

## News release from IMI plc

27 August 2009

### IMI plc 2009 First Half Results

IMI plc, the international engineering group, today issued its Interim Management Report for the six months ended 30 June 2009.

	2009	2008 restated <sup>3</sup>	% change
<b>Revenue</b>	<b>£900m</b>	£911m	<b>-1%</b>
<b>Segmental operating profit</b>	<b>£97.4m</b>	£120.6m	<b>-19%</b>
<b>Adjusted profit before tax<sup>1</sup></b>	<b>£86.4m</b>	£114.2m	<b>-24%</b>
<b>As reported:</b>			
<b>Operating profit</b>	<b>£89.5m</b>	£108.8m	<b>-18%</b>
<b>Profit before tax</b>	<b>£79.7m</b>	£103.7m	<b>-23%</b>
<b>Adjusted earnings per share<sup>2</sup></b>	<b>18.5p</b>	24.5p	
<b>Basic earnings per share</b>	<b>17.0p</b>	22.2p	
<b>Restructuring costs</b>	<b>£17.5m</b>	£5.6m	
<b>Net borrowings<sup>4</sup></b>	<b>£264m</b>	£299m	
<b>Dividend</b>	<b>8.0p</b>	8.0p	

Norman Askew, Chairman of IMI commented:

“Underlying levels of demand would appear to have stabilised following the very sharp reductions seen in some of our businesses in the early part of the year.

Our early and comprehensive actions taken to reallocate sales and engineering resource in support of more resilient end markets, to align capacity to lower levels of demand, to defend group margins and to maximise cash conversion have proved highly successful with Group operating margins remaining in double digits. Net borrowings have reduced by £35m to £264m and the dividend has been maintained.

We are not assuming any improvement in general economic conditions during the second half but, as and when it materialises, we are well placed to benefit given the restructuring already undertaken and the further expansion of our low cost manufacturing capabilities.”

<sup>1</sup> before exceptional items (restructuring, investigation costs and fines, acquired intangible amortisation and impairment and financial instruments excluding economic hedge contract gains and losses) totalling £6.7m (2008: £10.5m).

<sup>2</sup> before the after tax cost of exceptional items totalling £4.6m (2008: £7.2m).

<sup>3</sup> restated to include “financial instruments excluding economic hedge contract gains and losses” within exceptional items. See note 12. Reported adjusted profit before tax for the period to 30 June 2008 is £1.3m lower.

<sup>4</sup> net borrowings as at 30 June 2009 and comparable as at 31 December 2008.

## INTERIM REVIEW

### Interim Management Report

The Directors submit their Interim Management Report (“IMR”), together with interim condensed consolidated financial statements of the Group for the six months ended 30 June 2009.

***(Important information on the status of statements made in this report and the definition of terms used are given in note 12)***

### Summary

Overall IMI’s business responded well to very difficult market conditions. Following the very sharp falls experienced early in the year, demand has stabilised over the last few months, with organic revenues for the first half down around 17% on last year. A strong performance from our energy related businesses in Severe Service and Indoor Climate helped mitigate some of the sharp fall in demand for capital equipment within the Fluid Power business in particular.

We commented at the time of our 2008 preliminary results in March that we would focus our management effort during this unprecedented downturn on four key activities:

- Allocation of inevitably scarcer resources in favour of more resilient end markets with less risk and greater returns;
- Rapid alignment of capacity to match lower levels of demand;
- A focus on product margins through a robust defence of pricing and driving down material costs; and
- Maximisation of profit to cash conversion and maintenance of a strong balance sheet.

We are pleased to report encouraging progress in all four areas:

- Our businesses have focused on those end markets and customers which have previously exhibited resilience and are likely to continue doing so, and have prioritised their engineering and sales resources accordingly, generating a number of new potential projects. We have significantly increased our investment in opportunities arising from new legislation, particularly in the fields of sustainability, environmental compliance, and energy efficiency.
- We took immediate and early actions to align capacity to lower demand releasing 16% of our global workforce since June 2008 (around 2,500 people); adopting short time working arrangements for a further 28% of our workforce (around 3,700 people); and the selective rationalisation and closure of a number of sub-optimised or unprofitable operating units. At the same time we have invested in a further expansion of our low cost manufacturing capabilities in China, Czech Republic, and most recently, India, preparing them to take a larger percentage of global production as and when demand returns.

- In defence of product margins we have adopted a robust position on selling prices, emphasising the differentiated nature of our product offerings and partnering closely with our customers to strip out cost elsewhere in the supply chain, with average selling prices in the first half up around 1-2% on last year. At the same time we have taken a rigorous approach to driving down material costs, leveraging our low cost sourcing capabilities in Asia, Eastern Europe and Mexico, and capitalising on sharply lower commodity prices during the period.

Coupled with an austere approach to salaries and wage inflation, together with benefits arising from the aforementioned capacity alignment programme, we have contained the profit drop through impact on lower revenues to just 24%, enabling us to maintain operating margins for the Group in double digits (10.9%).

- We converted 85% of operating profit to cash, compared with 58% last year, in what is seasonally the weaker of the two halves for IMI from a cashflow perspective. Inventories were reduced by 10% (on a constant currency basis) and debtor days maintained despite the inevitable pressures for extension. With momentum continuing to build around a number of working capital initiatives we expect cash conversion to exceed 100% for the year as a whole, thereby building on the £35m of net debt reduction achieved in the first half.

In addition to these four activities we have also prioritised the Group-wide implementation of our Code of Responsible Business, the 'IMI Way', which targets the very highest standards of ethical business and compliance. This code has been rolled out to all 13,300 of our employees worldwide, translated into 25 languages, and is being accompanied by extensive face to face training.

We will continue to focus on these five key initiatives in the second half, with further benefits set to accrue.

As a result of this solid first half performance in challenging market conditions, and a more stable outlook for the second half, the Board has decided to maintain the dividend at 8.0p (2008: 8.0p). As we stated in March, maintenance of the dividend through this economic downturn remains a core objective, and the Board is confident that this objective can be met.

