IMI plc
Press Release

31 July 2018

Interim results, six months ended 30 June 2018

	Adjusted[1]				Statutory		
	2018 H1	2017 H1	Change	**Organic[3]**	**2018 H1**	2017 H1	Change
Revenue	**£915m**	£846m	+8%	**+6%**	**£914m**	£848m	+8%
Operating profit	**£120m**	£106m	+13%	**+13%**	**£101m**	£94m	+7%
Operating margin	**13.1%**	12.5%	+60bps				
Profit before tax	**£113m**	£98m	+16%		**£93m**	£89m	+5%
Basic EPS	**32.9p**	28.4p	+16%		**27.4p**	27.2p	+1%
Operating cash flow[2]	**£68m**	£86m	-21%				
Dividend per share	**14.6p**	14.2p	+3%				
Net debt	**£459m**	£318m					

[1] Excluding the effect of adjusting items as reported in the income statement and defined in note 2.
[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

- Organic revenue 6% higher
- Organic operating profit 13% higher
- Statutory operating profit 7% higher
- Adjusted basic EPS increased 16%
- Proposed 3% increase in interim dividend
- Bimba integration proceeding well

Mark Selway, Chief Executive, commented:

"The recent positive momentum in some of our most important markets continued through the first half of the year. Critical Engineering delivered increased revenues, profits and margins through a combination of rationalisation benefits and Value Engineering. Precision Engineering generated good sales and margin growth, with strong profit drop through, while Hydronic Engineering has largely completed the changes necessary to deliver substantially improved margins in the second half of the year."

"The trading outlook for the Group remains positive and in the second half of 2018 we expect organic revenue and profits to show good improvement compared to the same period in 2017. The improved results will be supported by market growth in Precision Engineering, rationalisation benefits in Critical Engineering and a stronger performance from Hydronic Engineering."

"Based on current market conditions, we anticipate full year 2018 results will be slightly ahead of current market expectations."

Enquiries to:

John Dean	IMI	Tel: +44 (0)121 717 3712
Suzanne Bartch / Gayden Metcalfe	Teneo Blue Rubicon	Tel: +44 (0)203 757 9239

A live webcast of the analyst meeting taking place today at 9:45am (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 8 November 2018.

Engineering GREAT the IMI Way

Results overview

Results for the first half of the year were ahead of expectations with good progress in Critical Engineering and Precision Engineering, and the ongoing execution of changes necessary to deliver substantially improved second half results in Hydronic Engineering.

Adjusted revenues of £915m (2017: £846m) were 8% higher and included a £40m first-time, five month contribution from Bimba, which was partially offset by £17m of adverse exchange rate movements. Organic revenues were 6% higher when compared with the same period in 2017.

Segmental operating profit of £120m (2017: £106m) was 13% higher on an adjusted basis. Excluding the profits of £4m from Bimba and adverse exchange rate movements of £4m, segmental operating profit on an organic basis was also 13% higher than the comparable period in 2017. The Group's first half segmental operating margin improved to 13.1% (2017: 12.5%).

Operating cash flow was lower at £68m (2017: £86m) reflecting higher working capital to support growth in Precision Engineering and comparatively higher advanced payments received by Critical Engineering in 2017. Including the payment for the acquisition of Bimba of £138m and an unfavourable currency impact of £9m, Net Debt of £459m (2017: £318m) resulted in a net debt to EBITDA ratio of 1.5x (2017: 0.9x).

The adjusted tax charge was £24m (2017: £21m), giving an effective tax rate of 21%.

The resulting adjusted basic earnings per share was 16% higher at 32.9p (2017: 28.4p).

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending that the interim dividend be increased by 3% to 14.6p (2017: 14.2p) which will be paid on 14 September 2018 to shareholders on the register at the close of business on 10 August 2018.

Outlook

The trading outlook for the Group remains positive and in the second half of 2018 we expect organic revenue and profits to show good improvement compared to the same period in 2017. The improved results will be supported by market growth in Precision Engineering, rationalisation benefits in Critical Engineering and a stronger performance from Hydronic Engineering.

Based on current market conditions, we anticipate full year 2018 results will be slightly ahead of current market expectations.

If the exchange rates on 16 July (US$1.32 and €1.13) remained constant for the remainder of the year, revenue and segmental operating profit would reduce by c.2% in the full year when compared to 2017.

Divisional review

The following review relates to our continuing businesses and compares performance on an adjusted basis during the half year ended 30 June 2018 with the same period in 2017. References to organic growth are on a constant currency basis and exclude disposals and acquisitions.

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.

	2018 H1	**2017 H1**
Order intake	£297m	£350m
Revenue	£319m	£308m
Operating profit	£36.0m	£34.4m
Operating margin	11.3%	11.2%

Performance

As expected, IMI Critical Engineering's organic order intake at £297m was 12% lower than the first half of 2017, due primarily to the timing of the large gas processing orders won in the first half of 2017. The first half benefited from £78m of Value Engineering orders. Current quote activity, combined with continued high win rates, provides confidence that much of the first half order input decline will be recovered in the second half of the year.

On an organic basis, New Construction orders of £133m were 26% lower largely reflecting the exceptional level of Petrochemical orders secured in the first half of 2017. Aftermarket orders of £164m were 3% higher with the benefit of increased Upgrade and Field Service orders offsetting lower LNG Parts orders which benefited from commissioning spares volumes in the first half of 2017.

Organic revenues of £319m were 6% higher than the first half of 2017 with New Construction up 9% reflecting increased Petrochemical and Upstream Oil sales which offset declines in Fossil Power and LNG. Aftermarket sales were 4% higher with marginally improved spares sales and solid progress in upgrade work across most of our sectors.

Adjusted segmental operating profit of £36m was 5% higher with increased volumes, rationalisation benefits and Value Engineering all contributing to the result. Operating margins improved slightly to 11.3% (2017: 11.2%).

When compared to the same point in 2017 the order book of £482m, while 11% lower, comprises higher margin business due to a combination of improved Aftermarket pricing and favourable product mix.

Strategic progress

The realignment of Critical Engineering's global footprint is now largely complete and has successfully delivered year on year rationalisation benefits. The division now has world-class manufacturing facilities underpinned by Lean and Value Engineering practices, in the heart of the high growth markets of the future. Critical Engineering's competitiveness has also been dramatically improved and its product range extended into adjacent critical application markets. Today the division is ideally placed to capitalise as markets improve.

