legacy liabilities, significant restructuring, material one-off items and certain re-measurements in a separate column. See note 3 for a breakdown of the items excluded from headline operating profit and headline finance costs.

Measures of the underlying performance of the Group's ongoing trading activity are described as 'headline' and used by management to measure and monitor performance. See note 2 for disclosures of headline operating profit and note 16 for more information about the calculation of return on capital employed and credit metrics.

2 Segment information

Analysis by operating segment

The Group is organised into five divisions: John Crane, Smiths Medical, Smiths Detection, Smiths Interconnect and Flex-Tek. These divisions design and manufacture the following products:

- John Crane – mechanical seals, seal support systems, engineered bearings, power transmission couplings and specialist filtration systems;
- Smiths Medical – infusion systems, vascular access (including safety needles), patient airway and temperature management equipment and specialty devices in areas of in vitro fertilisation, diagnostics and emergency patient transport;
- Smiths Detection – sensors that detect and identify explosives, narcotics, weapons, chemical agents, biohazards and contraband;
- Smiths Interconnect – specialised electronic and radio frequency components and sub-systems that connect, protect and control critical systems;
- Flex-Tek – engineered components that heat and move fluids and gases, flexible hosing and rigid tubing.

The position and performance of each division is reported at each Board meeting to the Board of directors. This information is prepared using the same accounting policies as the consolidated financial information except that the Group uses headline operating profit to monitor divisional results and operating assets to monitor divisional position. See note 3 for an explanation of which items are excluded from headline profit measures. Intersegment sales and transfers are charged at arm's length prices.

Segment trading performance

							Period ended 31 January 2017
	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate costs £m	Total £m
Revenue	435	472	318	230	161		1,616
Divisional headline operating profit	90	99	54	26	30		299
Corporate headline operating costs						(22)	(22)
Headline operating profit/(loss)	**90**	**99**	**54**	**26**	**30**	**(22)**	**277**
Items excluded from headline measures (note 3)	(7)	(10)	(7)	(3)	7	(6)	(26)
Profit on disposal of businesses	4	100		22			126
Operating profit/(loss)	**87**	**189**	**47**	**45**	**37**	**(28)**	**377**
Headline operating margin	20.8%	21.0%	16.8%	11.3%	18.3%		17.1%

							Period ended 31 January 2016
	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate costs £m	Total £m
Revenue	393	411	240	196	132		1,372
Divisional headline operating profit	78	84	30	19	23		234
Corporate headline operating costs						(17)	(17)
Headline operating profit/(loss)	**78**	**84**	**30**	**19**	**23**	**(17)**	**217**
Items excluded from headline measures (note 3)	(6)	(12)	(2)	(6)	7	(15)	(34)
Operating profit/(loss)	**72**	**72**	**28**	**13**	**30**	**(32)**	**183**
Headline operating margin	19.9%	20.5%	12.4%	9.7%	17.6%		15.8%

							Year ended 31 July 2016
	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate costs £m	Total £m
Revenue	830	874	526	435	284		2,949
Divisional headline operating profit	181	187	69	57	51		545
Corporate headline operating costs						(35)	(35)
Headline operating profit/(loss)	**181**	**187**	**69**	**57**	**51**	**(35)**	**510**
Items excluded from headline measures (note 3)	(30)	(21)	(6)	(31)	(14)	(21)	(123)
Operating profit/(loss)	**151**	**166**	**63**	**26**	**37**	**(56)**	**387**
Headline operating margin	21.9%	21.4%	13.0%	13.1%	18.0%		17.3%

Segment assets and liabilities

Segment assets

31 January 2017	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, development projects, other intangibles and investments	98	238	94	43	36	13	522
Inventory, trade and other receivables	336	273	331	144	98	33	1,215
Segment assets	**434**	**511**	**425**	**187**	**134**	**46**	**1,737**

31 July 2016	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate and non-headline £m	Total £m
Property, plant, equipment, development projects, other intangibles and investments	100	221	95	46	33	15	510
Inventory, trade and other receivables	364	280	316	189	99	26	1,274
Segment assets	**464**	**501**	**411**	**235**	**132**	**41**	**1,784**

Segment liabilities

31 January 2017	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(119)	(118)	(204)	(53)	(32)		(526)
Corporate and non-headline liabilities						(398)	(398)
Segment liabilities	**(119)**	**(118)**	**(204)**	**(53)**	**(32)**	**(398)**	**(924)**

31 July 2016	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate and non-headline £m	Total £m
Divisional liabilities	(124)	(121)	(196)	(78)	(37)		(556)
Corporate and non-headline liabilities						(408)	(408)
Segment liabilities	**(124)**	**(121)**	**(196)**	**(78)**	**(37)**	**(408)**	**(964)**

Non-headline liabilities comprise provisions and accruals relating to non-headline items, acquisitions and disposals.

Reconciliation to segment assets and liabilities to statutory assets and liabilities

	Assets		Liabilities	
	31 January 2017 £m	31 July 2016 £m	31 January 2017 £m	31 July 2016 £m
Segment assets and liabilities	**1,737**	**1,784**	**(924)**	**(964)**
Goodwill and acquired intangibles	1,446	1,556		
Derivatives	16	42	(18)	(20)
Current and deferred tax	310	308	(152)	(167)
Retirement benefit assets and obligations	265	328	(214)	(248)
Cash and borrowings	816	431	(1,450)	(1,409)
Assets and liabilities of business held for sale		24		(5)
Statutory assets and liabilities	**4,590**	**4,473**	**(2,758)**	**(2,813)**

Segment capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £801m (31 July 2016: £815m) and eliminate post-retirement benefit assets and liabilities and litigation provisions relating to non-headline items, both net of related tax, and net debt. See note 16 for additional details.