## **Review of results**

Revenues decreased by 1% to £900m (2008: £911m). After adjusting for exchange rate benefits the organic decline was 17%. The Euro and US dollar were respectively 15% and 32% stronger than average rates in the first half of last year. Segmental operating profit was £97.4m, a 19% decrease on the prior period (2008: £120.6m). At constant exchange rates segmental operating profit fell by 32%. The segmental operating margin was 10.9%, down from 13.2% in the first half last year. Reported operating profit was down 18% at £89.5m (2008: £108.8m).

Interest costs on net borrowings of £8.9m were covered 13 times by earnings before interest, tax, depreciation and amortisation. The IAS19 pension net financing charge was £2.1m, compared to a credit of £1.9m in the first half of 2008. The net IAS39 credit of £1.2m reflects the increase in the value of outstanding derivatives offset by net settlement costs during the period. The total net financing costs were £9.8m (2008: £5.1m).

Adjusted profit before tax (before restructuring, investigation costs and fines, acquired intangible amortisation and impairment and financial instruments excluding economic hedge contracts gains and losses totalling £6.7m (2008: £10.5m)) was £86.4m, a decrease of 24%.

Restructuring costs were £17.5m (2008: £5.6m) which mainly relates to the significant headcount reductions and other restructuring implemented as a response to the global economic downturn. Restructuring costs for the full year are now expected to be around £30m with, as previously stated, a further £10m expected in 2010 to progress our low cost manufacturing plans. After these restructuring costs, the amortisation of acquired intangibles of £3.7m (2008: £3.5m) and financial instruments excluding economic hedge contract gains of £14.5m, reported profit before tax was £79.7m, a decrease of 23% on the corresponding period in 2008. Following the provision taken in 2008 no further Severe Service investigation costs were charged in the period (2008: £2.7m).

The estimated effective tax rate for 2009 is 31%, which compares to an effective rate of 30% applied for the first half of 2008. The total profit for the period was £55.0m and, after minority interests, the profit attributable to the equity shareholders of the Company was £54.2m. The average number of shares in issue during the period was 318.5m, giving a basic earnings per share of 17.0p, down 23% on last year's 22.2p. Adjusted basic earnings per share was 18.5p, compared to 24.5p in 2008, a decrease of 24%.

### **Cash flow**

The net cash inflow from operating activities was £69m, compared to £64m in the corresponding period. Capital expenditure on property, plant and equipment amounted to £17m and was 0.7 times the depreciation charge for the period of £23m. The major cash outflows in the period were £26m of tax, dividends of £40m and £13m on restructuring. In addition the Group acquired the remaining 19.1% minority interest in Display Technologies in January 2009 for a cash consideration of £19m. The total cash outflow for the period was £32m, compared with an outflow in the first half of last year of £25m.

### **Balance sheet**

The balance sheet remains strong and net debt fell during the period despite the payment of the final dividend and a number of other significant cash outflows. Closing net debt was £264m (June 2008: £275m). The ratio of net debt to the last twelve months EBITDA was 1.0 at the end of June. Net debt was £35m lower than at 31 December 2008, comprising the cash outflow during the period and a translation benefit of £67m on the revaluation of the Group's foreign currency debt.

As part of the Group's normal funding programme, two additional three year bank facilities for £25m and €30m were finalised in the first half, bringing total bank facilities at the end of the first half to £420m. The Group also successfully issued \$175m of US loan notes in July 2009 with maturities extending to 2019. These actions have extended the average maturity of the Group's drawn facilities to around 6 years from under 4 years. The proceeds from these loan note issues will be used to refinance \$65m of US loan notes maturing later this year with the balance being used to reduce existing bank debt – freeing up additional banking facilities to maintain our considerable headroom.

The IAS19 pension net deficit was revalued to £281m which compares to the deficits of £129m at June 2008 and £137m at December 2008. The increase in the deficit results mainly from an increase in the assumed rate of price inflation and a reduction in the discount rate used reflecting general changes in yields on AA corporate bond indices. A recovery plan was agreed with the pension fund Trustee in 2008 that requires additional cash contributions of £16.8m to be paid in the second half of each year.

Shareholders' equity at the end of June was £323m, a reduction of £129m since the end of last year, which includes the attributable profit for the period of £54m, less an after-tax actuarial loss on the defined benefit pension plans of £118m and the 2008 final dividend of £40m paid in May.

### **Severe Service investigation**

On 3 August 2009 IMI announced its agreement to a settlement with the US Department of Justice (DoJ) in respect of certain irregular payments by our US subsidiary Control Components Inc (CCI). As part of a plea agreement CCI has paid a fine of \$18.2m (which is covered by a provision in the Group's 2008 accounts) and continues to co-operate with the DoJ in its ongoing investigations of certain former employees of CCI. CCI will also be subject to oversight by an independent compliance monitor. Related to this same matter, CCI continues to liaise with customers and regulatory authorities in a number of jurisdictions outside the US, most notably in China where interest has increased following the announcement of the plea agreement. It is likely that CCI will continue to experience some interruption to its business in these markets but the impact is not expected to be material. Also related to the activities of the former management team of CCI and, as previously stated, an investigation has also been completed into possible incidental breaches of US trade law by CCI, which, together with legal costs, were provided for in 2008.

### **Operations review**

The following review of our business areas for the six months to 30 June 2009 compares the performance of our operations with the six month period to 30 June 2008. This section also comments on the current market conditions in each of our businesses.

#### **Severe Service**

Revenues in the first half were up 32% to £252m (2008: £191m) and segmental operating profit rose 51% to £47.9m (2008: £31.8m).

Organic revenue growth was 11% for the half year, benefiting from good momentum in the aftermarket business, and a number of operational improvements focussed on shortening lead times and reducing order backlog.

Underlying order intake in the period (after adjusting for the impact of the CCI investigation, which resulted in a deferral of around £20m of orders from the second half of 2007 into the first half of 2008) was around 5% down on the prior year. New construction valve orders were down around 17% reflecting a softening in the North American and Asian power markets, with Oil and Gas markets in Western Europe also weaker. Customer service orders, on the other hand, were up over 25% benefitting from the additional resources directed at this activity during the period, and bringing the share of the order intake arising from customer service during the half to almost 40%.

