IMI plc
Press release

30 July 2021

Accelerating business performance includes early impact of transformational Growth Hub
On track for sustainable, profitable growth and Group margins of 18% - 20%
Purpose and ESG agenda unlocking opportunities and motivation across the Group

Interim results, six months ended 30 June 2021

	Adjusted[1]				Statutory		
	H1 2021	H1 2020	Change	**Organic[3]**	**H1 2021**	H1 2020	Change
Revenue	**£907m**	£867m	+5%	**+8%**	**£907m**	£867m	+5%
Operating profit	**£142m**	£121m	+17%	**+24%**	**£123m**	£102m	+21%
Operating margin	**15.7%**	14.0%	+170bps		**13.6%**	11.8%	+180bps
Profit before tax	**£137m**	£116m	+18%		**£123m**	£94m	+31%
Basic EPS	**39.9p**	33.6p	+19%		**31.3p**	27.3p	+15%
Operating cash flow[2]	**£111m**	£107m	+4%				
Interim dividend per share	**7.9p**	7.5p	+5%				
Net debt	**£339m**	£420m					

1 Excluding the effect of adjusting items as reported in the income statement. See note 2 for definitions of alternative performance measures.
2 Adjusted operating cash flow, as described in note 11 to the financial statements.
3 After adjusting for exchange rates (see note 3).

Key points

- 8% organic sales growth, 24% organic adjusted operating profit growth
- Adjusted operating margin improved by 170bps in first half
- Increased revenue, profits and margins across all three divisions
- Growth Hub and Sprint Teams transforming our culture and delivering early orders
- £101m delivered to shareholders via dividends and buybacks
- Interim dividend increased by 5%
- FY 2021 guidance increased to adjusted EPS of 85p to 90p, including buyback impact

Roy Twite, Chief Executive, said:

"We continue to make excellent progress with our strategy to increase customer intimacy, drive market-led innovation and reduce complexity. The Growth Hub and Sprint Teams are well embedded in each division and driving an important cultural change across the organisation as IMI focuses on growth. There are around 30 teams developing solutions to acute customer problems, with several already advancing into business scale-up phase. We remain on track to deliver our long-term ambition of sustainable profitable growth and Group margins of 18% to 20%."

Based on the strong first half result and current market conditions we now expect 2021 full year adjusted EPS to be in the range of 85p to 90p. This guidance reflects our expected average share position in 2021 of approximately 268 million shares, resulting from the ongoing share buyback.

Enquiries to:

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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 4 November 2021.

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Results overview

Certain alternative performance measures ('APMs') have been included within this Interim Financial Report. 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 revenue and adjusted operating profit are given on an organic basis (see definition in note 2) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. A table summarising the reconciliation of adjusted measures to statutory measures is included in note 3.

	H1 2021	H1 2020	**Change**	**Organic vs H1 2020***	H1 2019	Organic vs H1 2019*
Group revenue	**£907m**	£867m	+5%	**+8%**	£910m	**+2%**
Adjusted operating profit*	**£142m**	£121m	+17%	**+24%**	£118m	**+22%**
Adjusted operating margin*	**15.7%**	14.0%	+170bps		13.0%	
Statutory profit before tax	**£123m**	£94m	+31%			
Adjusted Basic EPS*	**39.9p**	33.6p	+19%		32.1p	
Statutory Basic EPS	**31.3p**	27.3p	+15%		28.4p	
Adjusted operating cash flow*	**£111m**	£107m	+4%		£101m	
Net Debt*	**£339m**	£420m			£516m	
Net Debt to adjusted EBITDA*	**0.9x**	1.2x			1.5x	

*See note 2 for definitions of alternative performance measures and the references to reconciliations of these measures.

Given the significant impact on business performance due to the pandemic in 2020, the results include comparative figures for H1 2019 and organic growth compared to H1 2021. A reconciliation is provided in note 3.

IMI is benefitting from positive market conditions within key business segments including Industrial Automation, Commercial Vehicle and Construction. New products are playing an increasing role in the Group's growth, with our Growth Hub and Sprint Teams well embedded across the Group.

