IMI plc
Press Release

2 March 2018

Preliminary results, year ended 31 December 2017

	Adjusted[1]				Statutory		
Continuing operations:	**2017**	2016	Change	**Organic[4]**	**2017**	2016	Change
Revenue	**£1,751m**	£1,649m	+6%	**+0%**	**£1,751m**	£1,657m	+6%
Operating profit	**£241m**	£228m	+6%	**+0%**	**£193m**	£188m	+2%
Operating margin	**13.8%**	13.8%	+0bps				
Profit before tax	**£224m**	£208m	+8%		**£181m**	£165m	+9%
Basic EPS[2]	**65.3p**	59.8p	+9%		**59.8p**	48.3p	+24%
Operating cash flow[3]	**£218m**	£246m	-11%				
Dividend per share	**39.4p**	38.7p	+2%				
Net debt	**£265m**	£283m					

[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 9 to the financial statements.
[4] Change shown after adjusting for exchange rates and excluding the impact of acquisitions and disposals.

Key points

- Results in-line with market expectations
- Continued good progress on strategic initiatives
- Good operating cash flow of £218m supported debt reduction
- Adjusted Basic EPS increased 9%
- Continued de-risking of global pension liabilities
- 2% increase in the full year dividend recommended
- Announced acquisition of Bimba

Lord Smith of Kelvin, Chairman, commented:

“We continued to progress our ambitious strategic initiatives despite mixed market conditions and delivered results in-line with expectations. Our focus remains resolute on building both competitive advantage and shareholder value by delivering great products and continuously improving our customer offering.”

“We have a strong balance sheet and inherently cash generative operations which provide the headroom to invest in organic development and appropriate acquisition opportunities as they arise. The acquisition of Bimba was a highlight in the year and provides the platform to accelerate IMI Precision Engineering’s growth in North America.”

Mark Selway, Chief Executive, added:

“2017 was another year of important progress for IMI. The combination of a growing pipeline of great new products and the continued drive to improve our operational performance is enhancing our competitiveness, the results from which will become increasingly evident as markets continue to recover.”

“In the first half of 2018 we expect organic revenues to be higher than the same period in 2017 with margins reflecting a modest improvement, supported by both rationalisation savings and improved market conditions in IMI Precision Engineering. Results for the full year will also reflect our normal second-half bias.”

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A live webcast of the analyst meeting taking place today at 08:30am (GMT) 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 3 May 2018.

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Results overview

2017 was another year of important progress for IMI. The combination of a growing pipeline of great new products and the continued drive to improve our operational performance is enhancing our competitiveness, the results from which will become increasingly evident as markets continue to recover.

Adjusted Group revenues were 6% higher at £1,751m (2016: £1,649m). Excluding favourable exchange rate movements and disposals, Group revenues on an organic basis were flat when compared to the prior year and reflected the mix of end markets across our three divisions. Adjusted segmental operating profit was 6% higher at £241m (2016: £228m). Excluding the impact of favourable exchange rate movements and disposals, segmental operating profit was flat on an organic basis. The Group's operating margin was 13.8% against 13.8% in 2016 and adjusted earnings per share were 9% higher at 65.3p (2016: 59.8p). Good operating cash flow of £218m (2016: £246m) followed a strong comparative last year and reflected an increase in working capital to support growing markets. Overall, inventory days showed a modest improvement.

Net Debt of £265m (2016: £283m) reflected good cash delivery and resulted in a Net Debt to EBITDA ratio of 0.9x against 1.0x at the end of 2016.

IMI has continued its proactive risk management of pensions liabilities. The UK schemes remain in surplus despite our continued de-risking programme. In early 2017 the Group successfully completed the transfer of £429m of liabilities to insurance partners. Building on that success, a second phase is underway which is expected to transfer in excess of £400m to insurers in 2018. The overseas deficit has reduced by £24m in the year.

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending an increase in the final dividend of 2.0% to 25.2p (2016: 24.7p) making a total dividend for the year of 39.4p, an increase of 1.8% over last year's 38.7p.

Outlook

In the first half of 2018 we expect organic revenues to be higher than for the same period in 2017, with margins reflecting a modest improvement, supported by both rationalisation savings and improved market conditions in IMI Precision Engineering. Results for the full year will also reflect our normal second-half bias.

Acquisition of Bimba Manufacturing Company ('Bimba')

The previously announced acquisition of Bimba for a total consideration of £148m (US$198m) was completed on 31 January 2018. The transaction is fully aligned with our strategy and fulfils our stated objective of increasing our US revenues while extending IMI Precision Engineering's presence in its core Industrial Automation segment. In particular, the acquisition provides the platform to accelerate IMI Precision Engineering's North American growth objectives by leveraging both Bimba's strong brand and its market leading US distributor network. The combination will also materially improve Bimba's profitability with margins expected to progressively move closer to those of IMI Precision Engineering as it adopts IMI's operational excellence programme.

Trading environment

Trading conditions across our three divisions were mixed throughout 2017 with a return to strong growth in IMI Precision Engineering's end markets offsetting ongoing softness in the Energy markets in IMI Critical Engineering.

The Oil & Gas market, which represents almost a third of IMI Critical Engineering's revenues, stabilised in the latter half of the year while the Power generation sector continued to be impacted by lower investment due to power demand lagging the installed supply base.

In IMI Precision Engineering, the core Industrial Automation and Commercial Vehicle markets, which represent almost 80% of the division's revenue, showed good progress in the year across all of our key geographies.

In IMI Hydronic Engineering, the European construction markets, which represent over 80% of the division's revenues, were marginally stronger and in North America and China construction markets continued to grow.

Cost reduction initiatives

In response to the protracted deterioration in several of our most important markets, we continued to undertake a number of restructuring activities. These actions have now included the sale or closure of twelve lower growth, higher cost IMI Critical Engineering sites and the reduction of operating costs across the entire Group.

In IMI Precision Engineering we continued to deliver Project Janus on-time and on-budget, including a structured programme of cost reductions, insourcing to increase machining capacity utilisation, simplification of the organisational structure, and further leveraging of our low-cost manufacturing operations.

In IMI Hydronic Engineering, a programme to reduce operating costs in targeted locations was completed in 2017.

Divisional review

The following review relates to our continuing businesses and compares performance on an adjusted basis during the year ended 31 December 2017 with the year ended 31 December 2016. 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.

Order intake	£658m	(2016: £614m)
Revenue	£648m	(2016: £651m)
Operating profit	£84.0m	(2016: £81.8m)
Operating margin	13.0%	(2016: 12.6%)

Performance

While we continue to expect a tough trading environment in our Oil & Gas and Power markets, it is important to recognise the great progress that has been made to realign the cost base and geographic footprint of the division. The reorganisation programme has been delivered on-time and on-budget and significantly enhances the division's competitive position.