Operating margins in the period were 19.0%, a significant improvement on the 16.6% recorded in the first half of last year, reflecting the benefits of higher volumes, a healthy aftermarket sales mix, and further improvements in operational efficiencies. The programme to expand our capacity in Brno, Czech Republic and to build a new production facility in India is progressing well, which will help drive further cost efficiency benefits in the future.

Second half shipments for Severe Service are expected to be broadly in line with last year, reflecting the lower first half order intake and a drawing to a close of our first half backlog reduction initiative. More recently we have begun to see increased levels of tendering activity in some markets and significant focus will be given to converting these into new orders.

## **Fluid Power**

Revenues in the first half were down 25% to £255m (2008: £339m) reflecting the unprecedented impact of the global recession on the capital equipment sector. Despite this challenging environment Fluid Power remained profitable in the first half with segmental operating profit at £7.4m (2008: £48.2m).

The organic decline in revenues was 36% as our customers in our main end markets cut back sharply on investment in capital equipment.

The global recession impacted both our standard pneumatics business and our sector business. Our sector business provides bespoke added value engineering solutions to major blue chip customers in a number of niche markets including commercial vehicles, life sciences, rail, in-plant automotive and process (oil, chemical and gas). Of these, commercial vehicles and in-plant automotive have been particularly hard hit. Other sectors, such as rail and life sciences, where we continue to progress our 'Engineering Advantage' strategy, have shown much lower levels of decline.

The remainder of the business provides pneumatic and fluid control solutions for a broad range of industrial users. Organic sales in our standard pneumatics business were down 34% reflecting the extremely challenging markets and in particular the squeeze on capital equipment budgets seen worldwide.

Despite the sharp fall in activity levels this business moved quickly to reduce costs as the recession took hold. The operating margin was 2.9%, down from 14.2% in the first half of 2008. Since June 2008 1,250 employees have left the business and over 50% of the workforce are on short-time working arrangements. This preserves the core capabilities of the business and positions us for a quick response when our end markets pick up.

In the first half we started production in our new Chinese factory, where we will also be opening an enhanced Technical Centre later this year. This will enable us to accelerate our 'Engineering Advantage' strategy in China and produce more system solutions for customers locally in the region.

Whilst the outlook for the Fluid Power business remains difficult, demand has stabilised following the sharp reduction in the early part of the year, and efforts to focus more sales and engineering resource on more resilient end markets are

beginning to bear fruit. The actions taken during the course of the first half to reduce costs are proving successful, and will significantly improve second half margins on volumes which are not expected to show any recovery in the short term. The establishment of the new facility in China, together with the expansion of our Czech facility, will also contribute to margin improvement once volumes do recover.

### **Indoor Climate**

Revenues in the first half were up 5% to £142m (2008: £135m) and segmental operating profit rose 28% to £24.2m (2008: £18.9m).

Excluding the benefit from exchange rates, revenue showed an organic decline of 4%. This encouraging performance resulted from resilience in refurbishment markets with Heimeier, our thermostatic radiator valve business, continuing to perform well following the introduction of new energy efficiency legislation in Germany last year. Whilst the market for new construction of commercial buildings has slowed, our seminars and initiatives to demonstrate the improvements in energy efficiency and running costs from correctly balancing a building are enabling us to improve penetration of our balancing valves on each new project. The markets were more difficult in the UK and in Eastern Europe, where there was a sharp drop off in new construction projects. Pneumatex, the water conditioning business we acquired in 2007, continues to benefit from its integration into the IMI Group and has increased penetration into new markets and grown well in the first half.

The operating profit margin was 17.0% compared with 14.0% in the first half last year. The business has benefited from the rapid actions taken to remove direct and indirect costs, price increases, and lower material costs in the first half as well as other efficiency savings.

Those parts of the Indoor Climate business more heavily dependent on private sector new construction, around 20% of the business, are likely to witness a significant slowdown in the second half, and into 2010, given the reduced number of new starts over the last few months. The refurbishment market, however, is likely to remain more resilient, and in the longer term, continuing new energy efficiency legislation will provide further stimulus.

### **Beverage Dispense**

Revenues in the first half were down 2% to £154m (2008: £157m) and segmental operating profit fell 27% to £10.5m (2008: £14.3m).

Organic revenue decline was 20% reflecting the extremely challenging trading environment in the first half. As previously highlighted demand for carbonated soft drinks dispensing equipment deteriorated as the half progressed, with the important North American market being particularly difficult. Whilst in previous downturns this market has shown reasonable resilience, for much of the first half our customers were holding back on investment in new equipment. Towards the end of the first half we saw a levelling off in demand with some soft drinks bottlers lifting investment in line with the normal seasonal pattern.

The UK beer industry continues to see significant declines in on-trade beer volumes which is impacting the supply of new dispense equipment to the brewers. Markets in continental Western Europe were more resilient but still down on the first half of last year.

We continue to focus on our new product agenda targeting both dispensing equipment for the health and indulgence sector and also developing more energy efficient equipment which is becoming increasingly important to our major customers in addressing their responsible business commitments.

The operating profit margin was 6.8% compared to 9.1% last year, reflecting success in containing the profit impact of the sharp volume downturn through a robust defence of selling prices and aggressive cost reduction.

The trading environment is likely to continue to be challenging in the second half, albeit demand has stabilised in recent months.

### **Merchandising**

Revenues in the first half were down 2% to £87m (2008: £89m) and segmental operating profit was flat at £7.4m.

The 22% organic decline in revenues reflected a sharp downturn in a number of our end market sectors, most notably automotive which was 35% down on last year. The cosmetics, food & beverage and consumer electronics sectors showed more resilience but, collectively were still lower than last year.

The business acted swiftly to mitigate the impact on profits of lower revenues, quickly aligning capacity to lower demand, exiting from a number of loss making product lines, and taking full advantage of the sharply lower steel prices during the period. As a result first half margins improved from 8.3% last year to 8.5%.

Despite what now appears to be a stabilisation in underlying demand, the outlook for the second half in Merchandising is challenging. The 2008 comparables are impacted by the large £25m US grocery chain order, much of which was shipped in Q3 and the higher seasonal second half weighting of the sharply lower automotive business. Notwithstanding this, further margin improvement over the first half is anticipated from actions already undertaken.

