IMI plc
Press Release

24 July 2020

A resilient performance in exceptional times

Dividend payment & guidance reinstated

Interim results, six months ended 30 June 2020

	Adjusted[1]				Statutory		
Continuing operations:	**2020 H1[5]**	2019 H1	Change	**Organic[5]**	**2020 H1**	2019 H1	Change
Revenue	**£867m**	£910m	-5%	**-6%**	**£867m**	£910m	-5%
Operating profit	**£121m**	£118m	+3%	**0%**	**£102m**	£101m	+1%
Operating margin	**14.0%**	13.0%	+100bps				
Profit before tax	**£116m**	£110m	+5%		**£94m**	£93m	+1%
Basic EPS[2]	**33.6p**	32.1p	+5%		**27.3p**	28.4p	-4%
Operating cash flow[3]	**£107m**	£101m	+6%				
Interim dividend per share[4]	**7.5p**	14.9p	-50%				
Net debt	**£420m**	£516m					

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 11 to the financial statements.

4 In addition to the interim 2020 dividend per share of 7.5p, the final 2019 dividend per share of 26.2p has also been reinstated (see note 7).

5 After adjusting for exchange rates and excluding the impact of acquisitions (see note 3).

Key points

- Coronavirus response measures continue to protect our people, businesses and stakeholders
- Resilient operational performance in demanding circumstances
- Margin improvement in all three divisions
- Temporary surge in ventilator demand supporting results
- Rationalisation projects deliver £19m savings; on track for targeted £30m savings in full year
- Reorganisation into commercially focused business units showing early benefits
- Reinstatement of 2019 final dividend
- Dividend for 2020 reset to establish baseline earnings cover of 3 times
- Reinitiating qualified guidance

Roy Twite, Chief Executive, said:

“I want to thank all of our employees for their exceptional dedication to protect each other and the business in the first half of the year. Our results confirm the resilience and quality of IMI’s business model in what have been exceptional and demanding circumstances. Whilst we continue to protect our employees and operations, we have also been helping our customers, broadening our reputation for delivering industry solutions, and readying ourselves for when markets improve.”

“As a result of the robust profit and cashflow performance in the first half, we are revisiting two decisions taken earlier in the year. Firstly, our decision to suspend the 2019 final dividend payment has now been reversed, and we will make that payment in full. We will also reset our dividend for 2020 to a level that enables IMI to more effectively deliver on its long-term growth ambitions. Finally, IMI is reinitiating guidance with this announcement, albeit on a qualified basis given the continued uncertainty regarding any future impacts from the Coronavirus.”

“Based on current market conditions, and assuming no worsening of the current Coronavirus impact, we expect 2020 adjusted EPS of 65p to 70p.”

Enquiries to:

John Dean	IMI	Tel: +44 (0)121 717 3712
Stephen Malthouse / Jane Glover	Headland PR	Tel: +44 (0)7734 956 201 / +44 (0)7884 742 400

A live webcast of the analyst meeting taking place today at 08:30am (BST) will be available on the investor page of the Group’s website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 5 November 2020.

IMI plc
Press Release

Results overview

Having experienced weakness in a number of markets in the second quarter, IMI benefited from cost actions enacted early which supported the delivery of higher margins versus the first half of 2019. The IMI team also scaled up production of one of its most technically advanced products to respond to a temporary surge in ventilator demand in the period, providing £35m and £14m of incremental revenue and profit, respectively.

	2020 H1	2019 H1	Change	**Organic change**
Income statement				
Group revenue	**£867m**	£910m	-5%	**-6%**
Adjusted operating profit	**£121m**	£118m	+3%	**0%**
Operating margin	**14.0%**	13.0%	+100bps	
Adjusted EPS	**33.6p**	32.1p	+5%	
Cash flow and balance sheet				
Adjusted operating cash flow	**£107m**	£101m	+6%	
Net Debt	**£420m**	£516m		
Net Debt to adjusted EBITDA	**1.2x**	1.5x		

- Lower volumes in most businesses partly offset by temporary surge in ventilator component sales
- Material cost reduction, productivity gains, and value pricing contributed to enhanced margins
- Rationalisation actions delivering to plan; remaining plans on track or enhanced
- Temporary cost-containment actions provided £20m in H1, £30m expected for full year
- Cash flow has remained strong
- Net debt / EBITDA remains healthy at 1.2x

Exchange rates
If the exchange rates on 17 July (US$1.26 and €1.10) remained constant for the remainder of the year, revenue and operating profit would be favourably impacted by c.1% in the full year when compared to 2019.

Coronavirus
Operational disruption has continued to be modest, as a result of the care and diligence of our team. Across the Group, we now have over 97% plant availability. Supply chain disruptions have been minor and managed effectively. A central response team continues to coordinate our activity, ensuring our best safety protocols and risk management actions are shared across all sites within the Group.

Dividend
Having delivered a robust first half profit and cash performance, the Board has revisited its earlier decision to suspend the 2019 final dividend and concluded that IMI will now make this distribution in full (26.2p per share). Further, the Board is recommending a 2020 interim dividend of 7.5p per share (2019: 14.9p per share). The interim distribution has been reset to reflect a dividend earnings cover baseline of 3.0x. This change will enable IMI to deliver more effectively on its long-term growth ambitions. Both of these payments will be made on 11 September 2020 to shareholders on the register at the close of business on 7 August 2020.

Outlook
Our markets continue to be volatile which makes future forecasts challenging. However, based on current market conditions, and importantly no material changes in the second half of 2020 as a result of Coronavirus, we now expect full year 2020 adjusted earnings per share to be between 65p and 70p.

Environmental, Social & Governance (ESG)

All elements of ESG have formed an important part of our management ethos and strategy for many years. A substantial proportion of the products we manufacture have a direct and positive impact on the world. Inclusion & diversity, health & safety, community support, and strong governance and risk management all contribute to IMI's sustainable and ethical business model. We also take great care around our own impact on the environment. We support the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations on the disclosure of information about the risks and opportunities presented by climate change. On 1 March 2020, Thomas Thune Andersen became the Board member responsible for Employee Engagement and ESG matters. More information about these matters – as well as on all of our ESG policies and practices – can be found on our website: **www.imiplc.com**.

Strategic progress

Despite the considerable uncertainty and disruption caused to many industries by the Coronavirus pandemic, we are pleased to report that, overall, our plans to improve the strategic positioning of our businesses have progressed largely as anticipated. The only notable changes to those plans have been the postponement of an IMI Precision Engineering site consolidation (given logistical issues brought about by the pandemic) and the addition of further actions within IMI Critical Engineering, addressing weakness in the Oil & Gas market.

This will defer approximately £20m of IMI Precision charges from 2020 to 2021. The scale of the total programme for IMI Precision remains unchanged and there will be limited impact to IMI Precision 2020 benefits. Within IMI Critical, charges for 2020 will increase to £35m. Benefits for IMI Critical in 2020 rise to £10m, with £15m of benefits in future years. The following table summarises the expectations for our programmes:

£m	2020 H1	2020	Future years	Overall programme
Restructuring charge (including impairment losses)				
IMI Precision Engineering	(5)	(10)	(45)	(75)
IMI Critical Engineering	(2)	(35)	-	(54)
IMI Hydronic Engineering	(3)	(5)	(1)	(6)
Total charge	**(10)**	**(50)**	**(46)**	**(135)**
Cash impact	(24)	(60)	(57)	(130)
£m	2020 H1	2020	Future years	Annualised
Benefits				
IMI Precision Engineering	13	20	14	35
IMI Critical Engineering	6	10	15	37
IMI Hydronic Engineering	-	-	3	3
Total benefits	**19**	**30**	**32**	**75**

As well as the changes to operational structures and facilities being implemented, the fundamental shift in our culture towards an even greater focus on our customers and solving industry problems is being embraced throughout the organisation. Our reorganisation into commercially focused business units has driven greater accountability for our local general managers, leading to better business decisions that are already driving improved performance.