Full year order intake at £658m (2016: £614m) was 2% higher on an organic basis. The Value Engineering process delivered £139 million of new orders, which would otherwise have been lost or resulted in unacceptable margins. Furthermore, Value Engineering has enabled us to outrun existing competitors and access new and adjacent markets.

As expected, New Construction Oil & Gas order intake was 11% lower due largely to Middle East HIPPs orders which were secured in the prior year. While New Construction Fossil Power orders were 11% lower due to reduced activity levels, Petrochemical order input was 53% higher, reflecting good orders for Gas Processing and Refinery projects in China and North America in the first half. Nuclear New Construction orders increased substantially from the low base in 2016, and included contract awards for the UK nuclear project at Hinkley Point.

Aftermarket orders were 1% higher when compared to 2016 reflecting a significant increase in LNG aftermarket in the first half, which offset lower Downstream parts orders in the second half of the year. Fossil Power Aftermarket strengthened in the second half resulting in a 5% increase for the full year. Nuclear Aftermarket reduced 8%, whilst Petrochemical Aftermarket grew by 18%.

Revenues of £648m (2016: £651m) were flat on an adjusted basis and, after excluding £40m of exchange rate benefit and £2m from disposals, 6% lower on an organic basis. Segmental operating profit of £84m (2016: £82m) was 3% higher on an adjusted basis and 5% lower on an organic basis. Margins improved to 13.0% against 12.6% in 2016, reflecting the benefits of restructuring and Value Engineering.

Value Engineering and improved project management activities helped deliver a year-end order book of £515m at equivalent margins to the prior year. The division's Lean scores improved significantly from 62% to 70% in the year and the core customer metrics showed good progress.

IMI Critical Engineering continued its longer-term footprint reorganisation which resulted in the closure of a number of lower growth sites and delivered £23m of profit benefit in the year. These projects place the division in a stronger competitive position, while realigning our manufacturing footprint to be closer to customers in higher growth markets.

In addition to the product and operational investments, the division continued its programme of IFS ERP roll-outs with further successful launches in Singapore, Malaysia, California and Kansas. IFS is now fully embedded in ten of IMI Critical Engineering's CCI sites and we have now agreed to extend the roll-outs to include our Petrochemical businesses, progressively from 2018.

Key Achievements

- Value Engineering helped secure £139m of new orders and enhanced competitiveness
- Increased margins despite lower sales
- Rationalisation programme delivered with £23m profit benefit, on-time and on-budget
- On-time and on-budget ERP implementation now completed at ten sites
- Increased average Lean score to 70%
- Sale of loss-making UK fasteners business

Outlook

Based on the current order book and market outlook, we expect first half organic revenues to reflect a slight improvement with broadly flat margins when compared to 2017. Results for the full year are expected to include the benefits of restructuring and the normal second half bias.

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.

Revenue	£791m	(2016: £708m)
Operating profit	£133.5m	(2016: £118.5m)
Operating margin	16.9%	(2016: 16.7%)

Performance

IMI Precision Engineering's core markets have experienced a strong rebound with double digit growth in Asia and solid progress in the Americas and European regions. Industrial Automation sales have now delivered five consecutive quarters of growth globally while our Commercial Vehicle related sales experienced strong growth in North America and Asia and continued good markets in Europe.

Revenues of £791m (2016: £708m) were 12% higher on an adjusted basis and, after excluding £42m of exchange rate benefit, 5% higher on an organic basis. Industrial Automation revenues of £440m were 5% higher with good growth across all regions.

Commercial Vehicle sales of £183m were 7% higher, despite contract completions in the year, and reflect stronger than anticipated markets. European Commercial Vehicle revenues were slightly higher whilst North America grew by 9%. Energy sales were 1% lower than 2016 while Life Sciences and Rail were 6% and 15% higher, respectively.

Segmental operating profit of £134m (2016: £119m) was 13% higher on an adjusted basis and, after excluding £7m of exchange rate benefit, 7% higher on an organic basis. Operating margins of 16.9% compared to 16.7% in 2016, or 16.2% if property disposal gains are excluded.

Operationally, the division has also made great progress. The combination of Lean, New Product Development and the benefits of project Janus all contributed to a much improved performance in the year. In 2018 we have further ambitious improvement targets which include the completion and relocation of our Indian operation to a new and larger factory in New Delhi. Our customer facing operational metrics will also be a key focus with the new regional organisations working to streamline our supply chains.

The successful implementation of Lean throughout the division has continued to make excellent progress with the score increasing to 70% against 66% at the end of 2016. The impact of Lean was evident in the results with improved productivity and a four-day improvement in inventory days in the year.

Our focus on New Product Development gained significant momentum during the year and as a result we have expanded our portfolio of great new products which enhance the competitiveness of the Group. Our advanced product quality planning process (APQP) and competitor product tear-downs have resulted in the development of industry-leading ranges of platform products. In 2017, new product launches were introduced across the entire range and represented over £75m, or 10% of sales.

Project Janus progressed to plan and to budget and contributed £7.4m of benefit in the year. This successful first phase will be extended to include further actions which will add to the £12m of cost savings we initially targeted. The in-sourcing actions and improved market conditions helped increase utilisation in the year to almost 70%. The localisation and low cost manufacturing transfers are already reducing lead times and will accelerate as local tooling comes into service in 2018.

In addition to product and operational investments, the division has continued to strengthen its new JD Edwards ERP system in its core Norgren North American operations. Once completed, the division will have a world-class, fully integrated IT system which will be progressively rolled-out to the other parts of the business.

Key Achievements

- Successfully launched first new platform products in over a decade
- Won significant Commercial Vehicle contracts
- IMI Norgren Express App supporting Industrial Automation growth
- Lean initiatives delivered improvement in inventory days
- Increased average Lean score to 70%
- Delivered Janus restructuring benefits

Outlook

The global industrial outlook remains positive with leading indicators pointing to an improved Industrial Automation market in the year ahead. We also expect North American Class 8 volumes in 2018 to largely offset an expected £10m of contract completions in the year ahead.

Based on current market conditions, we expect first half organic revenues and profits to show good improvement when compared to the first half of 2017. The benefits of new product launches and improved market conditions are expected to deliver improved results for the full year.

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IMI Hydronic Engineering

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

Revenue	£312m	(2016: £290m)
Operating profit	£49.7m	(2016: £51.9m)
Operating margin	15.9%	(2016: 17.9%)

Performance

The financial performance of IMI Hydronic Engineering was disappointing and underplays the significant progress which was delivered across the range of the division's 2017 improvement objectives.