### **Board changes**

As previously announced David Nicholas, executive director, plans to retire in December this year and will step down from the Board on 1 September. With effect from that date responsibility for the Indoor Climate business will pass to Martin Lamb, whilst Douglas Hurt and Roy Twite will take on respective responsibilities for Mergers & Acquisitions and Global Procurement. The Group is grateful to David for his energetic contribution to the Group over the last five years and for the important role he has played in the significant development of the Fluid Controls businesses during that time.

## **Outlook**

Underlying levels of demand would appear to have stabilised following the very sharp reductions seen in some of our businesses in the early part of the year.

Our early and comprehensive actions taken to reallocate sales and engineering resource in support of more resilient end markets, to align capacity to lower levels of demand, to defend Group margins and to maximise cash conversion have proved highly successful with Group operating margins remaining in double digits. Net borrowings have reduced by £35m to £264m and the dividend has been maintained.

We are not assuming any improvement in general economic conditions during the second half but, as and when it materialises, we are well placed to benefit given the restructuring already undertaken and the further expansion of our low cost manufacturing capabilities.

## **Risks and Uncertainties**

The Group has in place a risk management structure and internal controls which are designed to identify, manage and mitigate business risk.

In common with all businesses, IMI faces a number of risks and uncertainties which could have a material impact on the Group's long-term performance.

On pages 40 and 41 of its 2008 Annual Report (a copy of which is available at IMI's website at [www.imiplc.com](http://www.imiplc.com)), the Company sets out what the Directors regarded as being the principal risks and uncertainties facing the Group and which could have a material impact on the Group's long-term performance. These include: Economic and market environment; Key customers; Supply chain; Competitive markets; Legal, regulatory and political risks; Financial market risks; Talent acquisition; Compliance and internal controls; Products and technology; Health, safety and environmental; M&A activity; and Pension funding. These risks remain valid and have the potential to impact the Group during the remainder of the second half of 2009. The impact of the economic and end-market environments in which the Group's businesses operate are considered in the operations review and outlook sections of this Interim Management Report above, together with an indication if management is aware of any likely change in this situation.

## **Responsibility statement of the directors in respect of the half-yearly financial report**

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS34 '*Interim Financial Reporting*' as adopted by the EU;
- the Interim Management Report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year;
- there were no related party transactions or changes in the related party transactions described in the 2008 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2009.

The Directors of IMI plc are listed in the IMI Annual Report for the year ended 31 December 2008.

Approved by the Board of IMI plc and signed on its behalf by:

NMB Askew

Chairman

27 August 2009

## **INDEPENDENT REVIEW REPORT TO IMI plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Condensed Consolidated Interim Income Statement, the Condensed Consolidated Interim Statement of Comprehensive Income, the Condensed Consolidated Interim Balance Sheet, the Condensed Consolidated Interim Statement of Changes in Equity, the Condensed Consolidated Interim Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### **Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 12, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

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.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.



Ernst & Young LLP  
Birmingham  
27 August 2009

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT**

	Notes	<b>6 months to 30 June 2009 (unaudited)</b>	6 months to 30 June 2008 (unaudited) restated	Year to 31 Dec 2008
		£m	£m	£m
<b>Revenue</b>	1	<b>900</b>	911	1,901
Segmental operating profit	1	<b>97.4</b>	120.6	266.3
Restructuring costs		<b>(17.5)</b>	(5.6)	(19.6)
Severe Service investigation costs and fines		-	(2.7)	(26.3)
Acquired intangible amortisation and impairment		<b>(3.7)</b>	(3.5)	(13.2)
Economic hedge contract gains and losses	12	<b>13.3</b>	-	2.6
<b>Operating profit</b>		<b>89.5</b>	108.8	209.8
Financial income	3	<b>52.2</b>	42.3	85.6
Financial expense	3	<b>(62.0)</b>	(47.4)	(119.4)
Net financial expense	3	<b>(9.8)</b>	(5.1)	(33.8)
<b>Profit before tax</b>				
Before restructuring, investigation costs and fines, acquired intangible amortisation and impairment and financial instruments excluding economic hedge contract gains and losses		<b>86.4</b>	114.2	254.7
Restructuring costs		<b>(17.5)</b>	(5.6)	(19.6)
Severe Service investigation costs and fines		-	(2.7)	(26.3)
Acquired intangible amortisation and impairment		<b>(3.7)</b>	(3.5)	(13.2)
Financial instruments excluding economic hedge contract gains and losses	12	<b>14.5</b>	1.3	(19.6)
<b>Total</b>		<b>79.7</b>	103.7	176.0
<b>Taxation</b>	4			
UK taxation		<b>(4.0)</b>	(6.4)	(12.9)
Overseas taxation		<b>(20.7)</b>	(24.7)	(47.1)
<b>Total</b>		<b>(24.7)</b>	(31.1)	(60.0)
<b>Profit for the period</b>		<b>55.0</b>	72.6	116.0
<b>Attributable to:</b>				
Equity shareholders of the Company		<b>54.2</b>	71.2	112.9
Minority interest		<b>0.8</b>	1.4	3.1
<b>Total profit for the period</b>		<b>55.0</b>	72.6	116.0
<b>Earnings per share</b>	5			
Basic earnings per share		<b>17.0p</b>	22.2p	35.4p
Diluted earnings per share		<b>17.0p</b>	22.0p	35.1p

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**

	<b>6 months to 30 June 2009 (unaudited)</b>	6 months to 30 June 2008 (unaudited) restated	Year to 31 Dec 2008
	<b>£m</b>	£m	£m
Profit for the period	<b>55.0</b>	72.6	116.0
<b>Other comprehensive income</b>			
Fair value loss on available for sale financial assets	<b>(0.5)</b>	-	-
Foreign currency translation differences	<b>(36.6)</b>	(6.4)	73.4
Effective portion of change in fair value of net investment hedges	<b>9.9</b>	3.2	(5.3)
Actuarial loss on defined benefit plans	<b>(159.0)</b>	(65.9)	(77.4)
Income tax on income recognised directly in equity	<b>41.0</b>	19.2	21.5
<b>Other comprehensive income for the period net of tax</b>	<b>(145.2)</b>	(49.9)	12.2
<b>Total comprehensive income for the period</b>	<b>(90.2)</b>	22.7	128.2
<b>Attributable to:</b>			
Equity shareholders of the Company	<b>(90.0)</b>	20.9	122.9
Minority interest	<b>(0.2)</b>	1.8	5.3
<b>Total comprehensive income for the period</b>	<b>(90.2)</b>	22.7	128.2