The 12-month rolling average capital employed by division, which Smiths use to calculate divisional return on capital employed, is set out below:

31 January 2017	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate £m	Total £m
Average total capital employed	908	1,246	629	562	175	(30)	3,490
Return on capital employed	**21.3%**	**16.3%**	**14.7%**	**11.3%**	**32.8%**		**16.3%**

31 January 2016	John Crane £m	Smiths Medical £m	Smiths Detection £m	Smiths Interconnect £m	Flex-Tek £m	Corporate £m	Total £m
Average total capital employed	873	1,155	566	542	154	(61)	3,229
Return on capital employed	**22.7%**	**14.9%**	**10.9%**	**9.2%**	**32.3%**		**15.4%**

Analysis of revenue

The revenue for the main product and service lines for each division is:

John Crane	First-Fit £m	Aftermarket £m	Total £m
Revenue period ended 31 January 2017	158	277	435
Revenue period ended 31 January 2016	167	226	393

Smiths Medical	Infusion systems £m	Vascular access £m	Vital care £m	Specialty products £m	Total £m
Revenue period ended 31 January 2017	150	154	134	34	472
Revenue period ended 31 January 2016	129	136	111	35	411

Smiths Detection	Transportation £m	Ports and borders £m	Military £m	Critical infrastructure £m	Total £m
Revenue period ended 31 January 2017	140	43	60	75	318
Revenue period ended 31 January 2016	106	42	42	50	240

Smiths Interconnect	Connectors £m	Microwave £m	Power £m	Total £m
Revenue period ended 31 January 2017	83	100	47	230
Revenue period ended 31 January 2016	70	87	39	196

Flex-Tek	Fluid Management £m	Flexible Solutions £m	Heat Solutions £m	Construction £m	Total £m
Revenue period ended 31 January 2017	39	30	37	55	161
Revenue period ended 31 January 2016	33	25	29	45	132

3 Non-statutory profit measures

Headline profit measures

The Company seeks to present a measure of underlying performance which is not impacted by material non-recurring items or items considered non-operational in nature. This measure of profit is described as 'headline' and is used by management to measure and monitor performance. See the disclosures on presentation of results in accounting policies for an explanation of the excluded items. The excluded items are referred to as 'non-headline' items.

Headline revenue

The non-headline items included in statutory revenue are as follows:

	Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Activity under Wallace transition services agreement		1		
Non-headline items in revenue		**1**		

The agreement to sell Smiths Medical's Wallace product line includes an obligation to continue manufacturing products for the acquirer to support the orderly transition of the business. This activity is expected to continue for 12 months after the date of disposal. It has been treated as non-headline because it does not contribute to Smiths Medical's ongoing business.

Headline operating profit

The non-headline items included in statutory operating profit are as follows:

	Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Restructuring programmes		(15)	(15)	(37)
Acquisition costs		(6)		(6)
Provision for Titeflex Corporation subrogation claims	11	8	7	(11)
Provision for John Crane, Inc. asbestos litigation		(3)	(2)	(23)
Cost recovery for John Crane, Inc. asbestos litigation				16
Post-retirement benefits changes to schemes and administration costs	6	(4)	(15)	(16)
Impairment of goodwill, property, plant and equipment and trade investments				(31)
Amortisation of acquired intangible assets	7	(6)	(9)	(15)
Profit on disposal of businesses	12	126		
Non-headline items in operating profit		**100**	**(34)**	**(123)**

Material items for the period ended 31 January 2017

Restructuring costs comprise £15m in respect of Fuel for Growth. This programme, which involves redundancy, relocation and consolidation of manufacturing, is considered a material non-recurring item by virtue of its size.

A provision release of £8m has been recognised by Titeflex Corporation in respect of changes to the estimated cost of future claims including those from insurance companies seeking recompense for damage allegedly caused by lightning strike. A £2m increase in the expected gross cost has been offset by a credit of £10m arising from an increase in the discount rate.

The operating charge in respect of John Crane, Inc. litigation comprises a charge of £10m in respect of an increased provision for adverse judgments and legal defence costs, £5m in respect of litigation management, defence strategy and legal fees in connection with litigation against insurers, and a credit of £12m arising from the increase in US risk free rates.

Headline finance costs

	Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Adjustment to discounted provisions	11	(3)	(3)	(5)
Fair value gain realised on contributing government bonds to a pension scheme			19	19
Other financing gains and losses			(2)	1
Other finance costs – retirement benefits	6	1	(1)	3
Non-headline items in finance costs		**(2)**	**13**	**18**

4 Earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to equity shareholders of the Parent Company by the average number of ordinary shares in issue during the year.

	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Profit attributable to equity shareholders for the period – total	302	129	259
Average number of shares in issue during the period	395,383,836	395,061,486	395,095,591

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders by 399,856,483 (period ended 31 January 2016: 398,130,311; year ended 31 July 2016: 398,957,837) ordinary shares, being the average number of ordinary shares in issue during the year adjusted by the dilutive effect of employee share schemes.