Outlook

In the second half, organic revenues are expected to show modest improvement when compared to the second half of 2017. The benefits of restructuring and phasing of the order backlog will deliver improved profits and margins in the second half of the year.

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.

	2018 H1	2017 H1
Revenue	£449m	£388m
Operating profit	£75.0m	£61.2m
Operating margin	16.7%	15.8%

Performance

Precision Engineering performed strongly in the first half of 2018 with higher revenues, profits and margins when compared to the first half of 2017. End markets remain generally positive across all regions and verticals, providing increased confidence for further progress in the second half of 2018.

Adjusted revenue of £449m was 16% higher than the first half of 2017 and included the benefit of the £40m first-time, five month contribution from Bimba offset by adverse exchange rate movements of £10m. Excluding these adjustments organic revenue was 8% higher.

On an organic basis, Industrial Automation revenue of £220m was 6% higher with good progress in North America and Asia and continued growth in Europe. Commercial Vehicle sales of £98m were 9% higher with particularly strong markets in the United States and Asia combining with continued good markets in Europe. Energy grew by 13%, Life Sciences grew by 12% and revenues in Rail were 19% higher.

Adjusted segmental operating profit of £75m was 23% higher than the first half of 2017 and included the first-time, five month contribution from Bimba of £4m, which was partially offset by adverse exchange rate movements of £2m. Organic profit was 19% higher and adjusted operating margins were 16.7% compared to 15.8% in the same period in 2017.

Strategic progress

While current focus is solidly placed on capturing an increasing share of today's buoyant markets, Precision Engineering continued to progress successfully its strategic agenda.

New Product Development continues at pace with an expanding pipeline of great new products enhancing the division's competitive position in all of its markets and sectors. Furthermore, the division's operating units have responded well to increasing market demands and continue to make good progress in their application of Lean.

The division successfully completed the acquisition of Bimba in February 2018 and remains excited about the benefits it will bring to Precision Engineering's position in the Industrial Automation market in North America. The detailed integration plan is in its final stages and we remain confident that the synergy benefits reflected in the original acquisition case are deliverable.

Outlook

On an organic basis, revenues, profits and margins are expected to improve when compared with the second half of 2017. Full year revenue growth is expected to be good although slightly lower than that achieved in the first half, reflecting the comparatively stronger second half of last year. Full year margins are expected to be slightly ahead of last year.

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.

	2018 H1	2017 H1
Revenue	£147m	£150m
Operating profit	£22.2m	£23.9m
Operating margin	15.1%	15.9%

Performance

As outlined in the 2017 full year update, Hydronic Engineering's first half 2018 revenues and margins were expected to be impacted by the actions taken to reduce the cost base and improve margins in the second half of the year. A combination of successful negotiations with key partners, a further reduction in the overhead cost base and price increases provide a solid platform for significantly improved margins in the second half of the year.

Organic revenue of £147m (2017: £149m) was 1% lower than the same period in 2017. Sales of TA balancing and control increased 2.5% with stronger sales in North America, Switzerland and the UK underpinning much of the growth.

Sales of Heimeier thermostatic control products reduced 7.5% reflecting the phasing of distributor orders while negotiations were in progress. In Europe, sales of Pneumatex pressurisation and water quality products increased 4.3% due to the success of increased technical support in our most important markets. First half revenues included £32m, or 22%, generated from products introduced in the last 4 years.

Adjusted segmental operating profit of £22m (2017: £24m) was 7% lower and, after adjusting for £1.0m of adverse exchange rate movements, organic operating profits were 3% lower than the same period in 2017. Operating margins at 15.1% (2017: 15.9%) were impacted by lower revenues and increases in raw material costs which will be recovered through revised pricing in the second half of the year.

Strategic progress

Hydronic Engineering management moved decisively to address the disappointing performance in the final quarter of 2017. Commercial agreements have been reviewed, price increases implemented and a further £1.9m of restructuring completed to reduce the cost base and close a loss-making service business in Sweden.

In conjunction with the actions taken to improve short-term performance, a further review is being undertaken to establish the division's future market prospects and to exploit opportunities for growth. The market-leading operational platform built over the past few years, combined with a proven ability to develop world-leading products, provides a strong foundation for the future development of the division.

Outlook

In the second half, on an organic basis, we expect our self-help initiatives to deliver significantly improved profits from modestly higher revenues, when compared to the same period in 2017.

Financial review

Adjusted revenues of £915m were up 8% (2017: £846m) and statutory revenues were up 8% to £914m (2017: £848m). After adjusting for adverse exchange rate movements and acquisitions and disposals, organic revenues were up 6% when compared with the same period in the previous year. Segmental operating profit was £120m, a 13% increase on the prior period (2017: £106m). On an organic basis operating profit was up 13%. Group segmental operating margin was 60 basis points higher at 13.1% (2017: 12.5%), whilst statutory operating profit was up 7% at £101m (2017: £94m).

Adjusted net interest costs on borrowings were £5.9m (2017: £6.6m) and were covered 24.7 times by earnings before interest, tax, depreciation and amortisation (EBITDA) on continuing operations of £146m (2017: £129m). The IAS19 pension net financing expense was £0.7m (2017: £0.7m expense). The total adjusted net financing costs were £6.6m (2017: £7.3m). Profit before tax and adjusting items was £113m, an increase of 16% (2017: £98m).

The effective tax rate on profit before adjusting items for 2018 is 21%, which is consistent with the rate applicable in the first half of 2017.

Adjusting items

Restructuring costs of £0.3m were incurred but not treated as adjusting (2017: £1m). Adjusting restructuring costs were £5m (2017: £14m), primarily relating to the restructuring of our European operations in Critical Engineering and Hydronic Engineering.

The impact of amortisation of acquired intangibles and other acquisition items was £18m (2017: £10m). Additional adjusting items affecting continuing businesses were gains on special pension events of £4m (2017: £11m), a gain arising from historical disposals of £1m (2017: £nil), the reversal of net economic hedge contract gains of £1m, (2017: losses of £2m) and net adjusting financial instrument losses of £2m (2017: gains of £2m).

