IMI plc
Press Release

26 July 2019

Interim Results, six months ended 30 June 2019

	Adjusted[1]				Statutory		
Continuing operations:	**2019 H1[5]**	2018 H1	Change	**Organic[4]**	**2019 H1**	2018 H1	Change
Revenue	**£910m**	£915m	-1%	**-3%**	**£910m**	£914m	0%
Operating Profit	**£118m**	£120m	-1%	**-4%**	**£101m**	£101m	0%
Operating Margin	**13.0%**	13.1%	-10bps				
Profit Before Tax	**£110m**	£113m	-3%		**£93m**	£93m	0%
Basic EPS[2]	**32.1p**	32.9p	-2%		**28.4p**	27.4p	+4%
Operating Cash Flow[3]	**£101m**	£68m	+49%				
Dividend per Share	**14.9p**	14.6p	+2%				
Net Debt	**£516m**	£459m					

[1] Excluding the effect of adjusting items as reported in the income statement.
[2] Statutory amounts for Basic EPS include both continuing and discontinued operations.
[3] Operating cash flow, as described in note 12 to the financial statements.
[4] After adjusting for exchange rates and excluding the impact of acquisitions and disposals and lease accounting changes (see note 3).
[5] Including IFRS 16 and notional rent accounting changes, see note 9 for further details.

Key Points

- First half results in-line with expectations
- Good cash delivery
- Precision Engineering continues to be impacted by Industrial Automation weakness
- Full year rationalisation charges to be c.£35m with c.£30m annualised savings
- Strong order growth and robust margins in Critical Engineering
- Good progress on Hydronic Engineering margin improvement
- Customer at centre of immediate improvement actions
- Strategic review well underway

Roy Twite, Chief Executive, commented:

"Our strategic review process is focused on developing a plan to increase value for all our stakeholders. We are looking at all aspects of our business and we will report on the outcome of the review with the 2019 preliminary results. In the meantime, we have immediately implemented a number of important profitable growth initiatives to optimise our performance."

"The trading outlook for the Group remains substantially unchanged. In the second half of 2019 we continue to expect that organic revenue will experience a decline similar to that in the first half, when compared with the same period in 2018. Nonetheless, second half profits are expected to be similar to last year, supported by the business improvement initiatives pursued by each of the three divisions."

"Based on current market conditions, we anticipate full year 2019 results will be in-line with expectations."

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A live webcast of the analyst meeting taking place today at 8:30am (BST) will be available on the investor page of the Group's website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 7 November 2019.

Results overview

Results for the first half of the year are in-line with expectations and reflect good margin performances in Critical Engineering and Hydronic Engineering. Continued weakness in Precision Engineering's Industrial Automation markets, together with the expected revenue decline in Critical Engineering, were the principal drivers of the slight reduction in Group revenue. Cash flow for the Group was also good.

Adjusted revenues of £910m (2018: £915m) were 1% lower due to £18m lower divisional results offset by £13m favourable exchange movements. Organic revenues were 3% lower when compared with the same period in 2018.

Adjusted operating profit of £118m (2018: £120m) was 1% lower. Excluding the positive exchange rate movements of £3m and £1m of lease accounting changes, operating profit on an organic basis was 4% lower than the comparable period in 2018. Despite the revenue reduction, the Group's first half adjusted operating margin remained broadly similar to last year at 13.0% (2018: 13.1%).

Operating cash flow was higher at £101m (2018: £68m) principally reflecting improved working capital. Including a currency impact of £5m and £91m of IFRS 16 lease liabilities, Net Debt of £516m (2018: £459m) resulted in a Net Debt to EBITDA ratio of 1.5x (2018: 1.5x).

The adjusted tax charge was £23m (2018: £24m), giving an effective tax rate of 21%.

The resulting adjusted basic earnings per share was 2% lower at 32.1p (2018: 32.9p).

On 1 January 2019 the Group adopted IFRS 16 Leases which resulted in the recognition of £100m of lease assets and liabilities on the balance sheet. The new standard results in a slight improvement in the Group's adjusted operating profit, offset by higher interest expense. The like-for-like 2019 operating profits are presented in the divisional commentaries.

Strategic review update

Our strategic review process is well underway and, based on its initial findings, we are starting to develop our plan to increase value for all our stakeholders.

IMI has many strengths. We have world-class engineering expertise, strong brands and leading market positions. Over the years we have helped our customers solve some of their most complex engineering challenges. Today, as our world continues to change rapidly and the demand for cleaner, safer and more energy efficient processes continues to grow, demand for this expertise is greater than ever.

We have great people and an embedded can-do, continuous improvement culture. Over the last few years we have significantly strengthened our operational platform. In particular, we have embedded systems and disciplines across the Group that enable us to compete more effectively.

We also have strong financial foundations: our balance sheet, which we will continue to utilise in a very disciplined way, has the headroom and flexibility to support a range of growth opportunities.

Although our review process is still ongoing, it is very clear that we need to change and improve how we run our business in a number of important areas. To drive faster growth, we must become even more customer centric. All of our businesses must capitalise on the strong long-term trends that are driving demand for our products and services and focus their resources on the most attractive market segments. We will deliver better financial results from our lean and operational improvement programmes. We will also sharpen our commercial capabilities and improve our margin and cash generation performance. Continuing to make our business less complex and more efficient is a priority.

We are also reviewing the divisions' respective competitive strengths and market positions and determining how they can best support the delivery of accelerated profitable growth. By way of example, in Precision we are looking again at which Industrial Automation segments we should prioritise. In Critical, while the business has been transformed from being a predominantly fossil and nuclear power business, we need to determine how we optimise our remaining fossil power activities and how we make the most of the significant LNG market opportunity. In relation to Hydronic, our current focus is to continue to improve the margins, and over time we will examine how best to move the business into more attractive, faster growing markets.

We plan to report on the outcome of our strategic review and our plans to deliver our profitable growth ambitions with the 2019 preliminary results.

Profitable growth initiatives

In parallel with our strategic review process we are implementing a number of important initiatives to optimise our performance and drive profitable growth. In the main these initiatives are aimed at helping us get closer to customers and be more responsive to their needs. They include improving overhead efficiencies, driving accountability through all parts of the business, reducing complexity and flattening reporting structures. As a result of implementing these initiatives, we now expect rationalisation charges in 2019 to be in the region of £35m which will generate savings of c.£20m in 2019 and annualised savings of c.£30m.

Brexit

We have a broad international manufacturing footprint and less than 5% of sales in the UK**.** Nonetheless, as previously announced, we have developed a number of Brexit related contingency plans, including a programme of building long lead-time inventories to support customers in the event of increased border controls or delays in getting goods clearance to and from the UK.

Dividend

Reflecting continued confidence in the Group’s prospects, the Board is recommending that the interim dividend be increased by 2% to 14.9p (2018: 14.6p), which will be paid on 13 September 2019 to shareholders on the register at the close of business on 9 August 2019.

