IMI plc

Press Release

31 July 2015

Interim results, six months ended 30 June 2015

	Reported[1]				Statutory	
Continuing operations:	**2015 H1**	2014 H1	Change	**Organic[4]**	**2015 H1**	2014 H1
Revenue[2]	**£765m**	£809m	-5%	**-2%**	**£772m**	£808m
Operating profit[2]	**£116m**	£137m	-15%	**-9%**	**£98m**	£113m
Operating margin[2]	**15.2%**	17.0%	-180bps			
Cash generation	**£82m**	£65m	+26%			
Basic EPS[3]	**30.3p**	34.9p	-13%		**28.4p**	200.6p
Dividend per share	**13.9p**	13.6p	+2%			
Net debt	**£289m**	£232m				

[1] Excluding the effect of items reported as exceptional in the income statement.
[2] Reported amounts as per segmental information – Note 2 to the financial statements.
[3] Statutory amounts for Basic EPS include both continuing and discontinued operations.
[4] Change shown on an organic basis after adjusting for exchange rate movements and excluding the results of disposals and acquisitions for the period for which there is no comparator.

Summary

- Results broadly in line with expectations in a challenging external environment
- Currency adversely impacted revenue and operating profit by 4%
- Strategic plan on track and delivering benefits
- Strong cash generation at £82m (2014: £65m)
- Interim dividend increased by 2% to 13.9p
- Net debt of £289m post acquisition of Bopp & Reuther

Mark Selway, Chief Executive commented:

"Despite continuing challenging economic and market conditions in a number of our key sectors, we delivered results broadly in line with expectations and continued to execute our strategic plan. At our February presentation the various initiatives to drive growth including improving operational efficiency, enhancing processes and launching new products, were already making a difference. Progress has continued and is gaining momentum. In the remainder of the year organic revenue is expected to have a comparable percentage reduction to the first half result. Second half margins, supported by improved results in Critical together with second half seasonality and new product sales in Hydronic, are expected to be broadly equivalent to the second half of 2014."

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A live webcast of the analyst meeting taking place today at 8:15am (GMT) will be available on the investor page of the Group's website: www.imiplc.com. The Group plans to release its 2015 Preliminary Results on 26 February 2016.

Engineering GREAT the IMI Way

Results overview

The Group performed broadly in line with expectations in the first half of the year despite challenging economic conditions in a number of key markets.

The five year plan continued to be executed effectively and good progress and increased momentum were evident across the Group's strategic initiatives.

On a reported basis, revenues of £765m (2014: £809m) were 5% lower after the impact of adverse exchange rate movements of £31m, organic revenue reduction of £18m and a net benefit of £5m related to acquisitions and disposals. After adjusting for the impact of adverse exchange rate movements and for acquisitions and disposals, Group revenues on an organic basis were 2% lower than the comparable period in 2014.

On a reported basis, segmental operating profit of £116m (2014: £137m) was 15% lower. Excluding the impact of adverse exchange rate movements of £6.1m and £3.0m related to acquisitions and disposals, segmental operating profit on an organic basis was 9% lower than the comparable period in 2014.

The Group's segmental operating margin was 15.2% (2014: 17.0%) reflecting the impact of lower margins in Critical due to order book phasing and the effect of portfolio changes related to mergers and acquisitions.

Cash generation continued to be strong at £82m (2014: £65m) despite an increase in capital spending of £7m. The results include the benefits of improved working capital management (+£23m) and lower tax payments (+£11m) when compared to the previous half year. Net debt was £289m (2014: £232m) reflecting the payment for the Bopp & Reuther acquisition.

The pre-exceptional tax charge was £24m (2014: £28m) giving an effective tax rate of 22%.

The resulting adjusted earnings per share were 30.3p (2014: 34.9p).

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending that the interim dividend be increased by 2% to 13.9p (2014: 13.6p). This will be paid on 18 September 2015 to shareholders on the register at the close of business on 14 August 2015.

Outlook

In the remainder of the year organic revenue is expected to have a comparable percentage reduction to the first half result. Second half margins, supported by improved results in Critical together with second half seasonality and new product sales in Hydronic, are expected to be broadly equivalent to the second half of 2014.

Review of results

To assist in meaningful comparisons, the following review of results restates comparative 2014 figures at constant 2015 exchange rates and excludes the results of disposals. In addition, 2015 Critical Engineering results are stated on an organic basis excluding the impact of Bopp & Reuther. An analysis by division of organic growth, foreign exchange movements and the impact of acquisitions is set out in Note 2 to the financial statements below.

IMI Critical Engineering

IMI Critical Engineering provides 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 and corrosive cyclical operations.

Organic	2015 H1	2014 H1
Revenue	£278m	£295m
Operating profit	£40.8m	£50.6m
Operating margin	14.7%	17.2%

Market review

Market and economic conditions across much of the capital goods sector have been challenging. As outlined at the time of the Group's May Interim Management Statement (the 'IMS'), Critical Engineering's most significant markets have proved to be more challenging than expected with the fall in the oil price, the continued lack of nuclear investment post the 2011 Fukushima incident and the slowdown in China, all resulting in increased volatility.

Despite these external challenges, Critical Engineering's inherent strengths, including the division's significant installed base and unique technical offering, have enabled the business to demonstrate its competitive advantage and deliver robust growth in its Aftermarket and Liquid Natural Gas (LNG) sectors.

While the half-year order book remains resilient when compared to the same point in 2014, and no significant cancellations have been experienced, we remain cautious that some projects which are scheduled to ship this year could still shift into 2016, which may impact full year performance.

Performance overview

Order input of £292m (2014: £309m) was 6% lower than the same period in 2014. On a like for like basis, Aftermarket orders increased 5% to £134m (2014: £128m) reflecting continued strong customer demand to optimise performance of Critical Engineering's significant installed product base.

Oil & Gas order input continued to be strong with orders up 8%, including large LNG orders in the US and some significant project wins in the Middle East. As anticipated Nuclear, Petrochemical and Fossil Power orders were all lower in the first half of 2015, reflecting the impact of slowing market conditions, particularly in China.

Organic revenue of £278m (2014: £295m) was, as expected, 6% lower than the same period in 2014 and was impacted by the phasing of this year's order book as well as the inflated comparable, related to the shipment of £20m of the £40m HIPPS order in the first half of 2014.

Operating profit of £40.8m (2014: £50.6m) was 19% lower than the same period in 2014 due to the above mentioned lower volumes and market-driven delays of more profitable projects into the second half of the year. The reduced operating profit resulted in margins decreasing to 14.7% (2014: 17.2%).

The acquisition of Bopp & Reuther completed on 2 January 2015 and is not included in the above numbers, however for the purposes of comparison in the results, Bopp & Reuther reported order input of £24.3m (2014: £27.7m), revenue of £17m (2014: £27m) and an operating loss of £1.0m (2014 profit: £2.2m).

Strategic progress

Excellent progress was made on the division's core strategic activities. In particular, the Bopp & Reuther integration is proceeding to plan, a new manufacturing plant in South Korea and a new Chinese service centre in Guangzhou were delivered on time and to budget.

In terms of the operational improvement initiatives, a number of milestones were achieved in the period. New and enhanced systems were launched, including IMI CCI's new ERP system in the Czech Republic and a new Obeya visual project management system at IMI CCI in America. The division further improved the efficiency of its operations increasing its average lean benchmark score to 47% against 40% at the end of 2014.