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**

	30 June 2009 (unaudited) £m	30 June 2008 (unaudited) £m	31 Dec 2008 £m
<b>Assets</b>			
Intangible assets	372.5	306.7	399.8
Property, plant and equipment	232.8	220.8	266.4
Employee benefit assets	2.1	1.4	2.4
Deferred tax assets	86.5	51.1	54.7
<b>Total non-current assets</b>	<b>693.9</b>	<b>580.0</b>	<b>723.3</b>
Inventories	265.5	294.6	333.5
Trade and other receivables	334.8	382.5	408.5
Current tax	4.1	1.9	4.7
Investments	14.7	14.8	17.8
Cash and cash equivalents	112.2	107.1	123.9
<b>Total current assets</b>	<b>731.3</b>	<b>800.9</b>	<b>888.4</b>
<b>Total assets</b>	<b>1,425.2</b>	<b>1,380.9</b>	<b>1,611.7</b>
<b>Liabilities</b>			
Bank overdraft	(2.5)	(7.5)	(4.6)
Interest-bearing loans and borrowings	(65.0)	(0.2)	(46.5)
Provisions	(29.8)	(5.9)	(29.4)
Current tax	(16.0)	(26.2)	(26.6)
Trade and other payables	(316.3)	(382.4)	(448.2)
<b>Total current liabilities</b>	<b>(429.6)</b>	<b>(422.2)</b>	<b>(555.3)</b>
Interest-bearing loans and borrowings	(308.2)	(373.9)	(371.5)
Employee benefit obligations	(283.1)	(130.7)	(139.5)
Provisions	(34.3)	(33.5)	(36.5)
Deferred tax liabilities	(15.6)	(18.8)	(16.9)
Other payables	(25.0)	(20.5)	(30.3)
<b>Total non-current liabilities</b>	<b>(666.2)</b>	<b>(577.4)</b>	<b>(594.7)</b>
<b>Total liabilities</b>	<b>(1,095.8)</b>	<b>(999.6)</b>	<b>(1,150.0)</b>
<b>Net assets</b>	<b>329.4</b>	<b>381.3</b>	<b>461.7</b>
<b>Equity</b>			
Share capital	84.8	84.7	84.7
Other reserves	210.5	167.6	236.2
Retained earnings	27.9	122.8	131.5
<b>Total equity attributable to equity shareholders</b>	<b>323.2</b>	<b>375.1</b>	<b>452.4</b>
<b>Minority interest</b>	<b>6.2</b>	<b>6.2</b>	<b>9.3</b>
<b>Total equity</b>	<b>329.4</b>	<b>381.3</b>	<b>461.7</b>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

	<b>Share capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total parent equity</b>	<b>Minority interest</b>	<b>Total equity</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 January 2008	84.6	170.1	151.8	406.5	6.4	412.9
Total recognised income and expense		(4.1)	25.0	20.9	1.8	22.7
Issued in the period	0.1	0.9		1.0		1.0
Dividends paid			(40.7)	(40.7)	(2.0)	(42.7)
Share based payments (net of tax)			2.2	2.2		2.2
Acquisition of treasury shares			(14.8)	(14.8)		(14.8)
<b>At 30 June 2008</b>	<b>84.7</b>	<b>166.9</b>	<b>123.5</b>	<b>375.1</b>	<b>6.2</b>	<b>381.3</b>
At 1 January 2009	84.7	236.2	131.5	452.4	9.3	461.7
Total recognised income and expense		<b>(25.8)</b>	<b>(64.2)</b>	<b>(90.0)</b>	<b>(0.2)</b>	<b>(90.2)</b>
Issued in the period	<b>0.1</b>	<b>0.1</b>		<b>0.2</b>		<b>0.2</b>
Dividends paid			<b>(40.5)</b>	<b>(40.5)</b>	<b>(1.6)</b>	<b>(42.1)</b>
Minority interest acquired					<b>(1.3)</b>	<b>(1.3)</b>
Share based payments (net of tax)			1.4	1.4		1.4
Share held in trust for employee share schemes			<b>(0.3)</b>	<b>(0.3)</b>		<b>(0.3)</b>
<b>At 30 June 2009</b>	<b>84.8</b>	<b>210.5</b>	<b>27.9</b>	<b>323.2</b>	<b>6.2</b>	<b>329.4</b>

The aggregate amount of goodwill arising from acquisitions prior to 1 January 2004 which had been deducted from the profit and loss reserves and incorporated into the IFRS transitional balance sheet as at 1 January 2004 amounted to £364m.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