Like most industrials, IMI is seeing supply chain constraints for certain components and raw material cost inflation. These are being managed well, minimising any impact on service levels to our customers. Where necessary, we continue to pass-through input cost increases to maintain margin progression.

Dividend

The Board is recommending a 2021 interim dividend of 7.9p per share (2020: 7.5p per share). Payment will be made on 17 September 2021 to shareholders on the register at the close of business on 13 August 2021.

Outlook

Based on the strong first half results and current market conditions we now expect 2021 full year adjusted EPS to be in the range of 85p to 90p. This guidance includes an accretion of c.1% due to our expected average share position in 2021 of approximately 268 million shares, resulting from the ongoing share buyback (2020 average shares: 271.4m).

Strategic progress

Our strategy to accelerate business performance and drive sustainable, profitable growth continues to gain traction across our business. That strategy includes a change in culture and mindset – acting as one business and driving value through identifying and solving acute customer problems at pace. We continue to balance our efforts on Value Today – delivering improved returns through greater customer intimacy,

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operational efficiency, and complexity reduction; and on Value Tomorrow – investing in our future growth through market-led innovation. We have increased our resources for Business Development and our Growth Hub projects to the point where we now have over 30 Sprint Teams up and running across the Group.

Along with investments into our future growth, IMI continues to identify and execute on opportunities to drive more efficient operations. The following provides a summary of progress on our restructuring programmes:

£m	H1 2021	2021*	Future years*
Restructuring charge (including impairment losses)			
IMI Precision – Previously Announced	*(3)*	*(34)*	*(18)*
IMI Precision – Additional Initiatives	*(1)*	*(7)*	*(41)*
IMI Precision Engineering	(4)	(41)	(59)
IMI Critical Engineering	(1)	(8)	(6)
IMI Hydronic Engineering	(2)	(3)	(1)
Total charge	**(7)**	**(52)**	**(66)**
Cash impact	(21)	(42)	(91)
£m	**H1 2021**	**2021***	**Future years***
Benefits			
IMI Precision – Previously Announced	*3*	*5*	*9*
IMI Precision – Additional Initiatives	*-*	*2*	*23*
IMI Precision Engineering	3	7	32
IMI Critical Engineering	7	12	6
IMI Hydronic Engineering	2	3	1
Total benefits	**12**	**22**	**39**

*Future looking forecast information.

All three divisions advanced their programmes contributing £12m of benefits in the first half. The Group is on track to deliver £22m for the full year. The table now includes additional initiatives within IMI Precision, which include further footprint optimisation, as well as additional SG&A efficiency opportunities. These new projects are expected to provide a cash payback within 2 years. The cash impact represents cash spend from restructuring and includes spend from previously announced projects.

Environmental, Social & Governance (ESG)

Our purpose, [**Breakthrough Engineering** for a better world], continues to drive our actions and create real energy across our organisation. Many of IMI's solutions support the safety, sustainability, and productivity of our customers' products and operations, and often directly contribute to the delivery of their carbon reduction targets. When considering investments, we ensure impacts on IMI's overall ESG positioning is a prime consideration.

Similarly, we are developing clear plans to reduce the environmental impact of our facilities and operations, and all divisions are progressing actions in 2021 that will contribute to our goal of halving our factory CO_2 intensity by 2030.

Our Inclusion and Diversity activities are helping us build a more dynamic and innovative organisation. In May we launched a new group-wide communications platform that enables all employees to share activity and collaborate across the Group. The platform is both accelerating business initiatives by identifying and leveraging previously untapped resource and expertise, as well as supporting IMI's core value of One big team.

More information about our ESG credentials and initiatives, including our policies and practices, can be found on our website: www.imiplc.com.

Coronavirus update

Although in some economies Coronavirus-related pressures are thankfully easing, IMI continues to be vigilant across its operations. The protection of our employees, our operations and our broader communities, wherever in the world they may be, remains an absolute priority. The Coronavirus response team continues to support employee welfare and help mitigate disruption in our supply chains. We continue to keep particularly close to our customers, to support them as they incur challenges brought on by the pandemic.