Exchange rates

If the exchange rates on 12 July (US$1.25 and €1.11) remained constant for the remainder of the year, revenue and operating profit would increase by c.2% in the full year when compared to 2018.

Outlook

The trading outlook for the Group remains substantially unchanged. In the second half of 2019 we continue to expect that organic revenue will experience a decline similar to that in the first half, when compared with the same period in 2018. Nonetheless, second half profits are expected to be similar to last year, supported by the business improvement initiatives pursued by each of the three divisions.

Based on current market conditions, we anticipate full year 2019 results will be in-line with expectations.

Divisional Review

The following review relates to our continuing businesses and compares performance on an adjusted basis during the half year ended 30 June 2019 with the same period in 2018. References to organic growth are on a constant currency basis and exclude disposals and acquisitions and lease accounting changes.

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.

	Post IFRS 16	**Pre IFRS 16**		
	2019 H1	**2019 H1**	2018 H1	2018 FY
Adjusted Revenue	**£463m**	**£463m**	£449m	£916m
Organic Revenue Growth	**-1%**	**-1%**	8%	6%
Operating Profit	**£74.8m**	**£73.9m**	£75.0m	£153.2m
Operating Margin	**16.2%**	**16.0%**	16.7%	16.7%

Performance

In Precision Engineering, first half trading was much as we had anticipated, with organic revenues slightly lower than last year. Industrial Automation was the only segment to be weaker in the first half, when compared with the same period in 2018. Commercial Vehicle and the division's other segments all delivered increased sales.

Adjusted revenue of £463m was 3% higher than the first half of 2018 helped by positive exchange rate movements of £10m and one additional month of Bimba trading. Excluding these adjustments organic revenue was 1% lower.

On an organic basis, Industrial Automation revenue of £259m was 4% lower with Europe and the Americas both down and Asia flat. Commercial Vehicle sales of £104m were 3% higher with good markets in the United States and Asia combining with a broadly flat market in Europe. Energy grew by 7% while Life Sciences and Rail were both 3% higher.

Adjusted operating profit of £74.8m was in line with the first half of 2018. Organic profit was 4% lower and adjusted operating margins were 16.2%, compared to 16.7% in the same period in 2018. Margin was affected by both volumes and the shift in mix to Commercial Vehicle.

Outlook

Based on the global industrial outlook we still expect full year organic revenues and margins to be slightly lower than for 2018.

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.

	Post IFRS 16 2019 H1	Pre IFRS 16 2019 H1	2018 H1	2018 FY
Order Intake	**£358m**	**£358m**	£297m	£652m
Adjusted Revenue	**£294m**	**£294m**	£319m	£682m
Organic Growth	**-9%**	**-9%**	6%	7%
Operating Profit	**£33.2m**	**£32.6m**	£36.0m	£88.3m
Operating Margin	**11.3%**	**11.1%**	11.3%	12.9%

Performance

Critical Engineering's organic order intake of £358m was 19% higher than the first half of 2018. The order book is now 10% higher than at the same point in 2018.

On an organic basis, New Construction orders of £179m were 36% higher reflecting particular success in Petrochemical, Marine and LNG, offsetting further declines in Fossil Power. Aftermarket orders of £179m were 5% higher with Nuclear, Petrochemical and Gas Power all ahead when compared with the first half of 2018.

As expected, organic revenues of £294m were 9% lower than the first half of 2018. New Construction sales were down 28%, reflecting the expected reductions from the order book phasing. Aftermarket sales were 12% higher with Upgrades and Field Service both strongly ahead.

Adjusted operating profit of £33.2m was 8% lower, delivering operating margins in line with last year at 11.3% (2018: 11.3%), despite the reduction in revenue.

Outlook

In the full year, we continue to expect that volumes will be about 7% lower, broadly consistent with the position of the closing order book of 2018. We expect second half margins to be higher because of increased Aftermarket sales and the benefits of restructuring.

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.

	Post IFRS 16	**Pre IFRS 16**		
	2019 H1	**2019 H1**	2018 H1	2018 FY
Adjusted Revenue	**£153m**	**£153m**	£147m	£309m
Organic Growth	**4%**	**4%**	-1%	6%
Operating Profit	**£25.5m**	**£25.0m**	£22.2m	£52.0m
Operating Margin	**16.7%**	**16.3%**	15.1%	16.8%

Performance

Hydronic Engineering's business improvement programmes delivered well in the first half. Organic revenue of £153m (2018: £147m) was 4% higher than the same period in 2018. Sales of TA Balancing & Control increased 2%, with good growth offsetting the impact of exiting the non-core Turkish market last year. Sales of Heimeier thermostatic control products were 5% higher, while sales of Pneumatex products grew by 6%.

Adjusted operating profit of £25.5m (2018: £22.2m) was 15% higher and, after adjusting for £0.3m of favourable exchange rate movements and £0.5m of lease accounting changes, organic operating profits were 11% higher than the same period in 2018. The operating margin increased to 16.7% (2018: 15.1%).

Outlook

In the full year we expect our business improvement initiatives to deliver improved sales, profits and margins when compared to 2018.

Financial review

Adjusted revenues of £910m were down 1% (2018: £915m). After adjusting for adverse exchange rate movements and acquisitions and disposals, organic revenues were down 3% when compared with the same period in the previous year. Adjusted operating profit was £118m, a 1% decrease on the prior period (2018: £120m). On an organic basis operating profit was down 4%. Group adjusted operating margin was 10 basis points lower at 13.0% (2018: 13.1%), whilst statutory operating profit was flat at £101m (2018: £101m).

Adjusted net interest costs on borrowings were £7.8m (2018: £5.9m) and were covered 21.0 times by adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) on continuing operations of £164m (2018: £146m). The IAS19 pension net financial expense was £0.3m (2018: £0.7m expense). The total adjusted net financial expense was £8m (2018: £7m). Profit before tax and adjusting items was £110m, a decrease of 3% (2018: £113m).

The effective tax rate on profit before adjusting items for 2019 is 21%, which is consistent with the rate applicable in the first half of 2018.

Adjusting items

Restructuring costs were £13m (2018: £5m), primarily relating to the right sizing of Critical Engineering, the continued restructure of our European business and a right sizing in the Americas in Precision Engineering, the Global Restructuring Programme within Hydronic Engineering and a restructure of the HQ function within Corporate costs.

The impact of amortisation of acquired intangibles and other acquisition items was £10m (2018: £18m). Additional adjusting items affecting continuing businesses were gains on special pension events of £3m (2018: £4m), the reversal of net economic hedge contract losses of £2m, (2018: gains of £1m) and net adjusting financial instrument gains of £nil (2018: losses of £2m).

After these adjusting items, statutory profit before tax was £93m (2018: £93m). The total statutory profit for the period after taxation was £77m (2018: £74m).