Revenues on an adjusted basis of £312m (2016: £290m) were 8% higher than 2016 and, after excluding £18m of exchange rate benefit, 1% higher on an organic basis.

Segmental operating profit of £50m (2016: £52m) was 4% lower on an adjusted basis and, after excluding £3m of exchange rate benefit, 9% lower on an organic basis. While the division achieved revenue growth in the year, profits in the second half were impacted by one-off charges and product and geographic mix. This more than offset the rationalisation benefits achieved, and resulted in operating margins of 15.9% compared to 17.9% in 2016.

New products launched in the last four years continued to support divisional growth and contributed £73m, or 23% of sales, in the year. The division's TA and Heimeier product lines both delivered growth in the year which was partially offset by declines in the Pneumatex product line.

Encouragingly, the division further progressed its strategic initiatives in the year. Its Lean score increased to 78% against 76% at year-end 2016 and the division's Polish plant was once again the highest Lean scoring facility in the Group. These improvements helped achieve a seven-day reduction in inventory days at the end of the year. The division's over-the-counter sales strategy advanced with wholesale growth delivered from new agreements and arrangements with key distributors in Western Europe and the Nordic countries.

A significant event in the year was the ongoing roll-out of the division's new JD Edwards ERP system. The system is now live in two of our manufacturing businesses and across 13 of the division's sales offices. While the implementations have been more disruptive than first expected, the commitment shown by local management to clear the start-up bugs is now delivering real benefits and efficiencies.

In January 2018, Phil Clifton was appointed Hydronic Engineering's interim Managing Director, replacing Peter Spencer.

Key Achievements

- 23% of revenue generated from products launched in the last four years
- Over-the-counter sales strategy supporting growth
- New products continuing to build sustainable competitive advantage
- Increased average Lean score to 78%
- New leadership to accelerate long-term profitable growth

Outlook

In the European construction markets the modest level of growth experienced in 2017 is forecast to continue. Organic revenue is expected to grow in the first half of 2018 with margins broadly similar to the first half of last year.

Good strategic progress

It is pleasing to report a further year of successful execution of our strategy, which is making a real difference to our competitive positioning. Key achievements, driven by a passion for continuous improvement, included enhanced operational performance and the addition of high quality products across all three divisions. We are confident that we will achieve world-class operational performance by 2019, as envisaged in our original 2014 plan.

Improving our operational performance

Improving operational performance is fundamental to our objective of creating competitive advantage and remains a key part of our strategic plan.

During 2017 each of our divisions continued to enhance their operational performance. The Group's average Lean score advanced to 71% at the year-end and compared to 66% at the same point in 2016. Scrap rates, on-time-delivery and inventory management all improved and the benefits were evident in the Group's working capital in the year. This enhanced productivity and operational performance provides an important foundation to underpin our increased competitiveness and responsiveness to customers.

Positioning our businesses for growth

In the past three years, we have invested heavily in new systems and processes which are essential to the Group's sustainable competitive advantage. During 2017 new integrated IT systems, that make day-to-day operations more cost and time efficient, were successfully installed on-time and on-budget in IMI Critical Engineering's plants in China and the USA. IMI Precision Engineering's new JD Edwards system was successfully installed in three US sites and the division is now focused on fully integrating all elements of the system before extending its deployment elsewhere. IMI Hydronic Engineering's JD Edwards ERP system was successfully deployed at its Slovenia manufacturing plant and at nine country sales facilities during 2017.

Today, disciplined and efficient processes, including New Product Development, competitor product tear-downs and the application of Value Engineering, are embedded across all our operations. These processes underpin the sustainability of continuous improvement and ensure that investment ultimately delivers an earlier and greater return. Much has also been achieved to simplify the way our businesses operate.

New product portfolios

Our focus on New Product Development gained significant momentum during the year and as a result we have expanded our portfolio of great new products which enhance the competitiveness of the Group. Our advanced product quality planning process (APQP) and competitor product tear-downs have resulted in the development of industry-leading ranges of platform products in IMI Precision Engineering which increased the division's new product vitality index to 10% in the year.

IMI Hydronic Engineering maintained its development pipeline and in 2017 launched 13 new products while IMI Critical Engineering also introduced further enhanced products through the year. All three divisions have ambitious plans to continue their product development strategies in 2018 and beyond.

Furthermore, by combining New Product Development with Value Engineering processes, IMI Critical Engineering has expanded its addressable markets and is competing in segments that were not previously accessible. In particular, following the development of a range of semi-severe valves, the division is now competing effectively in larger adjacent markets without compromising its divisional margins.

Business development

Alongside our organic growth initiatives, targeted acquisitions that meet our clearly defined and disciplined criteria remain a core part of our strategy. In the year, we were pleased to confirm the successful negotiation to acquire Bimba Manufacturing, a market leading supplier of pneumatic, hydraulic and electric motion products to the North American Industrial Automation market and on 1 February this year, we confirmed that the transaction had successfully completed on the terms outlined in our 14 December announcement. We continue to evaluate and refine our targets, enhance our integration process and make our underlying businesses stronger, all of which will facilitate the success of any future developments.

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Board change

We are pleased to announce the appointment of Thomas Thune Andersen as a non-executive director and member of the Audit, Nominations and Remuneration Committees with effect from 1 July 2018.

Thomas has extensive experience at international executive and board level over a career which has spanned oil, energy, marine and critical infrastructure sectors. Current public company board roles include non-executive director of BW Offshore Limited and Chairman of Orsted A/S. He is also Chairman of Lloyd's Register Group. Previous roles have included Chief Executive of Maersk Oil and Gas and partner in AP Moller Maersk, non-executive director of Petrofac Limited and Scottish and Southern Energy plc and Chairman of DeepOcean Group Holding AS.

Financial review

Results Summary
Adjusted revenue increased by 6% to £1,751m (2016: £1,649m). After reflecting the favourable exchange rate impact of £100m and the contribution from disposals, organic revenue remained constant reflecting mixed market conditions, particularly in Critical Engineering which continues to be impacted by weak oil and gas and power demand. Statutory revenue increased by 6% to £1,751m (2016: £1,657m).

Segmental operating profit of £241m (2016: £228m) rose by 6% and on an adjusted basis decreased by 1% at constant exchange rates and excluding disposals. The segmental operating margin was 13.8% (2016: 13.8%). Statutory operating profit was £193m (2016: £188m). We consider that the presentation of adjusted results allows for improved insight to the trading performance of the Group.

Adjusted net interest costs on net borrowings were £14m (2016: £17m), reflecting the full year impact of the repayment of US$75m of borrowings in July 2016. Adjusted net interest costs were covered 20 times (2016: 16 times) by continuing adjusted earnings before interest, tax, depreciation, amortisation, impairment and adjusting items of £288m (2016: £273m). The net pension financing expense under IAS 19 was £0.8m (2016: £1.1m income).