Share buyback progress

The programme to buyback IMI shares to an approximate value of £200m has made good progress. As at the end of June, we had successfully purchased 3.6 million shares, at a cost of £60.5m.

Board changes

After nine years on the Board, Carl-Peter Forster will be stepping down as a non-executive director of IMI plc at the end of August 2021. Carl-Peter is the senior independent non-executive director and chair of the Remuneration Committee. Please see separate announcement, also issued on 30 July 2021, for further details.

Divisional results review

The following review relates to our continuing businesses' performance on an adjusted basis for the six months ended 30 June 2021 when compared to the same period in 2020 and 2019. References to organic growth are on a constant currency basis and exclude disposals and acquisitions, see note 3 for a reconciliation of these measures.

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 Vehicles. Further details on that segmentation, and comparison with the 2020 first half report, are available in note 3.

	H1 2021	H1 2020	Change	**Organic vs 2020***	H1 2019	Organic vs 2019*
Revenue	£440m	£430m	+2%	+7%	£463m	-1%
Adjusted operating profit*	£76.6m	£72.9m	+5%	+10%	£74.8m	+5%
Adjusted operating margin*	17.4%	17.0%	+40bps		16.2%	

*See note 2 for definitions of alternative performance measures and the references to reconciliations of these measures.

2021 H1 performance

IMI Precision's core end markets are providing excellent new opportunities for growth. The division has advanced its Growth Hub activities, creating real energy across the organisation. All late-stage projects have protective IP in place or under review, with some now achieving early orders. Highlights will be shared at the upcoming Capital Markets Event in September.

Regarding first half performance, the division delivered strong organic revenue growth of 7% as recovering key markets more than offset the reduction in Life Sciences as a result of the 2020 ventilator component sales surge. Higher sales in both Motion Control, up 9%, and Commercial Vehicles, up 50%, reflected strong end market demand in each market. Sales within Fluid Technologies were 12% lower driven by the ventilator impact within Life Sciences. Excluding the ventilator surge impact, Fluid Technologies sales grew 3% versus the prior year. After including a foreign exchange headwind of 4%, adjusted revenue was also ahead by 2%, when compared with the same period last year.

Adjusted operating margin in the division improved in the period by 40 basis points to 17.4%.

Outlook

Based on strong first half results and current market conditions, IMI Precision Engineering 2021 organic revenues and margins are expected to be higher than in 2020.

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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 2020 first half, are available in note 3 of this statement.

	H1 2021	H1 2020	Change	**Organic vs 2020***	H1 2019	Organic vs 2019*
Order intake	£331m	£330m	0%	+4%	£358m	-8%
Closing order book	£537m	£546m	-2%		£538m	
Revenue	£297m	£293m	+1%	+5%	£294m	+1%
Adjusted operating profit*	£42.9m	£35.1m	+22%	+31%	£33.2m	+30%
Adjusted operating margin*	14.4%	12.0%	+240bps		11.3%	

*See note 2 for definitions of alternative performance measures and the references to reconciliations of these measures.

2021 H1 performance

As highlighted at the June Capital Markets Event, IMI Critical Engineering is advancing its strategy and deploying Growth Hub to develop successfully new markets where its expertise can support sustainable future growth. The division's Growth Hub and Sprint Teams are already providing a significant impact to the divisional results.

Organic order input for the first half of 2021 was 4% higher than the first half of 2020 and reflected continued growth within the Aftermarket business which grew 9%. Supporting this was the division's continued success in upgrading existing valves, which grew 13%, as well as spare parts orders, up 8%. New Construction orders were down 2%, with lower LNG orders being partially offset by good growth in the Refining & Petrochemical segment. The overall order book at the end of the period was 2% lower versus June 2020 due to the currency headwind. Orderbook margins are also higher, reflecting the continuing favourable mix shift.

First half organic revenues were 5% higher than in the same period last year and 1% higher on an adjusted basis. Aftermarket organic sales were 4% higher than in the first half of 2020, where softer Oil & Gas and Marine sales were offset by strong performances in Gas Power and Nuclear markets, including Upgrades. New Construction organic sales grew 6% compared with the same period last year, reflecting stronger sales in LNG and Gas Power offsetting some phasing-related weakness in Petrochemical and Marine sector sales.

