# IMI plc
## Press Release

1 March 2019

## Preliminary results, year ended 31 December 2018

| | Adjusted[1] | | | | Statutory | | |
|---|---|---|---|---|---|---|---|
| **Continuing operations:** | **2018** | 2017 | Change | **Organic[4]** | **2018** | 2017 | Change |
| **Revenue** | **£1,907m** | £1,751m | +9% | **+5%** | **£1,907m** | £1,751m | +9% |
| **Segmental operating profit** | **£266m** | £241m | +11% | **+9%** | **£232m** | £193m | +20% |
| **Operating margin** | **14.0%** | 13.8% | +20bps | | | | |
| **Profit before tax** | **£251m** | £224m | +12% | | **£213m** | £181m | +18% |
| **Basic EPS[2]** | **73.2p** | 65.3p | +12% | | **62.5p** | 59.8p | +5% |
| **Operating cash flow[3]** | **£222m** | £218m | +2% | | | | |
| **Dividend per share** | **40.6p** | 39.4p | +3% | | **40.6p** | 39.4p | +3% |
| **Net debt** | **£405m** | £265m | | | **£405m** | £265m | |

[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 (see note 1).

### Key points

- Results ahead of market expectations
- Good growth across all Precision Engineering verticals
- Critical Engineering sales growth despite continued New Construction Power weakness
- Hydronic Engineering margin recovery delivered
- Bimba integration progressing well
- Adjusted Basic EPS increased 12%
- Further reduction of global pension liabilities
- 3% increase in the full year dividend recommended
- Roy Twite to succeed Mark Selway as Chief Executive

Lord Smith of Kelvin, Chairman, commented:

"2018 was another year of important progress. We delivered results ahead of market expectations and continued to execute our strategy effectively. In the year we reported increases in revenues, margins and earnings per share and enhanced our competitive capabilities."

"We have a strong balance sheet and inherently cash generative operations which continue to provide the headroom to invest in organic development and appropriate acquisition opportunities as they arise."

Mark Selway, Chief Executive, added:

"It is pleasing to report the continuation of the progress achieved in the first half of 2018. Our strategic plan to drive sustainable long-term growth continues to make a real difference across all parts of the Group. Our new product pipeline is developing well, our manufacturing operations have further improved and the new systems and processes being embedded throughout the business are delivering gains in efficiency and competitiveness."

"In the first half of 2019 we expect organic revenues to be lower than the same period in 2018 due to the phasing of Critical Engineering's order book and slowing market demand in the Industrial Automation sector in Precision Engineering. Margins are expected to be broadly similar, supported by our operational initiatives and an improved performance from Hydronic Engineering. Results for the full year will also reflect the benefits of restructuring and our normal second-half bias."

### Enquiries to:


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| John Dean | IMI | Tel: +44 (0)121 717 3712 |
| Suzanne Bartch / Robert Morgan | Teneo | Tel: +44 (0)203 757 9242 |


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 9 May 2019.

Engineering GREAT the IMI Way

## Results overview

2018 was another year of important progress for IMI. A now well-established culture of continuous improvement, both within our operations and in our product offering, further enhances our competitive position, irrespective of the market environment.

Adjusted Group revenues were 9% higher at £1,907m (2017: £1,751m). Excluding adverse foreign exchange and the acquisition of Bimba, Group revenues on an organic basis were 5% higher when compared to the prior year. Adjusted segmental operating profit was 11% higher at £266m (2017: £241m). Excluding the impact of adverse foreign exchange and Bimba, segmental operating profits were 9% higher on an organic basis. The Group's operating margin was 14.0% against 13.8% in 2017 and adjusted earnings per share were 12% higher at 73.2p (2017: 65.3p).

Adjusted operating cash flow of £222m (2017: £218m) followed a strong performance last year and reflected higher working capital to support growth in Precision Engineering and comparatively higher advanced payments received by Critical Engineering in 2017. Both debtor and inventory days showed modest improvement while creditors reflected the impact of lower pre-payments in Critical Engineering. Net Debt of £405m (2017: £265m) reflected payment of the consideration for Bimba and resulted in a Net Debt to adjusted EBITDA ratio of 1.3x against 0.9x at the end of 2017.

We continue to be proactive in our efforts to manage the Group's pension liabilities and in 2018 successfully completed the transfer of a further £409m of liabilities to insurance partners. This brings the total value of pension schemes removed from our balance sheet over the last two years to £838m. The UK schemes remain in surplus and the overseas deficit remained constant at £80m in the year.

### Dividend

Reflecting the continued confidence in the Group's prospects, the Board is recommending an increase in the final dividend of 3% to 26.0p (2017: 25.2p) making a total dividend for the year of 40.6p, an increase of 3% over last year's 39.4p.

### Outlook

In the first half of 2019 we expect organic revenues to be lower than the same period in 2018 due to the phasing of Critical Engineering's order book and slowing market demand in the Industrial Automation sector in Precision Engineering. Margins are expected to be broadly similar, supported by our operational initiatives and an improved performance from Hydronic Engineering. Results for the full year will also reflect the benefits of restructuring and our normal second-half bias.

### Integration of Bimba Manufacturing Company ('Bimba')

The acquisition of Bimba for a total consideration of £138m (US$198m) was completed on 31 January 2018. The transaction has increased our US revenues while extending IMI Precision Engineering's presence in its core Industrial Automation segment. Good progress has been made with the integration of Bimba into Precision Engineering's North American operations. We have also accelerated some of our plans for Bimba to improve its operations and IT infrastructure in readiness for the opportunities for growth and margin improvement.

### Trading environment

Trading conditions across our three divisions continued to be mixed throughout 2018 with growth in IMI Precision Engineering's end markets offsetting declines in New Construction Fossil Power and Energy markets in IMI Critical Engineering.

For IMI Critical Engineering, the Petrochemical market again produced some encouraging opportunities which reflect the division's success at extending its reach into a broader range of applications. The improving outlook in some parts of the Oil & Gas sector again contrasted with the challenging outlook for coal-fired power generation.

In IMI Precision Engineering, all of the division's verticals and regions showed further good progress in the year. This was achieved despite tougher comparators and increased market volatility, particularly in Industrial Automation, through the latter part of 2018.

Within IMI Hydronic Engineering where European construction represents over 79% of the division, markets were marginally stronger than the previous year. Although less significant for the division overall, the North America and China construction markets also continued to grow.

While we have a broad international manufacturing footprint and less than 5% of sales in the UK, it would be remiss not to mention the potential impact of Brexit on the Group's operating performance. Despite prevailing uncertainty, the Group has 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 clearance to and from the UK. While we hope that these increased inventories will not be required, it is essential that we do as much as we can to minimise potential supply chain disruption and ensure our customer delivery commitments are met.

## Divisional review

The following review relates to our continuing businesses' performance on an adjusted basis for the year ended 31 December 2018 when compared to the year ended 31 December 2017. References to organic growth are on a constant currency basis and exclude disposals and acquisitions.