A reconciliation of basic and headline earnings per share is as follows:

	Period ended 31 January 2017		Period ended 31 January 2016		Year ended 31 July 2016	
	£m	EPS (p)	£m	EPS (p)	£m	EPS (p)
Profit attributable to equity shareholders of the Parent Company	302	76.5	129	32.8	259	65.6
Exclude						
Non-headline items and related tax (note 5)	(121)	(30.8)	10	2.4	77	19.6
Headline profit attributable to equity shareholders of the Parent Company	181	45.7	139	35.2	336	85.2
Statutory EPS – diluted (p)		75.6		32.5		64.9
Headline EPS – diluted (p)		45.2		34.9		84.3

5 Taxation

The interim tax charge of 12.4% is calculated by applying the estimated effective headline tax rate of 26.5% for the year ending 31 July 2017 to headline profit before tax and then taking into account the tax effect of non-headline items in the interim period.

A reconciliation of total and headline tax charge is as follows:

	Period ended 31 January 2017		Period ended 31 January 2016		Year ended 31 July 2016	
	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate	Continuing operations £m	Tax rate
Profit before taxation	346		168		346	
Taxation	(43)	12.4%	(38)	22.4%	(85)	24.6%
Adjustments						
Non-headline items excluded from profit before taxation (note 3)	(98)		21		105	
Taxation on non-headline items and non-headline tax adjustment	(23)		(11)		(28)	
Headline						
Headline profit before taxation	248		189		451	
Taxation on headline profit	(66)	26.5%	(49)	26.0%	(113)	25.0%

The profits on the sale of Smiths Medical's Wallace product line and the Smiths Interconnect Power business included in non-headline items are sheltered by previously unrecognised losses or are non-taxable.

The changes in the value of the net tax liability in the period were:

	Current tax £m	Deferred tax £m	Net tax balance £m
At 31 July 2016	(10)	151	141
Foreign exchange gains and losses	3	6	9
Charge to income statement	(35)	(8)	(43)
Credit to reserves		9	9
Business combinations	4	(8)	(4)
Tax paid	46		46
At 31 January 2017	**8**	**150**	**158**

The deferred tax credit to reserves relates to net actuarial losses on the pension plans.

The current tax asset of £8m includes £16m of advance payments relating to a disputed audit assessment, paid to avoid possible penal interest and penalties.

Developments in the Group tax position

In 2012 £27m of UK deferred tax was written off as a deteriorating position in legacy pension plans made UK activities structurally loss making. As a result of an improvement in the UK pension position and restructuring financing activities, the UK is now expected to earn taxable profits and a £27m deferred tax asset has been recognised as a non-headline gain in the period, including the benefit of losses brought forward.

Smiths Group is one of the companies enrolled in the FII GLO litigation against HMRC. The court cases and appeals are nearing the end and some claimants, with different fact patterns, have received payments. Smiths claims amount to around £30m (after deducting 45% withholding tax). However, there are further relevant legal actions that could impact the claims. The benefit of this claim has not been recognised in the current period, or previous financial statements, due to the uncertainty of the eventual outcome.

6 Post retirement benefits

Smiths provides post-retirement benefits to employees in a number of countries throughout the world. The arrangements include defined benefit and defined contribution plans and, mainly in the United Kingdom (UK) and United States of America (US), post-retirement healthcare. The principal defined benefit pension plans are in the UK and in the US and these have been closed so that no future benefits are accrued.

Where any individual scheme shows a surplus under IAS 19, this is disclosed on the balance sheet as a retirement benefit asset. The IAS 19 surplus of any one scheme is not available to fund the IAS 19 deficit of another scheme. The retirement benefit asset arises from the rights of the employers to recover the surplus at the end of the life of the scheme. The schemes in surplus are mature, with a duration averaged over all scheme participants of 17 years. However 38% of the liabilities of these schemes are expected to be paid after 2037.

The amounts recognised in the balance sheet were as follows:

	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Market value of funded plan assets	4,302	3,766	4,312
Present value of funded scheme liabilities	(4,110)	(3,517)	(4,094)
Unfunded pension plans	(120)	(100)	(116)
Postretirement healthcare	(20)	(20)	(21)
Unrecognised asset due to surplus restriction	(1)		(1)
Net retirement benefit asset	**51**	**129**	**80**
Retirement benefit assets	265	361	328
Retirement benefit obligations	(214)	(232)	(248)
Net retirement benefit asset	**51**	**129**	**80**

The principal assumptions used in updating the valuations are set out below:

	31 January 2017		31 January 2016		31 July 2016	
	UK	US	UK	US	UK	US
Rate of increase for active deferred members	4.4%	n/a	3.9%	n/a	3.6%	n/a
Rate of increase in pensions in payment	3.5%	n/a	3.0%	n/a	2.7%	n/a
Rate of increase in deferred pensions	3.5%	n/a	3.0%	n/a	2.7%	n/a
Discount rate	2.8%	4.15%	3.6%	4.40%	2.3%	3.45%
Inflation rate	3.5%	n/a	3.0%	n/a	2.7%	n/a
Healthcare cost increases	4.2%	n/a	4.7%	n/a	4.2%	n/a

The methods for setting the mortality assumptions for the UK and US schemes are consistent with the 31 July 2016 valuation.