Organic adjusted operating profit was 31% higher than the first half of 2020, an excellent result reflecting the hard work the division has done to maximise the aftermarket opportunity and optimise its operating footprint for the future. Adjusted operating margin for the half year was 14.4%, which was 240 basis points higher than the prior year (H1 2020: 12.0%).

The 20%-30% of IMI Critical revenues previously announced as under review continue to demonstrate progress on the requirement to boost long-term margin and growth potential. 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 the division's order book and current market conditions, we expect IMI Critical Engineering 2021 organic revenues and margins to be higher when compared to 2020.

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.

	H1 2021	H1 2020	Change	**Organic vs 2020***	H1 2019	Organic vs 2019*
Revenue	£170m	£144m	+18%	+20%	£153m	+13%
Adjusted operating profit	£34.2m	£24.6m	+39%	+40%	£25.5m	+33%
Adjusted operating margin	20.1%	17.1%	+300bps		16.7%	

*See note 2 for definitions of alternative performance measures and the references to reconciliations of these measures.

2021 H1 performance

IMI Hydronic Engineering's Growth Hub activities are enabling the division to develop even stronger customer intimacy within its core markets, unlocking new business opportunities. This, combined with its already strong brand and product position, as well as the global imperative to reduce energy consumption in buildings, is providing an excellent backdrop for the division to deliver sustained growth.

Revenues for the first half were 20% higher on an organic basis when compared to the same period in the prior year. While the prior year activity was significantly impacted by the pandemic, this still reflects a strong performance, particularly within the division's core European geographies. New products supported growth in the first half, with very good orders secured for control and actuation products. Our new digitally enabled TA-Smart valve, a product being accelerated through Growth Hub, has successfully launched and been well received by the market.

Adjusted operating profit increased 40% on an organic basis versus the prior year, reflective of the quality of the business growth as well as continued delivery of key efficiency initiatives. The adjusted operating margin has improved to 20.1% in the first half, versus 17.1% in the first half of 2020.

Outlook

Given the excellent first half results and current market conditions, IMI Hydronic Engineering's 2021 organic revenues are expected to be strongly ahead, with margins also higher, when compared to 2020.

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Financial review

Revenue of £907m was up 5% (2020: £867m). Organic revenues were up 8% when compared with the same period in the previous year, after adjusting for adverse exchange rate movements. Adjusted operating profit was £142m, a 17% increase on the prior period (2020: £121m). On an organic basis, operating profit increased by £27m or 24%. Group adjusted operating margin was 170bps higher at 15.7% (2020: 14.0%) and statutory operating profit was 21% higher at £123m (2020: £102m).

Adjusted net interest costs on borrowings were £5.7m (2020: £5.5m) and were covered 33 times by adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of £186m (2020: £167m). The IAS19 pension net financial income was £0.3m (2020: £0.1m income). The total adjusted net financial expense was £5.4m (2020: £5.4m). Profit before tax and adjusting items was £137m, an increase of 18% (2020: £116m).

The adjusted effective tax rate on profit for 2021 is 21%, which is consistent with the rate applicable in the first half of 2020 (21%).

Statutory profit before tax was £123m (2020: £94m). The total statutory profit for the period after taxation was £85m (2020: £74m).

Adjusting items

Restructuring costs were £7m (2020: £10m), primarily relating to the finalisation of projects initiated in 2020, which included the 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 was £7m (2020: £9m). The reversal of net economic hedge contract gains and losses was £nil (2020: gains of £3m).

The positive tax effect of the above adjusting items amounts to £3.4m (2020: £4.7m). The UK Government announced an increase in the corporation tax rate from 19% to 25% resulting in a charge of £18.0m, which was partially offset by a £5.2m gain following the resolution of a tax authority audit.

Earnings per share

The average number of shares in issue during the period was 271m (2020: 271m), resulting in adjusted basic earnings per share of 39.9p (2020: 33.6p). Statutory basic earnings per share was 31.3p (2020: 27.3p) and statutory diluted earnings per share was 31.2p (2020: 27.3p).