After these adjusting items, statutory profit before tax was £93m (2017: £89m). The total statutory profit for the period after taxation was £74m (2017: £74m) which was all attributable to the equity shareholders.

Earnings per share

The average number of shares in issue during both periods was 271m, resulting in adjusted basic earnings per share of 32.9p (2017: 28.4p) and adjusted diluted earnings per share of 32.9p (2017: 28.2p). Statutory basic earnings per share was 27.4p (2017: 27.2p) and statutory diluted earnings per share was 27.3p (2017: 27.0p).

Foreign exchange

The impacts of translation on the reported growth of first half revenues and segmental operating profits were decreases of £17m (-2%) and £4m (-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 14 to this report.

If the exchange rates on 16 July (US$1.32 and €1.13) remained constant for the remainder of the year, it would adversely impact both revenues and segmental operating profit by around 2%.

Cash flow

Adjusted operating cash flow reduced to £68m. Trade and other receivables increased by £15m, inventories increased by £38m and trade and other payables decreased by £7m. Capital expenditure amounted to £23m and was 0.9 times the depreciation and amortisation charge for the period of £26m.

The other major cash outflows in the period were the Bimba acquisition of £138m, £19m of tax, and dividends of £68m. The total cash outflow for the period was £33m, compared with an outflow of £42m 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 adjusting items) being 1.5 at the end of June 2018 (December 2017: 0.9). Net debt increased during the period to £459m (December 2017: £265m) due largely to the acquisition of Bimba and the dividend payment in 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 2018 were £275m (December 2017: £302m) of which £49m were drawn (December 2017: £nil).

The IAS19 net pension deficit was £50m which compares to a deficit of £61m at 30 June 2017 and a deficit of £78m at 31 December 2017. Of this amount, a surplus of £28m (31 December 2017: £2m) 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 £78m (31 December 2017: £80m).

Shareholders' equity at the end of June was £620m, an increase of £13m 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 £17m, adverse exchange differences of £8m and the 2017 final dividend of £68m paid in May.

Other regulatory information

Audit tender

The Audit Committee undertook a competitive audit tender in 2018 to take effect for the 2019 statutory audit. In May 2018, three firms presented to a panel led by the Audit Chair and included members of the Audit Committee and IMI management. Following a review of all proposals, the Audit Committee recommended to the Board that EY should be retained as the external auditor of the Group from 2019 subject to approval at the Annual General Meeting. This was agreed by the Board in July 2018.

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 46 to 49 of its 2017 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 2018. 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.

Safe harbour 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. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. 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; and
- there were no related party transactions or changes in the related party transactions described in the 2017 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2018.

The directors of IMI plc are listed on the IMI plc website (www.imiplc.com).

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

Mark Selway
Chief Executive
30 July 2018

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 2138002W9Q21PF

INDEPENDENT REVIEW REPORT TO IMI plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2018 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 16. We have read the other information contained in the interim 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 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim 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 interim 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 interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "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 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 interim financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 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
30 July 2018

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Notes	**6 months to 30 June 2018 (unaudited)**			6 months to 30 June 2017 (unaudited)			Year to 31 Dec 2017		
		Adjusted	**Adjusting items**	**Statutory**	Adjusted	Adjusting items	Statutory	Adjusted	Adjusting items	Statutory
		£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue	2	915	(1)	**914**	846	2	848	1,751		1,751
Segmental operating profit	2	120.0		**120.0**	106.1		106.1	240.9		240.9
Reversal of net economic hedge contract (gains)/losses	5		(1.1)	**(1.1)**		2.3	2.3		(0.9)	(0.9)
Restructuring costs	5	(0.3)	(4.5)	**(4.8)**	(1.3)	(13.8)	(15.1)	(1.7)	(34.6)	(36.3)
Gains on special pension events	5		3.8	**3.8**		10.7	10.7		10.8	10.8
Acquired intangible amortisation and other acquisition items	5		(17.5)	**(17.5)**		(9.6)	(9.6)		(19.5)	(19.5)
Gain/(loss) on disposal of subsidiaries	5		0.6	**0.6**		-	-		(2.3)	(2.3)
Operating profit	2	119.7	(18.7)	**101.0**	104.8	(10.4)	94.4	239.2	(46.5)	192.7
Financial income	3	3.1	13.1	**16.2**	3.0	6.4	9.4	5.5	12.5	18.0
Financial expense	3	(9.0)	(14.6)	**(23.6)**	(9.6)	(4.9)	(14.5)	(19.8)	(9.2)	(29.0)
Net finance expense relating to defined benefit pension schemes	3	(0.7)		**(0.7)**	(0.7)		(0.7)	(0.8)		(0.8)
Net financial (expense)/income	3	(6.6)	(1.5)	**(8.1)**	(7.3)	1.5	(5.8)	(15.1)	3.3	(11.8)
Profit before tax		113.1	(20.2)	**92.9**	97.5	(8.9)	88.6	224.1	(43.2)	180.9
Taxation	4	(23.8)	5.1	(18.7)	(20.5)	5.7	(14.8)	(47.1)	11.5	(35.6)
Profit from continuing operations after tax		89.3	(15.1)	**74.2**	**77.0**	**(3.2)**	**73.8**	**177.0**	**(31.7)**	**145.3**
Profit from discontinued operations after tax	7			**-**			-		16.9	16.9
Total profit for the period		89.3	(15.1)	**74.2**	77.0	(3.2)	73.8	177.0	(14.8)	162.2
Attributable to:										
Owners of the parent		89.3		**74.2**	77.0		73.8	176.9		162.1
Non-controlling interests		-		**-**	-		-	0.1		0.1
Profit for the period		89.3		**74.2**	77.0		73.8	177.0		162.2
Earnings per share	6									
Basic - from profit for the period				**27.4p**			27.2p			59.8p
Diluted - from profit for the period				**27.3p**			27.0p			59.7p
Basic - from continuing operations				**27.4p**			27.2p			53.6p
Diluted - from continuing operations				**27.3p**			27.0p			53.5p

