IMI plc
Press Release

28 July 2017

Interim results, six months ended 30 June 2017

	Reported[1]				Statutory		
Continuing operations:	**2017 H1**	2016 H1	Change	**Organic[3]**	**2017 H1**	2016 H1	Change
Revenue	**£846m**	£759m	+11%	**0%**	**£848m**	£763m	+11%
Operating profit	**£106m**	£96m	+11%	**-3%**	**£94m**	£80m	+18%
Operating margin	**12.5%**	12.6%	-10bps				
Profit before tax	**£98m**	£86m	+13%		**£89m**	£70m	+26%
Basic EPS[1]	**28.4p**	24.4p	+16%		**27.2p**	19.4p	+40%
Operating cash flow[2]	**£86m**	£85m	+1%				
Dividend per share	**14.2p**	14.0p	+1.4%				
Net debt	**£318m**	£334m					

[1] Excluding the effect of items reported as exceptional in the income statement.
[2] Operating cash flow, as described in note 9 to the financial statements.
[3] Change shown after adjusting for exchange rates and excluding the impact of acquisitions and disposals.

Key Points

- Results slightly ahead of expectations
- Further good progress against 5-year strategic plan
- Re-organisation plans proceeding to time and budget
- Good cash flow with continued focus on working capital
- Favourable currency impact on revenues and profits expected in the full year
- Proposed 1.4% increase in interim dividend

Mark Selway, Chief Executive, commented:

“The improved trading environment experienced in some of our most important markets in the first quarter has continued for the first half of the year. Most encouragingly, progress with our ongoing operational improvements and strategic self-help initiatives has maintained an impressive pace and our market positions continue to improve. Our focus remains resolute on building both competitive advantage and shareholder value by delivering great products and continuously improving our customer offering.”

“While we continue to face some specific market headwinds in the remainder of 2017, particularly in Critical Engineering, full year results will reflect our normal second half bias and the benefits from ongoing reorganisation activities. In the remainder of the year, organic revenue is still expected to be below last year, principally driven by order phasing in Critical Engineering. However, second half margins will show a modest improvement compared with the same period in 2016, supported by both rationalisation savings and improved market conditions in Precision Engineering.”

“Based on current market conditions, we expect full year 2017 results will be modestly above current market expectations.”

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A live webcast of the analyst meeting taking place today at 8:30am (BST) will be available on the investor page of the Group’s website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 9 November 2017.

Results overview

Results for the first half of the year were slightly ahead of expectations with good progress continuing to be made against the five-year strategic plan. Increased momentum was evident across our various strategic growth initiatives and the Group's ambitious re-organisation plans continued to deliver to plan and budget.

On a reported basis, revenues of £846m (2016: £759m) were 11% higher and included the impact of favourable exchange rate movements of £85m. Group revenues on an organic basis were flat when compared with the same period in 2016. Segmental operating profit of £106m (2016: £96m) was 11% higher on a reported basis. Excluding the favourable impact of exchange rate movements of £14m, segmental operating profit on an organic basis was 3% lower than the comparable period in 2016.

The Group's segmental operating margin at 12.5% (2016: 12.6%) reflects improved revenues in Precision and restructuring benefits across all three divisions, which were offset by the absence of £4.2m profit in 2016 from property disposals.

Operating cash flow was marginally stronger at £86m (2016: £85m) and included the benefits of improved inventory management and consistently good debtor management. Including a favourable currency impact of £9m, Net Debt was £318m (2016: £334m) resulting in a net debt to EBITDA ratio of 1.1x.

The pre-exceptional tax charge was £21m (2016: £19m) giving an effective tax rate of 21%.

The resulting adjusted basic earnings per share were 16% higher at 28.4p (2016: 24.4p).

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending that the interim dividend be increased by 1.4% to 14.2p (2016: 14.0p). This will be paid on 15 September 2017 to shareholders on the register at the close of business on 11 August 2017.

Outlook

While we continue to face some specific market headwinds in the remainder of 2017, particularly in Critical Engineering, full year results will reflect our normal second half bias and the benefits from ongoing reorganisation activities. In the remainder of the year, organic revenue is still expected to be below last year, principally driven by order phasing in Critical Engineering. However, second half margins will show a modest improvement compared with the same period in 2016, supported by both rationalisation savings and improved market conditions in Precision Engineering.

Based on current market conditions, we expect full year 2017 results will be modestly above current market expectations.

If average exchange rates in the first two weeks of July (US$1.29 and €1.13) remain constant for the balance of the year, revenue and segmental operating profit would both be enhanced by c.6%, in the full year versus 2016.

Divisional review

The following review relates to our continuing businesses: IMI Critical Engineering, IMI Precision Engineering and IMI Hydronic Engineering and compares their performance during the half year ended 30 June 2017 with the same period in 2016.

For ease of comparison, references to organic numbers are on an organic constant currency basis and therefore exclude the impact of foreign exchange movements and the results of disposals and acquisitions. To assist in meaningful comparisons, the comparative 2016 results are re-stated.

IMI Critical Engineering

IMI Critical Engineering is a world-leading provider of flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently. Our products control the flow of steam, gas and liquids in harsh environments and are designed to withstand temperature and pressure extremes as well as intensely abrasive or corrosive cyclical operations.

	2017 H1	**2016 H1**
Organic:		
Order intake	£350m	£314m
Revenue	£308m	£318m
Operating profit	£34.4m	£35.8m
Operating margin	11.2%	11.3%

Market review

In line with previous outlook statements, Critical Engineering's most significant markets continue to be challenging with sustained lower oil prices and ongoing lack of investment across a number of key sectors impacting orders and pricing across the industry. Nonetheless, Critical Engineering's most important markets continue to offer significant medium to longer-term opportunity.

Performance

On an organic basis, order intake at £350m was 11% higher when compared to the same period last year (2016: £314m).

New Construction orders of £185m (2016: £163m) were 14% higher and reflected beneficial phasing with Petrochemical growing strongly in the period following good orders for Gas Processing and Refinery projects in China and North America. Oil & Gas was 5% lower with good progress in Upstream, Midstream and Downstream segments being offset by lower LNG activity and an absence of significant HIPPS orders in the period. Fossil Power orders were £2m lower while Nuclear was up £7m, reflecting a good contract win in China.

Aftermarket orders were 9% higher at £164m (2016: £151m) with good growth in LNG resulting in Oil & Gas Aftermarket being £15m higher than the first half of last year. Fossil Power Aftermarket was down 3% when compared with the first half of 2016 while both Nuclear and Petrochemical showed good growth in the period.

Reported revenue of £308m (2016: £285m) was up 8% and, after adjusting for the benefit of exchange rate movements of £33m, organic revenues were 3% lower. On an organic basis, segmental operating profit of £34m (2016: £36m) resulted in similar margins to the prior period at 11.2% (2016: 10.8%). Margins continue to be impacted by order phasing, lower overhead recovery and the timing of restructuring.

Strategic progress

The division's success in relation to Value Engineering and Cost Optimisation has continued and helped the business secure £69m of new business in the first half of the year. In addition, the division's new product development initiatives have resulted in the award of new business in attractive adjacent markets while helping to mitigate selling price pressure in New Construction sales. The order book at £552m was flat when compared to the same point in 2016, with 1.7% lower margins due to ongoing selling price pressure and mix.