### IMI Critical Engineering

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

| | | |
|---|---|---|
| Order intake | £652m | (2017: £658m) |
| Revenue | £682m | (2017: £648m) |
| Operating profit | £88.3m | (2017: £84.0m) |
| Operating margin | 13.0% | (2017: 13.0%) |

#### Performance

In 2018 the division continued to experience a mixed trading environment in some of its most important markets. Value Engineering and New Product Development programmes continued to provide competitive levers which have enabled us to outpace the market. Our continuing high order win-rate indicates that we have been capturing more of the available projects than our competitors.

Full year order intake at £652m (2017: £658m) was flat on an organic basis and, as expected, included a strong second half recovery. The Value Engineering process, which is now fully embedded within the division and used on all New Construction quotes of scale, supported the delivery of £180m or 60% of New Construction orders in the year.

Strong order growth from Water contrasted with softer market conditions elsewhere. HIPPS orders were also ahead of 2017, partially offsetting lower Upstream and Midstream orders. Aftermarket orders were 11% higher and reflected a 22% increase in upgrades and a 6% increase in parts, when compared to the prior year. At the year-end, the order book was £474m (2017: £510m) with margins slightly higher, compared with 2017.

Revenues of £682m (2017: £648m) were 5% higher on an adjusted basis and, after excluding £6m of adverse foreign exchange and £3m from disposals, were 7% higher on an organic basis. Segmental operating profit of £88.3m (2017: £84.0m) was 5% higher on an adjusted basis and 6% higher on an organic basis. Margins were flat versus 2017, reflecting the division's ongoing work to counter softer markets with the benefits from restructuring and Value Engineering.

Lean scores improved significantly in the year from 70% to 74% and our core customer satisfaction metrics also showed continued progress. The division progressed its long-term footprint reorganisation which has resulted in the closure or transfer of thirteen lower growth operations. These initiatives delivered £12m of benefit in 2018 and have strengthened the division's competitive position by realigning its manufacturing footprint with customers in higher growth markets.

In addition to the product and operational investments, the division continued its programme of ERP roll-out. This system is now fully embedded in fourteen of IMI Critical Engineering's sites.

### Key Achievements

- Value Engineering secured £180m of new orders and underpinned excellent order win-rates
- Further success in securing new business in adjacent markets
- Profit growth supported by successful restructuring programme
- On-time and on-budget ERP implementation across fourteen sites
- Increased average Lean score to 74%

### Outlook

Based on current order book phasing and the comparatively large Petrochemical deliveries in early 2018, we expect first half organic revenues and profits to be lower when compared to 2018. Results for the full year are expected to reflect a more favourable second half phasing and the benefits from restructuring.

## 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 | £916m | (2017: £791m) |
| Operating profit | £153.2m | (2017: £133.5m) |
| Operating margin | 16.7% | (2017: 16.9%) |

### Performance

IMI Precision Engineering had another year of good progress and delivered solid growth across all verticals and regions. Revenues of £916m (2017: £791m) were 16% higher on an adjusted basis and, after excluding £10m of adverse foreign exchange and £88m from the Bimba acquisition, were 6% higher on an organic basis.

Strong Industrial Automation sales in the first half of 2018 slowed in the third quarter and declined slightly in the fourth, leaving the full year up 2% when compared to 2017. Commercial Vehicle related sales of £196m reflected stronger than anticipated markets and were 8% higher in the year, despite £8m of contract completions. European Commercial Vehicle revenues were slightly higher whilst North America grew by 15%. Energy sales were 16% higher than 2017 while Life Sciences and Rail were 12% and 14% higher, respectively.

Segmental operating profit of £153.2m (2017: £133.5m) was 15% higher on an adjusted basis and, after excluding £2m of adverse foreign exchange and £7m from the Bimba acquisition, was 11% higher on an organic basis. Operating margins of 16.7% (2017: 16.9%) reflect the impact of the Bimba acquisition in the year. Excluding Bimba, underlying margins compared favourably to last year at 17.7%.

Good progress has been made with the integration of Bimba into Precision Engineering's North American operations. We have also accelerated some of our plans for Bimba to improve its operations and IT infrastructure, in readiness for the opportunities for growth and margin improvement.

Operationally, the division continued to make solid progress and the combination of Lean, New Product Development and cost-reduction initiatives all contributed to a good performance in the year. We also completed the relocation of our Indian operation to a new and larger facility in New Delhi which was officially opened in October. This new plant expands Precision Engineering's low-cost, world-class manufacturing and engineering capabilities and enhances the division's ability to serve our rapidly expanding market positions across Asia.

The implementation of Lean throughout the division has continued to make excellent progress. At the end of 2018 Precision Engineering's Lean score increased to 75% compared to 70% at the end of 2017.

Our focus on New Product Development to enhance our market competitiveness gathered momentum. The addition of integrated intelligence and connectivity across our product range remains an important element of that strategy. In 2018, new products were introduced across the entire range and represented an increase in the vitality index (sales from new products introduced in the last three years) to 12%.

In-sourcing actions already completed combined with improved market conditions have helped increase utilisation in the year. Localisation and low-cost manufacturing transfers continue to reduce lead times and improve customer service and competitiveness.

In addition to product and operational investments, the division continues to implement its new ERP system and now has a world-class, fully integrated IT system which is now planned to be rolled-out in our Asian operations.

### Key Achievements

- On-time and on-budget completion of world-class facility in India
- Commercial Vehicle contract wins support growth
- Improved underlying margin despite cost pressures
- Increased average Lean score to 75%
- Bimba integration progressing to plan

### Outlook

The industrial outlook has become more volatile with leading indicators pointing to continued but slower growth in the Industrial Automation and the Commercial Vehicle markets in 2019.

Based on current market conditions, we expect first half organic revenues to be slightly higher, with broadly flat margins, when compared to the first half of 2018. The benefits of new product launches and operational improvements are expected to support improved results for the full year.

## IMI Hydronic Engineering

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

| | | |
|---|---|---|
| Revenue | £309m | (2017: £312m) |
| Operating profit | £52.0m | (2017: £49.7m) |
| Operating margin | 16.8% | (2017: 15.9%) |

### Performance

IMI Hydronic Engineering's 2018 performance was a tale of two halves with the first half being focused on the actions necessary to deliver significant improvements in the second half of the year. The actions taken successfully recovered margins and consolidated the division's position as a market leader in our core geographies and sectors.

Recovering substantially from the decline experienced in the first half of the year, revenues on an adjusted basis of £309m (2017: £312m) were 1% lower than 2017 and, after excluding £3m of adverse foreign exchange, were flat on an organic basis. The result was affected by the actions taken to return to satisfactory margins, including the closure of a loss-making service business and the decision to avoid product and project sales that generated unacceptable margins.

Segmental operating profit of £52.0m (2017: £49.7m) was 5% higher on an adjusted basis and, after excluding £1m of adverse foreign exchange, 6% higher on an organic basis. Margins improved to 16.8% (2017: 15.9%) for the full year, with a significant improvement in the second half to 18.4% (2017: 15.9%).