Foreign exchange

The impacts of translation on the reported growth of first half revenues and adjusted operating profits was a decrease of £30m and decrease of £6m, 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 23 July (US$1.37 and €1.17) remained constant for the remainder of the year, it would adversely impact revenues by 4% and adjusted operating profit by 5% in the full year when compared to 2020.

Cash flow

Cash generated from operations increased to £128m (2020: £119m).

Adjusted operating cash flow (see definition in note 2) increased to £111m (2020: £107m). Trade and other receivables increased by £52m, inventories increased by £34m and trade and other payables increased by £45m. Capital expenditure amounted to £22m (2020: £21m) and was 0.8 times the depreciation and amortisation charge for the period of £29m which excludes depreciation from the IFRS 16 right of use assets of £14m.

The other major cash outflows in the period were dividends of £41m, a £21m outflow for adjusting items related to the Group's restructuring programme, £61m related to the share buyback programme and £28m of tax. The total cash outflow for the period, excluding the impact of foreign exchange was £19m, compared with an inflow of £33m in the first half of the previous year. Current year cash flows were also improved by a cash inflow of £27m of derivative settlements.

A reconciliation of adjusted measures to statutory measures is included in note 11.

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 2021 were £300m (December 2020: £300m).

The ratio of net debt to the last twelve months' EBITDA (before adjusting items) is a funding covenant that is currently limited to 3.0x, and was 0.9x at the end of June 2021 (December 2020: 0.8x).

Trade and other receivables have increased by £36m (10%) at 30 June 2021 (December 2020: £379m) and inventories have increased by £25m (8%) at 30 June 2021 (December 2020: £293m).

The IAS19 net pension surplus was £27m which compares to a surplus of £2m at 30 June 2020 and a deficit of £22m at 31 December 2020. This amount included a surplus of £103m (December 2020: £69m) relating to the UK Fund which is the most significant of the Group's defined benefit schemes. The increase is a result of favourable movements in the actuarial assumptions. The deficit relating to the overseas schemes decreased to £76m (December 2020: £91m) due to increases in the discount rates.

Shareholders' equity at the end of June was £826m, an increase of £27m since the end of last year. This is largely attributable to the profit for the period of £85m; an after-tax actuarial gain on the defined benefit pension plans of £30m; a tax gain of £16m on the UK pension scheme due to the tax rate changes; the after-tax impact of the share based payments of £8m and £3m associated with the employee share scheme trust. These gains were offset by unfavourable exchange differences and related tax of £14m; dividends paid of £41m and £61m associated with the share buyback programme.

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 (31 July 2022) 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 ongoing macroeconomic uncertainty resulting from the pandemic 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 remain vigilant across our operations and work closely with our customers to ensure expectations are being met. The Coronavirus response team continues to support employee welfare and help mitigate disruption in our supply chains.

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On pages 58 to 63 of its 2020 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 macro-economic instability (including global health and environmental emergencies), competitive markets, supply chain risk, major project implementation, product quality issues, acquisition risk, cyber security risks, 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 2021. 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 UK;
- 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 2020 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2021.

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
29 July 2021

Daniel Shook
Finance Director
29 July 2021

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, sustainably, cleanly, efficiently and cost effectively. IMI employs around 10,000 people, has manufacturing facilities in 18 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.

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INDEPENDENT REVIEW REPORT TO IMI PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim balance sheet, condensed consolidated interim statement of changes in equity, condensed consolidated interim statement of cash flows and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly 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 will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly 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 Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company 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 Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, UK
29 July 2021