Critical Engineering also achieved a number of important operational milestones, including the on time and on budget implementation of the IFS ERP system into Singapore and Malaysia, with a further two plants planned to go live in the final quarter of this year. The division also continued to make substantial progress in improving its operational performance and achieved a mid-year lean audit score of 68%, compared with 60% this time last year. The benefits of lean will become far more evident as the market recovers and a more fully utilised factory loading is achieved.

Outlook

In the second half of the year, organic revenue is still expected to be weaker than the second half of last year. Full year margins are expected to show a modest improvement on 2016 – and a significant improvement on the first half of this year – due to the benefits of the division's reorganisation activities and phasing of the order backlog.

IMI Precision Engineering

IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies where precision, speed and reliability are essential to the processes in which they are involved.

	2017 H1	2016 H1
Organic:		
Revenue	£388m	£379m
Operating profit	£61.2m	£63.0m*
Operating margin	15.8%	16.6%*

* 2016 results included a £4.2m gain on property disposals.

Market review

While the 2017 global economic outlook has improved when compared with 2016, it remains somewhat mixed, with continued uncertainties in some of our markets. However, Industrial Automation has continued its globally positive market environment with particularly strong progress in China. In addition, the Commercial Vehicle markets in North America and Europe delivered higher truck build volumes than initially forecast at the start of the year.

Performance

Reported revenue of £388m (2016: £341m) increased 14% on the same period in 2016 and after adjusting for the benefit of positive exchange rate movements of £38m, organic revenue was up 2%. Sales from Industrial Automation and Commercial Vehicle, which together represent almost 80% (£308m) of Precision revenues, grew 2.6% in the first half of 2017.

Industrial Automation revenue of £215m was up 3%. The general portion of Industrial Automation, which represents around 50% of the sector total, was up 5% compared with the first half of 2016 with declines in North America being offset by good growth in other regions. Norgren Express was broadly flat.

Commercial Vehicle overall sales of £93m were 1% higher with a 4% decline in Europe due to previously announced contract completions being more than offset by growth in the Americas and Asia. Elsewhere, Energy was lower by 4% compared with the first half of 2016 reflecting ongoing difficulties in Oil & Gas. Life Sciences was also down 1% when compared with the first half of last year with an expectation of recovery in the second half of this year.

On a reported basis, segmental operating profit of £61m (2016: £57m) was 7% higher and after excluding the impact of a £6m exchange rate benefit was 3% lower on an organic basis. While underlying margins, excluding the £4.2m of property gains in 2016 improved, reported margins were lower at 15.8% compared with 16.7% in the same period in 2016.

Strategic progress

The 2017 Hannover Fair featured the first major launch of new platform products that IMI Precision Engineering has delivered to the market for many years. These innovative new products have been well received by customers and increased competitiveness in our largest market segment.

The successful implementation of Precision Engineering’s JD Edwards ERP system on time and on budget in the Americas represented a further important milestone. The application of lean continued to contribute to productivity improvements and lower scrap costs and the division’s average lean score further improved to 67% from its first, benchmark score of 33%.

In addition, excellent progress continues to be made on the division's Janus project which is progressing to plan and budget. Insourcing of machining work is running ahead of target having increased utilisation to 66% from 50%, at the start of 2017.

The restructure into sector based verticals and consolidation into a single unified structure was successfully implemented in Europe and the anticipated benefits, including overhead duplication reductions, are starting to accrue.

The supply chain organisation is now fully resourced and executive leadership is now on board in North America and Europe. The painstaking task of standardising core business processes and improving the accuracy of core business data will progressively yield all the benefits which our new ERP system promises.

The total cost of Project Janus will be £12m, £9m of which will be in 2017. Total savings of £12m are targeted, of which c.£5m is still expected in 2017.

Outlook

In the second half, on a constant currency basis, organic revenues and margins are expected to improve when compared with the second half of last year reflecting the benefits of ongoing cost reduction and improved market conditions. Full year revenue is expected to reflect similar growth to the first half of the year with margins consistent with 2016.

IMI Hydronic Engineering

IMI Hydronic Engineering is a leading provider of technologies that deliver energy efficient water-based heating and cooling systems for the residential and commercial building sectors.

	2017 H1	2016 H1
Organic:		
Revenue	£150m	£147m
Operating profit	£23.9m	£24.0m
Operating margin	15.9%	16.3%

Market review

Hydronic Engineering's most important markets include the European residential and commercial construction, which have shown some modest improvement over recent months. The construction markets in Europe, which represent almost 80% of Hydronic revenue, grew c.1% in the first half of 2017.

Performance

Reported revenue of £150m (2016: £133m) was up 13% on the same period in 2016. After adjusting for the impact of positive exchange rate movements of £14m, organic revenue was up 2%. Sales from the three core businesses, which account for 90% of the total, were also 2% higher and included £33m of new product revenues.

Hydronic in Asia, whilst modest in absolute terms, did deliver a £1.5m increase in revenues, including 32% growth in China as well as stronger performances in Australia and Singapore.

Segmental operating profit of £24m (2016: £21m) was 12% higher on a reported basis and, after adjusting for £2.6m of exchange rate benefit, organic operating profits were flat compared with the same period in 2016. Operating margins at 15.9% (2016: 16.1%) were impacted by continued investment for growth and increases in raw material cost, which are expected to be progressively recovered in the second half of the year.

Strategic progress

The division's product development programme continues to deliver with 47 great new products introduced in the last three and a half years. Around 22% of the division's first half revenues were generated by these products.

The division's over-the-counter strategy continued to gain traction with new distributor orders increasing in the first half of the year. Operational performance improved further across all Hydronic Engineering sites, with the average lean score increasing to 77% against 73% at the same point in 2016.

The successful launch of the division's new global ERP system in Slovenia, Hungary, Croatia and Romania was a further significant achievement with additional roll-outs scheduled in 12 sales offices in the second half of the year.

Outlook

In the second half, on a constant currency basis, we expect revenue growth to show some improvement when compared to the first half of the year. Margins are expected to improve when compared to the second half of last year, despite the increased costs associated with our investments for growth.

Board changes

Isobel Sharp has been appointed as Chairman-elect of the Audit Committee, succeeding Ross McInnes who is stepping down from the Board to concentrate on his other activities.

Following an orderly transition of the Audit Committee responsibilities, Isobel will succeed Ross as Chairman of the Audit Committee on 1 October 2017. Ross joined the Board on 1 October 2014 and has decided not to extend his term after his initial three-year appointment expires on 30 September 2017. Isobel joined the Board and the Audit Committee on 1 September 2015 and has extensive audit, accounting and corporate governance experience.

The Board would like to thank Ross for the significant and diligent contribution he has made as Chairman of the Audit Committee and as a member of the Board, and wishes him well for the future.

Financial review

Reported revenues of £846m were up 11% (2016: £759m) and statutory revenues were up 11% to £848m (2016: £763m). After adjusting for favourable exchange rate movements, organic revenues were flat when compared with the same period in the previous year. Segmental operating profit was £106m, an 11% increase on the prior period (2016: £96m). On an organic basis operating profit was down 3%. Group segmental operating margin was 10 basis points lower at 12.5% (2016: 12.6%), whilst statutory operating profit was up 18% at £94m (2016: £80m).