European nuclear business restructuring

The continued poor medium-term outlook for the nuclear sector and the recent acquisition of Bopp & Reuther has presented an opportunity to combine the division's European nuclear manufacturing activities and centre them at Bopp & Reuther's Mannheim facility in Germany.

The restructuring will involve the closure of the division's Swiss-based nuclear manufacturing operation which will result in a £3m annual cost benefit from 2016. A total exceptional charge of approximately £11m, of which £4m is expected to be a cash cost, will be charged in 2015, with £1m already recognised in the first half of the year.

Outlook

In the balance of the year, organic revenue performance is expected to have a comparable percentage reduction to the first half of this year. Given current order book phasing, both second half revenues and margins will show a significant improvement on the first half of the year. In addition, due to the second half phasing of the order book, we expect Bopp & Reuther to significantly improve revenues and profits when compared to the first half of the year.

IMI Precision Engineering

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

Organic	2015 H1	2014 H1
Revenue	£342m	£344m
Operating profit	£63.7m	£69.1m
Operating margin	18.6%	20.1%

Market review

The global economic outlook for 2015 remains subdued with lead market indicators, including the Purchasing Managers Index (PMI), weakening in the first half of 2015, most notably in Asia. While the division expects the general industrial markets in the US to be mixed, the European and Asia Pacific markets are expected to remain challenging. In the truck sector we expect the European market to remain stable while North America is forecast to be at a similar level to the first half of 2015.

Performance overview

Revenues of £342m (2014: £344m) were 1% lower with good growth in Commercial Vehicle (4%), Rail (20%) and Life Sciences (9%) offset by reductions in Industrial Automation (3%), Oil & Gas (5%) and Food & Beverage (11%). Geographically, while Europe and North America maintained equivalent performances to the prior year, significant pressure continued in the economies of China and Brazil.

Operating profit of £63.7m (2014: £69.1m) was 8% lower with a number of factors impacting the comparison. The higher volume of lower margin Commercial Vehicle revenues and reduced higher margin sector revenues negatively impacted results. In addition, a number of one off charges were incurred including a £2.5m operating loss resulting from the deteriorating Commercial Vehicle market and negative exchange impacts in Brazil. Additionally, the implementation of the new ERP system in the US highlighted a number of issues relating to prior periods, which amounted to a charge of approximately £1.5m.

Offsetting these one off costs, the half-year results include a £4.2m gain related to the sale of a Precision Engineering property in the UK. The combination of the reduced operating profit and the recognition of the gain on the Precision Engineering property disposal resulted in an operating margin of 18.6% (2014: 20.1%).

Strategic progress

Excellent progress was made on the division's FIX8 improvement initiatives. In addition the regional review of the Industrial Automation sector has been completed and product roadmaps and geographic priorities to drive growth across the Precision businesses are now being finalised.

Significant progress was made in reducing complexity and rationalising the division's product portfolio. To date 290,000 SKUs have been eliminated from the division's 450,000 European product portfolio. A new product introduction process has been developed and a new Divisional Quality System has been piloted and will be progressively rolled out across the division during the balance of 2015. In addition a new 'out of the box' JD Edwards ERP system is now in the final stages of configuration and is on track for roll out to five North American sites progressively from the second half of 2015.

The division made further progress in improving its operational efficiency increasing its average lean benchmark scores to 53% against 46% at the end of 2014.

Brazil cost reductions

The weak market conditions in the Brazilian Commercial Vehicle sector and the wider Brazilian economy, which were outlined at the time of the IMS, have continued. In response, Precision Engineering has reduced its Brazilian workforce by one third and placed the remaining employees on a four day working week until market conditions improve. It is expected that these actions will bring the business to a cash and profit neutral position from August 2015 and the associated costs (£0.4m) have been recognised within the underlying first half results.

Outlook

In the second half, on a constant currency basis, organic revenues are expected to be marginally lower than the second half of last year with profits similar to the first half of this year.

IMI Hydronic Engineering

Hydronic Engineering includes three industry recognised names: IMI Heimeier, IMI TA and IMI Pneumatex and is a leading provider of energy efficient technologies to water-based heating and cooling systems for the residential and commercial building sectors.

Organic	2015 H1	2014 H1
Revenue	£128m	£127m
Operating profit	£23.0m	£23.5m
Operating margin	18.0%	18.5%

Market review

Hydronic Engineering's most important markets include the European residential and construction sectors, which continued to experience the subdued conditions that have prevailed in the past few years. In absolute terms, the construction markets in Europe, which represent almost 75% of Hydronic annual revenues, declined 2% in the first half of 2015.

Sales relating to the North American and emerging markets are expected to remain robust in the second half of the year.

Performance overview

Revenue of £128m (2014: £127m) was 1% higher. New product sales totalling £10m offset the impact of a 2% European Construction market decline and currency revaluations related to products produced in Switzerland and sold in European markets.

Operating profit of £23m (2014: £24m) was 2% lower impacted by a £1m reduction in patent payments, which were received in the first half of the prior year, inventory reduction and reduced Swiss based selling prices, which were implemented in response to the revaluation of the Swiss Franc. The reduced operating profit resulted in margins of 18.0% (2014:18.5%).

New product development costs increased substantially from 2.7% of revenues in the first half of 2014 to 4.0% of revenues this year with further investment planned in the balance of the year.

Strategic progress

Hydronic Engineering continued to progress its organic growth agenda and launched a further six new products in the first half, all of which will enhance the division's competitiveness and further grow market share.

Over the past two years, 20 new products have been launched, which generated almost 8.5% of revenue in the first half of 2015.

In terms of operational improvements, the division continued to improve its operational efficiency. The average lean benchmark score has improved nearly twofold to 66% against 38% at the same point in 2014 and the Hydronic Polish site, which scored 81%, is now IMI's leading plant and is well on its way to achieving world-class standards.

System and process improvements also continued. A new Hydronic ERP system has been fully configured and is on track to be rolled out across all Hydronic sites progressively from the first quarter of 2016.

Recent developments

Building on the success of the division's new product initiatives, an aligned range of products is now in development, which will increase the division's addressable market and significantly enhance the product offering that can be sold to existing Hydronic customers.

In response to the long-term competitive realities of the strengthening of the Swiss Franc against the Euro, the division is transferring some products from Switzerland to Poland. The costs of undertaking this transfer have been recognised within the underlying first half results.

Outlook

As outlined in the IMS, due to the continued success of new product sales, during the balance of the year we expect organic revenues to show good growth when compared to the second half of 2014. Margins are expected to be broadly similar to the second half of 2014 despite the increased costs associated with new product development and other investments for growth.

Board and management changes

As previously announced, following Roberto Quarta's decision to step down as Chairman, Lord Smith of Kelvin was appointed Chairman of the Group and Chairman of the Nominations Committee with effect from the conclusion of the Annual General Meeting on 7 May 2015 (the 'AGM').

Daniel Shook, who joined IMI in January 2015, was appointed Group Finance Director on 1 March 2015 following the retirement of Douglas Hurt, who stepped down from the Board at the AGM. Daniel was previously Chief Finance Officer at Borealis AG.

At the AGM, Anita Frew retired from the Board after nine years as a non-executive director and Bob Stack, who joined the Board in 2008, succeeded Anita as senior independent director.