Present value of funded scheme liabilities and assets for the main UK and US schemes

	31 January 2017 £m			31 July 2016 £m		
	SIPS	TIGPS	US schemes	SIPS	TIGPS	US schemes
Present value of funded scheme liabilities						
– Active deferred members	(84)	(98)	(116)	(82)	(82)	(124)
– Deferred members	(920)	(669)	(161)	(881)	(688)	(175)
– Pensioners	(1,088)	(865)	(15)	(1,086)	(869)	(16)
Present value of funded scheme liabilities	(2,092)	(1,632)	(292)	(2,049)	(1,639)	(315)
Market value of scheme assets	2,220	1,768	230	2,227	1,787	216
Surplus/(deficit)	**128**	**136**	**(62)**	**178**	**148**	**(99)**

On 18 October 2016 Smiths Industries Pension Scheme ("SIPS") bought annuity cover from Pensions Insurance Corporation for a significant tranche of the scheme pensioners for a premium of £253m. As a result, insured liabilities have increased from £23m of the scheme assets to £234m, with a corresponding reduction in other asset classes. On 25 January 2017 TI Group Pension Scheme ("TIGPS") bought annuity cover from Pensions Insurance Corporation for a further tranche of pensioners for a premium of £136m, increasing insured liabilities to £866m at the balance sheet date from £763m last year end, with a corresponding reduction in government bonds.

SIPS has a portfolio of exchange traded equity index futures, which are valued at market prices. These futures increase "leverage" in SIPS, creating additional asset exposure. At 31 January 2017, the gross equity exposure generated by these exchange traded futures was £104m (31 July 2016: £163m) and the aggregate value of this strategy, including cash received as collateral, was £5m (31 July 2016: £9m). The scheme was holding £16m (31 July 2016: £44m) in liquidity funds to meet potential future obligations to collateralise equity index futures.

SIPS uses repurchase arrangements, total return swaps, inflation swaps and interest rate swaps to hedge the interest and inflation risks of the scheme liabilities. At 31 January 2017 SIPS assets were net of £810m (31 July 2016: £720m) repurchase obligations, and included £1m gains (31 July 2016: £11m gains) on interest rate swaps and £13m gains (31 July 2016: £2m losses) on inflation swaps. The scheme was holding £17m (31 July 2016: £45m) in liquidity funds to meet potential future obligations to collateralise repurchase arrangements or swap agreements.

Contributions

Company contributions to the funded defined benefit pension plans totalled £42m (31 January 2016: £234m). This comprised regular contributions of £12m to SIPS, £2m to TIGPS and £28m to US schemes. No additional contributions to support risk reduction programmes were made in the current period.

Contributions in the second half of the year are expected to be: £12m to SIPS; £2m to TIGPS and £4m to other plans.

The changes in the present value of the net pension balance in the period were:

	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
At beginning of period	80	(108)	(108)
Exchange adjustment	(7)	(15)	(31)
Current service cost	(2)	(2)	(3)
Scheme administration costs	(4)	(5)	(7)
Past service cost, curtailments and settlements		(10)	(9)
Finance credits/(charges) – retirement benefits	1	(1)	3
Contributions by employer	45	237	275
Actuarial (loss)/gain	(62)	33	(39)
Movement in surplus restriction			(1)
Net retirement benefit asset	**51**	**129**	**80**

Actuarial losses are principally due to a loss of £86m on the UK schemes due to higher expected inflation, offset by actuarial gains of £37m on the US pension scheme were the benefit of higher discount rates is not offset by increases in expected inflation, since benefits are not linked.

There was no actuarial gain on the UK assets, since the benefit of asset returns exceeding the discount rate was offset by the difference between the assets transferred to the insurers and the valuation of the insured liabilities in accordance with IAS 19.

7 Intangible assets

	Goodwill £m	Development costs £m	Acquired intangibles £m	Software, patents and intellectual property £m	Total £m
Cost					
At 1 August 2016	1,679	302	477	199	2,657
Exchange adjustments	67	14	21	5	107
Additions		20		3	23
Disposals				(1)	(1)
Business disposals	(206)		(113)		(319)
At 31 January 2017	**1,540**	**336**	**385**	**206**	**2,467**
Amortisation					
At 1 August 2016	162	166	438	149	915
Exchange adjustments	7	8	19	3	37
Charge for the period		14	6	9	29
Disposals				(1)	(1)
Business disposals	(40)		(113)		(153)
At 31 January 2017	**129**	**188**	**350**	**160**	**827**
Net book value at 31 January 2017	**1,411**	**148**	**35**	**46**	**1,640**
Net book value at 31 January 2016	1,426	123	43	50	1,642
Net book value at 31 July 2016	1,517	136	39	50	1,742

8 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost				
At 1 August 2016	223	631	220	1,074
Exchange adjustments	9	25	6	40
Additions	2	19	8	29
Disposals		(12)	(3)	(15)
Business disposals	(1)	(3)	(2)	(6)
At 31 January 2017	**233**	**660**	**229**	**1,122**
Depreciation				
At 1 August 2016	119	466	174	759
Exchange adjustments	5	18	6	29
Charge for the period	4	18	7	29
Disposals		(7)	(3)	(10)
Business disposals		(2)	(2)	(4)
At 31 January 2017	**128**	**493**	**182**	**803**
Net book value at 31 January 2017	**105**	**167**	**47**	**319**
Net book value at 31 January 2016	89	146	45	280
Net book value at 31 July 2016	104	165	46	315

9 Borrowings and net debt

This note sets out the calculation of net debt, an important measure in explaining our financing position. The net debt figure includes accrued interest and the fair value adjustments relating to hedge accounting.