The full impact will build over time, but the early signs provide greater confidence in delivering our targeted divisional margins, particularly when markets recover.

Executive committee change

Massimo Grassi, Divisional Managing Director for IMI Precision Engineering and a member of the Executive Committee, left the Group on 24 July 2020.

Beth Ferreira, who joins IMI on 3 August 2020, will lead the IMI Precision Engineering division as Divisional Managing Director and will also become a member of IMI's Executive Committee. Roy Twite will act as interim Divisional Managing Director in the meantime.

Beth has extensive commercial experience in the engineering sector. Previously she was Group President of Illinois Tool Works' Packing Equipment and Consumables division as well as holding senior positions in both the Polymers and Fluids divisions. Prior to that she spent six years with Belden Inc. where she was President of the Industrial Cables division. Beth is a proven cross-cultural leader with a demonstrable track record of leadership success within complex businesses, having successfully developed and delivered growth, including through M&A.

Roy Twite, Chief Executive of IMI, commented "On behalf of the Board and the Executive Committee I would like to thank Massimo for all his hard work and support since he joined IMI over five years ago. I am delighted to be welcoming Beth to IMI, she has an excellent leadership track record and brings a wealth of experience. I believe she will really embed and accelerate our market led innovation to generate long-term profitable growth and I very much look forward to working with her as a key Executive Committee member".

Divisional results review

The following review relates to our continuing businesses' performance on an adjusted basis for the six months ended 30 June 2020 when compared to the same period in 2019. References to organic growth are on a constant currency basis and exclude disposals and acquisitions.

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 Precision Engineering operates across three principal business units: Motion Control, Fluid Technologies and Commercial Vehicle. Further details on that segmentation, and comparison with the 2019 first half report, are available on page 22 of this statement.

	2020 H1	2019 H1	Change	**Organic change**
Revenue	£430m	£463m	-7%	-7%
Adjusted operating profit	£72.9m	£74.8m	-3%	-3%
Operating margin	17.0%	16.2%	+80bps	

2020 H1 performance

Lower revenues in the period were substantially driven by the declines in Motion Control (-11%) and Commercial Vehicle sales (-37%), both of which were expected but were exacerbated by the impact of Coronavirus. Those declines were partly offset by the temporary surge in orders for ventilator components supplied by our Life Sciences business, which delivered sales growth of 82% in the first half, when compared to the same period in 2019. Based on the current orderbook, we expect this temporary ventilator surge to contribute similarly in the second half of 2020.

Operating margins in the division improved to 17.0%, supported by ongoing profit improvement initiatives, as well as the temporary cost-containment actions taken in response to the Coronavirus pandemic. The

Breakthrough Engineering

division also benefited from sales mix due to the lower proportion of sales within its Commercial Vehicle segment. As a result, organic operating profit reduced 3%, holding profit drop-through to 6%.

Outlook

In light of expected continued market weakness, and importantly no material changes in the second half of 2020 as a result of Coronavirus, expectations are for organic sales and profits in the full year to be approximately 10% lower than in 2019.

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. Further details on IMI Critical Engineering market segmentation, and comparison with the 2019 first half report, are available on page 22 of this statement.

	2020 H1	2019 H1	Change	**Organic change**
Order intake	£330m	£358m	-8%	-11%
Closing order book	£546m	£538m	+1%	
Revenue	£293m	£294m	0%	-4%
Adjusted operating profit	£35.1m	£33.2m	+6%	-1%
Operating margin	12.0%	11.3%	+70bps	

2020 H1 performance

Organic order input for the first half of 2020 was 11% lower than the first half of 2019 and reflected a strong performance in Oil & Gas (including £42m of New Construction LNG orders) partly offset by order timing in Marine and lower demand from Refining and Petrochemical. The order book at the end of June was 1% higher than at the same point in 2019. Margins in the orderbook were held flat versus 2019, despite a mix shift toward New Construction.

First half organic revenues were 4% lower than in the same period last year and, when including the PBM acquisition and currency effect, flat on an adjusted basis. New Construction organic sales grew 1% compared with last year, reflecting stronger sales in Refining and Petrochemical which offset the weaker Oil & Gas and Power sectors. Aftermarket organic sales were 8% lower than in H1 2019, impacted by lower Field Service activities due to restricted access to sites during the second quarter.

Organic operating profit was 1% lower than in H1 2019, leaving margins for the half year at 12.0% (2019: 11.3%).

The 20%-30% of IMI Critical revenues announced as under review continue to demonstrate progress on the requirement to boost long-term margin and growth potential, despite the difficult economic backdrop. These businesses will continue to be assessed against their ability to contribute to IMI Critical's long-term strategic and financial ambitions.

Outlook

Based on order book phasing, and importantly no material changes in the second half of 2020 as a result of Coronavirus, the division expects organic revenue in the second half to be 5%-10% lower versus the prior year period. Margins for the full year are expected to be broadly flat when compared with 2019.

IMI Hydronic Engineering

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

	2020 H1	2019 H1	Change	Organic change
Revenue	£144m	£153m	-6%	-5%
Adjusted operating profit	£24.6m	£25.5m	-4%	-6%
Operating margin	17.1%	16.7%	+40bps	

2020 performance
Revenues for the first half were 5% lower on an organic basis when compared to the same period in the prior year, and were significantly affected by government lockdowns across Europe, particularly in France, the UK and Italy. The impact was across all divisional product groups and was most acute in the months of April and May. The division took immediate action to contain costs in the quarter and limited the fall in operating profit to 6% on an organic basis versus the prior year. As a result, margins improved to 17.1% in the first half.

Outlook
Based on current market conditions, and importantly no material changes in the second half of 2020 as a result of Coronavirus, we expect second half organic revenue to be 5%-10% lower versus the second half of 2019. Margins in the second half are expected to be broadly flat when compared with the first half of 2020.

Breakthrough Engineering

Financial review

Revenue of £867m was down 5% (2019: £910m). Organic revenues were down 6% when compared with the same period in the previous year, after adjusting for adverse exchange rate movements and the acquisition of PBM. Adjusted operating profit was £121m, a 3% increase on the prior period (2019: £118m). On an organic basis operating profit was flat at £119m. Group adjusted operating margin was 1% higher at 14.0% (2019: 13.0%) and statutory operating profit was also 1% higher at £102m (2019: £101m).

Adjusted net interest costs on borrowings were £5.5m (2019: £7.8m) and were covered 30 times by adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) on continuing operations of £167m (2019: £164m). The IAS19 pension net financial income was £0.1m (2019: £0.3m expense). The total adjusted net financial expense was £5.4m (2019: £8.1m). Profit before tax and adjusting items was £116m, an increase of 5% (2019: £110m).

The effective tax rate on profit before adjusting items for 2020 is 21%, which is consistent with the rate applicable in the first half of 2019 (21%).

Adjusting items

Restructuring costs were £10m (2019: £13m), primarily relating to the continued restructuring of our European business and site closures in the Americas in IMI Precision Engineering, the right sizing of IMI Critical Engineering and a site closure and the consolidation of distribution within IMI Hydronic Engineering.