CONSOLIDATED INTERIM INCOME STATEMENT

	Note	**6 months to 30 June 2021 (unaudited)**			6 months to 30 June 2020 (unaudited)			Year to 31 Dec 2020		
		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	907		**907**	867		867	1,825		1,825
Cost of sales		(487.9)		**(487.9)**	(482.9)		(482.9)	(1,008.8)		(1,008.8)
Gross profit		419.1		**419.1**	384.1		384.1	816.2	-	816.2
Operating costs		(277.0)	(18.8)	**(295.8)**	(263.1)	(18.8)	(281.9)	(531.5)	(57.9)	(589.4)
Operating profit	3	142.1	(18.8)	**123.3**	121.0	(18.8)	102.2	284.7	(57.9)	226.8
Financial income	5	1.5	9.0	**10.5**	3.3	6.3	9.6	3.8	14.1	17.9
Financial expense	5	(7.2)	(4.1)	**(11.3)**	(8.8)	(9.5)	(18.3)	(14.8)	(15.8)	(30.6)
Net finance income relating to defined benefit pension schemes	5	0.3		**0.3**	0.1		0.1	0.2		0.2
Net financial (expense)/income	5	(5.4)	4.9	**(0.5)**	(5.4)	(3.2)	(8.6)	(10.8)	(1.7)	(12.5)
Profit before tax		136.7	(13.9)	**122.8**	115.6	(22.0)	93.6	273.9	(59.6)	214.3
Taxation	6	(28.7)	(9.4)	**(38.1)**	(24.3)	4.7	(19.6)	(57.5)	13.4	(44.1)
Profit for the period		108.0	(23.3)	**84.7**	91.3	(17.3)	74.0	216.4	(46.2)	170.2

	Note									
Earnings per share	4									
Basic - from profit for the period				**31.3p**			27.3p			62.7p
Diluted - from profit for the period				**31.2p**			27.3p			62.6p

All activities relate to continuing operations.

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2021 (unaudited)		6 months to 30 June 2020 (unaudited)		Year to 31 Dec 2020	
	£m	**£m**	£m	£m	£m	£m
Profit for the period		**84.7**		74.0		170.2
Items that will not subsequently be reclassified to profit and loss						
Re-measurement gain on defined benefit plans	**40.9**		35.2		4.3	
Related taxation effect	**(10.5)**		(7.8)		(2.1)	
Effect of tax rate change on previously recognised items	**15.8**		5.7		5.7	
		46.2		33.1		7.9
Items that may be reclassified to profit and loss						
Gain/(loss) arising on hedging instruments designated in hedges of the net assets in foreign operation (note 1)	**17.5**		(28.5)		(19.4)	
Exchange differences on translation of foreign operations net of funding revaluations	**(32.5)**		45.9		21.4	
Related tax effect on items that may subsequently be reclassified to profit and loss	**1.0**		0.9		(0.7)	
		(14.0)		18.3		1.3
Other comprehensive income for the period, net of taxation		**32.2**		51.4		9.2
Total comprehensive income for the period, net of taxation		**116.9**		125.4		179.4

CONSOLIDATED INTERIM BALANCE SHEET

	Note	**30 June 2021 (unaudited) £m**	30 June 2020 (unaudited) £m	31 Dec 2020 £m
Assets				
Goodwill		**436.5**	472.5	449.5
Other intangible assets		**134.5**	175.3	150.3
Property, plant and equipment		**255.1**	274.8	266.0
Right of use assets		**90.9**	88.8	85.6
Employee benefit assets	9	**102.8**	91.3	69.1
Deferred tax assets		**34.5**	33.0	36.3
Other receivables		**2.5**	3.9	3.4
Total non-current assets		**1,056.8**	1,139.6	1,060.2
Inventories		**317.9**	343.6	293.3
Trade and other receivables		**415.0**	405.7	378.9
Derivative financial assets		**3.6**	3.4	10.8
Current tax		**7.7**	2.4	3.3
Investments		**3.1**	3.7	3.1
Cash and cash equivalents		**145.6**	114.1	207.9
Total current assets		**892.9**	872.9	897.3
Total assets		**1,949.7**	2,012.5	1,957.5
Liabilities				
Trade and other payables		**(408.6)**	(391.0)	(371.9)
Bank overdraft		**(38.1)**	(60.9)	(73.5)
Lease liabilities		**(24.5)**	(26.0)	(26.3)
Provisions		**(27.2)**	(28.1)	(43.9)
Current tax		**(59.0)**	(64.2)	(66.3)
Derivative financial liabilities		**(3.1)**	(5.3)	(4.7)
Total current liabilities		**(560.5)**	(575.5)	(586.6)
Interest-bearing loans and borrowings		**(352.4)**	(382.5)	(362.3)
Lease liabilities		**(69.1)**	(64.7)	(62.0)
Employee benefit obligations	9	**(75.9)**	(88.9)	(91.1)
Provisions		**(14.8)**	(14.9)	(15.1)
Deferred tax liabilities		**(44.6)**	(39.1)	(33.9)
Other payables		**(6.3)**	(8.3)	(7.0)
Total non-current liabilities		**(563.1)**	(598.4)	(571.4)
Total liabilities		**(1,123.6)**	(1,173.9)	(1,158.0)
Net assets		**826.1**	838.6	799.5
Share capital	12	**80.8**	81.8	81.8
Share premium		**14.5**	14.2	14.3
Other reserves		**184.0**	214.0	197.0
Retained earnings		**546.8**	528.6	506.4
Total equity		**826.1**	838.6	799.5