Financial review

Revenues of £765m were down 5% (2014: £809m) and statutory revenues were down 4% to £772m (2014: £808m). After adjusting for acquisitions, disposals and for adverse exchange rate movements, organic revenues were down 2%. Segmental operating profit was £116m, a 15% decline on the prior period (2014: £137m). On an organic basis operating profit was down 9%. Group segmental operating margin was 180 basis points lower at 15.2% (2014: 17.0%), whilst statutory operating profit was down 13% at £98m (2014: £113m).

Net interest costs on borrowings were £8m (2014: £7m) and were covered 17 times by earnings before interest, tax, depreciation and amortisation (EBITDA) on continuing operations of £134m (2014: £155m). The IAS19 pension net financing charge was £nil (2014: £2m). The total net financing costs were £8m (2014: £9m). Profit before tax and exceptional items was £107m, a decrease of 16% (2014: £127m).

The estimated effective tax rate on profit before exceptional items for 2015 is 22%, which is unchanged from 22% for the full year in 2014.

Exceptional items

Restructuring costs of £1m were incurred but not treated as exceptional (2014: £2m). Exceptional restructuring costs were £7m (2014: £nil), primarily relating to the restructuring of the European operations of Precision Engineering (£4m), the finalisation of a number of restructuring projects that commenced in 2014 (£2m) and £1m related to the European Nuclear restructuring in Switzerland.

In the first half of 2015, following the commencement of the restructuring exercise in Switzerland, a special pension gain of £2.9m was realised. In addition, a gain of £0.3m arose following the partial settlement of one of our US schemes. Further special pension events are expected in the second half of the year as the Group continues to focus on managing our exposure to defined benefit obligations.

Amortisation of acquired intangibles was £21m (2014: £9m), increasing principally as a result of the acquisition of Bopp & Reuther. There were no exceptional acquisition or disposal costs (2014: £0.4m). The only other exceptional items affecting continuing businesses were the reversal of net economic hedge contract losses of £7m (2014: gain of £2m) and net exceptional financial instrument losses of £3m (2014: gain of £2m).

After these exceptional items, statutory profit before tax was £87m (2014: £106m). The Group made an exceptional after tax profit of £7.9m on discontinued operations following the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses, which were sold on 1 January 2014.

The total profit for the period after taxation was £78m (2014: £562m) and, after non-controlling interests, the profit attributable to the equity shareholders of the Company was £77m.

Earnings per share

The average number of shares in issue during the period was 270m, resulting in basic earnings per share of 28.4p (2014: 200.6p) and diluted earnings per share of 28.2p (2014: 198.5p). Adjusted basic earnings per share from continuing operations were 30.3p, compared to 34.9p from the first half of 2014, a decrease of 13%.

Foreign exchange

The impacts of translation on the reported growth of first half revenues and segmental operating profits were decreases of £31m (4%) and £6m (4%) 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 16 to this report.

If the average exchange rates in July (US$1.56 and €1.41) remained constant for the remainder of the year, it would adversely impact both revenues and segmental operating profit by 4-5%.

Cash flow

Cash inflow generated from operations was £104m, compared to £98m in the corresponding period last year. This included a working capital outflow of £22m against an outflow of £45m in the comparable period. Trade and other receivables decreased by £2m, inventories increased by £32m and trade and other payables increased by £8m. Capital expenditure amounted to £29m and was 1.6 times the depreciation and amortisation charge for the period of £19m.

The other major cash outflows in the period were £16m of tax, dividends of £65m, and £106m for the purchase of Bopp & Reuther, financed by the drawdown of borrowings of £107m in the period. The total cash inflow for the period was £17m, compared with an outflow of £37m 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 0.9 at the end of June (December 2014: 0.5). Net debt increased during the period to £289m (December 2014: £200m) principally due to the cash flows as highlighted above.

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 2015 were £268m (December 2014: £272m) of which £20m were drawn (December 2014: £nil).

The IAS19 net pension deficit was £18m which compares to the deficits of £105m at 30 June 2014 and £35m at 31 December 2014. Of this amount, a surplus of £70m (31 December 2014: £60m) 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 £88m (31 December 2014: £95m), despite the acquisition of Bopp & Reuther which included a deficit of £4m.

Shareholders' equity at the end of June was £523m, an increase of £14m since the end of last year, which includes the attributable profit for the period of £77m, an after-tax actuarial gain on the defined benefit pension plans of £10m and the 2014 final dividend of £65m 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.

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 30 to 33 of its 2014 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 failure to comply with legislation and a breach of our own high standards of ethical behaviour; failure to deliver some major transformational projects successfully; failure of our health, safety and environmental controls resulting in harm to employees or other stakeholders; failure of products and technology; loss of a key facility; failure to develop a pipeline of new products; the risk associated with cyber security; an increase in macro-economic instability and the associated impact on competitive markets; mergers and acquisitions; failure to attract and retain talent; failure to manage the supply chain and IT failure or system collapse and loss of data. These risks remain valid and have the potential to impact the Group during the remainder of the second half of 2015. 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 2014 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2015.

The directors of IMI plc are listed in the IMI Annual Report for the year ended 31 December 2014 with the exception of the Board changes referenced above.

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

Mark Selway
Chief Executive
30 July 2015

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 2015 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 notes 1 to 18. 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 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 2015 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 Conduct Authority.

Ernst & Young LLP
Birmingham
30 July 2015

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Notes	**6 months to 30 June 2015 (unaudited)**			6 months to 30 June 2014 (unaudited)			Year to 31 Dec 2014		
		Before except-ional items	**Except-ional items**	**Total**	Before except-ional items	Except-ional items	Total	Before except-ional items	Except-ional items	Total
		£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue	2	**765**	**7**	**772**	809	(1)	808	1,686	6	1,692
Segmental operating profit	2	**116.2**		**116.2**	137.2		137.2	298.1		298.1
Reversal of net economic hedge contract losses/(gains)			**7.4**	**7.4**		(2.3)	(2.3)		3.9	3.9
Restructuring costs		**(1.1)**	**(6.7)**	**(7.8)**	(1.5)	-	(1.5)	(2.6)	(8.6)	(11.2)
Gains on special pension events			**3.2**	**3.2**		-	-		7.0	7.0
Impairment losses			**-**	**-**		(11.9)	(11.9)		(40.8)	(40.8)
Acquired intangible amortisation			**(20.6)**	**(20.6)**		(8.5)	(8.5)		(19.6)	(19.6)
(Loss)/ gain on disposal of subsidiaries		**(0.4)**	**-**	**(0.4)**		-	-		34.2	34.2
Acquisition and disposal costs			**-**	**-**		(0.4)	(0.4)		(1.8)	(1.8)
Operating profit	2	**114.7**	**(16.7)**	**98.0**	135.7	(23.1)	112.6	295.5	(25.7)	269.8
Financial income	3	**1.4**	**13.8**	**15.2**	1.9	6.0	7.9	1.1	15.1	16.2
Financial expense	3	**(9.4)**	**(16.8)**	**(26.2)**	(9.2)	(3.9)	(13.1)	(15.4)	(21.8)	(37.2)
Net finance income/ (charge) relating to defined benefit pension schemes	3	**0.1**		**0.1**	(1.6)		(1.6)	(3.1)		(3.1)
Net financial (expense)/income	3	**(7.9)**	**(3.0)**	**(10.9)**	(8.9)	2.1	(6.8)	(17.4)	(6.7)	(24.1)
Profit before tax		**106.8**	**(19.7)**	**87.1**	126.8	(21.0)	105.8	278.1	(32.4)	245.7
Taxation	4	**(23.6)**	**6.8**	**(16.8)**	(27.9)	6.5	(21.4)	(61.2)	8.3	(52.9)
Profit from continuing operations after tax		**83.2**	**(12.9)**	**70.3**	98.9	(14.5)	84.4	216.9	(24.1)	192.8
Profit from discontinued operations net of tax	9		**7.9**	**7.9**		477.6	477.6		478.5	478.5
Total profit for the period		**83.2**	**(5.0)**	**78.2**	98.9	463.1	562.0	216.9	454.4	671.3
Attributable to:										
Owners of the parent				**76.8**			560.6			668.5
Non-controlling interests				**1.4**			1.4			2.8
Profit for the period				**78.2**			562.0			671.3
Earnings per share	6									
Basic - from profit for the period				**28.4p**			200.6p			243.4p
Diluted - from profit for the period				**28.2p**			198.5p			241.3p
Basic - from continuing operations				**25.5p**			29.7p			69.2p
Diluted - from continuing operations				**25.3p**			29.4p			68.6p
Basic - from adjusted profit for the period				**30.3p**			34.9p			78.0p
Diluted - from adjusted profit for the period				**30.1p**			34.5p			77.3p