In our core territories market shares have remained strong. Our key distributors, installers and specifiers have responded positively to our refreshed product offering, constantly improving customer service and ongoing commitment to customer support.

New product investment continued and contributed £69m, or 22% of sales, in the year. The division also maintained its excellent Lean score of 78%, with the Polish plant once again achieving the highest Lean score in the Group.

The roll-out of the new JD Edwards ERP system continued throughout 2018 with the system now live in three manufacturing businesses and thirteen of the division's sales offices.

### Key Achievements

- Second half margins improved to 18.4% (2017: 15.9%)
- Successfully re-established foundations for sustainable and profitable growth
- New product launches continue to build sustainable competitive advantage
- Maintained excellent Lean score of 78%
- On-time on-budget implementation of divisional ERP

### Outlook

Based on current market conditions organic revenue is expected to grow in the first half of 2019 with margins slightly improved when compared to the first half of last year. Results for the full year are expected to reflect the benefits of our 2018 restructuring and our normal second half bias.

## Good strategic progress

Our strategic plan to drive long-term sustainable growth is making a real difference across all parts of the Group. Significantly improved operational performance, new systems and processes that are helping us operate more efficiently and a new product pipeline all continue to enhance our competitive position.

### Improving our operational performance

During 2018 each of our divisions further enhanced their operational performance. At the year-end the Group's average Lean score increased to 75% compared to 71% at the same point in 2017. Scrap rates, on-time-delivery and inventory management all improved and the benefits were evident in the Group's results in the year. Most importantly, this improved performance provides an important foundation for our increased competitiveness and responsiveness to customers.

### Positioning our businesses for growth

In the past four years much has been done to simplify the way our businesses operate and make them more efficient.

We have invested heavily in new systems and processes which are essential if the Group is to deliver long-term sustainable growth. An increasing number of our businesses are upgrading their core IT systems to modern divisional platforms that automatically manage business processes to deliver consistent, accurate data. As a result, we have better visibility across the production process and we are able to manage our day-to-day operations more cost and time effectively and make our product and service offering more competitive.

Across all of our operations we have embedded disciplined and efficient processes, including New Product Development and Value Engineering. These consistent processes support our continuous improvement culture and help ensure that our investments ultimately deliver an earlier and greater return.

### New product pipeline

For each division targeted New Product Development initiatives remain a key focus. We launched a significant number of new products during 2018 covering a range of applications. All three divisions have ambitious plans to continue their focused product development strategies in 2019 and beyond.

By increasingly combining New Product Development initiatives with Value Engineering processes, we have continued to expand our addressable markets and are competing in segments that were not previously accessible.

### Business development

Alongside our organic growth initiatives, targeted acquisitions that meet our clearly defined and disciplined criteria continue to represent a core part of our strategy. We seek opportunities that are culturally aligned and have the potential to deliver sustainable long-term profitable growth. As was the case with the acquisition of Bimba in January 2018, we aim to engage early with potential partners with the ambition of securing preferred buyer status ahead of any formal process being started.

## Board and governance

This morning we have, in a separate statement, announced that following five years with the Group, Mark Selway has confirmed that he intends to step down as Chief Executive immediately following the Company's Annual General Meeting (the 'AGM') on 9 May 2019 and retire from the Board on 31 July 2019. He will be succeeded by Roy Twite, currently Divisional Managing Director of IMI Critical Engineering, who will become Chief Executive Designate from 1 March 2019 and Chief Executive immediately following the AGM. An announcement will be made on the appointment of the new IMI Critical Engineering Divisional Managing Director, in due course.

During the year two new non-executive directors joined our Board bringing considerable and relevant experience as well as fresh perspectives. Katie Jackson joined the Board on 1 July 2018 and became a member of the Nominations and Remuneration Committees. Katie has deep knowledge of the international Oil & Gas market, and significant corporate finance and business development experience. Thomas Thune Andersen also joined the Board on 1 July 2018 and also became a member of the Nominations and Remuneration Committees. Thomas has extensive knowledge and experience of a number of the key sectors we operate in, including oil, energy and critical infrastructure.

With effect from 1 January 2019 Birgit Nørgaard, became our Employee Engagement Director. This important role, which is in line with the revised Corporate Governance Code's recommendations, will enhance the various mechanisms we already operate to ensure we continue to engage effectively with our people.

## Financial review

### Results Summary

Revenue increased by 9% to £1,907m (2017: £1,751m). After adjusting for the adverse exchange rate impact of £19m, the £88m contribution of Bimba and the £3m impact of disposals, organic revenue grew by 5% reflecting strong growth in the Critical Engineering and Precision Engineering divisions despite mixed market conditions. Statutory revenue increased by 9% to £1,907m (2017: £1,751m).

Adjusted segmental operating profit of £266m (2017: £241m) rose by 11% and after removing the impact of exchange rates, the acquisition of Bimba and the impact of disposals, by 9%. The segmental operating margin was 14.0% (2017: 13.8%). Statutory operating profit was £232m (2017: £193m). 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 £12.9m (2017: £14.3m). Adjusted net interest costs were covered 25 times (2017: 20 times) by continuing adjusted earnings before interest, tax, depreciation, amortisation, impairment and adjusting items of £320m (2017: £288m). The net pension financing expense under IAS 19 was £1.4m (2017: £0.8m expense).

Adjusted profit before taxation was £251m (2017: £224m), an increase on the previous year of 12%.

## Adjusting Items and Discontinued Operations

*Restructuring costs*
Restructuring costs presented as adjusting items in 2018 of £12m (2017: £35m) are as a result of a number of significant restructuring projects across the Group, in particular within Critical Engineering and Hydronic Engineering. Restructuring costs of £1m (2017: £2m) that arose from normal recurring cost reduction exercises are included in the adjusted financial performance of the Group.

*Pensions*
During 2018, de-risking activities relating to our defined benefit schemes continued including the conversion of certain pension benefits to non-inflation linked, occurring in the UK, which resulted in net gains of £1.4m. Regulatory changes and the completion of a buy out in Switzerland resulted in gains totalling £3.0m. The completion of the transfer of £409m of liabilities covered by insurance policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £2.8m. An expense of £0.4m, arising from the equalisation of the UK defined benefit schemes, has been recognised following the ruling on the test case on Guaranteed Minimum Pensions.

*Loss on disposal of subsidiaries*
No subsidiaries have been disposed of in 2018. A gain of £1m has been recognised following the expiry of an indemnity provision on a historical disposal. In 2017, the Group disposed of Stainless Steel Fasteners Limited resulting in a loss of £2m.

*Impairment losses*
The Group recorded an adjusting impairment charge of £2m (2017: £nil) against the goodwill associated with the Hydronic services companies CGU in the IMI Hydronic Engineering division.

*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 net loss of £2m (2017: reversal of a gain of £1m) and records a charge within interest.