Net interest costs on borrowings were £7m (2016: £9m) and were covered 20 times by earnings before interest, tax, depreciation and amortisation (EBITDA) on continuing operations of £129m (2016: £115m). The IAS19 pension net financing expense was £1m (2016: £1m income). The total net financing costs were £7m (2016: £8m). Profit before tax and exceptional items was £98m, an increase of 13% (2016: £86m).

The effective tax rate on profit before exceptional items for 2017 is 21%, which has reduced from 22% in the first half of 2016.

Exceptional items

Restructuring costs of £1m were incurred but not treated as exceptional (2016: £1m). Exceptional restructuring costs were £14m (2016: £10m), primarily relating to the restructuring of our European operations in Critical Engineering and Precision Engineering.

On 31 January 2017, £430m of UK pension liabilities covered by insurance policies were permanently transferred to the underlying insurance companies through a formal buy-out transaction, which resulted in the asset and corresponding obligation being permanently removed from the Group's balance sheet. An exceptional gain of £6m was recognised in the first half of 2017. This gain is offset by £2m of fees incurred to complete the project.

On 31 March 2017, the Group settled its remaining liabilities in relation to one of its pension plans in the USA. This resulted in a further exceptional gain of £2m being recognised in the 6 months to 30 June 2017.

Following a restructuring exercise relating to one of our Swiss schemes the Group realised a curtailment gain of £5m.

Amortisation of acquired intangibles was £10m (2016: £10m). The only other exceptional items affecting continuing businesses were the reversal of net economic hedge contract losses of £2m (2016: losses of £3m) and net exceptional financial instrument gains of £2m (2016: losses of £2m).

After these exceptional items, statutory profit before tax was £89m (2016: £70m). The total profit for the period after taxation was £74m (2016: £54m) and, after non-controlling interests, the profit attributable to the equity shareholders of the Company was £74m (2016: £53m).

Earnings per share

The average number of shares in issue during both periods was 271m, resulting in basic earnings per share of 27.2p (2016: 19.4p) and diluted earnings per share of 27.0p (2016: 19.4p).

Foreign exchange

The impacts of translation on the reported growth of first half revenues and segmental operating profits were increases of £85m (11%) and £14m (12%) respectively. The most significant foreign currencies for the Group remain the Euro and the US Dollar and the relevant rates of exchange for the period and at the period end are shown in note 13 to this report.

If the average exchange rates in first two weeks of July (US$1.29 and €1.13) remained constant for the remainder of the year, it would positively impact both revenues and segmental operating profit by around 6%.

Cash flow

Operating cash flow[1] was flat at £86m. This included a working capital outflow of £20m against an outflow of £6m in the comparable period. Trade and other receivables increased by £13m, inventories increased by £21m and trade and other payables increased by £14m. Capital expenditure amounted to £27m and was 1.1 times the depreciation and amortisation charge for the period of £24m.

The other major cash outflows in the period were £20m of tax, £23m of derivatives and dividends of £67m. The total cash outflow for the period was £45m, compared with an outflow of £57m in the first half of the previous year.

Balance sheet

The balance sheet remains strong with the ratio of net debt to the last twelve months' EBITDA (before exceptional items) being 1.1 at the end of June 2017 (December 2016: 1.0). Net debt increased during the period to £318m (December 2016: £283m) due to the cash outflow highlighted above partially offset by £9m of translation benefit due to the strengthening of sterling during the period.

The Group maintains an appropriate mixture of cash and short, medium and long-term debt arrangements which provide sufficient headroom for both ongoing activities and acquisitions. Total committed bank loan facilities available to the Group at 30 June 2017 were £301m (December 2016: £301m) of which £nil were drawn (December 2016: £nil).

The IAS19 net pension deficit was £61m which compares to a deficit of £25m at 30 June 2016 and a deficit of £80m at 31 December 2016. Of this amount, a surplus of £18m (31 December 2016: £24m) related to the UK Funds is the most significant of the Group's defined benefit schemes. The deficit relating to the overseas schemes decreased to £79m (31 December 2016: £104m).

Shareholders' equity at the end of June was £581m, an increase of £38m since the end of last year, which includes the attributable profit for the period of £74m, an after-tax actuarial gain on the defined benefit pension plans of £10m, a benefit of £21m following the derecognition of the Group's interest in the IMI Scottish Limited Partnership, adverse exchange differences of £4m and the 2016 final dividend of £67m paid in May.

Other regulatory information

Going concern

The Group has considerable financial resources together with long-standing relationships with a number of customers, suppliers and funding providers across different geographic areas and industries. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its current bank facilities without needing to renew facilities expiring in the next 12 months. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Financial Report.

[1]Before exceptional items, as defined in note 9

Principal risks and uncertainties

The Group has a risk management structure and internal controls in place 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 to 43 of its 2016 Annual Report (a copy of which is available on IMI's website: 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 risks include an increase in macro-economic instability; major project implementation; product quality; acquisition risk; regulatory breach; supply chain; cyber security; competitive markets; and new product development. These risks remain valid and have the potential to impact the Group during the remainder of the second half of 2017. The impact of the economic and end-market environments in which the Group's businesses operate are considered in the divisional review and outlook sections of this Interim Financial Report above, together with an indication of whether management is aware of any likely change in this situation.

Cautionary statement

This Interim Financial Report contains 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 preparation of this announcement and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Interim Financial Report should be construed as a profit forecast.

Responsibility statement of the directors in respect of the Interim 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 Financial 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 2016 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2017.

The directors of IMI plc are listed in the IMI Annual Report for the year ended 31 December 2016.

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

Mark Selway
Chief Executive
27 July 2017

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 2017 which comprises a Condensed Consolidated Interim Income Statement, a Condensed Consolidated Interim Statement of Comprehensive Income, a Condensed Consolidated Interim Balance Sheet, a Condensed Consolidated Interim Statement of Changes in Equity, a Condensed Consolidated Interim Statement of Cash Flows and the related explanatory notes 1 to 15. 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 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. 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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, 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 2017 is 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 of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Birmingham
27 July 2017