Adjusted profit before taxation was £224m (2016: £208m), an increase on the previous year of 8%.

Adjusting Items and Discontinued Operations

Restructuring costs
Restructuring costs presented as adjusting items in 2017 of £35m (2016: £19m) are as a result of a number of significant restructuring projects across the Group, in particular within Critical Engineering and Precision Engineering. Restructuring costs of £2m (2016: £4m) that arose from normal recurring cost reduction exercises are included in the adjusted financial performance of the Group.

Pensions
During 2017, a number of further de-risking exercises, including the conversion of certain pensions to non-inflation linked, occurred in the UK which resulted in net gains of £2m. The termination and final settlement of a historic Senior Retirement Plan in the US resulted in a net gain of £2m. Restructuring exercises in Switzerland resulted in a curtailment gain of £5m which was offset by a loss of £1m, relating to the distribution of pension assets to members from our previously overfunded Swiss schemes. The completion of the transfer of £429m of liabilities covered by insurance policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £3m.

Loss on disposal of subsidiaries
The Group disposed of Stainless Steel Fasteners in H2 resulting in a loss of £2m which is presented in the income statements as an adjusting item. The loss on disposal is not disclosed within discontinued operations because it did not represent a major line of business at the time of disposal.

Impairment losses
The Group recorded no impairment charges during the year (2016: £5m).

Reversal of net economic hedge contract losses
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 settlements, are included in the adjusted revenues and operating profit of the relevant business segment. The adjusting item at the operating level reverses this treatment with the gain of £1m (2016: loss of £6m) and records a charge within interest.

Financing costs
A net gain arose on the revaluation of financial instruments and derivatives under IAS 39 of £3m (2016: £7m loss) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Acquired intangible amortisation and acquisition costs
For segmental purposes, acquired intangible amortisation is excluded from adjusted profits, to allow for better comparability of the performance across divisions. This allows users of the financial statements to gain a clearer understanding of the performance of the business, with the impact of amortisation identified separately in line with internal reporting to management. Acquired intangible amortisation decreased to £18m (2016: £21m) following the full amortisation of the acquired customer relationships arising on the Remosa acquisition. An analysis by segment of acquired intangible amortisation is included in Section 2.1. Acquisition costs of £2m were incurred during the year relating to the acquisition of Bimba Manufacturing Company which completed on 31 January 2018 (see Section 5.3).

Taxation

A tax credit of £12m (2016: £12m) arose in connection with the above adjusting items.

Discontinued operations
A pre-tax gain of £2.2m and post tax gain of £16.9m 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 2016.

Taxation
The adjusted effective tax rate for the Group remained at 21% (2016: 21%). The total reported tax charge for the year on continuing operations was £47m (2016: £44m) and continuing reported profit after tax was £181m (2016: £165m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group’s Tax Policy.

Earnings per Share
The Board considers that a more meaningful indication of the performance of the Group is provided by adjusted earnings per share. Details of this calculation are given in note 5. Adjusted EPS was 65.3p, an increase of 9% on last year’s 59.8p. Statutory basic EPS increased by 11% to 53.6p (2016: 48.3p) and statutory diluted EPS increased by 24% to 59.7p (2016: 48.0p).

Foreign Exchange
The movement in average exchange rates between 2016 and 2017 resulted in our adjusted 2017 revenue being 6% higher and segmental operating profit being 7% higher as the average euro and US dollar rates against sterling were 7% and 5% stronger, respectively.

If the average exchange rates for January 2018 of US$1.38 and €1.13 were projected for the full year and applied to our 2017 results, it is estimated that adjusted revenue would have been 2% lower and segmental operating profit would have been approximately 3% lower.

Cash Flow
Adjusted operating cash flow was £218m (2016: £246m). After the £29m (2016: £25m) cash outflow from adjusting items, the operating cash flow was £189m (2016: £221m). This represents a conversion rate of total Group segmental operating profit after restructuring costs into operating cash flow of 92% (2016: 107%).

Net working capital balances were equal to the prior year (2016: £30m decrease). Inventory decreased by £4m (2016: £18m decrease) due to decreases in inventory within Critical Engineering and Hydronic Engineering. The Group's receivables increased by £26m (2016: £7m decrease) as a result of an increase in revenue. Payables increased by £22m (2016: £6m increase) due to higher trading activity and proactive supplier management.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £70m (2016: £71m) which was equivalent to 1.5 times (2016: 1.5 times) depreciation and amortisation thereon. Research and development spend including capitalised intangible development costs of £9m (2016: £8m) totalled £50m (2016: £57m).

In 2017 the Group paid tax of £40m (2016: £32m) which was 84% (2016: 73%) of the adjusted tax charge for the year. This reflects the timing of estimated tax payments on account and is discussed in more detail in Section 2.4.

Dividends paid to shareholders totalled £106m (2016: £104m) and there was a cash outflow of £2m (2016: £7m outflow) for net share purchases to satisfy employee share options. The total net cash inflow (excluding debt movements) was £2m (2016: inflow of £9m).

Balance Sheet

Net debt at the year-end was £265m compared to £283m at the end of the previous year, reflecting business cash flows. The net debt is composed of a cash balance of £99m (2016: £80m), a bank overdraft of £31m (2016: £12m) and interest-bearing loans and borrowings of £333m (2016: £350m).

The year-end net debt to EBITDA ratio was 0.9 times (2016: 1.0 times) based on continuing adjusted EBITDA. At the end of 2017 the loan notes totalled £329m (2016: £343m), with a weighted average maturity of 3.5 years (2016: 4.3 years) and other loans including bank overdrafts totalled £35m (2016: £20m). Total committed bank loan facilities available to the Group at the year-end were £302m (2016: £301m), of which £nil (2016: £nil) was drawn.

The value of the Group's intangible assets decreased to £509m at 31 December 2017 (2016: £521m). This decrease was due to the amortisation charge for the year of £27m (2016: £29m), impairment of £nil (2016: £6m) and exchange movements of £7m (2016: £75m gain) partially offset by additions to intangible assets of £22m (2016: £24m).

The net book value of the Group's property, plant and equipment ('PPE') at 31 December 2017 was £270m (2016: £266m). Capital expenditure on PPE amounted to £47m (2016: £47m), with capital expenditure focused on the continuous improvement of the Precision Engineering factories in the Czech Republic and Germany and investment in new plant and machinery at the Critical Engineering sites in Italy, China and Austria. Including capitalised intangible assets, total capital expenditure was £70m (2016: £71m) and was 1.5 times (2016: 1.5 times) the depreciation and amortisation charge (excluding acquired intangible amortisation) for the year of £47m (2016: £46m).