The impact of amortisation of acquired intangibles and other acquisition items was £9m (2019: £10m). Additional adjusting items affecting continuing businesses were the reversal of net economic hedge contract gains of £3m, (2019: losses of £2m) and gains on special pension events of £nil (2019: £3m).

Statutory profit before tax from continuing operations was £94m (2019: £93m). The total statutory profit for the period after taxation was £74m (2019: £77m).

Earnings per share

The average number of shares in issue during both periods was 271m, resulting in adjusted basic earnings per share of 33.6p (2019: 32.1p) and adjusted diluted earnings per share of 33.6p (2019: 32.0p). Statutory basic earnings per share was 27.3p (2019: 28.4p) and statutory diluted earnings per share was 27.3p (2019: 28.3p).

Foreign exchange

The impacts of translation on the reported growth of first half revenues and adjusted operating profits was a decrease of £1m and increase of £1m, respectively. The most significant foreign currencies for the Group remain the Euro and the US Dollar and the relevant rates of exchange for the period and at the period end are shown in note 13 to this report.

If the exchange rates on 17 July (US$1.26 and €1.10) remained constant for the remainder of the year, it would favourably impact both revenues and adjusted operating profit by approximately 1% in the full year when compared to 2019.

Cash flow

Adjusted operating cash flow increased to £107m (2019: £101m). Trade and other receivables decreased by £3m, inventories increased by £46m and trade and other payables increased by £10m. Capital expenditure amounted to £21m and was 0.7 times the depreciation and amortisation charge for the period of £30m which excludes depreciation from the IFRS 16 right of use assets of £15m.

The other major cash outflows in the period were £25m of derivative settlements, a £24m outflow for adjusting items, related to the Group's restructuring programme and £17m of tax. The total cash inflow for the period, excluding the impact of foreign exchange was £33m, compared with an outflow of £15m in the first half of the previous year.

The Board has revisited its earlier decision to suspend the 2019 final dividend and the Group will now make this distribution in full (26.2p per share). Further, the Board is recommending a 2020 interim dividend of 7.5p per share (2019: 14.9p per share). See note 7 for further details.

Balance sheet

The Group maintains an appropriate mixture of cash and short, medium and long-term debt arrangements which provide sufficient headroom for both ongoing activities and acquisitions. Total undrawn committed bank loan facilities available to the Group at 30 June 2020 were £300m (December 2019: £283m).

The ratio of net debt to the last twelve months' EBITDA (before adjusting items) was 1.2x at the end of June 2020 (December 2019: 1.2x).

Trade and other receivables have increased by £16m (4%) at 30 June 2020 (December 2019: £390m) and inventories have increased by £63m (22%) at 30 June 2020 (December 2019: £281m).

The IAS19 net pension surplus was £2m which compares to a deficit of £45m at 30 June 2019 and a deficit of £31m at 31 December 2019. This amount included a surplus of £91m (31 December 2019: £48m) relating to the UK Fund which is the most significant of the Group's defined benefit schemes. The deficit relating to the overseas schemes increased to £89m (31 December 2019: £79m).

Shareholders' equity at the end of June was £839m, an increase of £129m since the end of last year, which includes the attributable profit for the period of £74m, an after-tax actuarial gain on the defined benefit pension plans of £27m, an increase of £6m resulting from the tax rate change and favourable exchange differences of £21m.

Other regulatory information

Going concern

After making enquiries, the directors have a reasonable expectation that IMI plc ('the Company') and the Group have adequate resources to continue in operational existence for the foreseeable future and for a period of at least twelve months following the approval of the Interim Financial Report. Accordingly, they continue to adopt the going concern basis. See note 1 for further information of the directors' considerations in reaching this conclusion.

The directors have considered the impact of Coronavirus and of the restrictions put in place by governments to contain the spread of the virus on the Group's financial results and financial position. The directors have assessed the viability of the Group and reviewed detailed cash flow forecast scenarios, including comparing a reverse stress test to those detailed forecasts. The directors have a reasonable expectation that the financial headroom will not be exhausted during the twelve months following the date of approval of the Interim Financial Report.

Principal risks and uncertainties

The Group has a risk management structure and internal controls in place which are designed to identify, manage and mitigate business risk.

IMI faces a number of risks and uncertainties which could have a material impact on the Group's long-term performance. In response to the Coronavirus pandemic, we continue to work closely with our key customers and suppliers to ensure expectations are being met. We remain vigilant, with routine response team meetings co-ordinating robust safety protocols, supply-chain and operational risk management, and dedicated customer support.

On pages 54 to 59 of its 2019 Annual Report (a copy of which is available on IMI's website: www.imiplc.com), the Company sets out what the directors regarded as being the principal risks and uncertainties facing the Group and which could have a material impact on the Group's long-term performance. These risks include an increase in macro-economic instability (including global health emergencies), competitive markets, major project implementation, product quality, acquisition risk, cyber security, regulatory breach and new product development. These risks remain valid and have the potential to impact the Group during the remainder of the second half of 2020. The impact of the economic and end-market environments in which the Group's businesses operate are considered in the divisional review and outlook sections of this Interim Financial Report.

Safe harbour statement

This Interim Financial Report contains forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and the Company undertakes no obligation to update these forward-looking statements. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. Nothing in this Interim Financial Report should be construed as a profit forecast.

Responsibility statement of the directors in respect of the Interim Financial Report

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS 34 *'Interim Financial Reporting'* as adopted by the EU;
- the Interim Financial Report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- there were no related party transactions or changes in the related party transactions described in the 2019 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2020.

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

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

Roy Twite
Chief Executive
23 July 2020

Notes to editors

IMI plc, the specialist engineering company, designs, manufactures and services highly engineered products that control the precise movement of fluids. Its innovative technologies, built around valves and actuators, enable vital processes to operate safely, cleanly, efficiently and cost effectively. The Group works with industrial customers across a range of high growth sectors, including energy, transportation and infrastructure, all of which are benefiting from the impact of long-term global trends including climate change, urbanisation, resource scarcity and an ageing population. IMI employs some 11,000 people, has manufacturing facilities in more than 20 countries and operates a global service network. The Company is listed on the London Stock Exchange. Further information is available at www.imiplc.com.

IMI plc is registered in England No. 714275. Its legal entity identifier ('LEI') number is 2138002W9Q21PF

INDEPENDENT REVIEW REPORT TO IMI plc

Introduction

We have been engaged by the Company to review the financial statements in the Interim Financial report for the six months ended 30 June 2020 which comprise a Consolidated Interim Income Statement, Consolidated Interim Statement of Comprehensive Income, Consolidated Interim Balance Sheet, Consolidated Interim Statement of Changes in Equity, Consolidated Interim Statement of Cash Flows and related explanatory notes 1 to 15. We have read the other information contained in the Interim Financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Interim Financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The financial statements included in this Interim Financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the financial statements in the Interim Financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements in the Interim Financial report for the six months ended 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Birmingham
23 July 2020