Earnings per share

The average number of shares in issue during both periods was 271m, resulting in adjusted basic earnings per share of 32.1p (2018: 32.9p) and adjusted diluted earnings per share of 32.0p (2018: 32.9p). Statutory basic earnings per share was 28.4p (2018: 27.4p) and statutory diluted earnings per share was 28.3p (2018: 27.3p).

Foreign exchange

The impacts of translation on the reported growth of first half revenues and adjusted operating profits were increases of £13m (+1%) and £3m (+2%) 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 12 July (US$1.25 and €1.11) remained constant for the remainder of the year, it would increase both revenues and adjusted operating profit by approximately 2%.

Cash flow

Adjusted operating cash flow increased to £101m. Trade and other receivables decreased by £22m, inventories increased by £44m and trade and other payables decreased by £3m. Capital expenditure amounted to £28m and was 0.9 times the depreciation and amortisation charge for the period of £30m which excludes depreciation from the IFRS 16 right of use assets of £16m.

The other major cash outflows in the period were £22m of tax, and dividends of £70m. The total cash outflow for the period was £16m, compared with an outflow of £33m 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 1.5x at the end of June 2019 (December 2018: 1.3x) following the inclusion of £91m IFRS 16 lease liabilities. This also caused net debt to increase during the period to £516m (December 2018: £405m) due largely to the implementation of IFRS 16 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 2019 were £300m (December 2018: £275m) of which £nil were drawn (December 2018: £49m).

The IAS19 net pension deficit was £45m which compares to a deficit of £50m at 30 June 2018 and a deficit of £52m at 31 December 2018. Of this amount, a surplus of £40m (31 December 2018: £28m) relating to the UK Funds which are the most significant of the Group's defined benefit schemes. The deficit relating to the overseas schemes increased to £85m (31 December 2018: £80m).

Shareholders' equity at the end of June was £674m, an increase of £8m 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 £1m, favourable exchange differences of £2m and the 2018 final dividend of £70m 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. Our consideration of the risk posed by Brexit is set out on page 2.

On pages 46 to 49 of its 2018 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 2019. 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 2018 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2019.

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:

Roy Twite
Chief Executive
25 July 2019

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 financial statements in the interim financial report for the six months ended 30 June 2019 which comprise a Consolidated Interim Income Statement, Consolidated Interim Statement of Comprehensive Income, Consolidated Interim Balance Sheet, Consolidated Interim Statement of Changes in Equity, Consolidated Interim Statement of Cash Flows and related explanatory notes 1 to 15. 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 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 financial statements included in this interim financial report have 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 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 (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 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 financial statements in the interim financial report for the six months ended 30 June 2019 are 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
25 July 2019

CONSOLIDATED INTERIM INCOME STATEMENT

	Note	6 months to 30 June 2019 (unaudited)			6 months to 30 June 2018 (unaudited)			Year to 31 Dec 2018		
		Adjusted £m	**Adjusting items (Note 2) £m**	**Statutory £m**	Adjusted £m	Adjusting items (Note 2) £m	Statutory £m	Adjusted £m	Adjusting items (Note 2) £m	Statutory £m
Revenue	3	910		**910**	915	(1)	914	1,907		1,907
Cost of sales		(511)		**(511)**	(521)	(4)	(525)	(1,089)	(4)	(1,093)
Gross profit		399.4	-	**399.4**	393.7	(4.7)	389.0	817.6	(3.7)	813.9
Operating costs		(281.4)	(17.3)	**(298.7)**	(274.0)	(14.0)	(288.0)	(552.1)	(30.2)	(582.3)
Operating profit	3	118.0	(17.3)	**100.7**	119.7	(18.7)	101.0	265.5	(33.9)	231.6
Financial income	5	3.3	6.9	**10.2**	3.1	13.1	16.2	5.8	16.1	21.9
Financial expense	5	(11.1)	(6.8)	**(17.9)**	(9.0)	(14.6)	(23.6)	(18.7)	(20.5)	(39.2)
Net finance expense relating to defined benefit pension schemes	5	(0.3)		**(0.3)**	(0.7)		(0.7)	(1.4)		(1.4)
Net financial expense	5	(8.1)	0.1	**(8.0)**	(6.6)	(1.5)	(8.1)	(14.3)	(4.4)	(18.7)
Profit before tax		109.9	(17.2)	**92.7**	113.1	(20.2)	92.9	251.2	(38.3)	212.9
Taxation	6	(23.1)	4.4	(18.7)	(23.8)	5.1	(18.7)	(52.8)	9.3	(43.5)
Profit from continuing operations after tax		86.8	(12.8)	**74.0**	89.3	(15.1)	74.2	198.4	(29.0)	169.4
Profit from discontinued operations after tax	15		2.8	**2.8**	-	-	-	-	-	-
Profit for the period		86.8	(10.0)	**76.8**	89.3	(15.1)	74.2	198.4	(29.0)	169.4

	Note	6 months to 30 June 2019	6 months to 30 June 2018	Year to 31 Dec 2018
Earnings per share	4			
Basic - from profit for the period		**28.4p**	27.4p	62.5p
Diluted - from profit for the period		**28.3p**	27.3p	62.4p
Basic - from continuing operations		**27.3p**	27.4p	62.5p
Diluted - from continuing operations		**27.3p**	27.3p	62.4p

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2019 (unaudited)		6 months to 30 June 2018 (unaudited)		Year to 31 Dec 2018	
	£m	**£m**	£m	£m	£m	£m
Profit for the period		**76.8**		74.2		169.4
Items that may be reclassified to profit and loss:						
Change in fair value of effective net investment hedge derivatives	**(0.9)**		0.6		1.9	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**1.5**		(8.0)		(4.5)	
Related tax effect on items that may subsequently be reclassified to profit and loss	**0.2**		(0.1)		(0.3)	
		0.8		(7.5)		(2.9)
Items that will not subsequently be reclassified to profit and loss:						
Re-measurement gain on defined benefit plans	**1.2**		20.2		11.6	
Fair value loss on equity instruments not held for trading	**-**		(3.8)		(9.6)	
Related taxation effect in current period	**-**		(3.2)		(3.5)	
		1.2		13.2		(1.5)
Other comprehensive income for the period, net of tax		**2.0**		5.7		(4.4)
Total comprehensive income for the period, net of tax		**78.8**		79.9		165.0