	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Cash and cash equivalents			
Net cash and deposits	**816**	**461**	**431**
Short-term borrowings			
Bank overdrafts	(3)	(3)	(1)
£150m 7.25% Sterling Eurobond 2016		(150)	
€300m 4.125% Eurobond 2017	(258)		(255)
Bank and other loans	(2)	(1)	(1)
Interest accrual	(23)	(26)	(13)
	(286)	**(180)**	**(270)**
Long-term borrowings			
€300m 4.125% Eurobond 2017		(232)	
$175m 7.37% US$ Private placement 2018	(139)	(123)	(132)
$250m 7.20% US$ Guaranteed notes 2019	(198)	(175)	(189)
$400m 3.625% US$ Guaranteed notes 2022	(314)	(281)	(304)
€600m 1.25% Eurobond 2023	(512)	(454)	(512)
Bank and other loans	(2)	(2)	(2)
	(1,165)	**(1,267)**	**(1,139)**
Borrowings	**(1,451)**	**(1,447)**	**(1,409)**
Net debt	**(635)**	**(986)**	**(978)**

On 21 February 2017 Smiths Group plc raised €650,000,000 2.00% ten year notes under the Company's €2,500,000,000 Euro Medium Term Note Programme.

At 31 January 2017 the $800m Revolving Credit Facility maturing in 2021 was undrawn.

Movements in net debt

	Net cash and cash equivalents £m	Other short-term borrowing £m	Long-term borrowings £m	Net debt £m
At 31 July 2016	430	(269)	(1,139)	(978)
Foreign exchange gains and losses	10	(5)	(41)	(36)
Net cash inflow/(outflow)	373			373
Repayment and drawdown of borrowings		1	(1)	
Capitalisation, interest accruals and unwind of capitalisation of fees		(6)		(6)
Fair value movement from interest rate hedging		(3)	15	12
Change in maturity analysis		(1)	1	
At 31 January 2017	**813**	**(283)**	**(1,165)**	**(635)**

10 Fair value of financial instruments

	Carrying value 31 January 2017 £m	Fair value 31 January 2017 £m	Carrying value 31 January 2016 £m	Fair value 31 January 2016 £m	Carrying value 31 July 2016 £m	Fair value 31 July 2016 £m
Level 2 valuations						
Financial derivatives - assets	16	16	26	26	42	42
Borrowings	(1,451)	(1,481)	(1,447)	(1,486)	(1,409)	(1,463)
Financial derivatives - liabilities	(18)	(18)	(19)	(19)	(20)	(20)
Level 3 valuations						
Financial assets – other investments	9	9	10	10	9	9

Derivatives are valued at the net present value of the future cash-flows calculated using market exchange rates and yield curves at the balance sheet date. Borrowings are valued at the net present value of the future cash-flows using credit spreads and yield curves derived from market data.

Cash, trade receivables and trade payables are excluded from this table because carrying value is a reasonable approximation to fair value for all these assets and liabilities.

11 Provisions and contingent liabilities

	Trading	Non-headline and legacy			Total
	£m	John Crane, Inc. litigation £m	Titeflex Corporation litigation £m	Other £m	£m
Current liabilities	26	32	20	16	94
Non-current liabilities	6	220	74	5	305
At 31 July 2016	**32**	**252**	**94**	**21**	**399**
Exchange adjustments	1	13	4		18
Provision charged	10		2	5	17
Provision released	(4)	(2)	(10)		(16)
Unwind of provision discount		2	1		3
Utilisation	(7)	(14)	(6)	(8)	(35)
Disposal of business	(2)				(2)
At 31 January 2017	**30**	**251**	**85**	**18**	**384**
Current liabilities	27	33	17	11	88
Non-current liabilities	3	218	68	7	296
At 31 January 2017	**30**	**251**	**85**	**18**	**384**

The John Crane, Inc. and Titeflex Corporation litigation provisions are the only provisions which are discounted.

Warranty provision and product liability

At 31 January 2017 there are warranty and product liability provisions of £28m (31 July 2016: £29m). Warranties over the Group's products typically cover periods of between one and three years. Provision is made for the likely cost of after-sales support based on the recent past experience of individual businesses.

Commercial disputes and litigation in respect of ongoing business activities

The Group has on occasion been required to take legal action to protect its intellectual property and other rights against infringement. It has also had to defend itself against proceedings brought by other parties, including product liability and insurance subrogation claims. Provision is made for any expected costs and liabilities in relation to these proceedings where appropriate, though there can be no guarantee that such provisions (which may be subject to potentially material revision from time to time) will accurately predict the actual costs and liabilities that may be incurred.

Contingent liabilities

In the ordinary course of its business, the Group is subject to commercial disputes and litigation such as government price audits, product liability claims, employee disputes and other kinds of lawsuits, and faces different types of legal issues in different jurisdictions. The high level of activity in the US, for example, exposes the Group to the likelihood of various types of litigation commonplace in that country, such as 'mass tort' and 'class action' litigation, legal challenges to the scope and validity of patents, and product liability and insurance subrogation claims. These types of proceedings (or the threat of them) are also used to create pressure to encourage negotiated settlement of disputes. Any claim brought against the Group (with or without merit), could be costly to defend. These matters are inherently difficult to quantify. In appropriate cases a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction of the actual costs and liabilities that may be incurred. There are also contingent liabilities in respect of litigation for which no provisions are made.