*Financing costs*
A net loss arose on the revaluation of financial instruments and derivatives under IFRS 9 of £4m (2017: £3m gain), 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 increased to £25m (2017: £18m). The increase in 2018 reflects the amortisation of the intangible assets recognised on the acquisition of Bimba during the year, including the full amortisation of the Bimba order book which contributed £4m to the charge. Also included is a release of the fair value uplift to inventory, recognised as part of the Bimba acquisition accounting in accordance with IFRS 3 'Business Combinations', of £4m (2017: £nil).

*Indirect taxes arising on reorganisation*
Following a retrospective change to European tax law on the transfer of assets a provision of £3.2m to reflect the probable exposure has been recognised. The provision is recognised as an adjusting item in operating profit as it relates to indirect taxes.

*Taxation*
A tax credit of £9m (2017: £12m) arose in connection with the above adjusting items.

*Discontinued operations*
There was no profit or loss from discontinued operations in 2018. A pre-tax gain of £2m and post-tax gain of £17m was recognised in 2017 as a result of the finalisation of a number of matters relating to historical discontinued operations.

## Taxation
The adjusted effective tax rate for the Group remained at 21% (2017: 21%). The total adjusted tax charge for the year on continuing operations was £53m (2017: £47m). 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. Adjusted basic EPS was 73.2p, an increase of 12% on last year's 65.3p. Statutory basic EPS increased by 5% at 62.5p (2017: 59.8p) and statutory diluted EPS increased by 5% at 62.4p (2017: 59.7p).

## Foreign Exchange
The movement in average exchange rates between 2017 and 2018 resulted in our adjusted 2018 revenue being 1% lower and segmental operating profit being 1% lower as the average Euro rate was 1% stronger and the US dollar rate was 3% weaker.

If the average exchange rates for January 2019 of US$1.30 and €1.14 were projected for the full year and applied to our 2018 results, it is estimated that both adjusted revenue and profits (including corporate costs) would be broadly unchanged.

## Cash Flow
Adjusted operating cash flow was £222m (2017: £218m). After the £9m cash outflow from adjusting items (2017: £29m outflow), the operating cash flow was £213m (2017: £189m). This represents a conversion rate of total Group segmental operating profit after restructuring costs into operating cash flow of 83% (2017: 91%).

Net working capital balances increased in the current year (2017: equal). Inventory decreased by £6m (2017: £4m decrease) due to decreases in inventory within Critical Engineering which were partially offset by increases in inventory in Precision Engineering following continued growth in 2018. The Group's receivables increased by £8m (2017: £27m increase) as a result of an increase in revenue. Payables decreased by £47m (2017: £22m increase) due to overall payment timing, including higher project advance payments received by Critical Engineering in 2017.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £58m (2017: £70m) which was equivalent to 1.1 times (2017: 1.5 times) depreciation and amortisation thereon. Research and development spend including capitalised intangible development costs of £7m (2017: £9m) totalled £49m (2017: £50m).

In 2018 the Group paid tax of £41m (2017: £40m) which was 78% (2017: 85%) of the adjusted tax charge for the year.

Dividends paid to shareholders totalled £108m (2017: £106m) and there was a cash outflow of £5m (2017: £2m outflow) for net share purchases to satisfy employee share options.

## Balance Sheet
Net debt at the year-end was £405m compared to £265m at the end of the previous year, reflecting the acquisition of Bimba during the year. The net debt is composed of a cash balance of £132m (2017: £99m), a bank overdraft of £83m (2017: £31m) and interest-bearing loans and borrowings of £455m (2017: £333m).

The year-end net debt to adjusted EBITDA ratio was 1.3 times (2017: 0.9 times) based on continuing adjusted EBITDA. At the end of 2018 loan notes totalled £455m (2017: £329m), with a weighted average maturity of 6.2 years (2017: 3.5 years) and other loans including bank overdrafts totalled £83m (2017: £31m). Total committed bank loan facilities available to the Group at the year-end were £300m (2017: £302m), of which £nil (2017: £nil) was drawn.

The value of the Group's intangible assets increased to £607m at 31 December 2018 (2017: £509m). This increase was due to the recognition of intangible assets following the Bimba acquisition and other additions to intangible assets of £20m (2017: £22m) partially offset by the amortisation charge for the year of £37m (2017: £27m), impairment of £3m (2017: £nil) and an increase arising from exchange movements of £22m (2017: £7m decrease).

The net book value of the Group's PPE at 31 December 2018 was £284m (2017: £270m). Capital expenditure on PPE amounted to £38m (2017: £47m), with capital expenditure focused on new product lines in the US and a new Indian factory in Precision Engineering. Including capitalised intangible assets, total capital expenditure was £58m (2017: £70m) and was 1.1 times (2017: 1.5 times) the depreciation and amortisation charge (excluding acquired intangible amortisation) for the year of £55m (2017: £48m).

### Pensions

The net deficit for defined benefit obligations at 31 December 2018 was £52m (2017: £78m deficit). The UK surplus was £28m (2017: £2m surplus) and constituted 75% (2017: 85%) of the total defined benefit liabilities and 87% (2017: 92%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2018 was £80m (2017: £80m deficit).