CONSOLIDATED INTERIM BALANCE SHEET

	Note	**30 June 2019 (unaudited) £m**	30 June 2018 (unaudited) £m	31 Dec 2018 £m
Assets				
Intangible assets		**599.9**	603.4	606.7
Property, plant and equipment		**281.6**	285.7	284.4
Right of use assets	9	**90.5**	-	-
Employee benefit assets	10	**39.5**	29.2	27.8
Deferred tax assets		**17.1**	19.7	17.0
Other receivables		**2.0**	2.8	3.2
Total non-current assets		**1,030.6**	940.8	939.1
Inventories		**320.1**	307.3	272.5
Trade and other receivables		**427.9**	449.8	450.3
Other current financial assets		**2.9**	1.5	1.0
Current tax		**2.6**	6.4	4.0
Investments		**3.4**	10.0	3.7
Cash and cash equivalents		**101.1**	106.4	132.2
Total current assets		**858.0**	881.4	863.7
Total assets		**1,888.6**	1,822.2	1,802.8
Liabilities				
Trade and other payables		**(384.5)**	(427.0)	(390.9)
Bank overdraft		**(71.0)**	(73.1)	(82.6)
Interest-bearing loans and borrowings		**(78.9)**	(48.7)	(78.8)
Lease liabilities	9	**(26.6)**	-	-
Provisions		**(14.8)**	(10.3)	(12.5)
Current tax		**(58.7)**	(64.9)	(62.5)
Other current financial liabilities		**(4.0)**	(6.0)	(4.0)
Total current liabilities		**(638.5)**	(630.0)	(631.3)
Interest-bearing loans and borrowings		**(376.3)**	(443.6)	(375.3)
Lease liabilities	9	**(64.2)**	-	-
Employee benefit obligations	10	**(84.6)**	(79.3)	(80.1)
Provisions		**(16.9)**	(19.8)	(14.6)
Deferred tax liabilities		**(29.3)**	(27.3)	(29.8)
Other payables		**(4.8)**	(1.9)	(5.5)
Total non-current liabilities		**(576.1)**	(571.9)	(505.3)
Total liabilities		**(1,214.6)**	(1,201.9)	(1,136.6)
Net assets		**674.0**	620.3	666.2
Equity				
Share capital	13	**81.8**	81.8	81.8
Share premium		**13.3**	12.8	13.3
Other reserves		**203.3**	197.7	202.5
Retained earnings		**375.6**	328.0	368.6
Total equity		**674.0**	620.3	666.2

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2018		81.8	12.7	174.4	1.0	29.8	307.7	607.4
Profit for the period							74.2	74.2
Other comprehensive income					0.5	(8.0)	13.2	5.7
Total comprehensive income					0.5	(8.0)	87.4	79.9
Issue of share capital		-	0.1					0.1
Dividends paid on ordinary shares	7						(68.3)	(68.3)
Share-based payments (net of tax)							3.8	3.8
Shares issued by employee share scheme trust							(2.6)	(2.6)
As at 30 June 2018 (unaudited)		81.8	12.8	174.4	1.5	21.8	328.0	620.3
As at 1 January 2018		81.8	12.7	174.4	1.0	29.8	307.7	607.4
Profit for the year							169.4	169.4
Other comprehensive income					1.8	(4.5)	(1.7)	(4.4)
Total comprehensive income					1.8	(4.5)	167.7	165.0
Issue of share capital		-	0.6					0.6
Dividends paid on ordinary shares	7						(107.9)	(107.9)
Share-based payments (net of tax)							7.0	7.0
Shares acquired by employee share scheme trust							(5.9)	(5.9)
As at 31 December 2018		81.8	13.3	174.4	2.8	25.3	368.6	666.2
As at 1 January 2019		**81.8**	**13.3**	**174.4**	**2.8**	**25.3**	**368.6**	**666.2**
Profit for the period							**76.8**	**76.8**
Other comprehensive income					**(0.7)**	**1.5**	**1.2**	**2.0**
Total comprehensive income					**(0.7)**	**1.5**	**78.0**	**78.8**
Issue of share capital	13	**-**	**-**					**-**
Dividends paid on ordinary shares	7						**(70.4)**	**(70.4)**
Share-based payments (net of tax)							**4.4**	**4.4**
Shares acquired for employee share scheme trust							**(5.0)**	**(5.0)**
As at 30 June 2019 (unaudited)		**81.8**	**13.3**	**174.4**	**2.1**	**26.8**	**375.6**	**674.0**

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	**6 months to 30 June 2019 (unaudited)**	6 months to 30 June 2018 (unaudited)	Year to 31 Dec 2018
		£m	£m	£m
Cash flows from operating activities				
Operating profit for the period from continued operations		**100.7**	101.0	231.6
Adjustments for:				
Depreciation and amortisation		**54.8**	40.2	79.7
Impairment of property, plant and equipment and intangible assets		**0.9**	-	3.2
Gain on disposal of subsidiaries	3	**-**	(0.6)	(0.6)
Other acquisition items	3	**-**	3.5	3.7
Gain on special pension events	3	**(2.5)**	(3.8)	(6.8)
(Profit)/loss on sale of property, plant and equipment		**0.3**	(0.2)	(3.0)
Equity-settled share-based payment expense		**4.5**	4.4	8.2
(Increase)/decrease in inventories		**(44.4)**	(37.9)	5.5
Decrease/(increase) in trade and other receivables		**22.0**	(15.4)	(8.4)
Decrease in trade and other payables		**(3.1)**	(6.8)	(47.3)
Increase/(decrease) in provisions and employee benefits		**5.1**	(9.8)	(7.6)
Cash generated from the operations		**138.3**	74.6	258.2
Income taxes paid		**(21.9)**	(19.4)	(41.1)
Cash generated from operations after tax		**116.4**	55.2	217.1
Additional pension scheme funding - UK and overseas		**(3.5)**	(3.5)	(10.1)
Net cash from operating activities		**112.9**	51.7	207.0
Cash flows from investing activities				
Interest received	5	**3.3**	3.1	5.8
Proceeds from sale of property, plant and equipment		**-**	1.9	12.8
Net sale of investments		**-**	-	0.1
Settlement of transactional derivatives		**(2.2)**	(1.1)	(1.3)
Settlement of currency derivatives hedging balance sheet		**1.0**	(1.8)	(17.1)
Acquisitions of subsidiaries net of cash		**-**	(137.6)	(137.6)
Acquisition of property, plant and equipment and non-acquired intangibles		**(28.4)**	(22.5)	(58.4)
Proceeds from disposal of subsidiaries net of cash		**-**	-	-
Net cash from investing activities		**(26.3)**	(158.0)	(195.7)
Cash flows from financing activities				
Interest paid	5	**(11.1)**	(9.0)	(18.7)
Shares acquired for employee share scheme trust		**(5.0)**	(2.6)	(5.9)
Proceeds from the issue of share capital for employee share schemes	13	**-**	0.1	0.6
Net (repayment)/drawdown of borrowings		**(0.9)**	153.0	100.9
Principal elements of lease payments	9	**(15.5)**	-	-
Dividends paid to equity shareholders	7	**(70.4)**	(68.3)	(107.9)
Net cash from financing activities		**(102.9)**	73.2	(31.0)
Net decrease in cash and cash equivalents		**(16.3)**	(33.1)	(19.7)
Cash and cash equivalents at the start of the period		**49.6**	67.6	67.6
Effect of exchange rate fluctuations on cash held		**(3.2)**	(1.2)	1.7
Cash and cash equivalents at the end of the period*		**30.1**	33.3	49.6

* Net of bank overdrafts of £71.0m (31 December 2018: £82.6m; 30 June 2018: £73.1m).