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2015 (unaudited)		6 months to 30 June 2014 (unaudited)		Year to 31 Dec 2014	
	£m	**£m**	£m	£m	£m	£m
Profit for the period		**78.2**		562.0		671.3
Other comprehensive income/(loss)						
Items reclassified to profit and loss in the current period:						
Foreign exchange gain reclassified to income statement on disposal of operations	**-**		(3.9)		(3.9)	
Realised gain on settlement of deal-contingent forward relating to disposal proceeds reclassified to income statement	**-**		(11.2)		(11.2)	
Related tax effect on items reclassified to profit and loss	**-**		2.4		2.4	
		-		(12.7)		(12.7)
Items that may be reclassified to profit and loss:						
Change in fair value of effective net investment hedge derivatives	**(4.8)**		(4.0)		3.6	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(5.8)**		-		(14.7)	
Change in fair value of deal-contingent forward relating to disposal proceeds	**-**		(3.0)		(3.0)	
Fair value (loss)/gain on available for sale financial assets	**(0.9)**		0.7		1.1	
Related tax effect on items that may subsequently be reclassified to profit and loss	**1.3**		1.1		1.0	
		(10.2)		(5.2)		(12.0)
Items that will not subsequently be reclassified to profit and loss:						
Re-measurement gain/ (loss) on defined benefit plans	**13.3**		(12.3)		16.6	
Related taxation effect in current period	**(3.1)**		3.7		(2.2)	
Taxation in relation to restructure of UK Pension Fund	**-**		-		(6.6)	
		10.2		(8.6)		7.8
Other comprehensive income/(loss) for the period, net of tax		**-**		(26.5)		(16.9)
Total comprehensive income for the period, net of tax		**78.2**		535.5		654.4
Attributable to:						
Owners of the parent		**76.8**		534.1		651.6
Non-controlling interests		**1.4**		1.4		2.8
Total comprehensive income for the period, net of tax		**78.2**		535.5		654.4

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	30 June 2015 (unaudited) £m	30 June 2014 (unaudited) £m	31 Dec 2014 £m
Assets				
Intangible assets		**447.9**	396.5	367.7
Property, plant and equipment		**222.8**	215.2	226.5
Employee benefit assets		**70.1**	-	60.2
Deferred tax assets		**16.4**	44.0	21.3
Other receivables		**4.0**	5.0	6.0
Total non-current assets		**761.2**	660.7	681.7
Inventories		**254.5**	275.7	226.3
Trade and other receivables		**373.0**	359.9	368.9
Other current financial assets		**7.9**	4.5	10.5
Current tax		**7.6**	2.4	14.9
Investments		**25.9**	19.6	26.9
Cash and cash equivalents		**56.0**	56.7	43.8
Total current assets		**724.9**	718.8	691.3
Total assets		**1,486.1**	1,379.5	1,373.0
Liabilities				
Bank overdraft		**(20.0)**	(4.2)	(23.0)
Interest-bearing loans and borrowings		**(1.5)**	(84.4)	(2.0)
Provisions		**(14.8)**	(23.3)	(22.7)
Current tax		**(41.6)**	(47.8)	(42.6)
Trade and other payables		**(351.9)**	(367.8)	(333.9)
Other current financial liabilities		**(6.8)**	(1.9)	(9.2)
Total current liabilities		**(436.6)**	(529.4)	(433.4)
Interest-bearing loans and borrowings		**(323.0)**	(199.9)	(218.8)
Employee benefit obligations	15	**(88.5)**	(105.2)	(94.9)
Provisions		**(14.4)**	(15.2)	(16.4)
Deferred tax liabilities		**(33.3)**	(26.6)	(27.2)
Other payables		**(23.1)**	(32.4)	(28.2)
Total non-current liabilities		**(482.3)**	(379.3)	(385.5)
Total liabilities		**(918.9)**	(908.7)	(818.9)
Net assets		**567.2**	470.8	554.1
Equity				
Share capital	14	**81.7**	81.6	81.7
Share premium		**11.2**	9.6	10.8
Other reserves		**175.1**	191.8	184.7
Retained earnings		**255.2**	142.0	232.1
Equity attributable to owners of the parent		**523.2**	425.0	509.3
Non-controlling interests	10	**44.0**	45.8	44.8
Total equity		**567.2**	470.8	554.1