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2018 (unaudited)		6 months to 30 June 2017 (unaudited)		Year to 31 Dec 2017	
	£m	**£m**	£m	£m	£m	£m
Profit for the period		**74.2**		73.8		162.2
Items that may be reclassified to profit and loss:						
Change in fair value of effective net investment hedge derivatives	**0.6**		5.6		3.4	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(8.0)**		(10.0)		(11.0)	
Fair value loss on available for sale financial assets			(0.2)		(0.2)	
Related tax effect on items that may subsequently be reclassified to profit and loss	**(0.1)**		(0.8)		(0.6)	
		(7.5)		(5.4)		(8.4)
Items that will not subsequently be reclassified to profit and loss:						
Re-measurement gain/(loss) on defined benefit plans	**20.2**		12.1		(12.3)	
Fair value loss on equity instruments not held for trading	**(3.8)**		-		-	
Related taxation effect in current period	**(3.2)**		(2.4)		1.7	
Effect of rate change on previously recognised items	**-**		-		(0.3)	
		13.2		9.7		(10.9)
Other comprehensive income for the period, net of tax		**5.7**		4.3		(19.3)
Total comprehensive income/(expense) for the period, net of tax		**79.9**		78.1		142.9
Attributable to:						
Owners of the parent		**79.9**		78.1		142.8
Non-controlling interests		**-**		-		0.1
Total comprehensive income for the period, net of tax		**79.9**		78.1		142.9

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	30 June 2018 (unaudited) £m	30 June 2017 (unaudited) £m	31 Dec 2017 £m
Assets				
Intangible assets		**603.4**	515.9	509.0
Property, plant and equipment		**285.7**	265.5	270.4
Employee benefit assets	13	**29.2**	54.6	5.7
Deferred tax assets		**19.7**	21.1	20.9
Other receivables		**2.8**	4.2	4.2
Total non-current assets		**940.8**	861.3	810.2
Inventories		**307.3**	277.7	251.3
Trade and other receivables		**449.8**	411.0	418.8
Other current financial assets		**1.5**	5.2	4.1
Current tax		**6.4**	3.9	8.3
Investments		**10.0**	19.5	13.8
Cash and cash equivalents		**106.4**	34.0	98.6
Total current assets		**881.4**	751.3	794.9
Total assets		**1,822.2**	1,612.6	1,605.1
Liabilities				
Bank overdraft		**(73.1)**	(7.3)	(31.0)
Interest-bearing loans and borrowings	10	**(48.7)**	(124.5)	(113.8)
Provisions		**(10.3)**	(18.4)	(19.2)
Current tax		**(64.9)**	(50.9)	(61.0)
Trade and other payables		**(427.0)**	(425.5)	(416.5)
Other current financial liabilities		**(6.0)**	(3.2)	(3.9)
Total current liabilities		**(630.0)**	(629.8)	(645.4)
Interest-bearing loans and borrowings	10	**(443.6)**	(220.3)	(219.0)
Employee benefit obligations	13	**(79.3)**	(115.5)	(83.6)
Provisions		**(19.8)**	(21.0)	(15.4)
Deferred tax liabilities		**(27.3)**	(37.1)	(27.7)
Other payables		**(1.9)**	(7.5)	(6.6)
Total non-current liabilities		**(571.9)**	(401.4)	(352.3)
Total liabilities		**(1,201.9)**	(1,031.2)	(997.7)
Net assets		**620.3**	581.4	607.4
Equity				
Share capital	12	**81.8**	81.8	81.8
Share premium		**12.8**	12.1	12.7
Other reserves		**197.7**	208.3	205.2
Retained earnings		**328.0**	278.5	307.7
Equity attributable to owners of the parent		**620.3**	580.7	607.4
Non-controlling interests			0.7	-
Total equity		**620.3**	581.4	607.4

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 2018	**81.8**	**12.7**	**174.4**	**1.0**	**29.8**	**307.7**	**607.4**	**-**	**607.4**
Profit for the period						**74.2**	**74.2**		**74.2**
Other comprehensive income				**0.5**	**(8.0)**	**13.2**	**5.7**		**5.7**
Total comprehensive income				**0.5**	**(8.0)**	**87.4**	**79.9**	**-**	**79.9**
Issue of share capital	**-**	**0.1**					**0.1**		**0.1**
Dividends paid on ordinary shares						**(68.3)**	**(68.3)**		**(68.3)**
Share-based payments (net of tax)						**3.8**	**3.8**		**3.8**
Shares acquired for employee share scheme trust						**(2.6)**	**(2.6)**		**(2.6)**
As at 30 June 2018	**81.8**	**12.8**	**174.4**	**1.5**	**21.8**	**328.0**	**620.3**	**-**	**620.3**
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
Issue of share capital	-	-					-		-
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 by 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 2017	81.8	12.1	174.4	(1.6)	40.8	235.7	543.2	40.0	583.2
Profit for the year						162.1	162.1	0.1	162.2
Other comprehensive income				2.6	(11.0)	(10.9)	(19.3)		(19.3)
Total comprehensive income				2.6	(11.0)	151.2	142.8	0.1	142.9
Issue of share capital	-	0.6					0.6		0.6
Dividends paid on ordinary shares						(105.5)	(105.5)		(105.5)
Share-based payments (net of tax)						8.0	8.0		8.0
Shares acquired by employee share scheme trust						(2.7)	(2.7)		(2.7)
Derecognition of interest in IMI Scottish Limited Partnership						21.3	21.3	(39.3)	(18.0)
Derecognition of interest in IMI CCI SPEC						(0.3)	(0.3)	(0.8)	(1.1)
As at 31 December 2017	81.8	12.7	174.4	1.0	29.8	307.7	607.4	-	607.4