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Notes	6 months to 30 June 2017 (unaudited)			6 months to 30 June 2016 (unaudited)			Year to 31 Dec 2016		
		Reported	**Exceptional items**	**Statutory**	Reported	Exceptional items	Statutory	Reported	Exceptional items	Statutory
		£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue	2	**846**	**2**	**848**	759	4	763	1,649	8	1,657
Segmental operating profit	2	**106.1**		**106.1**	95.6		95.6	227.7		227.7
Reversal of net economic hedge contract losses			**2.3**	**2.3**		2.8	2.8		5.6	5.6
Restructuring costs		**(1.3)**	**(13.8)**	**(15.1)**	(1.3)	(9.7)	(11.0)	(3.5)	(18.8)	(22.3)
Gains on special pension events			**10.7**	**10.7**		2.5	2.5		2.8	2.8
Acquired intangible amortisation			**(9.6)**	**(9.6)**		(9.8)	(9.8)		(20.5)	(20.5)
Impairment Losses			**-**	**-**		-	-		(5.0)	(5.0)
Operating profit	2	**104.8**	**(10.4)**	**94.4**	94.3	(14.2)	80.1	224.2	(35.9)	188.3
Financial income	3	**3.0**	**6.4**	**9.4**	2.1	8.0	10.1	4.5	12.6	17.1
Financial expense	3	**(9.6)**	**(4.9)**	**(14.5)**	(10.9)	(9.8)	(20.7)	(21.8)	(19.4)	(41.2)
Net finance (expense)/income relating to defined benefit pension schemes	3	**(0.7)**		**(0.7)**	0.6		0.6	1.1		1.1
Net financial (expense)/income	3	**(7.3)**	**1.5**	**(5.8)**	(8.2)	(1.8)	(10.0)	(16.2)	(6.8)	(23.0)
Profit before tax		**97.5**	**(8.9)**	**88.6**	86.1	(16.0)	70.1	208.0	(42.7)	165.3
Taxation	4	**(20.5)**	**5.7**	**(14.8)**	(18.9)	2.5	(16.4)	(43.7)	11.6	(32.1)
Total profit for the period		**77.0**	**(3.2)**	**73.8**	67.2	(13.5)	53.7	164.3	(31.1)	133.2
Attributable to:										
Owners of the parent		**77.0**		**73.8**	66.1		52.6	161.9		130.8
Non-controlling interests		**-**		**-**	1.1		1.1	2.4		2.4
Profit for the period		**77.0**		**73.8**	67.2		53.7	164.3		133.2
Earnings per share	6									
Basic - from profit for the period		**28.4p**		**27.2p**	24.4p		19.4p	59.8p		48.3p
Diluted - from profit for the period		**28.2p**		**27.0p**	24.3p		19.4p	59.4p		48.0p

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2017 (unaudited)		6 months to 30 June 2016 (unaudited)		Year to 31 Dec 2016	
	£m	**£m**	£m	£m	£m	£m
Profit for the period		**73.8**		53.7		133.2
Other comprehensive income/(expense)						
Items that may be reclassified to profit and loss:						
Change in fair value of effective net investment hedge derivatives	**5.6**		(12.7)		(2.8)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(10.0)**		39.8		39.4	
Fair value (loss)/gain on available for sale financial assets	**(0.2)**		0.7		-	
Related tax effect on items that may subsequently be reclassified to profit and loss	**(0.8)**		5.6		0.6	
		(5.4)		33.4		37.2
Items that will not subsequently be reclassified to profit and loss:						
Re-measurement gain/(loss) on defined benefit plans	**12.1**		(23.4)		(78.2)	
Related taxation effect in current period	**(2.4)**		5.3		15.3	
Effect of rate change on previously recognised items	**-**		-		(2.5)	
		9.7		(18.1)		(65.4)
Other comprehensive income for the period, net of tax		**4.3**		15.3		(28.2)
Total comprehensive income for the period, net of tax		**78.1**		69.0		105.0
Attributable to:						
Owners of the parent		**78.1**		67.9		102.6
Non-controlling interests		**-**		1.1		2.4
Total comprehensive income for the period, net of tax		**78.1**		69.0		105.0

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	30 June 2017 (unaudited) £m	30 June 2016 (unaudited) £m	31 Dec 2016 £m
Assets				
Intangible assets		**515.9**	512.1	521.2
Property, plant and equipment		**265.5**	259.5	266.2
Employee benefit assets	12	**54.6**	84.9	57.8
Deferred tax assets		**21.1**	22.2	22.8
Other receivables		**4.2**	6.1	5.7
Total non-current assets		**861.3**	884.8	873.7
Inventories		**277.7**	285.1	255.2
Trade and other receivables		**411.0**	383.0	400.5
Other current financial assets		**5.2**	6.6	2.9
Current tax		**3.9**	3.4	7.1
Investments		**19.5**	29.6	29.9
Cash and cash equivalents		**34.0**	73.6	79.7
Total current assets		**751.3**	781.3	775.3
Total assets		**1,612.6**	1,666.1	1,649.0
Liabilities				
Bank overdraft		**(7.3)**	(23.7)	(12.2)
Interest-bearing loans and borrowings		**(124.5)**	(57.9)	(6.8)
Provisions		**(18.4)**	(24.6)	(19.9)
Current tax		**(50.9)**	(41.3)	(62.8)
Trade and other payables		**(425.5)**	(379.9)	(407.9)
Other current financial liabilities		**(3.2)**	(22.3)	(13.5)
Total current liabilities		**(629.8)**	(549.7)	(523.1)
Interest-bearing loans and borrowings		**(220.3)**	(325.8)	(343.3)
Employee benefit obligations	12	**(115.5)**	(109.8)	(137.6)
Provisions		**(21.0)**	(19.6)	(19.1)
Deferred tax liabilities		**(37.1)**	(51.6)	(32.0)
Other payables		**(7.5)**	(26.2)	(10.7)
Total non-current liabilities		**(401.4)**	(533.0)	(542.7)
Total liabilities		**(1,031.2)**	(1,082.7)	(1,065.8)
Net assets		**581.4**	583.4	583.2
Equity				
Share capital	11	**81.8**	81.8	81.8
Share premium		**12.1**	11.8	12.1
Other reserves		**208.3**	209.4	213.6
Retained earnings		**278.5**	238.7	235.7
Equity attributable to owners of the parent		**580.7**	541.7	543.2
Non-controlling interests	7	**0.7**	41.7	40.0
Total equity		**581.4**	583.4	583.2

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	81.8	12.1	174.4	(1.6)	40.8	235.7	543.2	40.0	583.2
Profit for the period						**73.8**	**73.8**	**-**	**73.8**
Other comprehensive income				**4.5**	**(9.8)**	**9.6**	**4.3**		**4.3**
Total comprehensive income				**4.5**	**(9.8)**	**83.4**	**78.1**	**-**	**78.1**
Dividends paid on ordinary shares						**(67.0)**	**(67.0)**		**(67.0)**
Share-based payments (net of tax)						**4.0**	**4.0**		**4.0**
Shares issued for employee share scheme trust						**1.1**	**1.1**		**1.1**
Derecognition of interest in IMI Scottish Limited Partnership						**21.3**	**21.3**	**(39.3)**	**(18.0)**
As at 30 June 2017	**81.8**	**12.1**	**174.4**	**2.9**	**31.0**	**278.5**	**580.7**	**0.7**	**581.4**
As at 1 January 2016	81.8	11.8	174.4	0.6	1.4	276.1	546.1	42.8	588.9
Profit for the period						52.6	52.6	1.1	53.7
Other comprehensive income				(10.2)	43.2	(17.7)	15.3	-	15.3
Total comprehensive income				(10.2)	43.2	34.9	67.9	1.1	69.0
Dividends paid on ordinary shares						(66.3)	(66.3)		(66.3)
Share-based payments (net of tax)						2.0	2.0		2.0
Shares acquired by employee share scheme trust						(8.0)	(8.0)		(8.0)
Income earned by partnership								(2.2)	(2.2)
As at 30 June 2016	81.8	11.8	174.4	(9.6)	44.6	238.7	541.7	41.7	583.4
As at 1 January 2016	81.8	11.8	174.4	0.6	1.4	276.1	546.1	42.8	588.9
Profit for the year						130.8	130.8	2.4	133.2
Other comprehensive income				(2.2)	39.4	(65.4)	(28.2)	-	(28.2)
Total comprehensive income				(2.2)	39.4	65.4	102.6	2.4	105.0
Issue of share capital	-	0.3					0.3		0.3
Dividends paid on ordinary shares						(104.2)	(104.2)	(0.8)	(105.0)
Share-based payments (net of tax)						5.8	5.8		5.8
Shares acquired by employee share scheme trust						(7.4)	(7.4)		(7.4)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2016	81.8	12.1	174.4	(1.6)	40.8	235.7	543.2	40.0	583.2