The reconciliation of net decrease in cash to movement in net debt appears in note 12.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 consolidated interim financial statements.

This Interim Financial Statements are unaudited, but have been reviewed by the Company's auditor in accordance with 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 2018 are derived from the Group'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 Statements have 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. This interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

Accounting policies

The financial statements are presented in Pounds Sterling (which is the Company's functional currency), rounded to the nearest hundred thousand, except revenues and cost of sales, which are rounded to the nearest whole million. They are prepared on the historical cost basis except for pension assets, derivative financial instruments; financial assets classified as fair value through profit and loss or other comprehensive income; and assets and liabilities acquired through business combinations which are stated at fair value. Non-current assets and liabilities held for sale are stated at the lower of their carrying amounts and their fair values less costs to sell.

As required by the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's consolidated financial statements for the year ended 31 December 2018 as described in the 2018 Annual Report and Accounts, except where new or revised accounting standards have been applied as described in section (i) below.

During 2019, management have reviewed and amended the format of the income statement from that used in the 2018 Annual Report and Accounts. Changes have been made to the presentation of the income statement which enhance the users understanding of the Group's financial performance by presenting gross margin information on the face of the income statement and removing the additional disclosure of non-adjusting restructuring costs. This is a change in presentation only and has no impact on the prior year operating profit and profit after tax.

(i) New or amended EU Endorsed Accounting Standards adopted by the Group during 2019

Following the adoption of IFRS 16 'Leases', effective from 1 January 2019, the Group amended its accounting policies. The impact of the adoption of IFRS 16 'Leases' and the new accounting policies is set out in Note 9.

Noted below are the other amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2019, none of which has a material impact on the financial statements:

- IFRIC 23 'Uncertainty over Income Tax Treatments'
- IFRS 9 'Financial Instruments' - amendments to Prepayment Features with Negative Compensation
- IAS 28 'Long-term Interests in Associates and Joint Ventures' – minor amendments
- IAS 19 'Employee Benefits' – amendments

2. Alternative Performance Measures & Adjusting items

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. Movements in adjusted revenue and adjusted operating profit are given on an organic basis (see definition below) so that performance is not distorted by acquisitions, disposals, movements in exchange rates, and in 2019 only, the impact of IFRS 16.

References to EPS, unless otherwise stated, relate to adjusted basic EPS i.e. after adjustment for the per share after tax impact of adjusted items in note 2. The directors' commentary discusses these alternative performance measures to remove the effects of items of both income and expense which are sufficiently large, volatile or one-off in nature, to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group.

APM	**Definition**	**Reconciliation to statutory measure**
Adjusted revenue Adjusted profit before tax Adjusted net financial expense	These measures are as reported to management and do not include the impact of adjusting items described in Note 2.	See income statement.
Adjusted earnings per share		See Note 4.
Adjusted effective tax rate		See Note 6.
Adjusted EBITDA	This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation.	See Note 12.
Adjusted operating profit and margin	These measures are as reported to management and do not include the impact of adjusting items described in Note 2.	See income statement and segmental reporting note in Note 3.
Organic growth*	This measure removes the impact of adjusting items, acquisitions, disposals, movements in exchange rates and, in 2019 only, the impact of IFRS 16.	
Adjusted operating cash flow	This measure reflects cash generated from operations as 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, the sale of investments less the repayment of principal amounts of lease payments excluding the cash impact of adjusting items.	See Note 12.
Operating cash flow Free cash flow before corporate activity	These measures are subtotals in the reconciliation of adjusted EBITDA to Net Debt and are presented to assist the reader to understand the nature of the current year's cash flows.	See Note 12.

*The Group adopted IFRS 16 on 1 January 2019 and applied the modified retrospective approach (please see Note 9 for more details). For this reason, the Group's operating profit is not comparable against prior year for this reporting period only, memorandum results for 2019 excluding the impact of IFRS 16 have been included in notes 3 and 9.

2. Alternative Performance Measures & Adjusting items (continued)

The adjusting items in the income statement includes those items which are removed from statutory measures to provide insight as to the performance of the Group. The effect of the items added back to adjusted earnings is disclosed in note 3. The following items have been classified as adjusting in these interim Financial Statements:

	Key	**6 months to 30 June 2019**	6 months to 30 June 2018	Year to 31 Dec 2018
Recognised in arriving at operating profit from continuing operations				
Reversal of net economic hedge contract losses/(gains)	(a)	**2.4**	(1.1)	1.9
Restructuring costs	(b)	**(12.5)**	(4.5)	(12.4)
Gains on special pension events	(c)	**2.5**	3.8	6.8
Impairment losses	(d)	**-**	-	(2.0)
Acquired intangible amortisation and other acquisition items	(e)	**(9.7)**	(17.5)	(28.8)
Gain on disposal of subsidiaries	(f)	**-**	0.6	0.6
Gain on disposal of properties	(g)	**-**	-	3.2
Indirect taxes arising on reorganisation	(h)	**-**	-	(3.2)
		(17.3)	**(18.7)**	**(33.9)**
Recognised in net financial expense				
Financial income	(a)	**6.9**	13.1	16.1
Financial expense	(a)	**(6.8)**	(14.6)	(20.5)

(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 costs 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 £12.5m were incurred in the six months to 30 June 2019. This includes £6.6m incurred within Critical Engineering due to right sizing, the continued restructure of our European business and a right sizing in the Americas in Precision Engineering (£3.8m), the Global Restructuring Programme within Hydronic Engineering (£0.2m) and a restructure of the HQ function within Corporate costs (£1.9m).

Adjusting restructuring costs of £12.4m were recognised in 2018 (six months to 30 June 2018: £4.5m). This included the closure of one of our Critical Engineering sites in Sweden and right sizing of operations (£8.6m), the Global Restructuring Programme within Hydronic Engineering (£2.5m) and the finalisation of restructuring projects related to the Swiss Controls & Nuclear business in Critical Engineering (£0.7m) and the European business in Precision Engineering (£0.6m). Non-adjusting restructuring costs disclosed separately in 2018 have been included in adjusted operating profit within Corporate costs.

(c) During 2019, a restructure of the pension benefit schemes in Switzerland resulted in net gains of £2.5m. In the 12 months to 31 December 2018 gains on special events in the UK and Switzerland totalled £6.8m (six months to 30 June 2018: £3.8m).