Pensions

The net deficit for defined benefit obligations at 31 December 2017 was £78m (2016: £80m deficit). The UK funds surplus was £2m as at 31 December 2017 (2016: £24m surplus) and constituted 85% (2016: 88%) of the total defined benefit liabilities and 92% (2016: 94%) of the total defined benefit assets. The reduction in the UK surplus in 2017 principally arose from the activities undertaken during the year to further de-risk the position.

The deficit in the overseas funds as at 31 December 2017 was £80m (2016: £103m). The decrease in the overseas deficit is predominantly as a result of favourable exchange movements and the settlement of a US scheme during the year.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017			2016		
		Adjusted £m	**Adjusting items £m**	**Statutory £m**	Adjusted £m	Adjusting items £m	Statutory £m
Revenue	1	**1,751**		**1,751**	1,649	8	1,657
Segmental operating profit	1	**240.9**		**240.9**	227.7		227.7
Reversal of net economic hedge contract (gains)/losses			**(0.9)**	**(0.9)**		5.6	5.6
Restructuring costs	6	**(1.7)**	**(34.6)**	**(36.3)**	(3.5)	(18.8)	(22.3)
Gains on special pension events	6		**10.8**	**10.8**		2.8	2.8
Impairment losses	6			**-**		(5.0)	(5.0)
Acquired intangible amortisation and acquisition costs	6		**(19.5)**	**(19.5)**		(20.5)	(20.5)
Loss on disposal of subsidiaries			**(2.3)**	**(2.3)**		-	-
Operating profit	1	**239.2**	**(46.5)**	**192.7**	224.2	(35.9)	188.3
Financial income	3	**5.5**	**12.5**	**18.0**	4.5	12.6	17.1
Financial expense	3	**(19.8)**	**(9.2)**	**(29.0)**	(21.8)	(19.4)	(41.2)
Net financial (expense)/income relating to defined benefit pension schemes	3	**(0.8)**		**(0.8)**	1.1		1.1
Net financial expense		**(15.1)**	**3.3**	**(11.8)**	(16.2)	(6.8)	(23.0)
Profit before tax		**224.1**	**(43.2)**	**180.9**	208.0	(42.7)	165.3
Taxation	4	**(47.1)**	**11.5**	**(35.6)**	(43.7)	11.6	(32.1)
Profit from continuing operations after tax		**177.0**	**(31.7)**	**145.3**	164.3	(31.1)	133.2
Profit from discontinued operations after tax	2		**16.9**	**16.9**		-	-
Total profit for the year		**177.0**	**(14.8)**	**162.2**	164.3	(31.1)	133.2
Attributable to:							
Owners of the parent		**176.9**		**162.1**	161.9		130.8
Non-controlling interests		**0.1**		**0.1**	2.4		2.4
Profit for the year		**177.0**		**162.2**	164.3		133.2
Earnings per share	5						
Basic - from profit for the year		**65.3p**		**59.8p**	59.8p		48.3p
Diluted - from profit for the year		**65.1p**		**59.7p**	59.4p		48.0p
Basic - from continuing operations		**65.3p**		**53.6p**	59.8p		48.3p
Diluted - from continuing operations		**65.1p**		**53.5p**	59.4p		48.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017		2016	
	£m	**£m**	£m	£m
Profit for the year		**162.2**		133.2
Items reclassified to profit and loss in the year				
Foreign exchange loss reclassified to income statement				
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	**3.4**		(2.8)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(11.0)**		39.4	
Fair value loss on available for sale financial assets	**(0.2)**		-	
Related tax effect on items that may subsequently be reclassified to profit and loss	**(0.6)**		0.6	
		(8.4)		37.2
Items that will not subsequently be reclassified to profit and loss				
Re-measurement loss on defined benefit plans	**(12.3)**		(78.2)	
Related taxation effect	**1.7**		15.3	
Effect of taxation rate change on previously recognised items	**(0.3)**		(2.5)	
		(10.9)		(65.4)
Other comprehensive expense for the year, net of taxation		**(19.3)**		(28.2)
Total comprehensive income for the year, net of taxation		**142.9**		105.0
Attributable to:				
Owners of the parent		**142.8**		102.6
Non-controlling interests		**0.1**		2.4
Total comprehensive income for the year, net of taxation		**142.9**		105.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2016	81.8	11.8	174.4	0.6	1.4	276.1	546.1	42.8	588.9
Profit for the year						130.8	130.8	2.4	133.2
Other comprehensive income/(expense)				(2.2)	39.4	(65.4)	(28.2)	-	(28.2)
Total comprehensive income/(expense)				(2.2)	39.4	65.4	102.6	2.4	105.0
Issue of share capital	-	0.3					0.3		0.3
Dividends paid						(104.2)	(104.2)	(0.8)	(105.0)
Share-based payments (net of tax)						5.8	5.8		5.8
Shares issued by:									
employee share scheme trust						(7.4)	(7.4)		(7.4)
Income earned by partnership							-	(4.4)	(4.4)
As at 31 December 2016	81.8	12.1	174.4	(1.6)	40.8	235.7	543.2	40.0	583.2
Changes in equity in 2017									
Profit for the year						**162.1**	**162.1**	**0.1**	**162.2**
Other comprehensive income/(expense)				**2.6**	**(11.0)**	**(10.9)**	**(19.3)**		**(19.3)**
Total comprehensive income/(expense)				**2.6**	**(11.0)**	**151.2**	**142.8**	**0.1**	**142.9**
Issue of share capital	**-**	**0.6**					**0.6**		**0.6**
Dividends paid						**(105.5)**	**(105.5)**		**(105.5)**
Share-based payments (net of tax)						**8.0**	**8.0**		**8.0**
Shares acquired for:									
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**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

	2017 £m	2016 £m
Assets		
Intangible assets	**509.0**	521.2
Property, plant and equipment	**270.4**	266.2
Employee benefit assets	**5.7**	57.8
Deferred tax assets	**20.9**	22.8
Other receivables	**4.2**	5.7
Total non-current assets	**810.2**	873.7
Inventories	**251.3**	255.2
Trade and other receivables	**418.8**	400.5
Other current financial assets	**4.1**	2.9
Current tax	**8.3**	7.1
Investments	**13.8**	29.9
Cash and cash equivalents	**98.6**	79.7
Total current assets	**794.9**	775.3
Total assets	**1,605.1**	1,649.0
Liabilities		
Bank overdraft	**(31.0)**	(12.2)
Interest-bearing loans and borrowings	**(113.8)**	(6.8)
Provisions	**(19.2)**	(19.9)
Current tax	**(61.0)**	(62.8)
Trade and other payables	**(416.5)**	(407.9)
Other current financial liabilities	**(3.9)**	(13.5)
Total current liabilities	**(645.4)**	(523.1)
Interest-bearing loans and borrowings	**(219.0)**	(343.3)
Employee benefit obligations	**(83.6)**	(137.6)
Provisions	**(15.4)**	(19.1)
Deferred tax liabilities	**(27.7)**	(32.0)
Other payables	**(6.6)**	(10.7)
Total non-current liabilities	**(352.3)**	(542.7)
Total liabilities	**(997.7)**	(1,065.8)
Net assets	**607.4**	583.2
Equity		
Share capital	**81.8**	81.8
Share premium	**12.7**	12.1
Other reserves	**205.2**	213.6
Retained earnings	**307.7**	235.7
Equity attributable to owners of the parent	**607.4**	543.2
Non-controlling interests	**-**	40.0
Total equity	**607.4**	583.2