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 2015	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1
Profit for the period						**76.8**	**76.8**	**1.4**	**78.2**
Other comprehensive income				**(3.8)**	**(5.8)**	**9.6**	**-**		**-**
Total comprehensive income				**(3.8)**	**(5.8)**	**86.4**	**76.8**	**1.4**	**78.2**
Issue of share capital	**-**	**0.4**					**0.4**		**0.4**
Dividends paid on ordinary shares						**(64.9)**	**(64.9)**		**(64.9)**
Share-based payments (net of tax)						**(0.5)**	**(0.5)**		**(0.5)**
Shares issued by employee share scheme trust						**2.1**	**2.1**		**2.1**
Income earned by partnership								**(2.2)**	**(2.2)**
As at 30 June 2015	**81.7**	**11.2**	**174.4**	**6.9**	**(6.2)**	**255.2**	**523.2**	**44.0**	**567.2**
As at 1 January 2014	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5
Profit for the period						560.6	560.6	1.4	562.0
Other comprehensive income				(14.4)	(3.9)	(8.2)	(26.5)	-	(26.5)
Total comprehensive income				(14.4)	(3.9)	552.4	534.1	1.4	535.5
Issue of share capital	-	0.6					0.6		0.6
Issue of 'B' shares - capital option	151.9	(151.9)					-		-
Issue of 'C' shares - income option	10.9	(10.9)					-		-
Redemption of 'B' and 'C' shares	(162.8)		162.8			(162.8)	(162.8)		(162.8)
Cancellation of treasury shares	(3.7)		3.7				-		-
Dividends paid on 'C' shares						(457.5)	(457.5)		(457.5)
Dividends paid on ordinary shares						(60.6)	(60.6)		(60.6)
Share-based payments (net of tax)						1.3	1.3		1.3
Shares acquired for: employee share scheme trust						(31.0)	(31.0)		(31.0)
Income earned by partnership								(2.2)	(2.2)
As at 30 June 2014	81.6	9.6	174.4	4.6	12.8	142.0	425.0	45.8	470.8
As at 1 January 2014	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5
Profit for the year						668.5	668.5	2.8	671.3
Other comprehensive income				(8.3)	(17.1)	8.5	(16.9)	-	(16.9)
Total comprehensive income				(8.3)	(17.1)	677.0	651.6	2.8	654.4
Issue of share capital	0.1	1.8					1.9		1.9
Issue of 'B' shares - capital option	151.9	(151.9)					-		-
Issue of 'C' shares - income option	10.9	(10.9)					-		-
Redemption of 'B' and 'C' shares	(162.8)		162.8			(162.8)	(162.8)		(162.8)
Cancellation of treasury shares	(3.7)		3.7				-		-
Dividends paid on 'C' shares						(457.5)	(457.5)		(457.5)
Dividends paid on ordinary shares						(97.3)	(97.3)	(0.2)	(97.5)
Share-based payments (net of tax)						3.2	3.2		3.2
Shares acquired for: employee share scheme trust						(30.7)	(30.7)		(30.7)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2014	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	6 months to 30 June 2015 (unaudited)	6 months to 30 June 2014 (unaudited)	Year to 31 Dec 2014
	£m	£m	£m
Cash flows from operating activities			
Operating profit for the period from continuing operations	**98.0**	112.6	269.8
Operating profit for the period from discontinued operations	**-**	-	1.0
Adjustments for:			
Depreciation and amortisation	**39.6**	27.4	57.6
Impairment of PPE and intangible assets	**-**	15.0	43.5
Loss/(gain) on disposal of subsidiaries	**0.4**	-	(34.2)
Gain on special pension events	**(3.2)**	-	(7.0)
(Gain)/loss on sale of property, plant and equipment	**(5.6)**	0.2	1.2
Equity-settled share-based payment expenses	**0.1**	0.9	4.4
(Increase)/decrease in inventories	**(32.1)**	(39.5)	5.8
Decrease/(increase) in trade and other receivables	**2.0**	(26.2)	(37.7)
Increase/(decrease) in trade and other payables	**7.7**	20.5	(18.9)
Decrease in provisions and employee benefits	**(3.3)**	(12.5)	(13.7)
Cash generated from the operations	**103.6**	98.4	271.8
Income taxes paid	**(16.4)**	(27.7)	(67.2)
	87.2	70.7	204.6
Additional pension scheme funding - UK and overseas	**-**	(53.2)	(87.0)
Net cash from operating activities	**87.2**	17.5	117.6
Cash flows from investing activities			
Interest received	**1.4**	1.9	1.1
Proceeds from sale of property, plant and equipment	**7.7**	0.7	1.1
Sale/(purchase) of investments	**-**	0.5	(3.6)
Settlement of transactional derivatives	**(3.9)**	1.5	(0.2)
Settlement of currency derivatives hedging balance sheet	**27.9**	21.7	36.7
Acquisition of property, plant and equipment and non-acquired intangibles	**(29.4)**	(22.9)	(70.8)
Acquisition of subsidiaries net of cash	**(106.2)**	-	-
Proceeds from disposal of subsidiaries net of cash	**0.2**	662.6	696.3
Net cash (outflow)/inflow from investing activities	**(102.3)**	666.0	660.6
Cash flows from financing activities			
Interest paid	**(9.4)**	(9.2)	(15.4)
Payment to non-controlling interest	**(2.2)**	(2.2)	(4.4)
Shares issued/(acquired) by employee share scheme trust	**2.1**	(31.0)	(30.7)
Proceeds from the issue of share capital for employee share schemes	**0.4**	0.6	1.9
Net drawdown/(repayment) of borrowings	**106.5**	2.5	(80.7)
Dividends paid to equity shareholders and non-controlling interest	**(64.9)**	(60.6)	(97.5)
Return of cash to equity shareholders	**-**	(620.3)	(620.3)
Net cash inflow/(outflow) from financing activities	**32.5**	(720.2)	(847.1)
Net increase/(decrease) in cash and cash equivalents	**17.4**	(36.7)	(68.9)
Cash and cash equivalents at the start of the period	**20.8**	90.3	90.3
Effect of exchange rate fluctuations on cash held	**(2.2)**	(1.1)	(0.6)
Cash and cash equivalents at the end of the period*	**36.0**	52.5	20.8

* Net of bank overdrafts of £20.0m (31 December 2014: £23.0m; 30 June 2014: £4.2m).

Reconciliation of net increase/(decrease) in cash to movement in net debt appears in note 12.

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 2014 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 2014, other than to reflect changes expected to be applied in the subsequent annual financial statements. Noted below are the new and amended International Financial Reporting Standards which became effective for the Group as of 1 January 2015, none of which has any impact on this Interim Financial Report:

- *Annual Improvements 2010-2012 Cycle*
- *Annual Improvements 2011-2013 Cycle*
- *IAS19 Defined Benefit Plans: Employee Contributions – Amendments to IAS 19*

2. Segmental information

Segmental information is presented in the Interim 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 is presented to the chief operating decision-maker, being the Executive Committee. Inter-segment revenue is insignificant. The Group comprised the following three operating segments and activities:

IMI Critical Engineering

IMI Critical Engineering provides 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 and corrosive cyclical operations.

IMI Precision Engineering

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

IMI Hydronic Engineering

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

Performance is measured based on organic revenue growth and segmental operating profit which is the profit reported by the business, stated before exceptional items and other restructuring costs. These are the two short-term key performance indicators or measures that reflect the way the performance of the Group is managed and monitored by the Executive Committee.

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 IAS39, these contracts do not meet the technical provisions required for hedge accounting and gains and losses are reversed out of segmental profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Corporate costs

In prior years, corporate costs have been allocated to each of the divisions to arrive at segmental operating profit. Whilst our corporate costs do not meet the definition of an operating segment under IFRS8 *'Operating Segments'*, for 2015 reporting and onwards we have separately disclosed corporate costs before arriving at segmental operating profit so that reporting is consistent with the format used for review by the chief operating decision maker. Comparatives have been restated to reflect this change.

	Revenue			Operating profit			Operating margin		
	6 months to 30 June 2015	6 months to 30 June 2014	Year to 31 Dec 2014	**6 months to 30 June 2015**	6 months to 30 June 2014 restated*	Year to 31 Dec 2014 restated*	**6 months to 30 June 2015**	6 months to 30 June 2014 restated*	Year to 31 Dec 2014 restated*
	£m	£m	£m	**£m**	£m	£m	**%**	%	%
Continuing operations									
IMI Critical Engineering	***295***	*315*	*692*	***39.8***	*56.1*	*131.4*	***13.5%***	*17.8%*	*19.0%*
IMI Precision Engineering	***342***	*355*	*710*	***63.7***	*69.4*	*138.5*	***18.6%***	*19.5%*	*19.5%*
IMI Hydronic Engineering	***128***	*139*	*284*	***23.0***	*25.8*	*56.8*	***18.0%***	*18.6%*	*20.0%*
Corporate costs				***(10.3)***	*(14.1)*	*(28.6)*			
Total continuing segmental revenue/ operating profit/operating margin	**765**	809	1,686	**116.2**	137.2	298.1	**15.2%**	17.0%	17.7%
Restructuring costs (non-exceptional)				**(1.1)**	(1.5)	(2.6)			
Loss on disposal of subsidiaries				**(0.4)**	-	-			
Total segmental revenue/ operating profit/operating margin	**765**	809	1,686	**114.7**	135.7	295.5	**15.0%**	16.8%	17.5%
Reversal of net economic hedge gains	**7**	(1)	6	**7.4**	(2.3)	3.9			
Restructuring costs				**(6.7)**	-	(8.6)			
Gains on special pension events				**3.2**	-	7.0			
Impairment losses				**-**	(11.9)	(40.8)			
Acquired intangible amortisation				**(20.6)**	(8.5)	(19.6)			
Gain on disposal of subsidiaries				**-**	-	34.2			
Acquisition and disposal costs				**-**	(0.4)	(1.8)			
Total revenue/operating profit	**772**	808	1,692	**98.0**	112.6	269.8			
Net financial expense				**(10.9)**	(6.8)	(24.1)			
Profit before tax from continuing operations				**87.1**	105.8	245.7			

* Restatement reflects the disclosure of Corporate Costs as referred to above.