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | **2018** Adjusted £m | **2018** Adjusting items £m | **2018** Statutory £m | 2017 Adjusted £m | 2017 Adjusting items £m | 2017 Statutory £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 1 | **1,907** | | **1,907** | 1,751 | | 1,751 |
| Segmental operating profit | 1 | **266.3** | | **266.3** | 240.9 | | 240.9 |
| Reversal of net economic hedge contract (gains)/losses | 6 | | **1.9** | **1.9** | | (0.9) | (0.9) |
| Restructuring costs | 6 | **(0.8)** | **(12.4)** | **(13.2)** | (1.7) | (34.6) | (36.3) |
| Gains on special pension events | 6 | | **6.8** | **6.8** | | 10.8 | 10.8 |
| Impairment losses | 6 | | **(2.0)** | **(2.0)** | | | |
| Acquired intangible amortisation and acquisition costs | 6 | | **(28.8)** | **(28.8)** | | (19.5) | (19.5) |
| Gain/loss on disposal of subsidiaries | 6 | | **0.6** | **0.6** | | (2.3) | (2.3) |
| Gai/loss on disposal of properties | 6 | | **3.2** | **3.2** | | | |
| Indirect Taxes arising on reorganisation | 6 | | **(3.2)** | **(3.2)** | | | |
| **Operating profit** | 1 | **265.5** | **(33.9)** | **231.6** | 239.2 | (46.5) | 192.7 |
| Financial income | 3 | **5.8** | **16.1** | **21.9** | 5.5 | 12.5 | 18.0 |
| Financial expense | 3 | **(18.7)** | **(20.5)** | **(39.2)** | (19.8) | (9.2) | (29.0) |
| Net financial (expense)/income relating to defined benefit pension schemes | 3 | **(1.4)** | | **(1.4)** | (0.8) | | (0.8) |
| Net financial expense | | **(14.3)** | **(4.4)** | **(18.7)** | (15.1) | 3.3 | (11.8) |
| **Profit before tax** | | **251.2** | **(38.3)** | **212.9** | 224.1 | (43.2) | 180.9 |
| Taxation | 4 | **(52.8)** | **9.3** | **(43.5)** | (47.1) | 11.5 | (35.6) |
| **Profit from continuing operations after tax** | | **198.4** | **(29.0)** | **169.4** | 177.0 | (31.7) | 145.3 |
| Profit from discontinued operations after tax | 2 | | | **0.0** | | 16.9 | 16.9 |
| **Total profit for the year** | | **198.4** | **(29.0)** | **169.4** | 177.0 | (14.8) | 162.2 |
| **Attributable to:** | | | | | | | |
| Owners of the parent | | **198.4** | | **169.4** | 176.9 | | 162.1 |
| Non-controlling interests | | | | | 0.1 | | 0.1 |
| **Profit for the year** | | **198.4** | | **169.4** | 177.0 | | 162.2 |
| **Earnings per share** | 5 | | | | | | |
| Basic - from profit for the year | | | | **62.5p** | | | 59.8p |
| Diluted - from profit for the year | | | | **62.4p** | | | 59.7p |
| Basic - from continuing operations | | | | **62.5p** | | | 53.6p |
| Diluted - from continuing operations | | | | **62.4p** | | | 53.5p |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Profit for the year** | | **169.4** | | 162.2 |
| **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 | **1.9** | | 3.4 | |
| Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations | **(4.5)** | | (11.0) | |
| Fair value loss on available for sale financial assets | **0.2** | | (0.2) | |
| Related tax effect on items that may subsequently be reclassified to profit and loss | **(0.3)** | | (0.6) | |
| | | **(2.7)** | | (8.4) |
| **Items that will not subsequently be reclassified to profit and loss** | | | | |
| Re-measurement loss on defined benefit plans | **11.6** | | (12.3) | |
| Related taxation effect | **(3.5)** | | 1.7 | |
| Effect of taxation rate change on previously recognised items | - | | (0.3) | |
| Fair value loss on equity instruments not held for trading | **(9.8)** | | - | |
| | | **(1.7)** | | (10.9) |
| **Other comprehensive expense for the year, net of taxation** | | **(4.4)** | | (19.3) |
| **Total comprehensive income for the year, net of taxation** | | **165.0** | | 142.9 |
| **Attributable to:** | | | | |
| Owners of the parent | | **165.0** | | 142.8 |
| Non-controlling interests | | | | 0.1 |
| **Total comprehensive income for the year, net of taxation** | | **165.0** | | 142.9 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Share capital £m | Share premium account £m | Capital redemption reserve £m | Hedging reserve £m | Translation reserve £m | Retained earnings £m | Total parent equity £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2017 | 81.8 | 12.1 | 174.4 | (1.6) | 40.8 | 235.7 | 543.2 | 40.0 | 583.2 |
| Profit for the 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) |
| share buyback programme | | | | | | | | | |
| 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 |
| **Changes in equity in 2018** | | | | | | | | | |
| Profit for the year | | | | | | **169.4** | **169.4** | | **169.4** |
| Other comprehensive income/(expense) | | | | **1.8** | **(4.5)** | **(1.7)** | **(4.4)** | | **(4.5)** |
| Total comprehensive income/(expense) | | | | **1.8** | **(4.5)** | **167.7** | **165.0** | | **165.0** |
| Issue of share capital | **-** | **0.6** | | | | | **0.6** | | **0.6** |
| Dividends paid | | | | | | **(107.9)** | **(107.9)** | | **(107.9)** |
| Share-based payments (net of tax) | | | | | | **7.0** | **7.0** | | **7.0** |
| Shares acquired for: | | | | | | | | | |
| employee share scheme trust | | | | | | **(5.9)** | **(5.9)** | | **(5.9)** |
| **As at 31 December 2018** | **81.8** | **13.3** | **174.4** | **2.8** | **25.3** | **368.6** | **666.2** | **-** | **666.2** |

## CONSOLIDATED BALANCE SHEET
## AS AT 31 DECEMBER 2018

| | 2018 £m | 2017 £m |
|---|---|---|
| **Assets** | | |
| Intangible assets | **606.7** | 509.0 |
| Property, plant and equipment | **284.4** | 270.4 |
| Employee benefit assets | **27.8** | 5.7 |
| Deferred tax assets | **17.0** | 20.9 |
| Other receivables | **3.2** | 4.2 |
| **Total non-current assets** | **939.1** | 810.2 |
| Inventories | **272.5** | 251.3 |
| Trade and other receivables | **450.3** | 418.8 |
| Other current financial assets | **1.0** | 4.1 |
| Current tax | **4.0** | 8.3 |
| Investments | **3.7** | 13.8 |
| Cash and cash equivalents | **132.2** | 98.6 |
| **Total current assets** | **863.7** | 794.9 |
| **Total assets** | **1,802.8** | 1,605.1 |
| **Liabilities** | | |
| Bank overdraft | **(82.6)** | (31.0) |
| Interest-bearing loans and borrowings | **(78.8)** | (113.8) |
| Provisions | **(12.5)** | (19.2) |
| Current tax | **(62.5)** | (61.0) |
| Trade and other payables | **(390.9)** | (416.5) |
| Other current financial liabilities | **(4.0)** | (3.9) |
| **Total current liabilities** | **(631.3)** | (645.4) |
| Interest-bearing loans and borrowings | **(375.3)** | (219.0) |
| Employee benefit obligations | **(80.1)** | (83.6) |
| Provisions | **(14.6)** | (15.4) |
| Deferred tax liabilities | **(29.8)** | (27.7) |
| Other payables | **(5.5)** | (6.6) |
| **Total non-current liabilities** | **(505.3)** | (352.3) |
| **Total liabilities** | **(1,136.6)** | (997.7) |
| **Net assets** | **666.2** | 607.4 |
| **Equity** | | |
| Share capital | **81.8** | 81.8 |
| Share premium | **13.3** | 12.7 |
| Other reserves | **202.5** | 205.2 |
| Retained earnings | **368.6** | 307.7 |
| **Equity attributable to owners of the parent** | **666.2** | 607.4 |
| **Total equity** | **666.2** | 607.4 |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 £m | 2017 £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit for the year from continuing operations | **231.6** | 192.7 |
| Operating profit for the year from discontinued operations | **-** | 2.2 |
| Adjustments for: | | |
| Depreciation and amortisation | **79.7** | 65.8 |
| Impairment of property, plant and equipment and intangible assets | **3.2** | 3.3 |
| (Gain)/loss on disposal of subsidiaries | **(0.6)** | 1.7 |
| Other acquisition items | **3.7** | |
| Gain on special pension events | **(6.8)** | (10.8) |
| (Profit)/Loss on sale of property, plant and equipment | **(3.0)** | 1.5 |
| Equity-settled share-based payment expense | **8.2** | 8.0 |
| Decrease in inventories | **5.5** | 3.9 |
| Increase in trade and other receivables | **(8.4)** | (26.5) |
| (Decrease)/Increase in trade and other payables | **(47.3)** | 22.4 |
| Decrease in provisions and employee benefits | **(7.6)** | (7.0) |
| **Cash generated from the operations** | **258.2** | 257.2 |
| Income taxes paid | **(41.1)** | (39.8) |
| **Cash generated from the operations after tax** | **217.1** | 217.4 |
| Additional pension scheme funding - UK and overseas | **(10.1)** | (3.3) |
| **Net cash from operating activities** | **207.0** | 214.1 |
| **Cash flows from investing activities** | | |
| Interest received | **5.8** | 5.5 |
| Proceeds from sale of property, plant and equipment | **12.8** | 0.5 |
| Net purchase /sale of investments | **0.1** | 0.8 |
| Settlement of transactional derivatives | **(1.3)** | (0.9) |
| Settlement of currency derivatives hedging balance sheet | **(17.1)** | (18.3) |
| Acquisition of subsidiaries net of cash | **(137.6)** | |
| Acquisition of property, plant and equipment and non-acquired intangibles | **(58.4)** | (69.8) |
| **Net cash from investing activities** | **(195.7)** | (82.2) |
| **Cash flows from financing activities** | | |
| Interest paid | **(18.7)** | (19.8) |
| Payment to non-controlling interest | **-** | (2.2) |
| Shares acquired for employee share scheme trust | **(5.9)** | (2.7) |
| Proceeds from the issue of share capital for employee share schemes | **0.6** | 0.6 |
| Net drawdown/(repayment) of borrowings | **100.9** | (2.1) |
| Dividends paid to equity shareholders and non-controlling interest | **(107.9)** | (105.5) |
| **Net cash from financing activities** | **(31.0)** | (131.7) |
| Net (decrease)/increase in cash and cash equivalents | **(19.7)** | 0.2 |
| Cash and cash equivalents at the start of the year | **67.6** | 67.5 |
| Effect of exchange rate fluctuations on cash held | **1.7** | (0.1) |
| **Cash and cash equivalents at the end of the year*** | **49.6** | 67.6 |