	<b>6 months to 30 June 2009 (unaudited) £m</b>	6 months to 30 June 2008 (unaudited) £m	Year to 31 Dec 2008 restated £m
<b>Cash flows from operating activities</b>			
Profit for the period	55.0	72.6	116.0
Adjustments for:			
Depreciation	23.4	20.6	43.1
Amortisation and impairment	6.1	4.9	16.4
Gain on sale of property, plant and equipment	-	-	(0.2)
Financial income	(52.2)	(42.3)	(85.6)
Financial expense	62.0	47.4	119.4
Equity-settled share-based payment expenses	1.4	1.8	3.9
Income tax expense	24.7	31.1	60.0
Decrease/(increase) in inventories	30.3	(29.6)	(9.2)
Decrease/(increase) in trade and other receivables	26.3	(34.4)	20.0
(Decrease)/increase in trade and other payables	(75.0)	26.4	(7.2)
(Decrease)/increase in provisions and employee benefits	(6.9)	(10.3)	14.4
<b>Cash generated from the operations</b>	<b>95.1</b>	<b>88.2</b>	<b>291.0</b>
Income taxes paid	(26.2)	(24.3)	(54.4)
	<b>68.9</b>	<b>63.9</b>	<b>236.6</b>
Additional pension scheme funding	-	-	(16.8)
<b>Net cash from operating activities</b>	<b>68.9</b>	<b>63.9</b>	<b>219.8</b>
<b>Cash flows from investing activities</b>			
Interest received	1.7	4.7	12.4
Proceeds from sale of property, plant and equipment	0.7	1.9	3.1
Sale of investments	0.2	-	0.1
Purchase of investments	(0.1)	(0.2)	(0.8)
Income from investments	-	-	0.7
Settlement of derivatives	(9.7)	-	(2.4)
Acquisition of minority interest	(19.0)	-	-
Acquisition of property, plant and equipment	(17.1)	(25.3)	(47.6)
Capitalised development expenditure	(2.6)	(1.3)	(5.1)
<b>Net cash from investing activities</b>	<b>(45.9)</b>	<b>(20.2)</b>	<b>(39.6)</b>
<b>Cash flows from financing activities</b>			
Interest paid	(13.0)	(12.7)	(29.0)
Purchase of own shares	(0.3)	(14.6)	(16.7)
Proceeds from the issue of share capital for employee share schemes	0.2	1.0	1.9
Drawdown/(repayment) of borrowings	28.4	55.1	(45.5)
Dividends paid to minority interest	(1.6)	(2.0)	(2.4)
Dividends paid	(40.5)	(40.7)	(66.2)
<b>Net cash from financing activities</b>	<b>(26.8)</b>	<b>(13.9)</b>	<b>(157.9)</b>
Net (decrease)/increase in cash and cash equivalents	(3.8)	29.8	22.3
Cash and cash equivalents at start of period	119.3	77.4	77.4
Effect of exchange rate fluctuations on cash held	(5.8)	(7.6)	19.6
<b>Cash and cash equivalents at end of period *</b>	<b>109.7</b>	<b>99.6</b>	<b>119.3</b>

\* Net of bank overdrafts

Reconciliation of net cash to movement in net borrowings appears in note 7.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Segmental analysis

The Group includes the following five business segments and activities. The operating segments reporting format reflects the Group's management and internal reporting structures. Inter-segment revenue is insignificant:

#### Fluid Controls

##### Severe Service

Design, manufacture, supply and service of high performance critical control valves and associated equipment for power generation plants, oil & gas producers and other process industries.

##### Fluid Power

Design, manufacture and supply of motion and fluid control systems, principally pneumatic devices, for original equipment manufacturers in commercial vehicle, medical, print, packaging and other industries.

##### Indoor Climate

Design, manufacture and supply of indoor climate control systems, principally balancing valves for large commercial buildings and thermostatic radiator valves for residential buildings.

#### Retail Dispense

##### Beverage Dispense

Design, manufacture and supply of still and carbonated beverage dispense systems and associated merchandising equipment for brand owners and retailers.

##### Merchandising

Design, manufacture and supply of point of purchase display systems for brand owners and retailers.

	Segmental revenue			Segmental operating profit		
	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m	Year to 31 Dec 2008 £m	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m	Year to 31 Dec 2008 £m
<b>Fluid Controls</b>	<b>649</b>	665	1,390	<b>79.5</b>	98.9	217.8
Severe Service	252	191	443	47.9	31.8	81.3
Fluid Power	255	339	666	7.4	48.2	91.3
Indoor Climate	142	135	281	24.2	18.9	45.2
<b>Retail Dispense</b>	<b>241</b>	246	507	<b>17.9</b>	21.7	48.5
Beverage Dispense	154	157	305	10.5	14.3	27.6
Merchandising	87	89	202	7.4	7.4	20.9
<b>Segment result</b>	<b>890</b>	911	1,897	<b>97.4</b>	120.6	266.3

#### Reconciliation of reported segmental revenue and operating profit

	Revenue			Profit		
	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m	Year to 31 Dec 2008 £m	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m	Year to 31 Dec 2008 £m
Segmental result	890	911	1,897	97.4	120.6	266.3
Restructuring costs				(17.5)	(5.6)	(19.6)
Severe Service investigation costs and fines				-	(2.7)	(26.3)
Acquired intangible amortisation and impairment				(3.7)	(3.5)	(13.2)
Economic hedge contract gains and losses	10	-	4	13.3	-	2.6
<b>Total revenue/operating profit reported</b>	<b>900</b>	911	1,901	<b>89.5</b>	108.8	209.8
Net financial expense				(9.8)	(5.1)	(33.8)
<b>Profit before tax</b>				<b>79.7</b>	103.7	176.0

## 2. Acquisitions

On 1 January 2009 the 19.1% minority interest in Display Technologies LLC, part of the Merchandising group was acquired by the Group under the terms of the original purchase agreement. Based on the contracted pricing mechanism the cash consideration paid was £19m, resulting in a goodwill of £17.8m.

In the year ended 31 December 2008 the Company had sales and operating profit of £41m and £11.7m respectively, that were included in the segmental result of Merchandising.

## 3. Financial income and expense

	6 months to 30 June 2009				6 months to 30 June 2008			
	Interest	Financial instruments	Other	Total	Interest	Financial instruments	Other	Total
<b>Recognised in the income statement</b>								
Interest income on bank deposits	1.9			1.9	3.5			3.5
Financial instruments at fair value through profit or loss:								
Designated hedges		1.6		1.6		0.2		0.2
Other economic hedges		3.2		3.2		-		-
- current year transactions		15.1		15.1		2.9		2.9
- future year transactions								
Expected return on defined benefit pension plan assets			30.4	30.4			35.7	35.7
<b>Financial income</b>	<b>1.9</b>	<b>19.9</b>	<b>30.4</b>	<b>52.2</b>	<b>3.5</b>	<b>3.1</b>	<b>35.7</b>	<b>42.3</b>
Interest expense on financial liabilities measured at amortised cost	(10.8)			(10.8)	(11.8)			(11.8)
Financial instruments at fair value through profit or loss:								
Designated hedges		(1.7)		(1.7)		(0.2)		(0.2)
Other economic hedges		(14.3)		(14.3)		-		-
- current year trading		(2.7)		(2.7)		(1.6)		(1.6)
- future year transactions								
Financial cost of defined benefit pension scheme liabilities			(32.5)	(32.5)			(33.8)	(33.8)
<b>Financial expense</b>	<b>(10.8)</b>	<b>(18.7)</b>	<b>(32.5)</b>	<b>(62.0)</b>	<b>(11.8)</b>	<b>(1.8)</b>	<b>(33.8)</b>	<b>(47.4)</b>
<b>Net financial (expense)/income</b>	<b>(8.9)</b>	<b>1.2</b>	<b>(2.1)</b>	<b>(9.8)</b>	<b>(8.3)</b>	<b>1.3</b>	<b>1.9</b>	<b>(5.1)</b>