CONSOLIDATED INTERIM INCOME STATEMENT

	Note	**6 months to 30 June 2020 (unaudited)**			6 months to 30 June 2019 (unaudited)			Year to 31 Dec 2019		
		Adjusted £m	**Adjusting items (Note 2) £m**	**Statutory £m**	Adjusted £m	Adjusting items (Note 2) £m	Statutory £m	Adjusted £m	Adjusting items (Note 2) £m	Statutory £m
Revenue	3	867		**867**	910		910	1,873		1,873
Cost of sales		(483)		**(483)**	(511)		(511)	(1,059)	(1)	(1,060)
Gross profit		384.1		**384.1**	399.4		399.4	814.4	(1.1)	813.3
Operating costs		(263.1)	(18.8)	**(281.9)**	(281.4)	(17.3)	(298.7)	(548.3)	(60.7)	(609.0)
Operating profit	3	121.0	(18.8)	**102.2**	118.0	(17.3)	100.7	266.1	(61.8)	204.3
Financial income	5	3.3	6.3	**9.6**	3.3	6.9	10.2	4.5	13.4	17.9
Financial expense	5	(8.8)	(9.5)	**(18.3)**	(11.1)	(6.8)	(17.9)	(19.4)	(13.0)	(32.4)
Net finance income/(expense) relating to defined benefit pension schemes	5	0.1		**0.1**	(0.3)		(0.3)	(0.5)		(0.5)
Net financial expense	5	(5.4)	(3.2)	**(8.6)**	(8.1)	0.1	(8.0)	(15.4)	0.4	(15.0)
Profit before tax		115.6	(22.0)	**93.6**	109.9	(17.2)	92.7	250.7	(61.4)	189.3
Taxation	6	(24.3)	4.7	**(19.6)**	(23.1)	4.4	(18.7)	(52.6)	16.6	(36.0)
Profit from continuing operations after tax		91.3	(17.3)	**74.0**	86.8	(12.8)	74.0	198.1	(44.8)	153.3
Profit from discontinued operations after tax	15					2.8	2.8		2.8	2.8
Profit for the period		91.3	(17.3)	**74.0**	86.8	(10.0)	76.8	198.1	(42.0)	156.1

	Note	**6 months to 30 June 2020**	6 months to 30 June 2019	Year to 31 Dec 2019
Earnings per share	4			
Basic - from profit for the period		**27.3p**	28.4p	57.6p
Diluted - from profit for the period		**27.3p**	28.3p	57.6p
Basic - from continuing operations		**27.3p**	27.3p	56.6p
Diluted - from continuing operations		**27.3p**	27.3p	56.5p

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2020 (unaudited)		6 months to 30 June 2019 (unaudited)		Year to 31 Dec 2019	
	£m	**£m**	£m	£m	£m	£m
Profit for the period		**74.0**		76.8		156.1
Items that may be reclassified to profit and loss:						
Change in fair value of effective net investment hedge derivatives	**(3.4)**		(0.9)		2.6	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**20.8**		1.5		(15.4)	
Related tax effect on items that may subsequently be reclassified to profit and loss	**0.9**		0.2		6.0	
		18.3		0.8		(6.8)
Items that will not subsequently be reclassified to profit and loss:						
Re-measurement gain/(loss) on defined benefit plans	**35.2**		1.2		(0.1)	
Related taxation effect	**(7.8)**		-		0.1	
Effect of tax rate change on previously recognised items	**5.7**		-		-	
		33.1		1.2		-
Other comprehensive income/(expense) for the period, net of tax		**51.4**		2.0		(6.8)
Total comprehensive income for the period, net of tax		**125.4**		78.8		149.3

CONSOLIDATED INTERIM BALANCE SHEET

	Note	30 June 2020 (unaudited) £m	30 June 2019 (unaudited) £m	31 Dec 2019 £m
Assets				
Intangible assets		**647.8**	599.9	618.8
Property, plant and equipment		**274.8**	281.6	271.3
Right of use assets		**88.8**	90.5	90.1
Employee benefit assets	9	**91.3**	39.5	47.9
Deferred tax assets		**33.0**	17.1	22.2
Other receivables		**3.9**	2.0	2.3
Total non-current assets		**1,139.6**	1,030.6	1,052.6
Inventories		**343.6**	320.1	280.8
Trade and other receivables		**405.7**	427.9	389.7
Other current financial assets		**3.4**	2.9	6.2
Current tax		**2.4**	2.6	2.5
Investments		**3.7**	3.4	3.6
Cash and cash equivalents		**114.1**	101.1	88.2
Total current assets		**872.9**	858.0	771.0
Total assets		**2,012.5**	1,888.6	1,823.6
Liabilities				
Trade and other payables		**(391.0)**	(384.5)	(359.4)
Bank overdraft		**(60.9)**	(71.0)	(60.1)
Interest-bearing loans and borrowings		**-**	(78.9)	(17.6)
Lease liabilities		**(26.0)**	(26.6)	(25.6)
Provisions		**(28.1)**	(14.8)	(39.8)
Current tax		**(64.2)**	(58.7)	(57.7)
Other current financial liabilities		**(5.3)**	(4.0)	(1.9)
Total current liabilities		**(575.5)**	(638.5)	(562.1)
Interest-bearing loans and borrowings		**(382.5)**	(376.3)	(357.9)
Lease liabilities		**(64.7)**	(64.2)	(64.8)
Employee benefit obligations	9	**(88.9)**	(84.6)	(79.2)
Provisions		**(14.9)**	(16.9)	(13.0)
Deferred tax liabilities		**(39.1)**	(29.3)	(27.5)
Other payables		**(8.3)**	(4.8)	(9.2)
Total non-current liabilities		**(598.4)**	(576.1)	(551.6)
Total liabilities		**(1,173.9)**	(1,214.6)	(1,113.7)
Net assets		**838.6**	674.0	709.9
Share capital	12	**81.8**	81.8	81.8
Share premium		**14.2**	13.3	14.1
Other reserves		**214.0**	203.3	195.7
Retained earnings		**528.6**	375.6	418.3
Total equity		**838.6**	674.0	709.9

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2019		81.8	13.3	174.4	2.8	25.3	368.6	666.2
Profit for the period							76.8	76.8
Other comprehensive (expense)/income					(0.7)	1.5	1.2	2.0
Total comprehensive (expense)/income					(0.7)	1.5	78.0	78.8
Issue of share capital		-	-					-
Dividends paid on ordinary shares	7						(70.4)	(70.4)
Share-based payments (net of tax)							4.4	4.4
Shares acquired for:								
employee share scheme trust							(5.0)	(5.0)
As at 30 June 2019 (unaudited)		81.8	13.3	174.4	2.1	26.8	375.6	674.0
As at 1 January 2019		81.8	13.3	174.4	2.8	25.3	368.6	666.2
Profit for the year							156.1	156.1
Other comprehensive income/(expense)					2.6	(9.4)	-	(6.8)
Total comprehensive income/(expense)					2.6	(9.4)	156.1	149.3
Issue of share capital		-	0.8					0.8
Dividends paid on ordinary shares	7						(110.8)	(110.8)
Share-based payments (net of tax)							8.6	8.6
Shares acquired for:								
employee share scheme trust							(4.2)	(4.2)
As at 31 December 2019		81.8	14.1	174.4	5.4	15.9	418.3	709.9
As at 1 January 2020		**81.8**	**14.1**	**174.4**	**5.4**	**15.9**	**418.3**	**709.9**
Profit for the period							**74.0**	**74.0**
Other comprehensive (expense)/income					**(2.8)**	**21.1**	**33.1**	**51.4**
Total comprehensive (expense)/income					**(2.8)**	**21.1**	**107.1**	**125.4**
Issue of share capital	12	**-**	**0.1**					**0.1**
Share-based payments (net of tax)							**2.9**	**2.9**
Share proceeds for:								
employee share scheme trust							**0.3**	**0.3**
As at 30 June 2020 (unaudited)		**81.8**	**14.2**	**174.4**	**2.6**	**37.0**	**528.6**	**838.6**