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	6 months to 30 June 2018 (unaudited)	6 months to 30 June 2017 (unaudited)	Year to 31 Dec 2017
	£m	£m	£m
Cash flows from operating activities			
Operating profit for the period from continued operations	**101.0**	94.4	192.7
Operating profit for the period from discontinued operations			2.2
Adjustments for:			
Depreciation and amortisation	**40.2**	33.8	65.8
Impairment of property, plant and equipment and intangible assets	**-**	0.2	3.3
(Gain)/loss on disposal of subsidiaries	**(0.6)**	-	1.7
Other acquisition items	**3.5**	-	-
Gain on special pension events	**(3.8)**	(10.7)	(10.8)
(Loss)/profit on sale of property, plant and equipment	**(0.2)**	0.2	1.5
Equity-settled share-based payment expense	**4.4**	4.1	8.0
(Increase)/decrease in inventories	**(37.9)**	(21.1)	3.9
Increase in trade and other receivables	**(15.4)**	(12.8)	(26.5)
(Decrease)/increase in trade and other payables	**(6.8)**	14.0	22.4
Decrease in provisions and employee benefits	**(9.8)**	(0.4)	(7.0)
Cash generated from the operations	**74.6**	101.7	257.2
Income taxes paid	**(19.4)**	(20.2)	(39.8)
	55.2	81.5	217.4
Additional pension scheme funding - UK and overseas	**(3.5)**	-	(3.3)
Net cash from operating activities	**51.7**	81.5	214.1
Cash flows from investing activities			
Interest received	**3.1**	3.0	5.5
Proceeds from sale of property, plant and equipment	**1.9**	0.5	0.5
Net (purchase)/sale of investments	**-**	(1.8)	0.8
Settlement of transactional derivatives	**(1.1)**	(2.4)	(0.9)
Settlement of currency derivatives hedging balance sheet	**(1.8)**	(20.8)	(18.3)
Acquisitions of subsidiaries net of cash	**(137.6)**	-	-
Acquisition of property, plant and equipment and non-acquired intangibles	**(22.5)**	(27.3)	(69.8)
Net cash from investing activities	**(158.0)**	(48.8)	(82.2)
Cash flows from financing activities			
Interest paid	**(9.0)**	(9.4)	(19.8)
Payment to non-controlling interest	**-**	(2.2)	(2.2)
Shares (acquired for)/issued by employee share scheme trust	**(2.6)**	1.1	(2.7)
Proceeds from the issue of share capital for employee share schemes	**0.1**	-	0.6
Net drawdown/(repayment) of borrowings	**153.0**	3.3	(2.1)
Dividends paid to equity shareholders and non-controlling interest	**(68.3)**	(67.0)	(105.5)
Net cash from financing activities	**73.2**	(74.2)	(131.7)
Net (decrease)/increase in cash and cash equivalents	**(33.1)**	(41.5)	0.2
Cash and cash equivalents at the start of the period	**67.6**	67.5	67.5
Effect of exchange rate fluctuations on cash held	**(1.2)**	0.7	(0.1)
Cash and cash equivalents at the end of the period*	**33.3**	26.7	67.6

* Net of bank overdrafts of £73.1m (31 December 2017: £31.0m; 30 June 2017: £7.3m).

The 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 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 2017 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 2017, other than to reflect changes expected to be applied in the subsequent annual financial statements. Noted below are the amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2018, none of which has a material impact on this Interim Financial Report:

- IFRS 1 *'First Time Adoption of International Financial Reporting Standards'*
- IFRS 2 *'Share Based Payment'*
- IAS 28 *'Investments in Associates'*
- IAS 40 *'Investment Property'*
- IFRIC 22 *'Foreign Currency Transactions and Advance Consideration'*

The impact of the new International Financial Reporting Standards effective for the Group as of 1 January 2018 is set out below:

- IFRS 9 *'Financial Instruments'* - an election was made to recognise movement in the fair value of the investments historically held at amortised cost in other comprehensive income. At the date of adoption, 1 January 2018, judgment was applied in determining that the difference between the historical amortised cost and the fair value was immaterial. The effect of adopting the remainder of this standard was not material and no further accounting policies have been amended following the adoption of the standard.
- IFRS 15 *'Revenue from Contracts with Customers'* – this standard was adopted from the date of initial application – 1 January 2018. The five step model for revenue recognition has been applied to each significant revenue stream for each operating segment and no significant impact on the financial statements following adoption of the standard has been identified.

Issued Accounting Standards which are not effective for the six months to 30 June 2018

The Group's assessment of the impact that IFRS 16 'Leases' will have, at the effective date of 1 January 2019, remains consistent with that which was previously reported in the 2017 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 the design and manufacture of motion and fluid control technologies 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 adjusted 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 IFRS 9, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of adjusted 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. Movements in adjusted 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	Reconciliation to statutory measure
Adjusted revenue Adjusted profit before tax Adjusted earnings per share	These measures are reported to management and do not reflect the impact of items included in note 5.	See income statement
Adjusted segmental operating profit and margin	These measures are reported to management and do not reflect the impact of items included in note 5 and non-adjusting restructuring costs.	See income statement and segmental reporting in note 2
Organic growth	This measure removes the impact of adjusting items, acquisitions, disposals and movements in exchange rates.	See segmental reporting in note 2
Adjusted operating cash flow	This measure reflects cash generated from operations as shown in the statement of cash flows less cash spent on property, plant and equipment, non-acquired intangibles assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments. This measure also excludes the cash impact of adjusting items.	See note 9

2. Segmental information (continued)

	Revenue			Operating profit			Operating margin		
	6 months to 30 June 2018	6 months to 30 June 2017	Year to 31 Dec 2017	**6 months to 30 June 2018**	6 months to 30 June 2017	Year to 31 Dec 2017	**6 months to 30 June 2018**	6 months to 30 June 2017	Year to 31 Dec 2017
	£m	£m	£m	**£m**	£m	£m	**%**	%	%
Continuing operations									
IMI Critical Engineering	***319***	*308*	*648*	***36.0***	*34.4*	*84.0*	***11.3%***	*11.2%*	*13.0%*
IMI Precision Engineering	***449***	*388*	*791*	***75.0***	*61.2*	*133.5*	***16.7%***	*15.8%*	*16.9%*
IMI Hydronic Engineering	***147***	*150*	*312*	***22.2***	*23.9*	*49.7*	***15.1%***	*15.9%*	*15.9%*
Corporate costs				***(13.2)***	*(13.4)*	*(26.3)*			
Total adjusted revenue/ segmental operating profit and margin	**915**	846	1,751	**120.0**	106.1	240.9	**13.1%**	12.5%	13.8%
Restructuring costs (non-adjusting)				**(0.3)**	(1.3)	(1.7)			
Total adjusted revenue/ operating profit and margin	**915**	846	1,751	**119.7**	104.8	239.2	**13.1%**	12.4%	13.7%
Reversal of net economic hedge (gains)/losses	**(1)**	2	-	**(1.1)**	2.3	(0.9)			
Restructuring costs				**(4.5)**	(13.8)	(34.6)			
Gains on special pension events				**3.8**	10.7	10.8			
Acquired intangible amortisation and other acquisition items				**(17.5)**	(9.6)	(19.5)			
Gain/(loss) on disposal of subsidiaries				**0.6**	-	(2.3)			
Statutory revenue/operating profit	**914**	848	1,751	**101.0**	94.4	192.7			
Net financial expense				**(8.1)**	(5.8)	(11.8)			
Statutory profit before tax from continuing operations				**92.9**	88.6	180.9			