	Year to 31 Dec 2008			
	Interest	Financial instruments	Other	Total
<b>Recognised in the income statement</b>				
Interest income on bank deposits	10.2			10.2
Financial instruments at fair value through profit or loss:				
Designated hedges		3.1		3.1
Income from investments			0.7	0.7
Expected return on defined benefit pension plan assets			71.6	71.6
<b>Financial income</b>	<b>10.2</b>	<b>3.1</b>	<b>72.3</b>	<b>85.6</b>
Interest expense on financial liabilities measured at amortised cost	(26.3)			(26.3)
Financial instruments at fair value through profit or loss:				
Designated hedges		(3.2)		(3.2)
Other economic hedges		(2.6)		(2.6)
- current year trading		(17.2)		(17.2)
- future year transactions		(2.3)		(2.3)
Impairment of available for sale financial assets			(67.8)	(67.8)
Financial cost of defined benefit pension scheme liabilities				
<b>Financial expense</b>	<b>(26.3)</b>	<b>(25.3)</b>	<b>(67.8)</b>	<b>(119.4)</b>
<b>Net financial (expense)/income</b>	<b>(16.1)</b>	<b>(22.2)</b>	<b>4.5</b>	<b>(33.8)</b>

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes (see note 12) are included in segmental operating profit. For statutory purposes these are required to be shown within net financial income and expense above. Gains or losses for future year transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

#### 4. Taxation

The interim taxation charge of 31% is calculated by applying the directors' best estimate of the annual tax rate that will be applicable to expected total annual earnings to the taxable profit for the period (six months ended 30 June 2008: 30%) in respect of profit before tax.

#### 5. Earnings per share

The weighted average number of shares in issue during the period, net of shares purchased by the Company and held as treasury shares or to satisfy share option vesting was 318.5m, 319.4m diluted for the effect of outstanding share options (six months to 30 June 2008: 320.2m, 323.4m diluted and year to 31 December 2008 319.3m and 321.6m diluted). Basic and diluted earnings per share have been calculated on profit of £54.2m (2008: 6 months to 30 June, profit of £71.2m and year to 31 December, profit of 112.9m).

The directors consider that adjusted earnings per share figures, using earnings as calculated below, give a more meaningful indication of the underlying performance because either the quantum, the one off nature, or volatility of these items would otherwise distort the underlying performance.

	<b>6 months to 30 June 2009 £m</b>	6 months to 30 June 2008 £m	Year to 31 Dec 2008 £m
<b>Profit for the period</b>	<b>55.0</b>	72.6	116.0
Minority interest	<b>(0.8)</b>	(1.4)	(3.1)
	<b>54.2</b>	71.2	112.9
Charges/(credits) included in profit for the period:			
Restructuring costs	<b>17.5</b>	5.6	19.6
Severe Service investigation costs and fines	-	2.7	26.3
Acquired intangible amortisation and impairment	<b>3.7</b>	3.5	13.2
Financial instruments excluding economic hedge contract gains and losses	<b>(14.5)</b>	(1.3)	19.6
Taxation on charges/(credits) included in profit before tax	<b>(2.1)</b>	(3.3)	(19.0)
<b>Earnings for adjusted EPS</b>	<b>58.8</b>	78.4	172.6
<b>Weighted average number of shares</b>	<b>318.5m</b>	320.2m	319.3m
<b>Adjusted EPS</b>	<b>18.5p</b>	24.5p	54.1p
<b>Diluted adjusted EPS</b>	<b>18.4p</b>	24.2p	53.7p

## 6. Dividends

A final dividend relating to year ended 31 December 2008 of 12.7p per share was paid in May 2009 absorbing £40.5m (2008: £40.7m).

In addition, the directors have declared an interim dividend for the current year of 8.0p per share (2008: 8.0p) which will be paid on 16 October 2009 to shareholders on the register on 11 September 2009. In accordance with IAS10 '*Events after the Balance Sheet Date*', this interim dividend has not been reflected in the interim financial statements.

## 7. Reconciliation of net cash to movement in net borrowings

	6 months to 30 June 2009 £m	6 months to 30 June 2008 £m	Year to 31 Dec 2008 £m
Net (decrease)/increase in cash and cash equivalents	(3.8)	29.8	22.3
(Drawdown)/repayment of borrowings	(28.4)	(55.1)	45.5
<b>Cash (outflow)/inflow</b>	<b>(32.2)</b>	<b>(25.3)</b>	<b>67.8</b>
Currency translation differences	67.4	(16.1)	(133.4)
<b>Movement in net borrowings in the period</b>	<b>35.2</b>	<b>(41.4)</b>	<b>(65.6)</b>
Net borrowings at the start of the period	(298.7)	(233.1)	(233.1)
<b>Net borrowings at the end of the period</b>	<b>(263.5)</b>	<b>(274.5)</b>	<b>(298.7)</b>

## 8. Exchange rates

The income statements and cash flow statements of overseas subsidiaries are translated into sterling at average rates of exchange for the period, balance sheets are translated at period end rates. The main currencies are:

	Income statement and cash flow			Balance sheet		
	Average rates			Rates as at		
	6 months to 30 June 2009	2008	Year 2008	30 June 2009	30 June 2008	31 Dec 2008
Euro	1.12	1.29	1.26	1.17	1.26	1.03
US Dollar	1.50	1.98	1.85	1.65	1.99	1.44

## 9. Employee Benefits

	30 June 2009			30 June 2008			31 December 2008		
	UK £m	Overseas* £m	Total £m	UK £m	Overseas* £m	Total £m	UK £m	Overseas* £m	Total £m
<b>Schemes in surplus:</b>									
Fair value of assets <i>(net of asset ceiling restriction)</i>	-	16.8	16.8	-	62.4	62.4	-	19.8	19.8
Present value of defined benefit obligation	-	(14.7)	(14.7)	-	(61.0)	(61.0)	-	(17.4)	(17.4)
Recognised employee benefit net assets	-	2.1	2.1	-	1.4	1.4	-	2.4	2.4
<b>Schemes in deficit</b>									
Fair value of assets	813.6	84.6	898.2	936.0	35.0	971.0	837.8	99.0	936.8
Present value of defined benefit obligations	(1,014.5)	(166.8)	(1,181.3)	(1,002.0)	(99.7)	(1,101.7)	(881.4)	(194.9)	(1,076.3)
Recognised employee benefit net obligations	(200.9)	(82.2)	(283.1)	(66.0)	(64.7)	(130.7)	(43.6)	(95.9)	(139.5)

\* Including some overseas unfunded schemes and non-post employment schemes.