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £m	2016 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	**192.7**	188.3
Operating profit for the year from discontinued operations	**2.2**	-
Adjustments for:		
Depreciation and amortisation	**65.8**	66.3
Impairment of property, plant and equipment and intangible assets	**3.3**	8.0
Loss on disposal of subsidiaries	**1.7**	-
Gain on special pension events	**(10.8)**	(2.8)
Loss/(Profit) on sale of property, plant and equipment	**1.5**	(1.6)
Equity-settled share-based payment expense	**8.0**	5.8
Decrease in inventories	**3.9**	17.5
(Increase)/decrease in trade and other receivables	**(26.5)**	6.8
Increase in trade and other payables	**22.4**	5.5
Decrease in provisions and employee benefits	**(7.0)**	(8.6)
Cash generated from the operations	**257.2**	285.2
Income taxes paid	**(39.8)**	(31.7)
Cash generated from the operations after tax	**217.4**	253.5
Additional pension scheme funding - UK and overseas	**(3.3)**	(1.9)
Net cash from operating activities	**214.1**	251.6
Cash flows from investing activities		
Interest received	**5.5**	4.5
Proceeds from sale of property, plant and equipment	**0.5**	6.8
Net purchase /sale of investments	**0.8**	(0.4)
Settlement of transactional derivatives	**(0.9)**	(2.4)
Settlement of currency derivatives hedging balance sheet	**(18.3)**	(41.8)
Acquisition of property, plant and equipment and non-acquired intangibles	**(69.8)**	(70.9)
Net cash from investing activities	**(82.2)**	(104.2)
Cash flows from financing activities		
Interest paid	**(19.8)**	(21.8)
Payment to non-controlling interest	**(2.2)**	(4.4)
Shares acquired for employee share scheme trust	**(2.7)**	(7.4)
Proceeds from the issue of share capital for employee share schemes	**0.6**	0.3
Net drawdown of borrowings	**(2.1)**	(54.6)
Dividends paid to equity shareholders and non-controlling interest	**(105.5)**	(105.0)
Net cash from financing activities	**(131.7)**	(192.9)
Net (decrease)/increase in cash and cash equivalents	**0.2**	(45.5)
Cash and cash equivalents at the start of the year	**67.5**	107.8
Effect of exchange rate fluctuations on cash held	**(0.1)**	5.2
Cash and cash equivalents at the end of the year*	**67.6**	67.5

* Net of bank overdrafts of £31.0m (2016: £12.2m).

Reconciliation of net cash to movement in net borrowings appears in note 9.

NOTES RELATING TO THE FINANCIAL STATEMENTS

1. Segmental information

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

IMI Critical Engineering

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

IMI Precision Engineering

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

IMI Hydronic Engineering

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

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

Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. In accordance with IAS 39, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of 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 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. The table below details the definition of each APM and a reference to where it can be reconciled to the equivalent statutory measure.

APM	Definition
Adjusted revenue Adjusted profit before tax Adjusted earnings per share	These measures are as reported to management and do not reflect the impact of adjusting items.
Adjusted segmental operating profit and margin	These measures are as reported to management and do not reflect the impact of adjusting items and gains and losses on disposal of subsidiaries.
Organic growth	This measure removes the impact of adjusting items, disposals and movements in exchange rates
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 and the sale of investments, excluding the cash impact of adjusting items.

1. Segmental information (continued)

The following table illustrates how the results for the segments reconcile to the overall results reported in the income statement.

	Revenue		Operating profit		Operating margin	
	2017	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**%**	%
Continuing operations						
IMI Critical Engineering	**648**	651	**84.0**	81.8	**13.0%**	12.6%
IMI Precision Engineering	**791**	708	**133.5**	118.5	**16.9%**	16.7%
IMI Hydronic Engineering	**312**	290	**49.7**	51.9	**15.9%**	17.9%
Corporate costs			**(26.3)**	(24.5)		
Total adjusted revenue/ segmental operating profit and margin	**1,751**	1,649	**240.9**	227.7	**13.8%**	13.8%
Restructuring costs (non-adjusting)			**(1.7)**	(3.5)		
Total adjusted revenue/ operating profit and margin	**1,751**	1,649	**239.2**	224.2	**13.7%**	13.6%
Reversal of net economic hedge contract losses	**-**	8.0	**(0.9)**	5.6		
Restructuring costs			**(34.6)**	(18.8)		
Gains on special pension events			**10.8**	2.8		
Impairment losses				(5.0)		
Acquired intangible amortisation			**(19.5)**	(20.5)		
Loss on disposal of subsidiaries			**(2.3)**	-		
Statutory revenue/operating profit	**1,751**	1,657	**192.7**	188.3		
Net financial expense			**(11.8)**	(23.0)		
Statutory profit before tax from continuing operations			**180.9**	165.3		

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

	Year ended 31 December 2016				**Year ended 31 December 2017**				
Reported revenue	As adjusted	Movement in foreign exchange	Disposals	Organic	**As adjusted**	Disposals	**Organic**	**Adjusted growth (%)**	**Organic growth (%)**
IMI Critical Engineering	651	40	(5)	686	**648**	**(3)**	**645**	**0%**	**-6%**
IMI Precision Engineering	708	42		750	**791**		**791**	**12%**	**5%**
IMI Hydronic Engineering	290	18		308	**312**		**312**	**8%**	**1%**
Total	1,649	100	(5)	1,744	**1,751**	**(3)**	**1,748**	**6%**	**0%**
Segmental operating profit									
IMI Critical Engineering	81.8	6.3	0.5	88.6	**84.0**	**0.6**	**84.6**	**3%**	**-5%**
IMI Precision Engineering	118.5	6.7		125.2	**133.5**		**133.5**	**13%**	**7%**
IMI Hydronic Engineering	51.9	2.7		54.6	**49.7**		**49.7**	**-4%**	**-9%**
Corporate costs	(24.5)			(24.5)	**(26.3)**		**(26.3)**		
Total	227.7	15.7	0.5	243.9	**240.9**	**0.6**	**241.5**	**6%**	**-1%**
Segmental operating profit margin (%)	13.8%			14.0%	**13.8%**		**13.8%**		

1. Segmental information (continued)

The following table shows a geographical analysis of how the Group's revenue is derived by destination.