(d) No impairment losses have been recognised in 2019 (six months to 30 June 2018: £nil). In the 12 months to 31 December 2018, an impairment of £2.0m was recognised on goodwill held in relation to the Hydronic Service Companies cash generating unit.

(e) The acquired intangible amortisation charge in the six months to 30 June 2019 was £9.7m (six months to 30 June 2018: £14.0m, 12 months to 31 December 2018: £25.3m). The decrease in 2019 reflects the one-off full amortisation of the Bimba order book and the release of the fair value uplift to inventory, recognised as part of the Bimba acquisition accounting, which contributed £4.1m and £3.5m respectively to the 2018 charge.

(f) No subsidiaries have been disposed of in the six months to 30 June 2019. A gain of £0.6m was recognised in the first half of 2018 following the expiry of an indemnity provided on a historical disposal.

(g) No gains were realised on the sale of properties in 2019. A gain of £3.2m was recognised in the second half of 2018 following the disposal of the Critical Engineering site in Seishin Japan.

(h) Following a retrospective change to European tax law in 2018 on the transfer of assets a provision of £3.2m to reflect the probable exposure was recognised in the second half of 2018.

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

3. Segmental information

Segmental information is presented in the consolidated 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 was presented to the chief operating decision-maker, being the Executive Committee. 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 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.

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.

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 by the Executive Committee based on adjusted operating profit and organic revenue growth which are defined in note 2. These two measures represent the two short term key performance indicators for the Group. 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. Adjusted 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 operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

	Revenue			**Operating profit**			**Operating margin**		
	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	Year to 31 Dec 2018 £m	**6 months to 30 June 2019 £m**	6 months to 30 June 2018 £m	Year to 31 Dec 2018 £m	**6 months to 30 June 2019 %**	6 months to 30 June 2018 %	Year to 31 Dec 2018 %
Continuing operations									
IMI Precision Engineering	***463***	*449*	*916*	***74.8***	*75.0*	*153.2*	***16.2%***	*16.7%*	*16.7%*
IMI Critical Engineering	***294***	*319*	*682*	***33.2***	*36.0*	*88.3*	***11.3%***	*11.3%*	*12.9%*
IMI Hydronic Engineering	***153***	*147*	*309*	***25.5***	*22.2*	*52.0*	***16.7%***	*15.1%*	*16.8%*
*Corporate costs**				***(15.5)***	*(13.5)*	*(28.0)*			
Total adjusted revenue/ operating profit and margin	**910**	915	1,907	118.0	119.7	265.5	**13.0%**	13.1%	13.9%
Reversal of net economic hedge (gains)/losses	**-**	(1)	-	**2.4**	(1.1)	1.9			
Restructuring costs				**(12.5)**	(4.5)	(12.4)			
Gains on special pension events				**2.5**	3.8	6.8			
Acquired intangible amortisation and other acquisition items				**(9.7)**	(17.5)	(28.8)			
Gain on disposal of subsidiaries				**-**	0.6	0.6			
Gains on disposal of properties				**-**	-	3.2			
Impairment losses				**-**	-	(2.0)			
Indirect taxes on reorganisation				**-**	-	(3.2)			
Statutory revenue/operating profit	**910**	914	1,907	**100.7**	101.0	231.6			
Net financial expense				**(8.0)**	(8.1)	(18.7)			
Statutory profit before tax from continuing operations				**92.7**	92.9	212.9			

* Non-adjusting restructuring costs of £0.3m for the six months to 30 June 2018 and £0.8m for the year ended 31 December 2018 which were previously disclosed separately in 2018 are now included in Corporate costs.

3. Segmental information (continued)

The following table illustrates how adjusted revenue and adjusted operating profit have been impacted by movements in foreign exchange, acquisitions and the impact of adopting IFRS 16.

	6 months to 30 June 2019					6 months to 30 June 2018			
Adjusted revenue	**As adjusted post IFRS 16**	**IFRS 16**	**Organic**	**Adjusted growth (%)**	**Organic growth (%)**	As adjusted	Acquisitions	Exchange	Organic
IMI Precision Engineering	**463**	**-**	**463**	**3%**	**-1%**	449	9	10	468
IMI Critical Engineering	**294**	**-**	**294**	**-8%**	**-9%**	319	-	4	323
IMI Hydronic Engineering	**153**	**-**	**153**	**4%**	**4%**	147	-	(1)	146
Total	**910**	**-**	**910**	**-1%**	**-3%**	915	9	13	937
Adjusted operating profit									
IMI Precision Engineering	**74.8**	**0.9**	**73.9**	**0%**	**-4%**	75.0	0.3	1.5	76.8
IMI Critical Engineering	**33.2**	**0.6**	**32.6**	**-8%**	**-11%**	36.0	-	0.7	36.7
IMI Hydronic Engineering	**25.5**	**0.5**	**25.0**	**15%**	**11%**	22.2	-	0.3	22.5
Corporate costs	**(15.5)**	**(1.2)**	**(14.3)**			(13.5)	-		(13.5)
Total	**118.0**	**0.8**	**117.2**	**-1%**	**-4%**	119.7	0.3	2.5	122.5
Adjusted operating profit margin (%)	**13.0%**		**12.9%**			13.1%			13.1%

Balance sheet

	Assets			Liabilities		
	30 June 2019	30 June 2018	31 December 2018	**30 June 2019**	30 June 2018	31 December 2018
	£m	£m	£m	**£m**	£m	£m
IMI Precision Engineering	***715.8***	*666.5*	*669.7*	***159.0***	*136.2*	*135.8*
IMI Critical Engineering	***758.4***	*744.1*	*723.7*	***244.2***	*216.3*	*186.6*
IMI Hydronic Engineering	***236.7***	*226.1*	*215.8*	***74.7***	*69.2*	*66.8*
	1,710.9	1,636.7	1,609.2	**477.9**	421.7	389.2
Corporate items	**16.7**	13.8	11.4	**43.5**	41.1	43.3
Employee benefits	**39.5**	29.2	27.8	**84.6**	79.3	80.1
Investments	**3.4**	10.0	3.7	**-**	-	-
Net debt items	**101.1**	106.4	132.2	**526.2**	565.4	536.7
Net taxation and others	**17.0**	26.1	18.5	**82.4**	94.4	87.3
Total reported in the Group balance sheet	**1,888.6**	1,822.2	1,802.8	**1,214.6**	1,201.9	1,136.6

3. Segmental information (continued)

Impact of IFRS 16 on segment disclosures

Adjusted operating profit, segment assets and segment liabilities for 2019 all increased as a result of the change in accounting policy. The impact of the change in policy on the Critical Engineering, Precision Engineering and Hydronic Engineering segments is set out below:

	Pre IFRS 16 (31 Dec 2018)	Impact of IFRS 16	Post IFRS 16 (1 Jan 2019)	Pre IFRS 16 (31 Dec 2018)	Impact of IFRS 16	Post IFRS 16 (1 Jan 2019)
	Segment assets			Segment liabilities		
	£m	£m	£m	£m	£m	£m
Precision Engineering	669.7	42.4	712.1	135.8	42.6	178.4
Critical Engineering	723.7	38.7	762.4	186.6	38.4	225.0
Hydronic Engineering	215.8	12.8	228.6	66.8	12.8	79.6
Other	193.6	6.5	200.1	747.4	6.6	754.0
Total	**1,802.8**	**100.4**	**1,903.2**	**1,136.6**	**100.4**	**1,237.0**

	Adjusting restructuring costs		
	6 months to 30 June 2019	6 months to 30 June 2018	Year to 31 Dec 2018
	£m	£m	£m
Total Group	**12.5**	4.8	13.2
IMI Precision Engineering	***3.8***	*0.4*	*1.5*
IMI Critical Engineering	***6.6***	*2.5*	*9.2*
IMI Hydronic Engineering	***0.2***	*1.9*	*2.5*
Corporate Costs	***1.9***	-	-

3. Segmental information (continued)

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

Sector	H1 2019 Revenue £m	H1 2018 Revenue £m
Industrial Automation	259	257
Commercial Vehicle	104	98
Energy	40	36
Life Sciences	39	37
Rail	21	21
Precision Engineering	**463**	**449**
New Construction	124	172
Aftermarket	170	147
Critical Engineering	**294**	**319**
TA	75	73
Heimeier	48	46
Pneumatex	20	19
Other	10	9
Hydronic Engineering	**153**	**147**
Total adjusted Revenue	**910**	**915**

4. Earnings per ordinary share

Basic and diluted earnings per share have been calculated on earnings as set out below. Both of these measures are also presented on an adjusted basis to assist the reader of the consolidated interim financial statements to get a better understanding of the adjusted performance of the Group.

	Key	**30 June 2019 million**	30 June 2018 million	31 Dec 2018 million
Weighted average number of shares for the purpose of basic earnings per share	A	**270.8**	271.1	271.0
Dilutive effect of employee share options		**0.2**	0.5	0.3
Weighted average number of shares for the purpose of diluted earnings per share	B	**271.0**	271.6	271.3

		6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	Year to 31 Dec 2018 £m
Statutory profit for the period	C	**76.8**	74.2	169.4
Statutory profit from discontinued operations, net of tax		**(2.8)**	-	-
Continuing statutory profit	D	**74.0**	74.2	169.4
Total adjusting items charges included in profit for the period before tax		**17.2**	20.2	38.3
Total adjusting items credits included in taxation		**(4.4)**	(5.1)	(9.3)
Earnings for adjusted EPS	E	**86.8**	89.3	198.4

Statutory EPS measures				
Statutory basic EPS	C/A	28.4p	27.4p	62.5p
Statutory diluted EPS	C/B	28.3p	27.3p	62.4p
Statutory basic EPS - from continuing operations	D/A	27.3p	27.4p	62.5p
Statutory diluted EPS - from continuing operations	D/B	27.3p	27.3p	62.4p
Adjusted EPS measures				
Adjusted basic EPS	E/A	32.1p	32.9p	73.2p
Adjusted diluted EPS	E/B	32.0p	32.9p	73.1p

Impact of IFRS 16 on earnings per share

The adoption of IFRS 16 had a nil impact on Earnings per share in the six months to 30 June 2019.

5. Net financial expense

Recognised in the income statement	6 months to 30 June 2019 Interest	6 months to 30 June 2019 Financial instruments	6 months to 30 June 2019 Total	6 months to 30 June 2018 Interest	6 months to 30 June 2018 Financial instruments	6 months to 30 June 2018 Total	Year to 31 Dec 2018 Interest	Year to 31 Dec 2018 Financial instruments	Year to 31 Dec 2018 Total
Interest income on bank deposits	**3.3**		**3.3**	3.1		3.1	5.8		5.8
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		**2.4**	**2.4**		8.6	8.6		13.9	13.9
- future period transactions		**4.5**	**4.5**		4.5	4.5		2.2	2.2
Financial income	**3.3**	**6.9**	**10.2**	3.1	13.1	16.2	5.8	16.1	21.9
Interest expense on interest-bearing loans and borrowings	**(10.0)**		**(10.0)**	(9.0)		(9.0)	(18.7)		(18.7)
Interest expense on leases	**(1.1)**		**(1.1)**	-		-	-		-
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		**(2.8)**	**(2.8)**		(7.3)	(7.3)		(15.9)	(15.9)
- future period transactions		**(4.0)**	**(4.0)**		(7.3)	(7.3)		(4.6)	(4.6)
Financial expense	**(11.1)**	**(6.8)**	**(17.9)**	(9.0)	(14.6)	(23.6)	(18.7)	(20.5)	(39.2)
Net finance expense relating to defined benefit pension schemes	**(0.3)**		**(0.3)**	(0.7)		(0.7)	(1.4)		(1.4)
Net financial expense	**(8.1)**	**0.1**	**(8.0)**	(6.6)	(1.5)	(8.1)	(14.3)	(4.4)	(18.7)

Included in financial instruments are current period trading gains and losses on economically effective settled transactions which for management reporting purposes (see note 3) are included in adjusted 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.

6. Taxation

The tax charge before adjusting items is £23.1m 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 2018.

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 ending 31 December 2019 is 19.0% (year ended 31 December 2018: 19.0%). 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.

7. Dividend

The final dividend relating to the year ended 31 December 2018 of 26.0p per share (2017: 25.2p) was paid in May 2019 amounting to £70.4m (2018: £68.3m).

In addition, the directors have declared an interim dividend for the current year of 14.9p per share (2018: 14.6p) amounting to £40.3m (2018: £39.6m), which will be paid on 13 September 2019 to shareholders on the register on 9 August 2019. In accordance with IAS10 '*Events after the Balance Sheet Date*' this interim dividend has not been reflected in these Interim Financial Statements.

8. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £20.4m. This included £14.4m in respect of plant and equipment (including those under construction), and £6.0m in respect of land and buildings.

Capital expenditure on non-acquired intangible assets in the period was £8.0m. This included £2.9m in respect of capitalised development costs and £5.1m in respect of other non-acquired intangible assets (including those under construction).

9 Leases

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *'Leases'*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 which ranged from 0.72% to 6.06% which reflects the range of territories that leases are held in.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in no measurement adjustments to the finance leases held at 1 January 2019. The reconciliation set out below demonstrates the movement from the operating lease commitments disclosed in the 2018 Annual Report and Accounts to the opening lease liability recognised on 1 January 2019.