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	6 months to 30 June 2017 (unaudited)	6 months to 30 June 2016 (unaudited)	Year to 31 Dec 2016
	£m	£m	£m
Cash flows from operating activities			
Operating profit for the period	**94.4**	80.1	188.3
Adjustments for:			
Depreciation and amortisation	**33.8**	30.6	66.3
Impairment of property, plant and equipment and intangible assets	**0.2**	-	8.0
Gain on special pension events	**(10.7)**	(2.5)	(2.8)
Loss/(profit) on sale of property, plant and equipment	**0.2**	(3.9)	(1.6)
Equity-settled share-based payment expense	**4.1**	2.4	5.8
(Increase)/decrease in inventories	**(21.1)**	(18.9)	17.5
(Increase)/decrease in trade and other receivables	**(12.8)**	10.8	6.8
Increase in trade and other payables	**14.0**	2.5	5.5
Decrease in provisions and employee benefits	**(0.4)**	(1.7)	(8.6)
Cash generated from the operations	**101.7**	99.4	285.2
Income taxes paid	**(20.2)**	(13.4)	(31.7)
	81.5	86.0	253.5
Additional pension scheme funding	**-**	(1.9)	(1.9)
Net cash from operating activities	**81.5**	84.1	251.6
Cash flows from investing activities			
Interest received	**3.0**	2.1	4.5
Proceeds from sale of property, plant and equipment	**0.5**	4.7	6.8
Purchase of investments	**(1.8)**	-	(0.4)
Settlement of transactional derivatives	**(2.4)**	(2.1)	(2.4)
Settlement of currency derivatives hedging balance sheet	**(20.8)**	(27.9)	(41.8)
Acquisition of property, plant and equipment and non-acquired intangibles	**(27.3)**	(30.5)	(70.9)
Net cash from investing activities	**(48.8)**	(53.7)	(104.2)
Cash flows from financing activities			
Interest paid	**(9.4)**	(10.9)	(21.8)
Payment to non-controlling interest	**(2.2)**	(2.2)	(4.4)
Shares issued by/(acquired for) employee share scheme trust	**1.1**	(8.0)	(7.4)
Proceeds from the issue of share capital for employee share schemes	**-**	-	0.3
Net drawdown/(repayment) of borrowings	**3.3**	(0.8)	(54.6)
Dividends paid to equity shareholders and non-controlling interest	**(67.0)**	(66.3)	(105.0)
Net cash from financing activities	**(74.2)**	(88.2)	(192.9)
Net decrease in cash and cash equivalents	**(41.5)**	(57.8)	(45.5)
Cash and cash equivalents at the start of the period	**67.5**	107.8	107.8
Effect of exchange rate fluctuations on cash held	**0.7**	(0.1)	5.2
Cash and cash equivalents at the end of the period*	**26.7**	49.9	67.5

* Net of bank overdrafts of £7.3m (31 December 2016: £12.2m; 30 June 2016: £23.7m).

Reconciliation of net (decrease)/increase in cash to movement in net debt appears in note 9.

1. Significant accounting policies

Basis of preparation

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.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in the preparation of the condensed financial statements.

This Interim Financial 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 Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board. A copy of their unqualified review opinion is attached.

The comparative figures for the financial year ended 31 December 2016 are derived from 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 498(2) or (3) of the Companies Act 2006.

This Interim Financial Report 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.

Accounting policies

As required by the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, this 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 2016, other than to reflect changes expected to be applied in the subsequent annual financial statements. Noted below are the amended International Financial Reporting Standards which became effective for the Group as of 1 January 2017, none of which has any impact on this Interim Financial Report:

- IFRS 12 'Disclosure of Interests in Other Entities'
- IAS 7 'Statement of Cash Flows'
- IAS 12 'Income Taxes'

Issued Accounting Standards which are not effective for the six months to 30 June 2017

The Group has updated its assessment of the impact that IFRS 15 'Revenue from Contracts with Customers' will have on the financial statements at the effective date of 1 January 2018. It is considered that the adoption of this standard will not have significant impact on the financial statements.

The Group's assessment of the impact that IFRS 9 'Financial Instruments' and IFRS 16 'Leases' will have, at the effective dates of 1 January 2018 and 1 January 2019 respectively, remains consistent with that which was previously reported in the 2016 Annual Report and Accounts.

2. Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. Each of the Group’s three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group’s three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

IMI Critical Engineering

IMI Critical Engineering is a world-leading provider of critical flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently.

IMI Precision Engineering

IMI Precision Engineering specialises in developing motion and fluid control technologies for applications where precision, speed and reliability are essential.

IMI Hydronic Engineering

IMI Hydronic Engineering designs and manufactures technologies which deliver optimal and energy efficient heating and cooling systems to the residential and commercial building sectors.

Performance is measured based on reported segmental operating profit which is defined in the table below.

Businesses 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 minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. In accordance with IAS 39, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of reported revenue and operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Alternative Performance Measures

To facilitate a more meaningful review of performance, certain alternative performance measures (‘APMs’) have been included within this announcement. These APMs are used by the Executive Committee to monitor and manage the performance of the Group in order to ensure that decisions taken align with its long-term interests. These APMs exclude exceptional and other items in order to reflect the underlying performance of the Group. Movements in reported revenue and segmental operating profit are given on an organic basis (see definition below) so that performance is not distorted by acquisitions, disposals and movements in exchange rates.

APM	Definition
Reported revenue Reported profit before tax Reported earnings per share	These measures all exclude exceptional items.
Reported segmental operating profit and margin	These measures exclude exceptional items, reported restructuring costs and gains and losses on disposal of subsidiaries.
Organic growth	Movements are after adjusting for exceptional items and the impact of acquisitions, disposals and movements in exchange rates.
Operating cash flow	Operating cash flow is cash generated from the operations as shown in the statement of cash flows less cash spent on property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, after adjusting for the cash impact of exceptional items.