	2017 Revenue £m	2016 Revenue £m
UK	**79**	75
Germany	**260**	*240*
Other Western Europe	**393**	*390*
Western Europe	**653**	630
USA	**318**	*327*
Canada	**20**	*17*
North America	**338**	344
Emerging Markets	**595**	520
Rest of World	**86**	80
Total reported revenue	**1,751**	1,649
Reversal of economic hedge contract losses	**-**	8
Total statutory revenue	**1,751**	1,657

2. Discontinued operations

A pre-tax gain of £2.2m and post tax gain of £16.9m 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 2016.

3. Net financial income and expense

	2017			2016		
	Interest	Financial Instru-ments	Total	Interest	Financial Instru-ments	Total
Recognised in the income statement	£m	£m	£m	£m	£m	£m
Interest income on bank deposits	5.5		5.5	4.5		4.5
Financial instruments at fair value						
through profit or loss:						
Other economic hedges						
- current year trading		6.9	6.9		5.6	5.6
- future year transactions		5.6	5.6		7.0	7.0
Financial income	5.5	12.5	18.0	4.5	12.6	17.1
Interest expense on interest-bearing loans and borrowings	(19.8)		(19.8)	(21.8)		(21.8)
Financial instruments at fair value						
through profit or loss:						
Other economic hedges						
- current year trading		(6.8)	(6.8)		(7.5)	(7.5)
- future year transactions		(2.4)	(2.4)		(11.9)	(11.9)
Financial expense	(19.8)	(9.2)	(29.0)	(21.8)	(19.4)	(41.2)
Net finance income relating to defined benefit pension schemes	(0.8)		(0.8)	1.1		1.1
Net financial expense	(15.1)	3.3	(11.8)	(16.2)	(6.8)	(23.0)

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

4. Taxation

The adjusted effective tax rate for the Group remained constant at 21% (2016: 21%). The total adjusted tax charge for the year on continuing operations was £47m (2016: £44m) and continuing adjusted profit after tax was £177m (2016: £164m). Taxes of £40m (2016: £32m) were paid in the year. The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Tax Policy.

5. Earnings per ordinary share

	Key	2017 million	2016 million
Weighted average number of shares for the purpose of basic earnings per share	A	**271.1**	270.8
Dilutive effect of employee share options		**0.5**	1.8
Weighted average number of shares for the purpose of diluted earnings per share	B	**271.6**	272.6
		£m	£m
Statutory profit for the year		**162.2**	133.2
Non-controlling interests		**(0.1)**	(2.4)
Statutory profit for the year attributable to owners of the parent	C	**162.1**	130.8
Statutory profit from discontinued operations, net of tax		**(16.9)**	-
Continuing statutory profit for the year attributable to owners of the parent	D	**145.2**	130.8
Total adjusting items charges included in profit before tax		**43.2**	42.7
Total adjusting items credits included in taxation		**(11.5)**	(11.6)
Earnings for adjusted EPS	E	**176.9**	161.9

Statutory EPS measures			
Statutory basic EPS	C/A	59.8p	48.3p
Statutory diluted EPS	C/B	59.7p	48.0p
Statutory basic continuing EPS	D/A	53.6p	48.3p
Statutory diluted continuing EPS	D/B	53.5p	48.0p
Adjusted EPS measures			
Adjusted basic EPS	E/A	65.3p	59.8p
Adjusted diluted EPS	E/B	65.1p	59.4p

Discontinued earnings per share

Statutory basic discontinued earnings per share were 6.2p (2016: nil). Statutory diluted discontinued earnings per share were 6.2p (2016: nil).

6. Adjusting items

Restructuring costs

The restructuring costs treated as adjusting items total £34.6m (2016: £18.8m) are as a result of a number of significant restructuring projects across the Group. This includes the restructure of the Critical Belgian business (£12.4m) the Switzerland Controls & Nuclear business in Critical Engineering (£8.3m), the restructure of our European business in Precision Engineering (£4.1m) and a Global Restructuring Programme within Hydronic Engineering (£3.0m). A further £6.8m was incurred within Critical Engineering due to right sizing (£4.9m) and the finalisation of 2016 production transfers and closures (£1.9m).

Adjusting restructuring costs in 2016 included £7.6m relating to the closure of one of our Critical Engineering sites in Germany, £1.7m from the closure of one of our Critical Engineering sites in Italy, £3.2m for the continuing European restructuring exercise commenced in 2015 and £5.6m from the restructuring of our Swedish business.

Other restructuring costs of £1.7m (2016: £3.5m) are not included in the measure of segment operating profit reported to the Executive Committee. These costs have been charged below segmental operating profit and included in adjusted operating profit as, based on their quantum, they do not meet our definition of adjusting items.

Gains on special pension events

During 2017, a number of further de-risking exercises, including the conversion of certain pensions to non-inflation linked, occurred in the UK which resulted in net gains of £1.7m. The termination and final settlement of an historical Senior Retirement Plan in the US resulted in a net gain of £2.2m and, following further restructuring exercises in Switzerland, a curtailment gain of £5.3m was recognised. These gains were partially offset by a loss of £1.8m in adjusting items, relating to the distribution of pension assets to members from our previously overfunded Swiss schemes. The completion of the transfer of £429m of liabilities covered by insurance policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £3.4m.

Gains on special pension events in the UK and Switzerland of £2.8m were recognised in 2016.

Losses on disposal of subsidiaries

The Group disposed of Stainless Steel Fasteners ('SSF') resulting in a loss of £2.3m. No subsidiaries were disposed in 2016.

6. Adjusting items (continued)

Impairment losses

Following completion of the Group's annual impairment review, no impairment charges were recognised. In 2016 an impairment charge of £5.0m was recorded against the goodwill associated with the Stainless Steel Fasteners ('SSF') CGU in the IMI Critical Engineering division. An impairment charge of £3.3m (2016: £2.2m) was recognised against property, plant and equipment directly resulting from a number of significant restructuring projects.

Reversal of net economic hedge contract losses/gains

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. The former comprised a reversal of a gain of £0.9m (2016: reversal of a loss of £5.6m) and the latter amounted to a gain of £3.3m (2016: loss of £6.8m).