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	**6 months to 30 June 2020 (unaudited) £m**	6 months to 30 June 2019 (unaudited) £m	Year to 31 Dec 2019 £m
Cash flows from operating activities				
Operating profit for the period from continued operations		**102.2**	100.7	204.3
Operating profit for the period from discontinued operations		**-**	-	2.8
Adjustments for:				
Depreciation and amortisation		**54.6**	54.8	110.7
Impairment of property, plant and equipment and intangible assets		**0.7**	0.9	1.5
Other acquisition items	2	**-**	-	1.1
Gain on special pension events	2	**-**	(2.5)	(8.6)
Loss/(profit) on sale of property, plant and equipment		**1.9**	0.3	(0.7)
Equity-settled share-based payment expense		**3.6**	4.5	8.8
Increase in inventories		**(45.7)**	(44.4)	(14.7)
Decrease in trade and other receivables		**3.2**	22.0	44.9
Increase/(decrease) in trade and other payables		**10.1**	(3.1)	(17.3)
(Decrease)/increase in provisions and employee benefits		**(11.6)**	5.1	29.2
Cash generated from operations		**119.0**	138.3	362.0
Income taxes paid		**(16.7)**	(21.9)	(40.2)
Cash generated from operations after tax		**102.3**	116.4	321.8
Additional pension scheme funding - UK and overseas		**(3.5)**	(3.5)	(7.0)
Net cash from operating activities		**98.8**	112.9	314.8
Cash flows from investing activities				
Interest received	5	**3.3**	3.3	4.5
Proceeds from sale of property, plant and equipment		**-**	-	7.7
Settlement of transactional derivatives		**0.1**	(2.2)	(3.5)
Settlement of currency derivatives hedging balance sheet		**(25.1)**	1.0	19.6
Acquisitions of subsidiaries net of cash		**-**	-	(68.0)
Acquisition of property, plant and equipment and non-acquired intangibles		**(20.5)**	(28.4)	(65.8)
Net cash from investing activities		**(42.2)**	(26.3)	(105.5)
Cash flows from financing activities				
Interest paid	5	**(8.8)**	(11.1)	(19.4)
Proceeds/(expenditure) for shares acquired for employee share scheme trust		**0.3**	(5.0)	(4.2)
Proceeds from the issue of share capital for employee share schemes	12	**0.1**	-	0.8
Net repayment of borrowings		**(17.8)**	(0.9)	(63.9)
Principal elements of lease payments		**(15.5)**	(15.5)	(31.3)
Dividends paid to equity shareholders	7	**-**	(70.4)	(110.8)
Net cash from financing activities		**(41.7)**	(102.9)	(228.8)
Net increase/(decrease) in cash and cash equivalents		**14.9**	(16.3)	(19.5)
Cash and cash equivalents at the start of the period		**28.1**	49.6	49.6
Effect of exchange rate fluctuations on cash held		**10.2**	(3.2)	(2.0)
Cash and cash equivalents at the end of the period*		**53.2**	30.1	28.1

* Net of bank overdrafts of £60.9m (31 December 2019: £60.1m; 30 June 2019: £71.0m).

The reconciliation of net decrease in cash to movement in net debt appears in note 11.

1. Significant accounting policies

Basis of preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 '*Interim Financial Reporting'* as adopted by the EU. The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The Interim Financial Statements are unaudited but have been reviewed by the Company's auditor in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board. A copy of their unqualified review report is attached.

The comparative figures for the financial year ended 31 December 2019 are derived from the Group's statutory accounts for that financial year as defined in section 435 of the Companies Act 2006. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Interim Financial Statements have been prepared for the Group as a whole and therefore give greater emphasis to those matters which are significant to IMI plc and its subsidiaries when viewed as a whole. The interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for a period of at least twelve months following the approval of the Interim Financial Report. Accordingly, they continue to adopt the going concern basis.

The directors have considered the impact of Coronavirus and of the restrictions put in place by governments to contain the spread of the virus on the Group's financial results and financial position. Immediate measures were taken to protect first and foremost the Group's workforce, communities and customers. Actions were deployed to ensure strict adherence to social distancing measures and deep-cleaning protocols and these measures will be continued as needed to keep the workforce safe.

Business disruption, so far, has been reasonably modest as the Group is well diversified and maintains a balanced portfolio operating across a range of markets, sectors and geographies with no single dependency. Performance in IMI Precision's Commercial Vehicle segment has been affected and temporary construction site restrictions have impacted the results of IMI Hydronic, both of which have been mitigated to some extent by a temporary surge in orders within Life Sciences.

Across the Group, all sites have returned to normal levels of production, with only plants in India and Brazil and facilities in Italy having been closed for a period, following local government instructions, which had limited impact on the Group's results. Supply chain disruptions have been minimal and alternative suppliers or contingency stocks have addressed the few instances of part shortages.

During this period of uncertainty, we continue to maintain a robust financial position. The balance sheet position has been protected by the actions taken to reduce costs and preserve cash, including the following:

- the suspension of the 2019 final dividend with a plan to reinstate this during the second half of the year (see note 7);
- salary reductions for the Board, Executive Committee and members of the senior leadership team;
- continuing, successful initiatives in rationalisation, value-pricing and material cost reduction; and
- reduction in temporary workers, increase in short time working, and tight controls on discretionary spending.

At the half year, the group had cash and cash equivalents of £53m and undrawn committed facilities of £300m in the form of Revolving Credit Facilities (RCF), of which £75m is due for renewal in March 2021 and the remaining facilities due for renewal in 2022 (£100m) and 2023 (£125m). Forecasts indicate that the Group can operate within the level of facilities in place without the need to obtain any new facilities in the twelve-month period following the approval of the Interim Financial Report.

The directors have assessed the viability of the Group and reviewed detailed cash flow forecasts for a period of at least twelve months following the date of approval of the Interim Financial Report. These revised forecasts factored in a decline in revenue based on slowdowns in various end markets, experiencing tough trading conditions. After applying a reverse stress test and making comparisons to the detailed forecasts, the directors have a reasonable expectation that the financial headroom will not be exhausted during this period.

Covenant compliance reviews are undertaken to ensure that the Group remains fully within the covenant limits. Funding covenants currently require EBITDA to be no less than 4.0 times interest and net debt to be no more than 3.0 times EBITDA. Those covenant ratios, at 30 June 2020, were 28.6 times and 1.2 times, respectively. For there to be a breach of covenants during the twelve-month period following the approval of the Interim Financial Report, forecast EBITDA would need to fall by 51% from the levels currently forecast.

1. Significant accounting policies (continued)

Accounting policies

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

As required by the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's consolidated financial statements for the year ended 31 December 2019 as described in the 2019 Annual Report and Accounts, except where new or revised accounting standards have been applied as described in section (i) below.

(i) New or amended EU Endorsed Accounting Standards adopted by the Group during 2020

Noted below are the amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2020, none of which has a material impact on the financial statements:

- IFRS 3 'Business Combinations' – amendments to definition of a Business
- IFRS 7, IFRS 9 and IAS 39: 'Financial Instruments' – amendments to Interest Rate Benchmark Reform
- IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – amendments to definition of Material

2. Alternative Performance Measures and Adjusting items

Alternative Performance Measures

To facilitate a more meaningful review of performance, certain alternative performance measures ('APMs') have been included within this announcement. These APMs are used by the Executive Committee to monitor and manage the performance of the Group. Movements in adjusted revenue and adjusted operating profit are given on an organic basis (see definition below) so that performance is not distorted by acquisitions, disposals and movements in exchange rates.