2. Segmental information (continued)

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

	6 months to 30 June 2014				**6 months to 30 June 2015**				
Revenue	As reported	Movement in foreign exchange	Acquisitions/ disposals	Organic	**As reported**	**Acquisitions/ disposals**	**Organic**	**Reported growth (%)**	**Organic growth (%)**
IMI Critical Engineering	315	(10)	(10)	295	**295**	**(17)**	**278**	**-6%**	**-6%**
IMI Precision Engineering	355	(10)	(1)	344	**342**	**-**	**342**	**-4%**	**-1%**
IMI Hydronic Engineering	139	(11)	(1)	127	**128**	**-**	**128**	**-8%**	**1%**
Total	809	(31)	(12)	766	**765**	**(17)**	**748**	**-5%**	**-2%**
Segmental operating profit									
IMI Critical Engineering	56.1	(2.3)	(3.2)	50.6	**39.8**	**1.0**	**40.8**		
IMI Precision Engineering	69.4	(1.5)	1.2	69.1	**63.7**	**-**	**63.7**		
IMI Hydronic Engineering	25.8	(2.3)	-	23.5	**23.0**	**-**	**23.0**		
Corporate costs	(14.1)	-	-	(14.1)	**(10.3)**	**-**	**(10.3)**		
Total	137.2	(6.1)	(2.0)	129.1	**116.2**	**1.0**	**117.2**		
Segmental operating profit margin (%)	17.0%			16.9%	**15.2%**		**15.7%**		

	Restructuring costs*		
	6 months to 30 June 2015	6 months to 30 June 2014	Year to 31 Dec 2014
	£m	£m	£m
Total Group	**7.8**	1.5	11.2
IMI Critical Engineering	***2.1***	*0.3*	*5.1*
IMI Precision Engineering	***5.5***	*1.0*	*5.8*
IMI Hydronic Engineering	***0.2***	*0.2*	*0.3*

* Restructuring costs include both exceptional and non-exceptional items. The exceptional costs for the six months to 30 June 2015 are £6.7m, £1.6m relating to IMI Critical Engineering and £5.1m relating to IMI Precision Engineering.

There were no exceptional costs for the six months to 30 June 2014, and £8.6m for the year to 31 December 2014: relating to IMI Critical Engineering (£4.2m) and IMI Precision Engineering (£4.4m).

Balance sheet

	Assets		**Liabilities**	
	30 June 2015	31 December 2014	**30 June 2015**	31 December 2014
	£m	£m	**£m**	£m
IMI Critical Engineering	***700.6***	*590.2*	***207.3***	*183.6*
IMI Precision Engineering	***421.5***	*430.6*	***91.7***	*91.9*
IMI Hydronic Engineering	***166.1***	*149.7*	***47.3***	*45.8*
	1,288.2	1,170.5	**346.3**	321.3
Corporate items	**21.0**	17.4	**51.9**	71.4
Employee benefits	**70.1**	60.2	**88.5**	94.9
Investments	**25.9**	26.9	**-**	-
Net debt items	**56.0**	43.8	**344.5**	243.8
Net taxation and others	**24.9**	54.2	**87.7**	87.5
Total reported in the Group balance sheet	**1,486.1**	1,373.0	**918.9**	818.9

3. Net financial income and expense

Recognised in the income statement	6 months to 30 June 2015			6 months to 30 June 2014			Year to 31 Dec 2014		
	Interest	**Financial instruments**	**Total**	Interest	Financial instruments	Total	Interest	Financial instruments	Total
Interest income on bank deposits	**1.4**		**1.4**	1.9		1.9	1.1		1.1
Financial instruments at fair value through profit or loss:									
Designated hedges		**-**	**-**		0.5	0.5		0.8	0.8
Other economic hedges									
- current period trading		**4.3**	**4.3**		3.1	3.1		7.1	7.1
- future period transactions		**9.5**	**9.5**		2.4	2.4		7.2	7.2
Financial income	**1.4**	**13.8**	**15.2**	1.9	6.0	7.9	1.1	15.1	16.2
Interest expense on interest-bearing loans and borrowings	**(9.4)**		**(9.4)**	(9.2)		(9.2)	(15.4)		(15.4)
Financial instruments at fair value through profit or loss:									
Designated hedges		**-**	**-**		(0.5)	(0.5)		(0.8)	(0.8)
Other economic hedges									
- current period trading		**(7.5)**	**(7.5)**		(1.7)	(1.7)		(7.2)	(7.2)
- future period transactions		**(9.3)**	**(9.3)**		(1.7)	(1.7)		(13.8)	(13.8)
Financial expense	**(9.4)**	**(16.8)**	**(26.2)**	(9.2)	(3.9)	(13.1)	(15.4)	(21.8)	(37.2)
Net finance income/ (expense) relating to defined benefit pension schemes	**0.1**		**0.1**	(1.6)		(1.6)	(3.1)		(3.1)
Net financial (expense)/income	**(7.9)**	**(3.0)**	**(10.9)**	(8.9)	2.1	(6.8)	(17.4)	(6.7)	(24.1)

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 £23.6m which equates to an effective tax rate of 22.1% compared to 22.0% for the comparative six month period in the prior year and 22.0% for the year ended 31 December 2014.

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 2015 is 20.3% (year ended 31 December 2014: 21.5%).

Changes to the rate of UK corporation tax were proposed in the budget of 8 July 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. As these changes were proposed subsequent to the balance sheet date and have not yet been substantively enacted, they are not reflected in these Interim Financial Statements.

5. Exceptional items

Exceptional items are disclosed separately on the face of the income statement and added back in arriving at adjusted 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 adjusted earnings is disclosed in note 6. The following items are considered to be exceptional in these financial statements:

	Key	**6 months to 30 June 2015**	6 months to 30 June 2014	Year to 31 Dec 2014
Recognised in arriving at operating profit from continuing operations				
Reversal of net economic hedge contract gains	(a)	**7.4**	(2.3)	3.9
Restructuring costs	(b)	**(6.7)**	-	(8.6)
Gains on special pension events	(c)	**3.2**	-	7.0
Impairment losses	(d)	**-**	(11.9)	(40.8)
Acquired intangible amortisation	(e)	**(20.6)**	(8.5)	(19.6)
(Loss)/ Gain on disposal of subsidiaries	(f)	**-**	-	34.2
Acquisition and disposal costs	(g)	**-**	(0.4)	(1.8)
Recognised in financial income/(expense)				
Financial income	(a)	**13.8**	6.0	15.1
Financial expense	(a)	**(16.8)**	(3.9)	(21.8)

(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 in the year ending 31 December 2014 related to the closure of IMI Components and the IMI Precision Engineering UK factory move. Further costs of £1.5m were incurred associated with these restructuring exercises in the six months to 30 June 2015. Additional exceptional restructuring costs of £4.4m were incurred in the six months to 30 June 2015, relating to a large restructuring exercise within Precision Engineering's European region and £0.8m in relation to the restructuring of IMI CCI Switzerland, the full year cost of which is estimated to be around £11m.