* Net of bank overdrafts of £82.6m (2017: £31m).

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 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***

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 IFRS 9, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of adjusted revenue and operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

**Alternative Performance Measures**

To facilitate a more meaningful review of performance, certain alternative performance measures 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 | Reconciliation to statutory measure |
|---|---|---|
| Adjusted revenue<br><br>Adjusted profit before tax<br><br>Adjusted net interest cost<br><br>Adjusted effective tax rate<br><br>Adjusted earnings per share | These measures are as reported to management and do not include the impact of adjusting items. | See income statement on page 11.<br><br><br><br><br><br><br><br>See note 5. |
| Adjusted segmental operating profit and margin | These measures are as reported to management and do not include the impact of adjusting items and gains and losses on disposal of subsidiaries. | See income statement on page 11 and segmental reporting in note 1. |
| Adjusted EBITDA | This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation. | See note 9. |
| Organic growth | This measure removes the impact of adjusting items, disposals and movements in exchange rates | See segmental reporting in note 1. |
| 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. | See note 9. |
| Operating cash flow<br><br>Free cash flow before Corporate activitiy | These measures are sub-totals 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 9. |

## 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 2018 £m | Revenue 2017 £m | Operating profit 2018 £m | Operating profit 2017 £m | Operating margin 2018 % | Operating margin 2017 % |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| IMI Critical Engineering | **682** | **648** | **88.3** | **84.0** | **12.9%** | **13.0%** |
| IMI Precision Engineering | **916** | **791** | **153.2** | **133.5** | **16.7%** | **16.9%** |
| IMI Hydronic Engineering | **309** | **312** | **52.0** | **49.7** | **16.8%** | **15.9%** |
| Corporate costs | | | **(27.2)** | **(26.3)** | | |
| **Total adjusted revenue/ segmental operating profit and margin** | **1,907** | 1,751 | **266.3** | 240.9 | **14.0%** | 13.8% |
| Restructuring costs (non-adjusting) | | | **(0.8)** | (1.7) | | |
| **Total adjusted revenue/ operating profit and margin** | **1,907** | 1,751 | **265.5** | 239.2 | **13.9%** | 13.7% |
| Reversal of net economic hedge contract losses | | | **1.9** | (0.9) | | |
| Restructuring costs | | | **(12.4)** | (34.6) | | |
| Gains on special pension events | | | **6.8** | 10.8 | | |
| Acquired intangible amortisation | | | **(28.8)** | (19.5) | | |
| Gains/loss on disposal of subsidiaries | | | **0.6** | (2.3) | | |
| Gain on disposal of properties | | | **3.2** | | | |
| Impairment losses | | | **(2.0)** | | | |
| Indirect taxes on reorganisation | | | **(3.2)** | | | |
| **Statutory revenue/operating profit** | **1,907** | 1,751 | **231.6** | 192.7 | | |
| Net financial expense | | | **(18.7)** | (11.8) | | |
| **Statutory profit before tax from continuing operations** | | | **212.9** | 180.9 | | |

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

| | Year ended 31 December 2017 | | | | **Year ended 31 December 2018** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Adjusted revenue** | As adjusted | Movement in foreign exchange | Disposals | Organic | **As adjusted** | Acquisition | **Organic** | **Adjusted growth (%)** | **Organic growth (%)** |
| IMI Critical Engineering | 648 | (6) | (3) | 639 | **682** | **-** | **682** | **5%** | **7%** |
| IMI Precision Engineering | 791 | (10) | - | 781 | **916** | **(88)** | **828** | **16%** | **6%** |
| IMI Hydronic Engineering | 312 | (3) | - | 309 | **309** | **-** | **309** | **-1%** | **0%** |
| **Total** | 1751 | (19) | (3) | 1,729 | **1,907** | **(88)** | **1,819** | **9%** | **5%** |
| **Segmental operating profit** | | | | | | | | | |
| IMI Critical Engineering | 84.0 | (1.3) | 0.6 | 83.3 | **88.3** | **-** | **88.3** | **5%** | **6%** |
| IMI Precision Engineering | 133.5 | (1.5) | - | 132.0 | **153.2** | **(6.7)** | **146.5** | **15%** | **11%** |
| IMI Hydronic Engineering | 49.7 | (0.5) | - | 49.2 | **52.0** | **-** | **52.0** | **5%** | **6%** |
| Corporate costs | (26.3) | - | - | (26.3) | **(27.2)** | **-** | **(27.2)** | | |
| **Total** | 240.9 | (3.3) | 0.6 | 238.2 | **266.3** | **(6.7)** | **259.6** | **11%** | **9%** |
| **Segmental operating profit margin (%)** | 13.8% | | | 13.8% | **14.0%** | | **14.3%** | | |

## 1. Segmental information (continued)

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

| | 2018 Revenue £m | 2017 Revenue £m |
|---|---|---|
| **UK** | **90** | 79 |
| Germany | **289** | 260 |
| Other Western Europe | **392** | 393 |
| **Western Europe** | **681** | 653 |
| USA | **427** | 318 |
| Canada | **24** | 20 |
| **North America** | **451** | 338 |
| **Emerging Markets** | **608** | 595 |
| **Rest of World** | **77** | 86 |
| **Total statutory revenue** | **1,907** | 1,751 |