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

APM	**Definition**	**Reconciliation to statutory measure**
Adjusted revenue Adjusted profit before tax Adjusted net financial expense Adjusted earnings per share Adjusted effective tax rate	These measures are as reported to management and do not include the impact of adjusting items described in note 2.	See income statement. See note 4. See note 6.
Adjusted EBITDA	This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation.	See note 11.
Adjusted operating profit and margin	These measures are as reported to management and do not include the impact of adjusting items described in note 2.	See income statement and segmental reporting note in note 3.
Organic growth	This measure removes the impact of adjusting items, acquisitions, disposals 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, the sale of investments less the repayment of principal amounts of lease payments excluding the cash impact of adjusting items.	See note 11.
Net Debt	Net debt is defined as the cash and cash equivalents, overdrafts, interest-bearing loans and borrowings and lease liabilities.	See note 11.
Operating cash flow Free cash flow before corporate activity	These measures are subtotals in the reconciliation of adjusted EBITDA to Net Debt and are presented to assist the reader to understand the nature of the current year's cash flows.	

2. Alternative Performance Measures and Adjusting items (continued)

Adjusting items

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

	Key	**6 months to 30 June 2020**	6 months to 30 June 2019	Year to 31 Dec 2019
Recognised in arriving at operating profit from continuing operations				
Reversal of net economic hedge contract losses	(a)	**0.3**	2.4	4.0
Restructuring costs	(b)	**(9.7)**	(12.5)	(51.8)
Gains on special pension events	(c)	**-**	2.5	8.6
Impairment losses	(d)	**-**	-	(1.5)
Acquired intangible amortisation and other acquisition items	(e)	**(9.4)**	(9.7)	(21.1)
		(18.8)	(17.3)	(61.8)
Recognised in net financial expense				
Financial income	(a)	**6.3**	6.9	13.4
Financial expense	(a)	**(9.5)**	(6.8)	(13.0)

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

(b) Adjusting restructuring costs of £9.7m were incurred in the six months to 30 June 2020. This includes £4.9m in IMI Precision Engineering for the continued restructure of our European business and site closures in the Americas in IMI Precision; £1.9m incurred within IMI Critical Engineering due to right sizing, a site closure and the consolidation of distribution within IMI Hydronic Engineering of £3.2m; offset by a £0.3m release on finalisation of the Corporate restructure.

Adjusting restructuring costs of £51.8m were recognised in 2019 (six months to 30 June 2019: £12.5m). This includes a restructuring of our European business totalling £24.4m in IMI Precision, £4.6m in the Americas and £1.2m in the divisional central team. In IMI Critical, adjusted restructuring costs related to a divisional reorganisation of £9.2m and restructure of the EMEA region of £9.5m. In IMI Hydronic, there were restructuring costs of £0.3m due to the finalisation of the Global Restructuring Programme initiated in 2018 and there were restructuring costs of £2.6m relating to the Corporate head office.

(c) During 2019, a gain in respect of an accounting adjustment for Swiss disability benefits was recognised for £4.7m. A gain was recognised in respect of a restructure of the pension benefits in Switzerland resulting in a gain of £2.8m (six months to June 2019: £2.5m). A curtailment gain of £0.8m was recognised in relation to a restructuring event in Switzerland. A settlement gain of £0.5m was recognised in respect of the buy-out of retirees in Switzerland. Professional fees of £0.2m have been recognised as adjusting associated with ongoing de-risking projects.

(d) No impairment losses have been recognised in 2020 (six months to 30 June 2019: £nil). In the 12 months to 31 December 2019, £1.5m impairment losses were recorded as adjusting items relating to impairments of fixed assets associated with the restructuring projects discussed above.

(e) The acquired intangible amortisation charge in the six months to 30 June 2020 was £9.4m (six months to 30 June 2019: £9.7m, 12 months to 31 December 2019: £19.5m). In 2019 the acquisition of PBM resulted in a fair value uplift to inventory of £1.1m recognised in accordance with IFRS 3 ‘Business Combinations’ as an adjusting item to cost of sales and professional fees of £0.5m.

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

3. Segmental information

Segmental information is presented in the consolidated Interim Financial Statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

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

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

Performance is measured by the Executive Committee based on adjusted operating profit and organic revenue growth which are defined in note 2. These two measures represent the two short term key performance indicators for the Group. Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Adjusted operating profits are therefore charged/credited with the impact of these contracts. In accordance with IFRS 9, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

	Revenue			**Operating profit**			**Operating margin**		
	6 months to 30 June 2020 £m	6 months to 30 June 2019 £m	Year to 31 Dec 2019 £m	**6 months to 30 June 2020 £m**	6 months to 30 June 2019 £m	Year to 31 Dec 2019 £m	**6 months to 30 June 2020 %**	6 months to 30 June 2019 %	Year to 31 Dec 2019 %
Continuing operations									
IMI Precision Engineering	***430***	*463*	*907*	***72.9***	*74.8*	*148.0*	***17.0%***	*16.2%*	*16.3%*
IMI Critical Engineering	***293***	*294*	*651*	***35.1***	*33.2*	*90.1*	***12.0%***	*11.3%*	*13.8%*
IMI Hydronic Engineering	***144***	*153*	*315*	***24.6***	*25.5*	*56.7*	***17.1%***	*16.7%*	*18.0%*
Corporate costs				***(11.6)***	*(15.5)*	*(28.7)*			
Total adjusted revenue/ operating profit and margin	**867**	910	1,873	**121.0**	118.0	266.1	**14.0%**	13.0%	14.2%
Reversal of net economic hedge losses				**0.3**	2.4	4.0			
Restructuring costs				**(9.7)**	(12.5)	(51.8)			
Gains on special pension events					2.5	8.6			
Acquired intangible amortisation and other acquisition items				**(9.4)**	(9.7)	(21.1)			
Impairment losses						(1.5)			
Statutory revenue/operating profit	**867**	910	1,873	**102.2**	100.7	204.3			
Net financial expense				**(8.6)**	(8.0)	(15.0)			
Statutory profit before tax from continuing operations				**93.6**	92.7	189.3			

3. Segmental information (continued)

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

	6 months to 30 June 2020					6 months to 30 June 2019		
Revenue	**As adjusted**	**Acquisitions**	**Organic**	**Adjusted growth (%)**	**Organic growth (%)**	As adjusted	Exchange	Organic
IMI Precision Engineering	**430**		**430**	**-7%**	**-7%**	463	1	464
IMI Critical Engineering	**293**	**(12)**	**281**	**0%**	**-4%**	294	(1)	293
IMI Hydronic Engineering	**144**		**144**	**-6%**	**-5%**	153	(1)	152
Total	**867**	**(12)**	**855**	**-5%**	**-6%**	910	(1)	909
IMI Precision Engineering	**72.9**		**72.9**	**-3%**	**-3%**	74.8	0.2	75.0
IMI Critical Engineering	**35.1**	**(2.2)**	**32.9**	**6%**	**-1%**	33.2	(0.1)	33.1
IMI Hydronic Engineering	**24.6**		**24.6**	**-4%**	**-6%**	25.5	0.8	26.3
Corporate costs	**(11.6)**		**(11.6)**			(15.5)		(15.5)
Adjusted operating profit	**121.0**	**(2.2)**	**118.8**	**3%**	**0%**	118.0	0.9	118.9
Adjusted operating profit margin (%)	**14.0%**		**13.9%**			13.0%		13.1%