The Group operates in some markets where the risk of unethical or corrupt behaviour is material and has procedures, including an employee 'Ethics Alertline', to help it identify potential issues. Such procedures will, from time to time, give rise to internal investigations, sometimes conducted with external support, to ensure that Smiths Group properly understands risks and concerns and can take steps both to manage immediate issues and to improve its practices and procedures for the future. The Group also co-operates with relevant authorities in investigating business conduct issues whenever requested to. The Group is not aware of any issues which are expected to generate material financial exposures.

Non-headline and legacy

John Crane, Inc.

John Crane, Inc. ("JCI") is one of many co-defendants in numerous lawsuits pending in the United States in which plaintiffs are claiming damages arising from alleged exposure to, or use of, products previously manufactured which contained asbestos. Until 2006, the awards, the related interest and all material defence costs were met directly by insurers. In 2007, JCI secured the commutation of certain insurance policies in respect of product liability. Provision is made in respect of the expected costs of defending known and predicted future claims and of adverse judgments in relation thereto, to the extent that such costs can be reliably estimated.

The JCI products generally referred to in these cases consist of industrial sealing product, primarily packing and gaskets. The asbestos was encapsulated within these products in such a manner that causes JCI to believe, based on tests conducted on its behalf, that the products were safe. JCI ceased manufacturing products containing asbestos in 1985.

John Crane, Inc. litigation provision

While JCI has excess liability insurance, the availability of such insurance and scope of the cover are currently the subject of litigation in the United States. Pending the outcome of that litigation, JCI has met defence costs directly. In the year to 31 July 2016, JCI recognised the recovery of £16m through a settlement with an insurer (see note 3) but this agreement does not provide any cover for future costs. The calculation of the provision does not take account of any potential recoveries from insurers.

JCI continues to actively monitor the conduct and effect of its current and expected asbestos litigation, including the most efficacious presentation of its 'safe product' defence, and intends to continue to resist these asbestos claims based upon this defence. Approximately 250,000 claims (31 July 2016: 247,000 claims) against JCI have been dismissed before trial over the last 37 years. JCI is currently a defendant in cases involving approximately 71,000 claims (31 July 2016: 74,000 claims). Despite the large number of claims brought against JCI, since the inception of the

litigation it has had final judgments against it, after appeals, in 137 cases (31 July 2016: 137 cases) over the period, and has had to pay awards amounting to approximately US$158m (31 July 2016: US$158m). JCI has also incurred significant additional defence costs. The litigation involves claims for a number of allegedly asbestos related diseases, with awards, when made, for mesothelioma tending to be larger than those for the other diseases JCI's ability to defend mesothelioma cases successfully is, therefore, likely to have a significant impact on its annual aggregate adverse judgment and defence costs. The provision is based on past history and published tables of asbestos incidence projections and is determined using asbestos valuation experts, Bates White LLC. Whilst published incidence curves can be used to estimate the likely future pattern of asbestos related disease, John Crane, Inc.'s claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. The projections use a 10 year time horizon on the basis that Bates White LLC consider that there is substantial uncertainty in the asbestos litigation environment so probable expenditures are not reasonably estimable beyond this time horizon.

The assumptions made in assessing the appropriate level of provision include: the period over which the expenditure can be reliably estimated; the future trend of legal costs; the rate of future claims filed; the rate of successful resolution of claims; and the average amount of judgments awarded.

The provision in respect of JCI is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance. Set out below is the gross, discounted and post-tax information relating to this provision:

	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Gross provision	277	247	267
Discount	(26)	(18)	(15)
Discounted pre-tax provision	**251**	**229**	**252**
Deferred tax	(83)	(76)	(84)
Discounted post-tax provision	**168**	**153**	**168**

John Crane, Inc. litigation provision sensitivities

However, because of the significant uncertainty associated with the future level of asbestos claims and of the costs arising out of related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events.

Statistical analysis of the provision indicates that there is a 50% probability that the total future spend will fall between £258m and £291m (31 July 2016: between £250m and £280m), compared to the gross provision value of £277m (31 July 2016: £267m).

The projections use a 10 year time horizon. Reducing the time horizon by one year would reduce the provision by £17m (31 July 2016: £18m) and reducing it by five years would reduce the provision by £103m (31 July 2016 £107m).

John Crane, Inc. contingent liabilities

Provision has been made for future defence costs and the cost of adverse judgments expected to occur. JCI's claims experience is significantly impacted by other factors which influence the US litigation environment. These can include: changing approaches on the part of the plaintiffs' bar; changing attitudes amongst the judiciary at both trial and appellate levels; and legislative and procedural changes in both the state and federal court systems. As a result, whilst the Group anticipates that asbestos litigation will continue beyond the period covered by the provision, the uncertainty surrounding the US litigation environment beyond this point is such that the costs cannot be reliably estimated.

Although the methodology used to calculate the JCI litigation provision can in theory be applied to show claims and costs for longer periods, the Directors consider, based on advice from Bates White, that the level of uncertainty regarding the factors used in estimating future costs is too great to provide for reasonable estimation of the numbers of future claims, the nature of such claims or the cost to resolve them for years beyond the 10 year time horizon.