Acquired intangible amortisation and acquisition costs

For segmental purposes, acquired intangible amortisation is excluded from adjusted profits, to allow for better comparability of the performance across divisions. This allows users of the financial statements to gain a clearer understanding of the performance of the business, with the impact of amortisation identified separately in line with internal reporting to management. Acquired intangible amortisation decreased to £17.5m (2016: £20.5m) following the full amortization of the acquired customer relationships arising on the Remosa acquisition. Acquisition costs of £2.0m were incurred during the year arising from the acquisition of Bimba Manufacturing Company which completed on 31 January 2018.

Taxation

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

7. Dividend

The directors recommend a final dividend of 25.2p per share (2016: 24.7p) payable on 18 May 2018 to shareholders on the register at close of business on 6 April 2018, which will cost about £68.3m (2016: £67.0m). Together with the interim dividend of 14.2p per share paid in September 2017, this makes a total distribution of 39.4p per share (2016: 38.7p per share). In accordance with IAS10 *'Events after the Balance Sheet date'*, this final proposed dividend has not been reflected in the 31 December 2016 balance sheet.

8. Employee Benefits

The Group has 69 (2016: 63) defined benefit obligations in operation as at 31 December 2017. The Group recognises there is a funding and investment risk inherent within defined benefit arrangements and seeks to continue its programme of closing overseas defined benefit plans where they are neither mandatory nor an operational necessity and providing in their place appropriate defined contribution arrangements.

The net deficit for defined benefit obligations at 31 December 2017 was £78m (2016: deficit of £80m). The UK surplus was £2m (2016: £24m surplus) and constituted 85% (2016: 88%) of the total defined benefit liabilities and 92% (2016: 94%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2017 was £80m (2016: £103m).

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) as at 1 January 2017	23.6	(103.4)	(79.8)
Movement recognised in:			
Income statement	**10.4**	**(1.9)**	**8.5**
Other comprehensive income	**(35.7)**	**5.7**	**(30.0)**
Cash flow statement	**3.3**	**21.5**	**24.8**
Other movements	**-**	**(1.4)**	**(1.4)**
Net defined benefit surplus/(obligation) as at 31 December 2017	**1.6**	**(79.5)**	**(77.9)**

9. Cash flow and net debt reconciliation

Reconciliation of net cash to movement in net borrowings

	2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents excluding foreign exchange and net cash disposed/acquired	**0.2**	(45.5)
Net repayment of borrowings	**2.1**	54.6
Decrease/(increase) in net debt before acquisitions, disposals and foreign exchange	**2.3**	9.1
Currency translation differences	**15.1**	(54.8)
Movement in net borrowings in the year	**17.4**	(45.7)
Net borrowings at the start of the year	**(282.6)**	(236.9)
Net borrowings at the end of the year	**(265.2)**	(282.6)

Movement in net debt

	2017 £m	2016 £m
EBITDA* from continuing operations	**287.5**	273.0
Working capital movements	**(0.2)**	29.8
Capital and development expenditure	**(69.8)**	(70.9)
Provisions and employee benefit movements**	**(10.4)**	(2.2)
Other	**10.8**	16.2
Adjusted operating cash flow* **	**217.9**	245.9
Adjusting items****	**(29.2)**	(25.2)
Operating cash flow	**188.7**	220.7
Tax paid	**(39.8)**	(31.7)
Interest and derivatives	**(33.5)**	(61.5)
Cash generation	**115.4**	127.5
Additional pension scheme funding	**(3.3)**	(1.9)
Free cash flow before corporate activity	**112.1**	125.6
Dividends paid to equity shareholders and non-controlling interest	**(105.5)**	(105.0)
Proceeds from disposal of subsidiaries	**-**	-
Payment to non-controlling interest	**(2.2)**	(4.4)
Net purchase of own shares	**(2.1)**	(7.1)
Net cash flow (excluding debt movements)	**2.3**	9.1
Opening net debt	**(282.6)**	(236.9)
Net cash disposed	**-**	-
Net debt acquired	**-**	-
Foreign exchange translation	**15.1**	(54.8)
Closing net debt	**(265.2)**	(282.6)

* Adjusted profit after tax (£177.0m) before interest (£15.1m), tax (£47.1m), depreciation (£38.6m) and amortisation (£9.7m).

** Movement in provisions and employee benefits as per the statement of cash flows (£7.0m) adjusted for the increase in restructuring provisions (£3.4m).

*** 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. Exchange rates

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

	Average Rates		Balance Sheet Rates	
	2017	2016	**2017**	2016
Euro	**1.14**	1.22	**1.13**	1.17
US Dollar	**1.29**	1.36	**1.35**	1.23

The movement in average exchange rates between 2016 and 2017 resulted in our adjusted 2017 revenue being 6% higher and segmental operating profit being 7% higher as the average euro and US dollar rates against sterling were 7% and 5% stronger, respectively.

If the average exchange rates for January 2018 of US$1.38 and €1.13 were projected for the full year and applied to our 2017 results, it is estimated that adjusted revenue would have been 2% lower and segmental operating profit would have been approximately 3% lower.

11. Financial information

The preliminary statement of results was approved by the Board on 1 March 2018. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from the 2017 accounts, which are prepared on the same basis as the 2016 accounts. Statutory accounts for 2016 have been delivered to the registrar of companies and those for 2017 will be delivered in due course. Ernst & Young LLP has reported on both the 2016 and 2017 accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and (iii) did not contain statements under section S498(2) or S498(3) of the Companies Act 2006.

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

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

References in the commentary to revenue, segmental operating profit and segmental operating margins, unless otherwise stated, relate to amounts on a reported basis before exceptional items as noted on the face of the consolidated income statement.

References to EPS, unless otherwise stated, relate to reported basic EPS i.e. after adjustment for the per share after tax impact of exceptional items in note 5.

Alternative Performance Measures ('APMs') are used in discussions with the investment analyst community and by the Board and management to monitor the trading performance of the Group. We consider that the presentation of APMs allows for improved insight to the trading performance of the Group. We have reviewed the APMs presented as part of the continuous improvement of our external reporting and consider that the term Adjusted, together with an adjusting items category, best reflects the trading performance of the Group. The APMs presented in the Annual Report and Accounts to 31 December 2017 are defined in note 1.

References to organic growth exclude the impact of exchange rate translation and acquisitions or disposals that are included in reported growth figures. The organic growth is derived from excluding any contribution from acquired businesses to revenues or profits in the current period until the first anniversary of their acquisition. It also excludes the contribution to revenues or profits in both the current and comparative period from any business that has been disposed of. These organic revenues or profits will then be compared to the organic revenue or profits for the prior period after their re-translation at the current period average exchange rates to provide the organic growth rate. The impact on revenue and segmental operating profit of movements in foreign exchange, acquisitions and disposals is set out in note 1.

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

The Company's 2017 Annual Report and Notice of the forthcoming Annual General Meeting will be posted to shareholders on 23 March 2018.