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

	6 months to 30 June 2018					6 months to 30 June 2017			
Adjusted revenue	**As adjusted**	**Acquisitions**	**Organic**	**Adjusted growth (%)**	**Organic growth (%)**	As adjusted	Movement in foreign exchange	Acquisitions & Disposals	Organic
IMI Critical Engineering	**319**	**-**	**319**	**4%**	**6%**	308	(6)	(2)	300
IMI Precision	**449**	**(40)**	**409**	**16%**	**8%**	388	(10)	-	378
IMI Hydronic	**147**	**-**	**147**	**-2%**	**-1%**	150	(1)	-	149
Total	**915**	**(40)**	**875**	**8%**	**6%**	846	(17)	(2)	827
Segmental operating profit									
IMI Critical Engineering	**36.0**	**-**	**36.0**	**5%**	**7%**	34.4	(1.1)	0.4	33.7
IMI Precision	**75.0**	**(4.2)**	**70.8**	**23%**	**19%**	61.2	(1.8)		59.4
IMI Hydronic	**22.2**	**-**	**22.2**	**-7%**	**-3%**	23.9	(1.0)		22.9
Corporate costs	**(13.2)**	**-**	**(13.2)**			(13.4)			(13.4)
Total	**120.0**	**(4.2)**	**115.8**	**13%**	**13%**	106.1	(3.9)	0.4	102.6
Segmental operating profit margin (%)	**13.1%**		**13.2%**			12.5%			12.4%

2. Segmental information (continued)

	Restructuring costs*		
	6 months to 30 June 2018	6 months to 30 June 2017	Year to 31 Dec 2017
	£m	£m	£m
Total Group	**4.8**	15.1	36.3
IMI Critical Engineering	***2.5***	*7.3*	*27.7*
IMI Precision Engineering	***0.4***	*4.5*	*5.6*
IMI Hydronic Engineering	***1.9***	*3.3*	*3.0*

* Restructuring costs include both adjusting and non-adjusting items. The adjusting costs for the six months to 30 June 2018 are £2.5m relating to IMI Critical Engineering, £0.1m relating to IMI Precision Engineering and £1.9m relating to IMI Hydronic Engineering.

The adjusting costs for the six months to 30 June 2017 are £7.3m relating to IMI Critical Engineering, £3.2m relating to IMI Precision Engineering and £3.3m relating to IMI Hydronic Engineering. There were adjusting costs of £34.6m for the year ended 31 December 2017, £27.4m relating to IMI Critical Engineering, £4.2m relating to IMI Precision Engineering and £3.0m relating to IMI Hydronic Engineering.

The Group's revenue streams are disaggregated in the table below:

Sector	**H1 2018 Revenue £m**	**H1 2017 Revenue £m**
New Construction	172	161
Aftermarket	147	147
Critical Engineering	**319**	**308**
Industrial Automation	257	215
Commercial Vehicle	98	93
Energy	36	32
Life Sciences	37	31
Rail	21	17
Precision Engineering	**449**	**388**
TA	73	72
Heimeier	46	50
Pneumatex	19	19
Other	9	9
Hydronic Engineering	**147**	**150**
Total adjusted Revenue	**915**	**846**

Balance sheet

	Assets			Liabilities		
	30 June 2018	30 June 2017	31 December 2017	**30 June 2018**	30 June 2017	31 December 2017
	£m	£m	£m	**£m**	£m	£m
IMI Critical Engineering	***744.1***	*737.6*	*744.8*	***216.3***	*220.1*	*225.4*
IMI Precision Engineering	***666.5***	*506.1*	*491.7*	***136.2***	*126.2*	*126.4*
IMI Hydronic Engineering	***226.1***	*222.0*	*207.8*	***69.2***	*64.8*	*64.7*
	1,636.7	1,465.7	1,444.3	**421.7**	411.1	416.5
Corporate items	**13.8**	13.8	15.9	**41.1**	48.9	45.9
Employee benefits	**29.2**	54.6	5.7	**79.3**	115.5	83.6
Investments	**10.0**	19.5	13.8	**-**	-	-
Net debt items	**106.4**	34.0	98.6	**565.4**	352.1	363.8
Net taxation and others	**26.1**	25.0	26.8	**94.4**	103.6	87.9
Total reported in the Group balance sheet	**1,822.2**	1,612.6	1,605.1	**1,201.9**	1,031.2	997.7

3. Net financial expense

	6 months to 30 June 2018			6 months to 30 June 2017			Year to 31 Dec 2017		
Recognised in the income statement	**Interest**	**Financial instruments**	**Total**	Interest	Financial instruments	Total	Interest	Financial instruments	Total
Interest income on bank deposits	**3.1**		**3.1**	3.0		3.0	5.5		5.5
Financial instruments at fair value through profit or loss:									
Other economic hedges (note 5)									
- current period trading		**8.6**	**8.6**		-	-		6.9	6.9
- future period transactions		**4.5**	**4.5**		6.4	6.4		5.6	5.6
Financial income	**3.1**	**13.1**	**16.2**	3.0	6.4	9.4	5.5	12.5	18.0
Interest expense on interest-bearing loans and borrowings	**(9.0)**		**(9.0)**	(9.6)		(9.6)	(19.8)		(19.8)
Financial instruments at fair value through profit or loss:									
Other economic hedges (note 5)									
- current period trading		**(7.3)**	**(7.3)**		(2.3)	(2.3)		(6.8)	(6.8)
- future period transactions		**(7.3)**	**(7.3)**		(2.6)	(2.6)		(2.4)	(2.4)
Financial expense	**(9.0)**	**(14.6)**	**(23.6)**	(9.6)	(4.9)	(14.5)	(19.8)	(9.2)	(29.0)
Net finance expense relating to defined benefit pension schemes	**(0.7)**		**(0.7)**	(0.7)		(0.7)	(0.8)		(0.8)
Net financial expense	**(6.6)**	**(1.5)**	**(8.1)**	(7.3)	1.5	(5.8)	(15.1)	3.3	(11.8)

Included in financial instruments are current period trading gains and losses on economically effective settled 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 adjusting items is £23.8m which equates to an effective tax rate of 21.0% compared to 21.0% for the comparative six month period in the prior year and 21.0% for the year ended 31 December 2017.