Titeflex Corporation

In recent years Titeflex Corporation, a subsidiary of the Group in the Flex-Tek division, has received a number of claims from insurance companies seeking recompense on a subrogated basis for the effects of damage allegedly caused by lightning strikes in relation to its flexible gas piping product. It has also received a number of product liability claims regarding this product, some in the form of purported class actions. Titeflex Corporation believes that its products are a safe and effective means of delivering gas when installed in accordance with the manufacturer's instructions and local and national codes; however some claims have been settled on an individual basis without admission of liability. Equivalent third-party products in the US marketplace face similar challenges.

Titeflex Corporation litigation provision

The continuing progress of claims and the pattern of settlement, together with the recent market place activity, provide sufficient evidence to recognise a liability in the accounts. Therefore provision has been made for the costs which the Group is expected to incur in respect of future claims to the extent that such costs can be reliably estimated. Titeflex Corporation sells flexible gas piping with extensive installation and safety guidance (revised in 2008) designed to assure the safety of the product and minimise the risk of damage associated with lightning strikes.

The assumptions made in assessing the appropriate level of provision, which are based on past experience, include:

- the period over which expenditure can be reliably estimated;
- the number of future settlements;
- the average amount of settlements;
- and the impact of statutes of repose and safe installation initiatives on the expected number of future claims.

The provision of £85m (31 July 2016: £94m) is a discounted pre-tax provision using discount rates, being the risk-free rate on US debt instruments for the appropriate period. The deferred tax asset related to this provision is shown within the deferred tax balance.

	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Gross provision	142	75	140
Discount	(57)	(5)	(46)
Discounted pre-tax provision	**85**	**70**	**94**
Deferred tax	(26)	(27)	(36)
Discounted post-tax provision	**59**	**43**	**58**

Titeflex Corporation litigation provision sensitivities

However, because of the significant uncertainty associated with the future level of claims and of the costs arising out of related litigation, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred and, as a result, the provision may be subject to potentially material revision from time to time if new information becomes available as a result of future events.

The projections incorporate a long-term assumption about the impact of safe installation initiatives on the level of future claims. If the assumed annual benefit of bonding and grounding initiatives was 0.5% higher the provision would be £5m (31 July 2016: £6m) lower, and if the benefit was 0.5% lower, the provision would increase by £5m (31 July 2016: £7m).

Other non-headline and legacy

Legacy provisions comprise provisions relating to former business activities and properties no longer used by Smiths. Non-headline provisions comprise all provisions which were disclosed as non-headline items when they were charged to the income statement.

These provisions cover non-headline reorganisation, vacant properties, disposal indemnities and litigation in respect of old products and discontinued business activities.

12 Disposals

In the period, the Group has sold the John Crane Artificial Lift business (US: 31 October 2016, Romania: 23 November 2016), Smiths Medical's Wallace product line (7 November 2016) and the Smiths Interconnect Power business (25 January 2017).

Smiths Medical's Wallace product line was fully integrated, so products will continue to be manufactured on behalf of the acquirer under a Manufacturing Transition Services Agreement while the acquirer is setting up their manufacturing capacity, see note 3.

	John Crane Artificial lift £m	Smiths Medical Wallace £m	Smiths Interconnect Power £m	Total £m
Consideration	30	134	170	334
Less: transaction costs	(1)	(2)	(6)	(9)
Net consideration received	**29**	**132**	**164**	**325**
Net assets disposed of:				
– intangible assets		(32)	(134)	(166)
– property, plant and equipment			(2)	(2)
– inventory	(17)		(12)	(29)
– trade and other receivables	(11)		(19)	(30)
– tax	(1)		(3)	(4)
– cash and cash equivalents			(5)	(5)
– liabilities	5		18	23
Net assets	**(24)**	**(32)**	**(157)**	**(213)**
Recycling of foreign exchange	(1)		15	14
Profit on disposals	**4**	**100**	**22**	**126**

13 Dividends

The following dividends were declared and paid in the period:

	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Ordinary final dividend of 28.75p for 2016 (2015: 28.00p) paid 18 November 2016	114	111	111
Ordinary interim dividend of 13.25p for 2016 paid 22 April 2016			52
	114	**111**	**163**

An interim dividend of 13.55p per share was declared by the Board on 23 March 2017 and will be paid to shareholders on 28 April 2017. This dividend has not been included as a liability in these accounts and is payable to all shareholders on the register of Members at close of business on 7 April 2017.

14 Cash-flow from operating activities

Year ended 31 July 2016 Total £m		Notes	Period ended 31 January 2017 Headline £m	Period ended 31 January 2017 Non-headline (note 3) £m	Period ended 31 January 2017 Total £m	Period ended 31 January 2016 Headline £m	Period ended 31 January 2016 Non-headline (note 3) £m	Period ended 31 January 2016 Total £m
387	Operating profit		277	100	377	217	(34)	183
58	Amortisation of intangible assets		23	6	29	20	9	29
23	Impairment of intangible assets							
2	Impairment of trade investments							
53	Depreciation of property, plant and equipment		29		29	25		25
6	Impairment of property, plant and equipment							
2	Loss on disposal of property, plant and equipment		4		4	2		2
	Profit on disposal of business			(126)	(126)			
9	Share-based payment expense		8		8	5		5
(103)	Retirement benefits		1	(39)	(38)	1	(69)	(68)
30	(Increase)/decrease in inventories		(2)		(2)	(3)		(3)
(37)	Decrease/(increase) in trade and other receivables		62	5	67	29		29
1	(Decrease)/increase in trade and other payables		(28)		(28)	(41)	2	(39)
2	(Decrease)/increase in provisions		(5)	(31)	(36)	4	(18)	(14)
433	**Cash generated from operations**		**369**	**(85)**	**284**	**259**	**(110)**	**149**
(61)	Interest paid		(23)		(23)	(20)		(20)
48	Interest received		1	9	10	1	16	17
(62)	Tax paid		(46)		(46)	(25)		(25)
358	**Net cash inflow from operating activities**		**301**	**(76)**	**225**	**215**	**(94)**	**121**

Interest received in the period includes £9m cash inflows on foreign exchange contracts used to hedge exposures on intra-group loans.