Restructuring costs arising in the first half of £1.1m have been charged below segmental operating profit and included in the underlying operating profit as, based on their quantum, they do not meet our definition of exceptional items.

(c) In the first half of 2015, following the commencement of the restructuring exercise in Switzerland (see b above), a curtailment gain of £2.9m was realised. In addition, a small gain arose following the partial settlement of one of our US schemes. Further special pension events are expected in the second half of the year as the Group continues to focus on managing its exposure to defined benefit obligations.

In 2014, the gains related to the split of the UK fund into two newly formed schemes (£3.5m) and the buy-out of one of our Swedish schemes (£3.5m).

(d) There were no impairment losses in the first half of 2015. The exceptional impairment losses for 2014 related to £26.9m in relation to Remosa, £10.8m in relation to AFP, £1.1m in relation to IMI Components and £2.0m in relation to legacy IT software in Hydronic Engineering.

(e) The acquired intangible amortisation has increased reflecting the acquisition of Bopp & Reuther in the period.

(f) Exceptional items in relation to the disposal of subsidiaries are disclosed in note 8.

(g) There were no exceptional acquisition and disposal costs in the first half of 2015. Acquisition and disposal costs in 2014 comprised £2.2m of fees associated with the acquisition of Bopp & Reuther and a net release of £0.4m relating to deferred remuneration included within the post-employment contracts of the vendors for the AFP and NPSL acquisitions.

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 an adjusted basis, to remove the effects of exceptional items, being 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.

	Key	**30 June 2015 million**	30 June 2014 million	31 Dec 2014 million
Weighted average number of shares for the purpose of basic earnings per share	A	270.3	279.4	274.6
Dilutive effect of employee share options		1.7	3.0	2.4
Weighted average number of shares for the purpose of diluted earnings per share	B	272.0	282.4	277.0

	Key	**6 months to 30 June 2015 £m**	6 months to 30 June 2014 £m	Year to 31 Dec 2014 £m
Profit for the period		**78.2**	562.0	671.3
Non-controlling interests		**(1.4)**	(1.4)	(2.8)
Profit for the period attributable to owners of the parent	C	**76.8**	560.6	668.5
Profit from discontinued operations, net of tax		**(7.9)**	(477.6)	(478.5)
Continuing profit for the period attributable to owners of the parent	D	**68.9**	83.0	190.0
Total exceptional items included in profit for the period		**19.7**	21.0	32.4
Taxation on exceptional items included in profit for the period		**(6.8)**	(6.5)	(8.3)
Earnings for adjusted EPS	E	**81.8**	97.5	214.1

EPS measures				
Basic EPS	C/A	28.4p	200.6p	243.4p
Diluted EPS	C/B	28.2p	198.5p	241.3p
Basic continuing EPS	D/A	25.5p	29.7p	69.2p
Diluted continuing EPS	D/B	25.3p	29.4p	68.6p
Adjusted basic continuing EPS	E/A	30.3p	34.9p	78.0p
Adjusted diluted continuing EPS	E/B	30.1p	34.5p	77.3p

Basic discontinued earnings per share were 2.9p (2014 half-year: 170.9p; 2014 year-end: 174.2p). Diluted discontinued earnings per share were 2.9p (2014 half-year: 169.1p; 2014 year-end: 172.7p).

7. Acquisitions

Bopp & Reuther

On 2 January 2015, the Group acquired the entire share capital of B&R Holding GmbH ('Bopp & Reuther') for a cash consideration of £109.2m (€140.8m).

Bopp & Reuther is a leading manufacturer of safety, control and shut-off valve technology for process industries as well as conventional fossil and nuclear power plants worldwide. Its head office and manufacturing plant is located in Mannheim, Germany and it has service centres in Germany, Austria, Romania and China. The senior management team and all of its approximately 400 employees transferred upon completion of the acquisition by the Group.

Bopp & Reuther joins the IMI Critical Engineering division and is very closely aligned with IMI Critical Engineering's existing large control valve business ('CCI').

The provisional fair values of the assets and liabilities acquired are summarised below. The balances we consider may be subject to further changes as new information arises are inventories, trade and other receivables and taxation.

	£m
Customer relationships	43.9
Order book	9.3
Brand	11.4
Property, plant and equipment	4.2
Software	1.0
Inventories	10.4
Trade and other receivables	21.1
Cash and cash equivalents	3.0
Interest-bearing liabilities and borrowings	(8.6)
Trade and other payables	(14.9)
Taxation balances	(20.3)
Employee benefit obligations	(4.4)
Other assets	0.6
Total identifiable net assets	**56.7**
Goodwill arising on acquisition	52.5
Total purchase consideration	**109.2**

Cash flows from the acquisition of controlling interests are shown below:

	£m
Cash consideration	109.2
Net cash and cash equivalents acquired	(3.0)
Net cash paid on acquisition	**106.2**
Acquisition costs (included in cash flows from operating activities)	1.8
Total cash flow on acquisition of controlling interests	**108.0**

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Bopp & Reuther with those of the Group. The goodwill is not deductible for income tax purposes.

Acquisition costs of £2.2m were incurred in 2014 and were recorded as an exceptional item in the income statement. The cash flows associated with these acquisition costs in the six months to 30 June 2015 is shown in the table above.

At the date of the acquisition, the fair value and gross amount of the trade receivables was £21.1m. At 30 June 2015, none of the trade receivables have been impaired.

From the date of acquisition, Bopp & Reuther has contributed £17m of revenue and a loss of £1.0m to the operating profit of the Group.

8. Disposals

Disposals in the current period

Asterm

The Group disposed of Asterm SAS ('Asterm') on 26 January 2015 for proceeds of £0.4m resulting in a loss on disposal for the Group of £0.4m, after disposing of £0.7m of net assets and incurring £0.1m of associated costs.

The loss on disposal is presented in the income statement as a non-exceptional item as, based on its quantum, it did not meet our definition of an exceptional item. The loss is not disclosed within discontinued operations because Asterm did not represent a separate major line of business.

Disposals in the prior period

Retail Dispense

The Group disposed of the Retail Dispense businesses on 1 January 2014 for proceeds of £691.2m resulting in a post-tax gain on disposal of £477.5m. This gain was recorded within discontinued operations as discussed in note 9.

Eley

The Group disposed of Eley Limited, Accles and Shelvoke Limited and Eley Americas Inc (together 'Eley') on 4 October 2014 for proceeds of £41.6m resulting in a gain on disposal for the Group of £33.1m, after disposing of £6.5m of net assets and incurring £2.0m of associated costs.

AFP

The Group disposed of Mecanique Analytique Inc (trade name 'AFP') on 23 October 2014 for proceeds of £3.4m resulting in a gain on disposal for the Group of £1.1m, after disposing of £1.3m of net assets and incurring £1.0m of associated costs.

The gains on disposal of Eley and AFP were presented in the income statement as an exceptional item but they were not disclosed as discontinued operations because they did not represent a separate major line of business.

9. Discontinued operations

A pre-tax and post-tax gain of £7.9m was incurred in the six months ending 30 June 2015, as a result of the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses, which were sold on 1 January 2014.

The prior half-year and full-year comparatives include a post-tax gain on disposal of the Retail Dispense businesses of £477.5m.