Balance sheet

	Assets			Liabilities		
	30 June 2020	30 June 2019	31 December 2019	**30 June 2020**	30 June 2019	31 December 2019
	£m	£m	£m	**£m**	£m	£m
IMI Precision Engineering	***718.8***	*715.8*	*667.0*	***176.5***	*159.0*	*165.8*
IMI Critical Engineering	***793.4***	*758.4*	*771.4*	***251.6***	*244.2*	*241.1*
IMI Hydronic Engineering	***236.8***	*236.7*	*206.8*	***72.8***	*74.7*	*69.9*
	1,749.0	1,710.9	1,645.2	**500.9**	477.9	476.8
Corporate items	**19.0**	16.7	14.0	**37.4**	43.5	36.9
Employee benefits	**91.3**	39.5	47.9	**88.9**	84.6	79.2
Investments	**3.7**	3.4	3.6	**-**	-	-
Net debt items excluding lease liabilities	**114.1**	101.1	88.2	**443.4**	526.2	435.6
Net taxation and others	**35.4**	17.0	24.7	**103.3**	82.4	85.2
Total reported in the Group balance sheet	**2,012.5**	1,888.6	1,823.6	**1,173.9**	1,214.6	1,113.7

	Adjusting restructuring costs		
	6 months to 30 June 2020	6 months to 30 June 2019	Year to 31 Dec 2019
	£m	£m	£m
Total Group	**9.7**	12.5	51.8
IMI Precision Engineering	***4.9***	*3.8*	*30.2*
IMI Critical Engineering	***1.9***	*6.6*	*18.7*
IMI Hydronic Engineering	***3.2***	*0.2*	*0.3*
Corporate Costs	***(0.3)***	*1.9*	*2.6*

3. Segmental information (continued)

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

	H1 2020 Revenue £m	H1 2019 Revenue £m (Reclassified)
IMI Precision Engineering*		
Factory Automation	**184**	206
Rail	**19**	21
Motion Control	**203**	227
Life Sciences	**79**	43
Process Control	**45**	51
Energy	**40**	42
Fluid Technologies	**164**	136
Commercial Vehicles	**63**	100
Total IMI Precision Engineering	**430**	463
IMI Critical Engineering**		
New Construction	**23**	38
Aftermarket	**26**	22
Oil & Gas	**49**	60
New Construction	**53**	36
Aftermarket	**40**	41
Refining & Petrochemical	**93**	77
New Construction	**19**	28
Aftermarket	**62**	77
Power	**81**	105
Marine	**20**	13
Nuclear	**17**	23
Other	**33**	16
Total IMI Critical Engineering	**293**	294
IMI Hydronic Engineering***		
TA	**71**	75
Heimeier	**43**	48
Pneumatex	**23**	22
Other	**7**	8
Total IMI Hydronic Engineering	**144**	153
Revenue	**867**	910

The Group has been reorganised into commercially focused business units, resulting in the reclassification to new sectors. Prior year numbers in the tables above have been reclassified.

* 2019 Industrial Automation sales of £259m disaggregate as Factory Automation (£202m), Process Control (£51m), Life Sciences (£4m) and Energy (£2m). 2019 Commercial Vehicle sales of £104m disaggregate as Commercial Vehicle (£100m) and Factory Automation (£4m).

** 2019 New Construction sales of £124m disaggregate as Oil & Gas (£38m), Refining & Petrochemical of (£36m), Power (£28m), Marine (£5m), Nuclear (£6m) and Other (£11m) and Aftermarket sales of £170m disaggregate as Oil & Gas (£22m), Refining & Petrochemical (£41m), Power (£77m), Marine (£8m), Nuclear (£17m) and Other (£5m).

***£2m of the 2019 Pneumatex service sales have been reclassified from Other to Pneumatex.

4. Earnings per ordinary share

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

	Key	**30 June 2020 million**	30 June 2019 million	31 Dec 2019 million
Weighted average number of shares for the purpose of basic earnings per share	A	**271.4**	270.8	270.8
Dilutive effect of employee share options		**0.1**	0.2	0.4
Weighted average number of shares for the purpose of diluted earnings per share	B	**271.5**	271.0	271.2

	Key	**6 months to 30 June 2020 £m**	6 months to 30 June 2019 £m	Year to 31 Dec 2019 £m
Statutory profit for the period	C	**74.0**	76.8	156.1
Statutory profit from discontinued operations, net of tax		**-**	(2.8)	(2.8)
Continuing statutory profit	D	**74.0**	74.0	153.3
Total adjusting items charges included in profit for the period before tax		**22.0**	17.2	61.4
Total adjusting items credits included in taxation		**(4.7)**	(4.4)	(16.6)
Earnings for adjusted EPS	E	**91.3**	86.8	198.1

Statutory EPS measures				
Statutory basic EPS	C/A	27.3p	28.4p	57.6p
Statutory diluted EPS	C/B	27.3p	28.3p	57.6p
Statutory basic EPS - from continuing operations	D/A	27.3p	27.3p	56.6p
Statutory diluted EPS - from continuing operations	D/B	27.3p	27.3p	56.5p
Adjusted EPS measures				
Adjusted basic EPS	E/A	33.6p	32.1p	73.2p
Adjusted diluted EPS	E/B	33.6p	32.0p	73.0p

5. Net financial expense

Recognised in the income statement	6 months to 30 June 2020 Interest	6 months to 30 June 2020 Financial instruments	6 months to 30 June 2020 Total	6 months to 30 June 2019 Interest	6 months to 30 June 2019 Financial instruments	6 months to 30 June 2019 Total	Year to 31 Dec 2019 Interest	Year to 31 Dec 2019 Financial instruments	Year to 31 Dec 2019 Total
Interest income on bank deposits	**3.3**		**3.3**	3.3		3.3	4.5		4.5
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		**1.5**	**1.5**		2.4	2.4		7.5	7.5
- future period transactions		**4.8**	**4.8**		4.5	4.5		5.9	5.9
Financial income	**3.3**	**6.3**	**9.6**	3.3	6.9	10.2	4.5	13.4	17.9
Interest expense on interest-bearing loans and borrowings	**(7.5)**		**(7.5)**	(10.0)		(10.0)	(17.1)		(17.1)
Interest expense on leases	**(1.3)**		**(1.3)**	(1.1)		(1.1)	(2.3)		(2.3)
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		**(4.1)**	**(4.1)**		(2.8)	(2.8)		(9.3)	(9.3)
- future period transactions		**(5.4)**	**(5.4)**		(4.0)	(4.0)		(3.7)	(3.7)
Financial expense	**(8.8)**	**(9.5)**	**(18.3)**	(11.1)	(6.8)	(17.9)	(19.4)	(13.0)	(32.4)
Net finance income/(expense) relating to defined benefit pension schemes	**0.1**		**0.1**	(0.3)		(0.3)	(0.5)		(0.5)
Net financial expense	**(5.4)**	**(3.2)**	**(8.6)**	(8.1)	0.1	(8.0)	(15.4)	0.4	(15.0)

Included in financial instruments are current period trading gains and losses on economically effective settled transactions which for management reporting purposes (see note 3) are included in adjusted revenue and operating profit. For statutory purposes, these are required to be shown within net financial income and expense. Gains or losses on economic hedges for future period transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

6. Taxation

The tax charge before adjusting items is £24.3m (year ended 31 December 2019: £52.6m) which equates to an effective tax rate of 21.0% compared to 21.0% for the comparative six-month period in the prior year and 21.0% for the year ended 31 December 2019.