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve (note 1) £m	Retained earnings £m	Total equity £m
As at 1 January 2020		81.8	14.1	174.4	21.3	418.3	709.9
Profit for the period						74.0	74.0
Other comprehensive income							
excluding related taxation effect					17.4	33.1	50.5
Related taxation effect					0.9		0.9
Total comprehensive income					18.3	107.1	125.4
Issue of share capital		-	0.1				0.1
Share-based payments (net of tax)						2.9	2.9
Shares acquired for:							
employee share scheme trust						0.3	0.3
As at 30 June 2020 (unaudited)		81.8	14.2	174.4	39.6	528.6	838.6
As at 1 January 2020		81.8	14.1	174.4	21.3	418.3	709.9
Profit for the year						170.2	170.2
Other comprehensive income							
excluding related taxation effect					2.0	4.3	6.3
Related taxation effect					(0.7)	3.6	2.9
Total comprehensive income					1.3	178.1	179.4
Issue of share capital		-	0.2				0.2
Dividends paid	7					(91.6)	(91.6)
Share-based payments (net of tax)						10.3	10.3
Shares acquired for:							
employee share scheme trust						(8.7)	(8.7)
As at 31 December 2020		81.8	14.3	174.4	22.6	506.4	799.5
Changes in equity in 2021							
Profit for the period						**84.7**	**84.7**
Other comprehensive (expense)/income							
excluding related taxation effect					**(15.0)**	**40.9**	**25.9**
Related taxation effect					**1.0**	**5.3**	**6.3**
Total comprehensive (expense)/income					**(14.0)**	**130.9**	**116.9**
Issue of share capital	12	-	**0.2**				**0.2**
Dividends paid	7					**(40.7)**	**(40.7)**
Share-based payments (net of tax)						**7.9**	**7.9**
Cancellation of Treasury shares	12	**(1.0)**		**1.0**			
Shares acquired for:							
employee share scheme trust						**2.8**	**2.8**
share buyback programme	12					**(60.5)**	**(60.5)**
As at 30 June 2021 (unaudited)		**80.8**	**14.5**	**175.4**	**8.6**	**546.8**	**826.1**