2. Segmental information (continued)

	Revenue			Operating profit			Operating margin		
	6 months to 30 June 2017	6 months to 30 June 2016	Year to 31 Dec 2016	**6 months to 30 June 2017**	6 months to 30 June 2016	Year to 31 Dec 2016	**6 months to 30 June 2017**	6 months to 30 June 2016	Year to 31 Dec 2016
	£m	£m	£m	**£m**	£m	£m	**%**	%	%
Continuing operations									
IMI Critical Engineering	***308***	*285*	*651*	***34.4***	*30.7*	*81.8*	***11.2%***	*10.8%*	*12.6%*
IMI Precision Engineering	***388***	*341*	*708*	***61.2***	*57.1*	*118.5*	***15.8%***	*16.7%*	*16.7%*
IMI Hydronic Engineering	***150***	*133*	*290*	***23.9***	*21.4*	*51.9*	***15.9%***	*16.1%*	*17.9%*
Corporate costs				***(13.4)***	*(13.6)*	*(24.5)*			
Total reported revenue/ segmental operating profit and margin	**846**	759	1,649	**106.1**	95.6	227.7	**12.5%**	12.6%	13.8%
Restructuring costs (non-exceptional)				**(1.3)**	(1.3)	(3.5)			
Total reported revenue/ operating profit and margin (before exceptional items)	**846**	759	1,649	**104.8**	94.3	224.2	**12.4%**	12.4%	13.6%
Reversal of net economic hedge gains	**2**	4	8	**2.3**	2.8	5.6			
Restructuring costs				**(13.8)**	(9.7)	(18.8)			
Gains on special pension events				**10.7**	2.5	2.8			
Impairment losses				**-**	-	(5.0)			
Acquired intangible amortisation				**(9.6)**	(9.8)	(20.5)			
Statutory revenue/operating profit	**848**	763	1,657	**94.4**	80.1	188.3			
Net financial expense				**(5.8)**	(10.0)	(23.0)			
Statutory profit before tax from continuing operations				**88.6**	70.1	165.3			

2. Segmental information (continued)

The following table illustrates how revenue and operating profit have been impacted by movements in foreign exchange and disposals.

	6 months to 30 June 2017				6 months to 30 June 2016		
Reported revenue	**As reported**	**Organic**	**Reported growth (%)**	**Organic growth (%)**	As reported	Movement in foreign exchange	Organic
IMI Critical Engineering	**308**	**308**	**8%**	**-3%**	285	33	318
IMI Precision Engineering	**388**	**388**	**14%**	**2%**	341	38	379
IMI Hydronic Engineering	**150**	**150**	**13%**	**2%**	133	14	147
Total	**846**	**846**	**11%**	**0%**	759	85	844
Segmental operating profit							
IMI Critical Engineering	**34.4**	**34.4**	**12%**	**-4%**	30.7	5.1	35.8
IMI Precision Engineering	**61.2**	**61.2**	**7%**	**-3%**	57.1	5.9	63.0
IMI Hydronic Engineering	**23.9**	**23.9**	**12%**	**0%**	21.4	2.6	24.0
Corporate costs	**(13.4)**	**(13.4)**			(13.6)	-	(13.6)
Total	**106.1**	**106.1**	**11%**	**-3%**	95.6	13.6	109.2
Segmental operating profit margin (%)	**12.5%**	**12.5%**			12.6%		12.9%

	Restructuring costs*		
	6 months to 30 June 2017	6 months to 30 June 2016	Year to 31 Dec 2016
	£m	£m	£m
Total Group	**15.1**	11.0	22.3
IMI Critical Engineering	***7.3***	*10.2*	*19.7*
IMI Precision Engineering	***4.5***	*0.8*	*2.6*
IMI Hydronic Engineering	***3.3***	-	-

* Restructuring costs include both exceptional and non-exceptional items. The exceptional costs for the six months to 30 June 2017 are £7.3m relating to IMI Critical Engineering, £3.2m relating to Precision Engineering and £3.3m relating to Hydronic Engineering.

The exceptional costs for the six months to 30 June 2016 were £9.7m relating to IMI Critical Engineering. There were exceptional costs of £18.8m for the year ended 31 December 2016, £18.1m relating to IMI Critical Engineering.

Balance sheet

	Assets			Liabilities		
	30 June 2017	30 June 2016	31 December 2016	**30 June 2017**	30 June 2016	31 December 2016
	£m	£m	£m	**£m**	£m	£m
IMI Critical Engineering	***737.6***	*763.7*	*752.6*	***220.1***	*227.8*	*230.9*
IMI Precision Engineering	***506.1***	*470.5*	*482.0*	***126.2***	*102.1*	*103.2*
IMI Hydronic Engineering	***222.0***	*202.8*	*204.1*	***64.8***	*60.4*	*63.2*
	1,465.7	1,437.0	1,438.7	**411.1**	390.3	397.3
Corporate items	**13.8**	15.4	11.5	**48.9**	67.2	55.8
Employee benefits	**54.6**	84.9	57.8	**115.5**	109.8	137.6
Investments	**19.5**	29.6	29.9	**-**	-	-
Net debt items	**34.0**	73.6	79.7	**352.1**	407.4	362.3
Net taxation and others	**25.0**	25.6	31.4	**103.6**	108.0	112.8
Total reported in the Group balance sheet	**1,612.6**	1,666.1	1,649.0	**1,031.2**	1,082.7	1,065.8

3. Net financial expense

	6 months to 30 June 2017			6 months to 30 June 2016			Year to 31 Dec 2016		
Recognised in the income statement	**Interest**	**Financial instruments**	**Total**	Interest	Financial instruments	Total	Interest	Financial instruments	Total
Interest income on bank deposits	**3.0**		**3.0**	2.1		2.1	4.5		4.5
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		**-**	**-**		0.1	0.1		5.6	5.6
- future period transactions		**6.4**	**6.4**		7.9	7.9		7.0	7.0
Financial income	**3.0**	**6.4**	**9.4**	2.1	8.0	10.1	4.5	12.6	17.1
Interest expense on interest-bearing loans and borrowings	**(9.6)**		**(9.6)**	(10.9)		(10.9)	(21.8)		(21.8)
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		**(2.3)**	**(2.3)**		(1.8)	(1.8)		(7.5)	(7.5)
- future period transactions		**(2.6)**	**(2.6)**		(7.9)	(7.9)		(11.9)	(11.9)
Financial expense	**(9.6)**	**(4.9)**	**(14.5)**	(10.9)	(9.7)	(20.6)	(21.8)	(19.4)	(41.2)
Net finance (expense)/income relating to defined benefit pension schemes	**(0.7)**		**(0.7)**	0.6		0.6	1.1		1.1
Net financial expense	**(7.3)**	**1.5**	**(5.8)**	(8.2)	(1.7)	(9.9)	(16.2)	(6.8)	(23.0)

Included in financial instruments are current period trading gains and losses on economically effective transactions which for management reporting purposes (see note 2) are included in segmental revenue and operating profit. For statutory purposes, these are required to be shown within net financial income and expense. Gains or losses on economic hedges for future period transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

4. Taxation

The tax charge before exceptional items is £20.5m which equates to an effective tax rate of 21.0% compared to 22.0% for the comparative six month period in the prior year and 21.0% for the year ended 31 December 2016.

As IMI's head office and parent company is domiciled in the UK, the Group references its effective tax rate to the UK corporation tax rate, despite only a small proportion of the Group's business being in the UK. The average weighted rate of corporation tax in the UK for the year ended 31 December 2017 is 19.25% (year ended 31 December 2016: 20.0%). The Group's effective tax rate remains slightly above the UK tax rate due to the Group's substantial overseas profits being taxed at higher rates.