As IMI's head office and parent company is domiciled in the UK, the Group references its effective tax rate to the UK corporation tax rate, despite only a small proportion of the Group's business being in the UK. The average weighted rate of corporation tax in the UK for the year ending 31 December 2020 is 19.0% (year ended 31 December 2019: 19.0%). The Group's effective tax rate remains slightly above the UK tax rate due to the Group's overseas profits being taxed at higher rates.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19%, rather than reducing to 17%, as previously enacted. This new law was substantively enacted on 17 March 2020. As a result of this change, a charge of £6.2m has been posted to the income statement and a credit of £5.7m has been posted to the statement of comprehensive income.

7. Dividend

Having delivered a robust first half profit and cash performance, the directors have revisited their earlier decision to suspend the 2019 final dividend and concluded that the Group will now make this distribution in full (26.2p per share).

In addition, the directors have declared an interim dividend for the current year of 7.5p per share (2019: 14.9p per share). The interim distribution has been reset to reflect a dividend earnings cover baseline of 3.0x. This change will enable the Group to more effectively deliver on its long-term growth ambitions. Both of these payments will be made on 11 September 2020 to shareholders on the register at the close of business on 7 August 2020.

In accordance with IAS10 'Events after the Balance Sheet Date' these dividends have not been reflected in these Interim Financial Statements.

8. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £13.8m, the majority of which was in respect of plant and equipment (including those under construction).

Capital expenditure on non-acquired intangible assets in the period was £6.7m. This included £2.3m in respect of capitalised development costs and £4.4m in respect of other non-acquired intangible assets (including those under construction).

9. Employee benefits

The net defined benefit pension surplus at 30 June 2020 was £2.4m (31 December 2019: liability of £31.3m); made up of assets of £708.7m (31 December 2019: £623.6m) and liabilities of £706.3m (31 December 2019: £654.9m). The UK net surplus in the Funds increased to £91.3m (31 December 2019: £47.9m). The increase is a result of asset gains which have been partially offset by unfavourable movements in the actuarial assumptions.

The net deficit in respect of the total overseas obligations increased to £88.9m (31 December 2019: £79.2m) due to decreases in the discount rates.

10. Fair value hierarchy

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

	30 June 2020				31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial assets measured at fair value								
Equity instruments*	**3.7**			**3.7**	3.6		-	3.6
Cash and cash equivalents	**114.1**			**114.1**	88.2			88.2
Foreign currency forward contracts		**3.4**		**3.4**		6.2		6.2
	117.8	**3.4**	**-**	**121.2**	91.8	6.2	-	98.0
Financial liabilities measured at fair value								
Foreign currency forward contracts		**(5.3)**		**(5.3)**		(1.9)		(1.9)
	-	**(5.3)**	**-**	**(5.3)**	-	(1.9)	-	(1.9)

* Equity instruments primarily relate to investments in funds in order to satisfy long-term benefit arrangements.

Level 1 - quoted prices in active markets for identical assets/liabilities

Level 2 - significant other observable inputs

Level 3 - unobservable inputs

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £3.4m and £5.3m, respectively, are valued by level 2 techniques. The valuations are derived from discounted contractual cash flows using observable, and directly relevant, market interest rates and foreign exchange rates from market data providers.

The fair values of all financial assets and liabilities in the balance sheet as at 30 June 2020, 31 December 2019 and 30 June 2019 are materially equivalent to their carrying values with the exception of the US private placement fixed rate loans, for which the carrying values are set out below:

	Carrying value	Fair value
	£m	**£m**
30 June 2020	**382.5**	**419.2**
31 December 2019	357.9	377.3
30 June 2019	454.9	477.2

11. Cash flow reconciliation

Reconciliation of net decrease in cash to movement in net debt

	6 months to 30 June 2020 £m	6 months to 30 June 2019 £m	Year to 31 Dec 2019 £m
Net increase/(decrease) in cash and cash equivalents*	**14.9**	(16.3)	(19.5)
Net repayment of borrowings	**17.8**	0.9	62.9
Decrease/(increase) in net debt*	**32.7**	(15.4)	43.4
Net cash acquired	**-**	-	1.0
Movement in lease liabilities**	**(0.3)**	(90.8)	(90.4)
Currency translation differences	**(14.6)**	(5.1)	12.7
Movement in net debt in the period	**17.8**	(111.3)	(33.3)
Net debt at the start of the period	**(437.8)**	(404.5)	(404.5)
Net debt at the end of the period* **	**(420.0)**	(515.8)	(437.8)

* Excluding foreign exchange.
** The adoption of the accounting standard IFRS 16 'Leases' came into effect from 1 January 2019.
*** Net debt is defined as cash and cash equivalents, overdrafts, interest-bearing loans and borrowings and lease liabilities.

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2020 £m	6 months to 30 June 2019 £m	Year to 31 Dec 2019 £m
EBITDA* from continuing operations	**166.9**	164.0	357.3
Working capital movements	**(32.4)**	(25.5)	12.9
Capital and development expenditure	**(20.5)**	(28.4)	(65.8)
Provisions and employee benefit movements**	**2.6**	(0.2)	6.5
Principal elements of lease payments	**(15.5)**	(15.5)	(31.3)
Other	**5.6**	6.3	19.2
Adjusted operating cash flow* **	**106.7**	100.7	298.8
Adjusting items****	**(23.7)**	(6.3)	(26.2)
Operating cash flow	**83.0**	94.4	272.6
Tax paid	**(16.7)**	(21.9)	(40.2)
Interest and derivatives	**(30.5)**	(9.0)	1.2
Cash generation	**35.8**	63.5	233.6
Additional pension scheme funding	**(3.5)**	(3.5)	(7.0)
Free cash flow before corporate activity	**32.3**	60.0	226.6
Dividends paid to equity shareholders	**-**	(70.4)	(110.8)
Acquisition of subsidiaries	**-**	-	(69.0)
Net issue/(purchase) of own shares	**0.4**	(5.0)	(3.4)
Net cash flow (excluding debt movements)	**32.7**	(15.4)	43.4

* Adjusted profit after tax (£91.3m), before interest (£5.4m), tax (£24.3m), depreciation (£37.7m), amortisation (£7.5m) and impairment on property, plant and equipment (£0.7m).
** Movement in provisions and employee benefits as per the interim statement of cash flows (£11.6m) adjusted for the movement in restructuring provisions (£14.2m).
*** 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.

12. Share capital

	Ordinary shares of 28 4/7 p each	
	Number (m)	**Value (£m)**
In issue at the start and the end of the period	**286.4**	**81.8**

13. Exchange rates

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

	Income statement and cash flow average rates			Balance sheet rates as at		
	6 months to 30 June 2020	6 months to 30 June 2019	Year to 31 Dec 2019	**30 June 2020**	30 June 2019	31 Dec 2019
Euro	**1.15**	1.14	1.14	**1.10**	1.11	1.18
US dollar	**1.26**	1.29	1.28	**1.24**	1.27	1.32

14. Acquisitions

There were no changes to the provisional fair value amounts disclosed in the 2019 Annual Report and Accounts.

15. Discontinued operations

There is no profit or loss from discontinued operations in 2020.

In 2019, a gain of £2.8m, pre and post-tax, was recognised relating to the release of an indemnity provision for a historical discontinued operation. This had no cash impact.