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

| **Sector** | 2018 Revenue £m | 2017 Revenue £m |
|---|---|---|
| New Construction | **361** | 337 |
| Aftermarket | **321** | 311 |
| **Critical Engineering** | **682** | 648 |
| Industrial Automation | **525** | 440 |
| Commercial Vehicle | **196** | 183 |
| Energy | **77** | 67 |
| Life Sciences | **77** | 64 |
| Rail | **41** | 37 |
| **Precision Engineering** | **916** | 791 |
| TA | **151** | 147 |
| Heimeier | **98** | 104 |
| Pneumatex | **43** | 41 |
| Other | **17** | 20 |
| **Hydronic Engineering** | **309** | 312 |
| **Total revenue** | **1,907** | 1,751 |

## 2. Discontinued operations

A pre-tax gain of £2.2m and post-tax gain of £16.9m was recognised in 2017 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.

## 3. Net financial income and expense

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | 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 | 5.8 | | 5.8 | 5.5 | | 5.5 |
| Financial instruments at fair value | | | | | | |
| through profit or loss: | | | | | | |
| Other economic hedges | | | | | | |
| - current year trading | | 13.9 | 13.9 | | 6.9 | 6.9 |
| - future year transactions | | 2.2 | 2.2 | | 5.6 | 5.6 |
| **Financial income** | 5.8 | 16.1 | 21.9 | 5.5 | 12.5 | 18.0 |
| Interest expense on interest-bearing loans and borrowings | (18.7) | | (18.7) | (19.8) | | (19.8) |
| Financial instruments at fair value | | | | | | |
| through profit or loss: | | | | | | |
| Other economic hedges | | | | | | |
| - current year trading | | (15.9) | (15.9) | | (6.8) | (6.8) |
| - future year transactions | | (4.6) | (4.6) | | (2.4) | (2.4) |
| **Financial expense** | (18.7) | (20.5) | (39.2) | (19.8) | (9.2) | (29.0) |
| **Net finance income relating to defined benefit pension schemes** | (1.4) | | (1.4) | (0.8) | | (0.8) |
| **Net financial expense** | (14.3) | (4.4) | (18.7) | (15.1) | 3.3 | (11.8) |

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% (2017: 21%). The total adjusted tax charge for the year on continuing operations was £53m (2017: £47m). Taxes of £41m (2017: £40m) 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 | 2018 million | 2017 million |
|---|---|---|---|
| Weighted average number of shares for the purpose of basic earnings per share | A | **271.0** | 271.1 |
| Dilutive effect of employee share options | | **0.3** | 0.5 |
| Weighted average number of shares for the purpose of diluted earnings per share | B | **271.3** | 271.6 |
| | | **£m** | £m |
| **Statutory profit for the year** | | **169.4** | 162.2 |
| Non-controlling interests | | **-** | (0.1) |
| **Statutory profit for the year attributable to owners of the parent** | C | **169.4** | 162.1 |
| Statutory profit from discontinued operations, net of tax | | **-** | (16.9) |
| **Continuing statutory profit for the year attributable to owners of the parent** | D | **169.4** | 145.2 |
| Total adjusting items charges included in profit before tax | | **38.3** | 43.2 |
| Total adjusting items credits included in taxation | | **(9.3)** | (11.5) |
| **Earnings for adjusted EPS** | E | **198.4** | 176.9 |

| | | | |
|---|---|---|---|
| **Statutory EPS measures** | | | |
| Statutory basic EPS | C/A | 62.5p | 59.8p |
| Statutory diluted EPS | C/B | 62.4p | 59.7p |
| Statutory basic continuing EPS | D/A | 62.5p | 53.6p |
| Statutory diluted continuing EPS | D/B | 62.4p | 53.5p |
| **Adjusted EPS measures** | | | |
| Adjusted basic EPS | E/A | 73.2p | 65.3p |
| Adjusted diluted EPS | E/B | 73.1p | 65.1p |

**Discontinued earnings per share**

Statutory basic discontinued earnings per share were nil (2017: 6.2p). Statutory diluted discontinued earnings per share were nil (2017: 6.2p).

## 6. Adjusting items

### Restructuring costs

The restructuring costs treated as adjusting items total £12.4m (2017: £34.6m) are as a result of a number of significant restructuring projects across the Group. This includes 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).

Adjusting restructuring costs in 2017 included £12.4m relating to the closure of one our Critical Engineering sites in Belgium, £8.3m for the restructure of the Switzerland Controls & Nuclear business in Critical Engineering, £4.1m for the restructure of our European business in Precision Engineering and £3.0 in relation to restructuring undertaken in the Hydronic division.
Other restructuring costs of £0.8m (2017: £1.7m) are not included in the measure of segment operating profit reported to the Executive Committee. These costs have been charged below segmental operating profit as they arose from normal recurring cost reduction exercises included in the adjusted financial performance of the Group.

### Gains on special pension events

During 2018, de-risking activities relating to our defined benefit schemes continued including the conversion of certain pension benefits to non-inflation linked, occurring in the UK which resulted in net gains of £1.4m. Regulatory changes and the completion of a buy out in Switzerland resulted in gains totalling £3.0m. The completion of the transfer of £409m of liabilities covered by insurance policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £2.8m. An expense of £0.4m, arising from the equalisation of the UK defined benefit schemes, has been recognised following the ruling on the test case on Guaranteed Minimum Pensions. Gains on special pension events in the UK and Switzerland of £10.8m were recognised in 2017.

### Losses on disposal of subsidiaries

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

## 6. Adjusting items (continued)

### 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 loss of £1.9m (2017: reversal of a gain of £0.9m) and the latter amounted to a loss of £4.4m (2017: gain of £3.3m).

### Acquired intangible amortisation and other acquisition items

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 in 2018 totalled £25.1m (2017: £17.5m). The increase in 2018 reflects the amortisation of the intangible assets recognised on the acquisition of Bimba during the year, including the full amortisation of the Bimba order book which contributed £3.7m to the charge. Acquisition costs of £2.0m were incurred in 2017 arising from the acquisition of Bimba Manufacturing Company which completed on 31 January 2018.

### Gain on disposal of properties

A gain of £3.2m (2017: £nil) was recognised in 2018 following the disposal of the Critical Engineering site in Seishin Japan. The proceeds of the sale will be used to construct a purpose built facility in Japan which will allow Critical Engineering to better meet customer demand in this region.

### Impairment losses

The Group recorded an adjusting impairment charge of £2.0m against the goodwill associated with the Hydronic service companies CGU. The carrying value of the goodwill was reassessed after a sales process for the CGU was cancelled.

### Indirect taxes arising on reorganisation

Following a retrospective change to European tax law on the transfer of assets a provision of £3.2m to reflect the probable exposure has been recognised. The provision is recognised as an adjusting item in operating profit as it relates to indirect taxes.