5. Exceptional items

Exceptional items are disclosed separately on the face of the income statement and added back in arriving at reported earnings when items are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to gain a better understanding of the Group's underlying trading performance. The effect of the items added back to reported earnings is disclosed in note 6. The following items are considered to be exceptional in these Interim Financial Statements:

	Key	**6 months to 30 June 2017**	6 months to 30 June 2016	Year to 31 Dec 2016
Recognised in arriving at operating profit from continuing operations				
Reversal of net economic hedge contract gains	(a)	**2.3**	2.8	5.6
Restructuring costs	(b)	**(13.8)**	(9.7)	(18.8)
Gains on special pension events	(c)	**10.7**	2.5	2.8
Impairment losses	(d)	**-**	-	(5.0)
Acquired intangible amortisation	(e)	**(9.6)**	(9.8)	(20.5)
Recognised in financial income/(expense)				
Financial income	(a)	**6.4**	8.0	12.6
Financial expense	(a)	**(4.9)**	(9.8)	(19.4)

(a) For segmental reporting purposes, changes in the fair value of economic hedges which are not designated hedges for accounting purposes, together with the gains and losses on their settlements, are included in the segmental revenues and operating profit of the relevant business segment. The operating exceptional item reverses the effect of this treatment. The financing exceptional items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.

(b) Exceptional restructuring costs of £13.8m were incurred in the six months to 30 June 2017. This includes the restructure of the Switzerland Controls & Nuclear business in Critical Engineering (£3.4m), the restructure of our European business in Precision Engineering (£3.2m) and a Global Restructuring Programme within Hydronic Engineering (£3.3m). A further £3.9m was incurred within Critical Engineering due to right sizing (£3.2m) and the finalisation of 2016 production transfers and closures (£0.7m).

Restructuring costs arising in the first half of £1.3m have been charged below segmental operating profit and included in the reported operating profit as, based on their quantum, they do not meet our definition of exceptional items.

(c) On 31 January 2017, £430m of UK pension liabilities covered by insurance policies were permanently transferred to the underlying insurance companies through a formal buy-out transaction, which resulted in the pension asset and corresponding defined benefit obligation being permanently removed from the Group’s balance sheet. An exceptional gain of £5.8m has been recognised in the first half of 2017. This gain is offset by £1.9m of fees incurred to complete the project.

On 31 March 2017, the Group settled its remaining liabilities in relation to one of its pension plans in the USA. This resulted in a further exceptional gain of £2.3m being recognised in the 6 months to 30 June 2017.

Following a restructuring exercise relating to one of our Swiss schemes the Group realised a curtailment gain of £4.5m.

In the first half of 2016, the gains related to a conversion to a non-inflation linked pension for certain members of our UK Funds (£2.1m) and a curtailment gain of £0.4m following the continuation of the restructuring exercise in Switzerland.

(d) An exceptional impairment charge of £5.0m was recorded against the goodwill associated with the Stainless Steel Fasteners CGU in the IMI Critical Engineering division in the year to 31 December 2016.

(e) The acquired intangible amortisation charge in the six months to 30 June 2017 was £9.6m (six months to 30 June 2016: £9.8m).

The tax effects of the above items are included in the exceptional column of the income statement.

6. Earnings per ordinary share

Basic and diluted earnings per share have been calculated on earnings attributable to owners of the parent as set out below. Both of these measures are also presented on a reported basis to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group.

	Key	**30 June 2017 million**	30 June 2016 million	31 Dec 2016 million
Weighted average number of shares for the purpose of basic earnings per share	A	271.2	270.9	270.8
Dilutive effect of employee share options		2.0	0.9	1.8
Weighted average number of shares for the purpose of diluted earnings per share	B	273.2	271.8	272.6

	Key	**6 months to 30 June 2017 £m**	6 months to 30 June 2016 £m	Year to 31 Dec 2016 £m
Statutory profit for the period		**73.8**	53.7	133.2
Non-controlling interests		**-**	(1.1)	(2.4)
Statutory profit for the period attributable to owners of the parent	C	**73.8**	52.6	130.8
Total exceptional charges included in profit for the period before tax		**8.9**	16.0	42.7
Total exceptional credits included in taxation		**(5.7)**	(2.5)	(11.6)
Earnings for reported EPS	D	**77.0**	66.1	161.9

Statutory EPS measures				
Statutory basic EPS	C/A	27.2p	19.4p	48.3p
Statutory diluted EPS	C/B	27.0p	19.4p	48.0p
Reported EPS measures				
Reported basic EPS	D/A	28.4p	24.4p	59.8p
Reported diluted EPS	D/B	28.2p	24.3p	59.4p

7. Non-controlling interests

	6 months to 30 June 2017			6 months to 30 June 2016			Year to 31 Dec 2016		
	Shanghai CCI £m	**SLP £m**	**Total £m**	**Shanghai CCI £m**	**SLP £m**	**Total £m**	**Shanghai CCI £m**	**SLP £m**	**Total £m**
Opening non-controlling interests	0.9	39.1	40.0	2.1	40.7	42.8	2.1	40.7	42.8
Profit for the period attributable to non-controlling interests	**(0.2)**	**0.2**	**-**	(0.3)	1.4	1.1	(0.4)	2.8	2.4
Dividends paid to non-controlling interests	**-**	**-**	**-**	-	-	-	(0.8)	-	(0.8)
Income earned by partnership	**-**	**-**	**-**	-	(2.2)	(2.2)	-	(4.4)	(4.4)
Derecognition of SLP	**-**	**(39.3)**	**(39.3)**	-	-	-	-	-	-
Movement in non-controlling interest	**(0.2)**	**(39.1)**	**(39.3)**	(0.3)	(0.8)	(1.1)	(1.2)	(1.6)	(2.8)
Closing non-controlling interests	**0.7**	**-**	**0.7**	1.8	39.9	41.7	0.9	39.1	40.0

The non-controlling interest denoted Shanghai CCI in the above table represents the 30% ownership interest in the ordinary shares of Shanghai CCI Power Control Equipment Co Limited held by Shanghai Power Station Auxiliary Equipment Works Co Limited.

The non-controlling interest denoted SLP related to an interest in the IMI Scottish Limited Partnership, which is held jointly by two pension funds, IMI 2014 Deferred Fund and IMI 2014 Pensioner Fund (together 'The Funds'). The interest in the SLP provides the Funds with a conditional entitlement to receive income of £4.4m per annum, unless the Group has not paid a dividend in the prior year or the Funds were fully funded. The terms of this conditional entitlement were altered on 31 January 2017 as part of the formal buy-out transaction, resulting in the SLP and its associated non-controlling interest being derecognised from the Group's balance sheet from that date.

8. Dividend

The final dividend relating to the year ended 31 December 2016 of 24.7p per share (2015: 24.5p) was paid in May 2017 amounting to £67.0m (2016: £66.3m).

In addition, the directors have declared an interim dividend for the current year of 14.2p per share (2016: 14.0p) amounting to £38.5m (2016: £37.9m), which will be paid on 15 September 2017 to shareholders on the register on 11 August 2017. In accordance with IAS10 '*Events after the Balance Sheet Date*' this interim dividend has not been reflected in these Interim Financial Statements.