	2019 **£m**
Operating lease commitments disclosed as at 31 December 2018	126.0
Discounted using the lessees' incremental borrowing rate of at the date of initial application	(9.6)
Add: finance lease liabilities recognised as at 31 December 2018	0.3
Less: changes arising from review of critical lease terms	(18.1)
Add: adjustments as a result of a different treatment of extension and termination options	1.8
Lease liability recognised as at 1 January 2019	**100.4**
Of which are:	
Current lease liabilities	27.9
Non-current lease liabilities	72.5
	100.4

All right-of use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	1 January 2019 **£m**	**30 June 2019** **£m**
Land & buildings	83.2	76.5
Plant & equipment	17.2	14.0
Total right-of-use assets	100.4	90.5

9 Leases (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	31 Dec 2018 (pre IFRS 16) £m	Impact of IFRS 16 £m	1 January 2019 (including IFRS 16) £m
Right of use assets	-	100.4	100.4
Total non-current assets	**939.1**	**100.4**	**1,039.5**
Lease liabilities	-	(27.9)	(27.9)
Total current liabilities	**(631.3)**	**(27.9)**	**(659.2)**
Lease liabilities	-	(72.5)	(72.5)
Total non-current liabilities	**(505.3)**	**(72.5)**	**(577.8)**
Net assets	666.2	-	666.2

The net impact on retained earnings on 1 January 2019 was nil.

Practical expedients applied

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Changes to accounting policies

Until 31 December 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees; and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the lessee’s incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

9 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received.

Low-value assets, being those with an individual value less than $5,000, comprise IT-equipment and small items of office furniture. The expense relating to these leases is immaterial.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of £0.9m have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the company. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of £1.8m.

Movements affecting the six months to 30 June 2019

During the six months to 30 June 2019, the following balances have been recognised as follows:

	1 January 2019	Total lease payments made	Interest on lease liabilities	Depreciation	Inception of new leases	30 June 2019
	£m	£m	£m	£m	£m	£m
Right of use assets	100.4	-	-	(15.8)	5.9	90.5
Lease liabilities	100.4	(16.6)	1.1	-	5.9	90.8

10. Employee benefits

The net defined benefit pension liability at 30 June 2019 was £45.1m (31 December 2018: liability of £52.3m). The UK net surplus in the Funds increased to £39.5m (31 December 2018: £27.8m). The increase is as a result of asset gains which have been partially offset by unfavourable movements in the actuarial assumptions. The UK Funds are currently undergoing an annual actuarial valuation for the year ended 31 March 2019. This will be finalised in the second half of the year and, where relevant, factored into the IAS19 valuation as at 31 December 2019.

The net deficit in respect of the total overseas obligations increased to £84.6m (31 December 2018: £80.1m) due to decreases in the discount rates partially offset by the special pension events described in note 2.

11. Fair value hierarchy

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

	30 June 2019				31 December 2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value								
Equity instruments*	**2.8**			**2.8**	2.9			2.9
Cash and cash equivalents	**101.1**			**101.1**	132.2			132.2
Foreign currency forward contracts		**2.9**		**2.9**		1.0		1.0
	103.9	**2.9**	**-**	**106.8**	135.1	1.0	-	136.1
Financial liabilities measured at fair value								
Foreign currency forward contracts		**(4.0)**		**(4.0)**		(4.0)		(4.0)
	-	**(4.0)**	**-**	**(4.0)**	-	(4.0)	-	(4.0)

* 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 £2.9m and £4.0m 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 2019, 31 December 2018 and 30 June 2018 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 £m	**Fair value £m**
30 June 2019	**454.9**	**477.2**
31 December 2018	454.1	459.7
30 June 2018	423.1	427.5

12. Cash flow reconciliation

Reconciliation of net decrease in cash to movement in net debt

	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	Year to 31 Dec 2018 £m
Net decrease in cash and cash equivalents*	(16.3)	(33.1)	(19.7)
Net (drawdown)/repayment of borrowings	0.9	(153.0)	(86.0)
Increase in net debt*	**(15.4)**	(186.1)	(105.7)
Cash acquired on acquisition	-	0.8	(15.0)
Movement in lease liabilities	(90.8)	-	-
Currency translation differences	(5.2)	(8.5)	(18.6)
Movement in net debt in the period	**(111.3)**	(193.8)	(139.3)
Net debt at the start of the period**	(404.5)	(265.2)	(265.2)
Net debt at the end of the period	**(515.9)**	(459.0)	(404.5)

* Excluding foreign exchange.
** Net debt is defined as cash and cash equivalents, overdrafts, interest-bearing loans and borrowings and lease liabilities.

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	Year to 31 Dec 2018 £m
EBITDA* from continuing operations	**164.0**	145.9	320.1
Working capital movements	**(25.5)**	(60.1)	(50.3)
Capital and development expenditure	**(28.4)**	(22.5)	(58.4)
Provisions and employee benefit movements**	**(0.2)**	(0.8)	2.3
Principal elements of lease payments	**(15.5)**	-	-
Other	**6.3**	5.5	7.8
Adjusted operating cash flow***	**100.7**	68.0	221.5
Adjusting items****	**(6.3)**	(13.1)	(8.9)
Operating cash flow	**94.4**	54.9	212.6
Tax paid	**(21.9)**	(19.4)	(41.1)
Interest and derivatives	**(9.0)**	(8.8)	(31.3)
Cash generation	**63.5**	26.7	140.2
Additional pension scheme funding	**(3.5)**	(3.5)	(10.1)
Free cash flow before corporate activity	**60.0**	23.2	130.1
Dividends paid to equity shareholders	**(70.4)**	(68.3)	(107.9)
Acquisition of subsidiaries	**-**	(138.4)	(122.6)
Net (purchase)/issue of own shares	**(5.0)**	(2.6)	(5.3)
Net cash flow (excluding debt movements)	**(15.4)**	(186.1)	(105.7)

* Adjusted profit after tax (£86.8m), before interest (£8.1m), tax (£23.1m), depreciation (£38.3m) and amortisation (£7.7m). In 2019, this includes £15.8m of depreciation following the adoption of IFRS 16.

** Movement in provisions and employee benefits as per the interim statement of cash flows (£5.1m), adjusted for the increase in adjusting restructuring provisions (£5.3m).

*** 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.

13. Share capital

	Ordinary shares of 28 4/7p each	
	Number (m)	**Value (£m)**
In issue at the start of the period	286.3	81.8
Issued to satisfy employee share schemes	0.1	-
In issue at the end of the period	**286.4**	**81.8**

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 2019	6 months to 30 June 2018	Year to 31 Dec 2018	**30 June 2019**	30 June 2018	31 Dec 2018
Euro	**1.14**	1.14	1.13	**1.11**	1.13	1.11
US dollar	**1.29**	1.37	1.33	**1.27**	1.32	1.28

15. Discontinued operations

A gain of £2.8m, pre and post-tax, was recognised in the current year as a result of the finalisation of a number of matters relating to historical discontinued operations.

There was no profit or loss from discontinued operations in 2018.