In addition, a pre-tax and post-tax gain of £1.0m relating to other discontinued operations was also included in this line in the income statement for the year to 31 December 2014.

10. Non-controlling interests

	6 months to 30 June 2015			6 months to 30 June 2014			Year to 31 Dec 2014		
	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	2.5	42.3	44.8	2.7	43.9	46.6	2.7	43.9	46.6
Profit for the period attributable to non-controlling interests	**-**	**1.4**	**1.4**	-	1.4	1.4	-	2.8	2.8
Dividends paid to non-controlling interests	**-**	**-**	**-**	-	-	-	(0.2)	-	(0.2)
Income earned by partnership	**-**	**(2.2)**	**(2.2)**	-	(2.2)	(2.2)	-	(4.4)	(4.4)
Movement in non-controlling interest	**-**	**(0.8)**	**(0.8)**	-	(0.8)	(0.8)	(0.2)	(1.6)	(1.8)
Closing non-controlling interests	**2.5**	**41.5**	**44.0**	2.7	43.1	45.8	2.5	42.3	44.8

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 relates 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 are fully funded.

11. Dividend

The final dividend relating to the year ended 31 December 2014 of 24.0p per share (2013: 22.5p) was paid in May 2015 amounting to £64.9m (2014: £60.6m).

In addition, the directors have declared an interim dividend for the current year of 13.9p per share (2014: 13.6p) amounting to £37.8m (2014: £36.7m), which will be paid on 18 September 2015 to shareholders on the register on 14 August 2015. In accordance with IAS10 '*Events after the Balance Sheet Date*' this interim dividend has not been reflected in these Interim Financial Statements.

12. Cash flow reconciliation

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

	6 months to 30 June 2015 £m	6 months to 30 June 2014 £m	Year to 31 Dec 2014 £m
Net increase/(decrease) in cash and cash equivalents*	**14.6**	(36.7)	(39.9)
Net (drawdown)/repayment of borrowings	**(106.5)**	(2.5)	80.7
Net debt (increase)/decrease from cash flow	**(91.9)**	(39.2)	40.8
Net cash disposed	**(0.2)**	-	(29.0)
Net borrowings acquired	**(5.6)**	-	-
Currency translation differences	**9.2**	6.8	(12.4)
Movement in net debt in the period	**(88.5)**	(32.4)	(0.6)
Net debt at the start of the period	**(200.0)**	(199.4)	(199.4)
Net debt at the end of the period	**(288.5)**	(231.8)	(200.0)

* Excluding foreign exchange and net cash disposed/ debt acquired.

12. Cash flow reconciliation (continued)

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2015 £m	6 months to 30 June 2014 £m	Year to 31 Dec 2014 £m
EBITDA* from continuing operations	**137.6**	155.0	370.9
EBITDA from discontinued operations	**-**	-	1.0
EBITDA	**137.6**	155.0	371.9
Working capital movements	**(22.4)**	(45.2)	(50.8)
Capital expenditure	**(29.4)**	(22.9)	(70.8)
Loss/(gain) on disposal of subsidiaries	**0.4**	-	(34.2)
Gain on special pension events	**(3.2)**	-	(7.0)
Provisions and employee benefit movements	**(3.3)**	(12.5)	(13.7)
Other	**2.2**	2.3	3.1
Operating cash flow**	**81.9**	76.7	198.5
Tax paid	**(16.4)**	(27.7)	(67.2)
Interest and derivatives	**16.0**	15.9	22.2
Cash generation	**81.5**	64.9	153.5
Additional pension scheme funding	**-**	(53.2)	(87.0)
Free cash flow before corporate activity	**81.5**	11.7	66.5
Acquisition of subsidiaries	**(109.2)**	-	-
Dividends paid to equity shareholders and non-controlling interest	**(64.9)**	(60.6)	(97.5)
Return of cash	**-**	(620.3)	(620.3)
Proceeds from disposal of subsidiaries	**0.4**	662.6	725.3
Payment to non-controlling interest	**(2.2)**	(2.2)	(4.4)
Net issue/(purchase) of own shares	**2.5**	(30.4)	(28.8)
Net cash flow (excluding debt movements)	**(91.9)**	(39.2)	40.8

* Earnings before interest (£10.9m), tax (£16.8m), depreciation (£16.3m), amortisation (£23.3m) and impairment (nil).

** Operating cash flow is the cash generated from the operations shown in the consolidated statement of cash flows less cash spent acquiring property, plant and equipment, other non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments.

13. Fair value hierarchy

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

	30 June 2015				31 December 2014			
	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*	**18.0**			**18.0**	19.0			19.0
Cash and cash equivalents	**56.0**			**56.0**	43.8			43.8
Foreign currency forward contracts		**7.9**		**7.9**		10.5		10.5
	74.0	**7.9**	**-**	**81.9**	62.8	10.5	-	73.3
Financial liabilities measured at fair value								
Foreign currency forward contracts		**(6.8)**		**(6.8)**		(9.2)		(9.2)
	-	**(6.8)**	**-**	**(6.8)**	-	(9.2)	-	(9.2)

* 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 £7.9m and £6.8m 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 2015, 31 December 2014 and 30 June 2014 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 2015	**322.9**	**349.7**
31 December 2014	218.8	248.7
30 June 2014	217.7	250.4

14. Share capital

	Ordinary shares of 28 4/7p each	
	Number (m)	**Value (£m)**
In issue at the start of the period	286.0	81.7
Issued to satisfy employee share schemes	0.1	-
In issue at the end of the period	**286.1**	**81.7**

15. Employee benefits

The net defined pension liability at 30 June 2015 was £18.4m (31 December 2014: £34.7m). The UK surplus in the Funds increased to £70.0m (31 December 2014: £60.1m). The UK Funds are currently undergoing an annual actuarial valuation for the year ending 31 March 2015. This will be finalised in the second half of the year and where relevant, factored into the IAS19 valuation as at 31 December 2015.

The net deficit in respect of the total overseas obligations decreased to £88.4m (31 December 2014: £94.8m), despite the inclusion of the deficit associated with the acquisition of Bopp & Reuther of £4.1m.

16. 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 2015	6 months to 30 June 2014	Year to 31 Dec 2014	**30 June 2015**	30 June 2014	31 Dec 2014
Euro	**1.37**	1.22	1.24	**1.41**	1.25	1.29
US Dollar	**1.52**	1.67	1.65	**1.57**	1.71	1.56

17. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £21.0m. This included £19.7m in respect of plant and equipment (including those under construction), and £1.3m in respect of land and buildings.

Capital expenditure on non-acquired intangible assets in the period was £8.4m. This included £2.3m in respect of capitalised development costs and £6.1m in respect of other non-acquired intangible assets (including those under construction).

18. Financial information

Definitions

References in the commentary to revenue, segmental operating profit, segmental operating margins and profit before tax, unless otherwise stated, relate to numbers after adjustment for exceptional items as noted on the face of the condensed consolidated interim income statement. Segmental operating profit is reported as if economic currency and metals hedges were effective for financial reporting purposes, as discussed in note 2.

References to EPS, unless otherwise stated, relate to reported basic adjusted EPS from continuing operations i.e. after adjustment for the per share after tax impact of exceptional items in note 6. The directors' commentary discusses these adjusted amounts 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.

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 impact on revenue and segmental operating profit of movements in foreign exchange, acquisitions and disposals is set out in note 2.

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 over 12,000 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.