### 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 26.0p per share (2017: 25.2p) payable on 17 May 2019 to shareholders on the register at close of business on 5 April 2019, which will cost about £70.4m (2017: £68.3m). Together with the interim dividend of 14.6p (2017: 14.2p) per share paid in September 2018, this makes a total distribution of 40.6p per share (2017: 39.4p per share). In accordance with IAS10 ‘Events after the Balance Sheet date’, this final proposed dividend has not been reflected in the 31 December 2018 balance sheet.

## 8. Employee Benefits

The Group has 67 (2017: 69) defined benefit obligations in existence as at 31 December 2018. 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 possible and providing in their place appropriate defined contribution arrangements.

The net deficit for defined benefit obligations at 31 December 2018 was £52m (2017: deficit of £78m). The UK surplus was £28m (2017: £2m surplus) and constituted 75% (2017: 85%) of the total defined benefit liabilities and 87% (2017: 92%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2018 was £80m (2017: £80m deficit).

| | UK<br>£m | Overseas<br>£m | Total<br>£m |
|---|---|---|---|
| Net defined benefit surplus/(obligation) as at 1 January 2018 | **1.6** | **(79.5)** | **(77.9)** |
| Movement recognised in: | | | |
| Income statement | **3.9** | **(4.4)** | **(0.5)** |
| Other comprehensive income | **12.2** | **(0.6)** | **11.6** |
| Cash flow statement | **10.1** | **6.4** | **16.5** |
| Other movements | **-** | **(2.0)** | **(2.0)** |
| **Net defined benefit surplus/(obligation) as at 31 December 2018** | **27.8** | **(80.1)** | **(52.3)** |

## 9. Cash flow and net debt reconciliation

**Reconciliation of net cash to movement in net borrowings**

| | **2018 £m** | 2017 £m |
|---|---|---|
| Net (decrease)/ increase in cash and cash equivalents excluding foreign exchange | **(19.7)** | **0.2** |
| Net (drawdown)/ repayment of borrowings excluding foreign exchange and net debt disposed/ acquired | **(86.0)** | **2.1** |
| **(Increase)/decrease in net debt before acquisitions, disposals and foreign exchange** | **(105.7)** | **2.3** |
| Net debt acquired | **(15.0)** | **-** |
| Currency translation differences | **(18.6)** | **15.1** |
| **Movement in net borrowings in the year** | **(139.3)** | **17.4** |
| Net borrowings at the start of the year | **(265.2)** | **(282.6)** |
| **Net borrowings at the end of the year** | **(404.5)** | **(265.2)** |

**Movement in net debt**

| | **2018 £m** | 2017 £m |
|---|---|---|
| **EBITDA* from continuing operations** | **320.1** | 287.5 |
| Working capital movements | **(50.3)** | (0.2) |
| Capital and development expenditure | **(58.4)** | (69.8) |
| Provisions and employee benefit movements** | **2.3** | (10.4) |
| Other | **7.8** | 10.8 |
| **Adjusted operating cash flow*** ** | **221.5** | 217.9 |
| Adjusting items**** | **(8.9)** | (29.2) |
| **Operating cash flow** | **212.6** | 188.7 |
| Interest | **(12.9)** | (14.3) |
| Derivatives | **(18.4)** | (19.2) |
| Tax paid | **(41.1)** | (39.8) |
| **Cash generation** | **140.2** | 115.4 |
| Additional pension scheme funding | **(10.1)** | (3.3) |
| **Free cash flow before corporate activity** | **130.1** | 112.1 |
| Dividends paid to equity shareholders and non-controlling interest | **(107.9)** | (105.5) |
| Acquisition of subsidiaries | **(122.6)** | - |
| Payment to non-controlling interest | **-** | (2.2) |
| Net purchase of own shares | **(5.3)** | (2.1) |
| **Net cash flow (excluding debt movements)** | **(105.7)** | 2.3 |
| Opening net debt | **(265.2)** | (282.6) |
| Net debt acquired | **(15.0)** | - |
| Foreign exchange translation | **(18.6)** | 15.1 |
| **Closing net debt** | **(404.5)** | (265.2) |

* Adjusted profit after tax (£198.4m) before interest (£14.3m), tax (£52.8m), depreciation (£42.8m) and amortisation (£11.8m).

** Movement in provisions and employee benefits as per the statement of cash flows (£7.6m) adjusted for the increase in restructuring provisions (£9.9m).

*** 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 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Euro | **1.13** | 1.14 | **1.11** | 1.13 |
| US Dollar | **1.33** | 1.29 | **1.28** | 1.35 |

The movement in average exchange rates between 2017 and 2018 resulted in our adjusted 2018 revenue being 1% lower and segmental operating profit being 1% lower as the average Euro rate was 1% stronger and the US dollar rate was 3% weaker.

If the average exchange rates for January 2019 of US$1.30 and €1.14 were projected for the full year and applied to our 2018 results, it is estimated that adjusted revenue would be in line and profits (including corporate costs) would have been approximately 0.1% higher.

## 11. Interest Bearing Loans and Borrowings

On 21 February 2018, the Group repaid unsecured loan notes of £108.7m and agreed new unsecured loan notes totalling £70.8m. The new loan notes have a ten-year term and an effective interest rate of 1.53%.

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

## 12. Acquisitions

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

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

| | **Fair value at 31 January 2018 £m** |
|---|---|
| Intangible assets | 57.6 |
| Property, plant and equipment | 18.8 |
| Inventories | 24.3 |
| Trade and other receivables | 9.3 |
| Cash and cash equivalents | 0.8 |
| Trade and other payables | (10.1) |
| Provisions | (1.4) |
| **Total identifiable net assets** | **99.3** |
| Goodwill arising on acquisition | 39.1 |
| **Total purchase consideration** | **138.4** |

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

The revenue and operating profit included in the consolidated income statement in 2018 contributed by Bimba were £88.3m and £6.7m respectively. There is no difference between adjusted and statutory operating profit for Bimba.

If the acquisitions had taken place on 1 January 2018 they would have contributed adjusted revenue of £96.7m and adjusted operating profit of £7.0m to the Group results.

There were no acquisitions during 2017.

## 13. Financial information

The preliminary statement of results was approved by the Board on 28 February 2019. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from the 2018 accounts, which are prepared on the same basis as the 2017 accounts. Statutory accounts for 2017 have been delivered to the registrar of companies and those for 2018 will be delivered in due course. Ernst & Young LLP has reported on both the 2017 and 2018 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 an adjusted basis before adjusting items as noted on the face of the consolidated income statement.

References to EPS, unless otherwise stated, relate to adjusted basic EPS i.e. after adjustment for the per share after tax impact of adjusting 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 2018 are defined in note 1.

References to organic growth exclude the impact of exchange rate translation and acquisitions or disposals that are included in adjusted 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 2018 Annual Report and Notice of the forthcoming Annual General Meeting will be posted to shareholders on 29 March 2019.*

## 14. 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 around 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.