The IMI Pension Fund constitutes around 86% of the total liabilities and 91% of the total assets for the Group's long term employee benefit arrangements. The increase in employee benefit net obligations is mainly due to an increase in the assumed rate of price inflation within the IMI Pension Fund to 3.5% (31 December 2008: 2.8%) in line with the Bank of England's implied inflation yield curve and a reduction in the discount rate used to value the IMI Pension Fund's liabilities to 6.2% (31 December 2008: 6.5%) reflecting general changes in yield's on AA corporate bond indices.

A US defined benefit pension plan was closed to future accrual in March. A curtailment gain of £3.5m (six months ended 30 June 2008: £nil) has been recognised within segmental operating profit.

## 10. Contingencies

Following completion of the European Commission investigations into allegations of anti-competitive behaviour in the EU among certain manufacturers of copper tube and copper fittings, the Company has paid fines of £31.3m in February 2005 and £32.8m in January 2007. Both of these fines are the subject of ongoing appeals. In preparing the interim statements, the directors have not anticipated the outcome of either appeal due to the inherent uncertainty of such processes.

Whilst provision has been made in the accounts for expected fines (see note 11) and related legal costs in respect of the US investigations into irregular payments by our US subsidiary Control Components Inc ("CCI") and incidental breaches of US trade law, no provision has been made in respect of any further amounts in respect of other possible collateral issues. At this date it is not possible to assess the level of any fines, defense or other costs arising from these issues and accordingly no provision has been made.

## 11. Post balance sheet events

In August the Company agreed to a settlement with the US Department of Justice (DoJ) in respect of certain irregular payments by its US subsidiary Control Components Inc (CCI). As part of the plea agreement CCI agreed to pay a fine of \$18.2 million (which was wholly covered by a provision in the Group's 2008 accounts and was paid in August 2009) and continue to co-operate with the DoJ in its ongoing investigations of certain former employees of CCI. CCI will also be subject to oversight by an independent compliance monitor. Certain former employees of CCI have been indicted by the DoJ for offences related to the investigation. No current employees of CCI or the IMI Group have been prosecuted by the DoJ.

In July the Company raised \$175 million (GBP 107m) in the US private placement market. The notes issued consisted of two tranches with \$75m being taken with a 7 year maturity and \$100m at a 10 year maturity. The funds will be used to refinance \$65m of US notes maturing later this year with the balance being used to reduce existing bank debt.

## 12. Financial information

This condensed set of financial statements has been prepared in accordance with IAS34 '*Interim Financial Reporting*' as adopted by the EU. The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the same accounting policies and computation methods that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2008 other than the adoption of IAS1 Revised '*Presentation of Financial Statements*', IAS23 Revised '*Borrowing Costs*' and Amended IFRS2 '*Share-based Payment-Vesting Conditions and Cancellations*' which have been adopted as these standards will be implemented for the first time in the year ending 31 December 2009. None of these changes had any significant impact on the results or financial position.

This Interim Management Report is unaudited, but has been reviewed by the Company's auditor having regard to the International Standard on Review Engagements (UK and Ireland) 2410 Review of Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the UK. A copy of their unqualified review opinion is attached.

The comparative figures for the financial year ended 31 December 2008 are not the Company's statutory accounts for that financial year as defined in section 435 of the Companies Act 2006. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

This announcement contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of the preparation of this announcement and the Company undertakes no obligation to update these forward-looking statements. Nothing in this IMR should be construed as a profit forecast.

This IMR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to IMI plc and its subsidiaries when viewed as a whole.

References in the commentary to segmental operating profit, operating margins and profit before tax, unless otherwise stated, relate to reported numbers after adjustment for restructuring, investigation costs and fines, acquired intangible amortisation and impairment and financial instruments excluding economic hedge contract gains and losses. Segmental operating profit is reported as if economic currency and metals hedges were effective for financial reporting purposes. Business segments enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimize the risk of volatility in revenues, costs and margins. Business segmental operating profits are therefore charged/credited with the impact of those settled contracts. In accordance with IAS39 '*Financial Instruments: Recognition and Measurement*', these contracts do not meet the technical provisions required for hedge accounting and gains and losses are recorded in net financial income and expense. References to EPS, unless otherwise stated, relate to reported EPS adjusted for the per share after tax impact of restructuring, investigation costs and fines, acquired intangible amortisation and impairment and financial instruments excluding economic hedge contract gains and losses. The directors consider that the quantum, one off nature or volatility of these adjustments can distort the underlying performance of the Group and for this reason the commentary discusses these adjusted amounts. Comparative information in respect of adjusted profit before tax for the period ended 30 June 2008 has been restated for the impact of financial instruments excluding economic hedge contract gains and losses. Reported adjusted profit before tax for the period to 30 June 2008 is £1.3m lower.

References to organic growth are to like for like or underlying growth and exclude the impact of exchange rate translation and acquisitions or disposals that are included in headline reported growth figures. The organic growth is derived from excluding any contribution from acquired companies to revenues or profits in the current period until the first anniversary of their acquisition. It also excludes the contribution to revenues or profits in both the current and comparative period from any business that has been disposed of or sold. This adjusted growth in revenues or profits will then be compared to the adjusted prior period after its re-translation at the average exchange rates of the current period to provide the organic growth rate.

The Interim Management Report for 2009 will only be distributed electronically.

## **NEXT ANNOUNCEMENT**

Our next interim management statement will be issued on 18 November 2009.

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