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 2018 is 19.00% (year ended 31 December 2017: 19.25%). The Group's effective tax rate remains slightly above the UK tax rate due to the Group's overseas profits being taxed at higher rates.

5. Adjusting items

The adjusting items category in the income statement includes those items which are removed from statutory measures to provide insight as to the performance of the Group. They include restructuring costs, special pension events, gains and losses on disposals of subsidiaries, impairment losses, the reversal of gains/losses on economic hedges, acquisition costs, acquired intangible amortisation and the release of fair value uplifts recognised following acquisitions. The effect of the items added back to adjusted earnings is disclosed in note 6. The following items have been classified as adjusting in these interim Financial Statements:

	Key	**6 months to 30 June 2018**	6 months to 30 June 2017	Year to 31 Dec 2017
Recognised in arriving at operating profit from continuing operations				
Reversal of net economic hedge contract (gains)/losses	(a)	**(1.1)**	2.3	(0.9)
Restructuring costs	(b)	**(4.5)**	(13.8)	(34.6)
Gains on special pension events	(c)	**3.8**	10.7	10.8
Acquired intangible amortisation and other acquisition items	(d)	**(17.5)**	(9.6)	(19.5)
Gain/(loss) of disposal of subsidiaries	(e)	**0.6**	-	(2.3)
Recognised in net financial expense				
Financial income	(a)	**13.1**	6.4	12.5
Financial expense	(a)	**(14.6)**	(4.9)	(9.2)

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

(b) Adjusting restructuring costs of £4.5m were incurred in the six months to 30 June 2018. This includes £2.5m incurred within Critical Engineering due to right sizing, the continued restructure of our European business in Precision Engineering (£0.1m) and the Global Restructuring Programme within Hydronic Engineering (£1.9m).

Restructuring costs arising in the first half of £0.3m have been charged below segmental operating profit and included in the adjusted operating profit as these relate to discreet ongoing restructuring activity, which are not part of a larger programme, and do not meet our definition of adjusting items.

(c) During 2018, a number of further de-risking exercises, including the conversion of certain pension benefits to non-inflation linked, occur in the UK which resulted in net gains of £1.4m. Regulatory changes and the completion of a buy out in Switzerland resulted in gains totaling £2.4m.

(d) The acquired intangible amortisation charge in the six months to 30 June 2018 was £14.0m (six months to 30 June 2017: £9.6m). The charge has increased in the six months to 30 June 2018 as the amortisation of the intangible assets recognised on the acquisition of Bimba commenced during 2018. Also included is a release of the fair value uplift to inventory, recognized as part of the Bimba acquisition accounting in accordance with IFRS 3 'Business Combinations', was £3.5m (six months to 30 June 2017: nil).

(e) No subsidiaries have been disposed of in the six months to 30 June 2018. A gain of £0.6m has been recognised following the expiry of an indemnity provided on a historical disposal. In 2017, the Group disposed of Stainless Steel Fasteners Limited resulting in a loss of £2.3m.

The tax effects of the above items are included in the adjusted 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 assist the reader of the financial statements to get a better understanding of the adjusted performance of the Group.

	Key	**30 June 2018 million**	30 June 2017 million	31 Dec 2017 million
Weighted average number of shares for the purpose of basic earnings per share	A	**271.1**	271.2	271.1
Dilutive effect of employee share options		**0.5**	2.0	0.5
Weighted average number of shares for the purpose of diluted earnings per share	B	**271.6**	273.2	271.6

	Key	**6 months to 30 June 2018 £m**	6 months to 30 June 2017 £m	Year to 31 Dec 2017 £m
Statutory profit for the period		**74.2**	73.8	162.2
Non-controlling interests		**-**	-	(0.1)
Statutory profit for the period attributable to owners of the parent	C	**74.2**	73.8	162.1
Statutory profit from discontinued operations, net of tax		**-**	-	(16.9)
Continuing statutory profit attributable to owners of the parent	D	**74.2**	73.8	145.2
Total adjusting items charges included in profit for the period before tax		**20.2**	8.9	43.2
Total adjusting items credits included in taxation		**(5.1)**	(5.7)	(11.5)
Earnings for adjusted EPS	E	**89.3**	77.0	176.9

Statutory EPS measures				
Statutory basic EPS	C/A	27.4p	27.2p	59.8p
Statutory diluted EPS	C/B	27.3p	27.0p	59.7p
Statutory basic continuing EPS	D/A	27.4p	27.2p	53.6p
Statutory diluted continuing EPS	D/B	27.3p	27.0p	53.5p
Adjusted EPS measures				
Adjusted basic EPS	E/A	32.9p	28.4p	65.3p
Adjusted diluted EPS	E/B	32.9p	28.2p	65.1p

7. Discontinued operations

No gain or loss was made from discontinued operations in the six months to 30 June 2018, A pre-tax gain of £2.2m and post tax gain of £16.9m was recognised in 2017 following the finalisation of a number of matters relating to historical discontinued operations.

8. Dividend

The final dividend relating to the year ended 31 December 2017 of 25.2p per share (2016: 24.7p) was paid in May 2018 amounting to £68.3m (2017: £67.0m).

In addition, the directors have declared an interim dividend for the current year of 14.6p per share (2017: 14.2p) amounting to £39.6m (2017: £38.5m), which will be paid on 14 September 2018 to shareholders on the register on 10 August 2018. 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

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	Year to 31 Dec 2017 £m
Net (decrease)/increase in cash and cash equivalents*	(33.1)	(41.5)	0.2
Net (drawdown)/repayment of borrowings	(153.0)	(3.3)	2.1
Increase in net debt*	**(186.1)**	(44.8)	2.3
Cash acquired	0.8	-	-
Currency translation differences	(8.5)	9.3	15.1
Movement in net debt in the period	**(193.8)**	(35.5)	17.4
Net debt at the start of the period	(265.2)	(282.6)	(282.6)
Net debt at the end of the period	**(459.0)**	(318.1)	(265.2)

* Excluding foreign exchange.