9. Cash flow reconciliation

Reconciliation of net (decrease)/increase in cash to movement in net debt

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	Year to 31 Dec 2016 £m
Net decrease in cash and cash equivalents*	**(41.5)**	(57.8)	(45.5)
Net (drawdown)/repayment of borrowings	**(3.3)**	0.8	54.6
Increase in net debt*	**(44.8)**	(57.0)	9.1
Currency translation differences	**9.3**	(39.9)	(54.8)
Movement in net debt in the period	**(35.5)**	(96.9)	(45.7)
Net debt at the start of the period	**(282.6)**	(236.9)	(236.9)
Net debt at the end of the period	**(318.1)**	(333.8)	(282.6)

* Excluding foreign exchange.

9. Cash flow reconciliation (continued)

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	Year to 31 Dec 2016 £m
EBITDA* from continuing operations	**129.0**	115.1	273.0
Working capital movements	**(19.9)**	(5.6)	29.8
Capital expenditure	**(27.3)**	(30.5)	(70.9)
Provisions and employee benefit movements**	**(1.5)**	(0.5)	(2.2)
Other	**5.3**	6.0	16.2
Operating cash flow (pre-exceptional items)* **	**85.6**	84.5	245.9
Exceptional items****	**(12.5)**	(10.9)	(25.2)
Operating cash flow (post-exceptional items)	**73.1**	73.6	220.7
Tax paid	**(20.2)**	(13.4)	(31.7)
Interest and derivatives	**(29.6)**	(38.8)	(61.5)
Cash generation	**23.3**	21.4	127.5
Additional pension scheme funding	**-**	(1.9)	(1.9)
Free cash flow before corporate activity	**23.3**	19.5	125.6
Dividends paid to equity shareholders and non-controlling interest	**(67.0)**	(66.3)	(105.0)
Payment to non-controlling interest	**(2.2)**	(2.2)	(4.4)
Net issue issue/(purchase) of own shares	**1.1**	(8.0)	(7.1)
Net cash flow (excluding debt movements)	**(44.8)**	(57.0)	9.1

* Reported earnings before net financial expense (£5.8m), tax (£14.8m), depreciation (£19.1m) and amortisation (£14.7m).

** Movement in provisions and employee benefits as per the interim statement of cash flows (£0.4m), adjusted for the increase in exceptional restructuring provisions (£1.1m).

*** Operating cash flow (pre-exceptional items) is the cash generated from the operations shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, after adjusting for the cash impact of exceptional items. This measure best reflects the underlying operating cash flows of the Group.

**** Cash impact of exceptional items, including an outflow relating to restructuring costs of £12.5m.

10. Fair value hierarchy

Set out below is an overview of the Group's financial instruments held at fair value.

	30 June 2017				31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial assets measured at fair value								
Equity instruments*	**9.2**			**9.2**	21.2			21.2
Cash and cash equivalents	**34.0**			**34.0**	79.7			79.7
Foreign currency forward contracts		**5.2**		**5.2**		2.9		2.9
	43.2	**5.2**	**-**	**48.4**	100.9	2.9	-	103.8
Financial liabilities measured at fair value								
Foreign currency forward contracts		**(3.2)**		**(3.2)**		(13.5)		(13.5)
	-	**(3.2)**	**-**	**(3.2)**	-	(13.5)	-	(13.5)

* Equity instruments relate to investments in funds in order to satisfy long-term benefit arrangements.

Level 1 - quoted prices in active markets for identical assets/liabilities

Level 2 - significant other observable inputs

Level 3 - unobservable inputs

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £5.2m and £3.2m respectively are valued by level 2 techniques. The valuations are derived from discounted contractual cash flows using observable, and directly relevant, market interest rates and foreign exchange rates from market data providers.

The fair values of all financial assets and liabilities in the balance sheet as at 30 June 2017, 31 December 2016 and 30 June 2016 are materially equivalent to their carrying values with the exception of the US private placement fixed rate loans, for which the carrying values are set out below:

	Carrying value	**Fair value**
	£m	**£m**
30 June 2017	**335.4**	**349.8**
31 December 2016	342.8	360.1
30 June 2016	382.0	408.9

11. Share capital

	Ordinary shares of 28 4/7p each	
	Number (m)	**Value (£m)**
In issue at the start and end of the period	**286.2**	**81.8**

12. Employee benefits

The net defined benefit pension liability at 30 June 2017 was £60.9m (31 December 2016: liability of £79.8m). The UK surplus in the Funds decreased to £18.2m (31 December 2016: £23.6m). The decrease is primarily as a result of the adverse impact of actuarial assumptions, the derecognition of the SLP, as detailed in note 7, and changes in the associated mortality assumptions. The UK Funds are currently undergoing an annual actuarial valuation for the year ended 31 March 2017. This will be finalised in the second half of the year and, where relevant, factored into the IAS19 valuation as at 31 December 2017.

The net deficit in respect of the total overseas obligations decreased to £79.1m (31 December 2016: £103.4m) due to the movement in the discount rate, the settlement of the US SERP scheme and a curtailment gain realised following the restructure of one of our Swiss schemes.

13. Exchange rates

The income and cash flow statements of overseas operations are translated into sterling at the average rates of exchange for the period, balance sheets are translated at period end rates. The most significant currencies for the Group are the euro and the US dollar for which the relevant rates of exchange were:

	Income statement and cash flow average rates			**Balance sheet rates as at**		
	6 months to 30 June 2017	6 months to 30 June 2016	Year to 31 Dec 2016	**30 June 2017**	30 June 2016	31 Dec 2016
Euro	1.16	1.28	1.22	1.14	1.20	1.17
US dollar	1.26	1.43	1.36	1.30	1.32	1.23

14. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £17.0m. This included £16.5m in respect of plant and equipment (including those under construction), and £0.5m in respect of land and buildings.

Capital expenditure on non-acquired intangible assets in the period was £10.3m. This included £2.4m in respect of capitalised development costs and £7.9m in respect of other non-acquired intangible assets (including those under construction).

15. Financial information

Definitions

This announcement may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this announcement. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc’s expectations. Nothing in this preliminary announcement should be construed as a profit forecast.

References to EPS, unless otherwise stated, relate to reported basic EPS i.e. after adjustment for the per share after tax impact of exceptional items in note 5. The directors’ commentary discusses these alternative performance measures to remove the effects of items of both income and expense which are sufficiently large, volatile or one-off in nature, to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group.

Notes to editors

IMI plc, the specialist engineering company, designs, manufactures and services highly engineered products that control the precise movement of fluids. Its innovative technologies, built around valves and actuators, enable vital processes to operate safely, cleanly, efficiently and cost effectively. The Group works with industrial customers across a range of high growth sectors, including energy, transportation and infrastructure, all of which are benefiting from the impact of long-term global trends including climate change, urbanisation, resource scarcity and an ageing population. IMI employs some 11,000 people, has manufacturing facilities in more than 20 countries and operates a global service network. The Company is listed on the London Stock Exchange. Further information is available at www.imiplc.com.

IMI plc is registered in England No. 714275. Its legal entity identifier ('LEI') number is 2138002W9Q21PF751R30.