The split of tax payments between headline and non-headline only considers the nature of payments made. No adjustment has been made for reductions in tax payments required as a result of tax relief received on non-headline items.

Headline cash measures

The Group measure of headline operating cash excludes interest and tax and includes capital expenditure supporting organic growth.

	Period ended 31 January 2017 Headline £m	Period ended 31 January 2017 Non-headline £m	Period ended 31 January 2017 Total £m	Period ended 31 January 2016 Headline £m	Period ended 31 January 2016 Non-headline £m	Period ended 31 January 2016 Total £m
Net cash inflow from operating activities	**301**	**(76)**	**225**	**215**	**(94)**	**121**
Include						
Expenditure on capitalised development, other intangible assets and property, plant and equipment	(51)		(51)	(42)		(42)
Disposals of property, plant and equipment	2		2	1		1
Investment in financial assets relating to pensions financing					(8)	(8)
Headline free cash-flow	**252**	**(76)**	**176**	**174**	**(102)**	**72**
Exclude						
Interest paid	23		23	20		20
Interest received	(1)	(9)	(10)	(1)	(16)	(17)
Tax paid	46		46	25		25
Headline operating cash-flow	**320**	**(85)**	**235**	**218**	**(118)**	**100**

Reconciliation of headline free cash-flow to total movement in cash and cash-equivalents

	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Headline free cash-flow	**252**	**174**	**400**
Non-headline free cash-flows	(76)	(102)	(157)
Investment in other financial assets			(1)
Acquisition of businesses		(8)	(8)
Disposal of businesses	320		
Net cash-flow used in financing activities	(123)	(113)	(332)
Net increase/(decrease) cash and cash equivalents	**373**	**(49)**	**(98)**

15 Related party transactions

The related party transactions in the period were consistent with the nature and size of transactions disclosed in the Annual Report for the year ended 31 July 2016.

16 Non-statutory capital and credit metrics

In addition to the non-statutory profit measures explained in note 3, the Company calculates credit metrics and return on capital employed incorporating the same adjustments. See the disclosures on presentation of results in accounting policies for an explanation of the excluded items.

Return on capital employed (ROCE)

Smiths ROCE is calculated over a rolling 12-month period and is the percentage that headline operating profit comprises of monthly average capital employed.

See note 2 for the divisional headline operating profit and average divisional capital employed used to calculate divisional ROCE.

Capital employed

Capital employed is a non-statutory measure of invested resources. It comprises statutory net assets adjusted to add goodwill recognised directly in reserves in respect of subsidiaries acquired before 1 August 1998 of £801m (31 July 2016: £815m) and eliminate post-retirement benefit assets and liabilities and litigation provisions relating to non-headline items, both net of related tax, and net debt.

	Notes	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Net assets		**1,832**	**1,540**	**1,660**
Adjust for				
Goodwill recognised directly in reserves		801	815	815
Post-retirement benefit assets and liabilities	6	(51)	(129)	(80)
Tax related to post retirement benefit assets and liabilities		(18)	(48)	(4)
John Crane, Inc. litigation provisions and related tax	11	168	153	168
Titeflex Corporation litigation provisions and related tax	11	59	43	58
Net debt	9	635	986	978
Capital employed		**3,426**	**3,360**	**3,595**

Return on capital employed

	Notes	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Headline operating profit for previous twelve months		570	496	510
Average capital employed	2	3,490	3,229	3,324
ROCE		**16.3%**	**15.4%**	**15.3%**

Credit metrics

Smiths Group monitors the ratio of net debt to Headline EBITDA as part of its management of credit ratings. This ratio is calculated as follows.

Headline earnings before interest, tax, depreciation and amortisation (Headline EBITDA)

	Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Headline operating profit	2	**277**	**217**	**510**
Exclude				
– depreciation	8	29	25	53
– amortisation of development costs	7	14	12	26
– amortisation of software, patents and intellectual property	7	9	8	17
Headline EBITDA		**329**	**262**	**606**

Annualised headline EBITDA

	Notes	Period ended 31 January 2017 £m	Period ended 31 January 2016 £m	Year ended 31 July 2016 £m
Headline EBITDA for the period		**329**	**262**	**606**
Add				
– headline EBITDA for the previous year		606	598	
Exclude				
– headline EBITDA for the first six months		(262)	(272)	
Annualised headline EBITDA		**673**	**588**	**606**

Ratio of net debt to annualised headline EBITDA

	Notes	31 January 2017 £m	31 January 2016 £m	31 July 2016 £m
Annualised headline EBITDA		673	588	606
Net debt	9	635	986	978
Ratio of net debt to headline EBITDA		**0.9**	**1.7**	**1.6**