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	Year to 31 Dec 2017 £m
EBITDA* from continuing operations	**145.9**	129.0	287.5
Working capital movements	**(60.1)**	(19.9)	(0.2)
Capital and development expenditure	**(22.5)**	(27.3)	(69.8)
Provisions and employee benefit movements**	**(0.8)**	(1.5)	(10.4)
Other	**5.5**	5.3	10.8
Adjusted operating cash flow* **	**68.0**	85.6	217.9
Adjusting items****	**(13.1)**	(12.5)	(29.2)
Operating cash flow	**54.9**	73.1	188.7
Tax paid	**(19.4)**	(20.2)	(39.8)
Interest and derivatives	**(8.8)**	(29.6)	(33.5)
Cash generation	**26.7**	23.3	115.4
Additional pension scheme funding	**(3.5)**	-	(3.3)
Free cash flow before corporate activity	**23.2**	23.3	112.1
Dividends paid to equity shareholders and non-controlling interest	**(68.3)**	(67.0)	(105.5)
Acquisition of subsidiaries	**(138.4)**	-	-
Payment to non-controlling interest	**-**	(2.2)	(2.2)
Net (purchase)/issue of own shares	**(2.6)**	1.1	(2.1)
Net cash flow (excluding debt movements)	**(186.1)**	(44.8)	2.3

* Adjusted profit after tax (£89.3m), before interest (£6.6m), tax (£23.8m), depreciation (£21.1m) and amortisation (£5.1m)

** Movement in provisions and employee benefits as per the interim statement of cash flows (£9.8m), adjusted for the decrease in adjusting restructuring provisions (£9.0m).

*** Adjusted operating cash flow 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, excluding the cash impact of adjusting items. This measure best reflects the operating cash flows of the Group.

**** Cash impact of adjusting items.

10. Interest Bearing Loans and Borrowings

On 21 February 2018, the Group repaid unsecured loan notes of £111.1m and agreed new unsecured loan notes totalling £70.8m. The new loan notes have a ten-year term and an effective interest rate of 1.53%.

On 31 January 2018, following the acquisition of Bimba Manufacturing Company, the Group repaid £15.8m of unsecured loans held by the entity prior to acquisition. On 5 April 2018, the Group entered in to new unsecured loan notes for £88.7m and £53.2m which have terms of 8 and 9 years respectively. These new loan notes have effective interest rates of 3.86% and 3.92% respectively. The new loan notes were used to repay the short term borrowings used to fund the acquisition of Bimba Manufacturing Company.

11. Fair value hierarchy

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

	30 June 2018				31 December 2017			
	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*	**3.2**			**3.2**	3.2			3.2
Investments		**10.0**		**10.0**				-
Cash and cash equivalents	**106.4**			**106.4**	98.6			98.6
Foreign currency forward contracts		**1.5**		**1.5**		4.1		4.1
	109.6	**11.5**	**-**	**121.1**	101.8	4.1	-	105.9
Financial liabilities measured at fair value								
Foreign currency forward contracts		**(6.0)**		**(6.0)**		(3.9)		(3.9)
	-	**(6.0)**	**-**	**(6.0)**	-	(3.9)	-	(3.9)

* 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 £1.5m and £6.0m 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 2018, 31 December 2017 and 30 June 2017 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 2018	**423.1**	**427.5**
31 December 2017	329.0	336.6
30 June 2017	335.4	349.8

12. 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**

13. Employee benefits

The net defined benefit pension liability at 30 June 2018 was £50.1m (31 December 2017: liability of £77.9m). The UK net surplus in the Funds increased to £27.5m (31 December 2017: £1.6m). The increase is primarily as a result of the favourable impact of actuarial assumptions and changes in the associated demographic assumptions. The UK Funds are currently undergoing a triennial actuarial valuation for the year ended 31 March 2018. This will be finalised in the second half of the year and, where relevant, factored into the IAS19 valuation as at 31 December 2018.

The net deficit in respect of the total overseas obligations decreased to £77.6m (31 December 2017: £79.5m) due to the increases in the discount rates and the special pension events described in note 5.

14. 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 2018	6 months to 30 June 2017	Year to 31 Dec 2017	**30 June 2018**	30 June 2017	31 Dec 2017
Euro	**1.14**	1.16	1.14	**1.13**	1.14	1.13
US dollar	**1.37**	1.26	1.29	**1.32**	1.30	1.35

15. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £12.3m. This included £11.8m 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 £10.2m. This included £2.5m in respect of capitalised development costs and £7.7m in respect of other non-acquired intangible assets (including those under construction).

16. Acquisitions

On 31 January 2018, the Group acquired 100% of the share capital, and associated voting rights of Bimba Manufacturing Company (Bimba) and its subsidiaries for cash consideration of £138.4m. Bimba is a market leading manufacturer of pneumatic, hydronic and electric motion solutions based in North America.

This acquisition has been accounted for as a business combination. The provisional fair value amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Fair value at 31 January 2018 £m
Intangible assets	57.6
Property, plant and equipment	18.8
Inventories	24.3
Trade and other receivables	9.3
Cash and cash equivalents	0.8
Trade and other payables	(12.0)
Provisions	(1.4)
Total identifiable net assets	**97.4**
Goodwill arising on acquisition	41.0
Total purchase consideration	**138.4**

The goodwill recognised above includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, the skills and experience of the assembled workforce, the increase in scale, synergies and the future growth opportunities that the businesses provide to the Group's operations. The goodwill and all intangible assets recognised are amortisable for tax purposes. Acquisition costs of £2.0m were recognised in the income statement in 2017.

The adjusted revenue and adjusted operating profit included in the consolidated income statement for the six months to 30 June 2018 contributed by Bimba were £40.3m and £4.2m respectively. There is no difference between adjusted and statutory revenue and operating profit for Bimba.

If the acquisitions had taken place on 1 January 2018 they would have contributed adjusted revenue of £49.0m and adjusted operating profit of £4.5m to the Group results.