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	**6 months to 30 June 2021 (unaudited)**	6 months to 30 June 2020 (unaudited)	Year to 31 Dec 2020
		£m	£m	£m
Cash flows from operating activities				
Operating profit for the period		**123.3**	102.2	226.8
Adjustments for:				
Depreciation and amortisation		**50.5**	54.6	111.1
Impairment of property, plant and equipment and intangible assets		**0.2**	0.7	4.0
(Profit)/loss on sale of property, plant and equipment		**(1.1)**	1.9	2.3
Equity-settled share-based payment expense		**6.2**	3.6	10.3
Increase in inventories		**(34.2)**	(45.7)	(8.8)
(Increase)/decrease in trade and other receivables		**(52.1)**	3.2	17.2
Increase in trade and other payables		**45.0**	10.1	6.2
(Decrease)/increase in provisions and employee benefits		**(14.2)**	(11.6)	7.9
Settlement of transactional derivatives (note 1)		**4.1**	0.1	0.2
Cash generated from operations		**127.7**	119.1	377.2
Income taxes paid		**(27.9)**	(16.7)	(41.0)
Cash generated from operations after tax		**99.8**	102.4	336.2
Additional pension scheme funding		**(3.5)**	(3.5)	(7.0)
Net cash from operating activities		**96.3**	98.9	329.2
Cash flows from investing activities				
Interest received	5	**1.5**	3.3	3.8
Proceeds from sale of property, plant and equipment		**1.7**	-	0.2
Settlement of effective net investment hedge derivatives		**22.7**	(25.1)	(22.7)
Acquisition of property, plant and equipment and non-acquired intangibles		**(22.2)**	(20.5)	(50.7)
Net cash from investing activities		**3.7**	(42.3)	(69.4)
Cash flows from financing activities				
Interest paid	5	**(7.2)**	(8.8)	(14.8)
Proceeds/(expenditure) for shares acquired for employee share scheme trust		**2.8**	0.3	(8.7)
Share buyback programme including acquisition expenses		**(60.5)**	-	-
Proceeds from the issue of share capital for employee share schemes		**0.2**	0.1	0.2
Repayment of borrowings		**-**	(17.8)	(17.8)
Principal elements of lease payments		**(13.5)**	(15.5)	(28.7)
Dividends paid to equity shareholders	7	**(40.7)**	-	(91.6)
Net cash from financing activities		**(118.9)**	(41.7)	(161.4)
Net (decrease)/increase in cash and cash equivalents		**(18.9)**	14.9	98.4
Cash and cash equivalents at the start of the period		**134.4**	28.1	28.1
Effect of exchange rate fluctuations on cash held		**(8.0)**	10.2	7.9
Cash and cash equivalents at the end of the period*		**107.5**	53.2	134.4

***Reconciliation of cash and cash equivalents**			
Cash and cash equivalents	**145.6**	114.1	207.9
Bank overdraft	**(38.1)**	(60.9)	(73.5)
Cash and cash equivalents at the end of the period	**107.5**	53.2	134.4

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 UK. The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the UK.

The Interim Financial Statements are unaudited, but have been reviewed by the Company's auditor in accordance with the International Standard for Review Engagement (UK) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Financial Reporting Council. A copy of their unqualified review report is attached.

The comparative figures for the financial year ended 31 December 2020 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 previous 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 (31 July 2022) following the approval of the Interim Financial Report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The directors have considered the ongoing macroeconomic uncertainty resulting from the pandemic. 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 each of IMI's three divisions has been robust in the first half.

Across the Group, all sites are continuing at normal levels of production. 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, the Group continues to maintain a robust financial position. At 30 June 2021, the group had cash and cash equivalents of £108m and undrawn committed facilities of £300m in the form of Revolving Credit Facilities (RCF), of which £50m is due for renewal in 2022, £125m in 2023 and £125m in 2024. 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 forecasts factored in a decline in revenue based on slowdowns in various end markets, experiencing tough trading conditions. After applying a reverse stress test on the Group's banking covenants (see covenants tested below) 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 2021, were 35.5 times and 0.9 times, respectively.

A reverse stress test shows that for there to be a breach of covenants during the twelve-month period following the approval of the Interim Financial Report, forecast revenue would need to fall by 36% and forecast EBITDA by 69% after taking into account the mitigating actions that would be undertaken in these circumstances. The mitigating actions include, but are not limited to, reducing working capital, restricting capital expenditure, reducing overhead spend and employee costs, cutting or suspending dividend payments to shareholders and suspending the share buyback programme.

1. Significant accounting policies (continued)

Re-presentations

The following re-presentations have been included in the Interim Financial Statements in the current year and as a result, prior year comparatives have been re-presented accordingly:

Consolidated statement of changes in equity

Within the Statement of changes in equity, the Hedging reserve and Translation reserve have been merged to reflect better the impact of matching the gains and losses on the hedged items with the gains and losses on the hedging instruments. Prior year comparatives have been re-presented.

Consolidated statement of comprehensive income

'Change in fair value of unsettled effective net investment hedge derivatives' and 'Settled effective net investment hedge derivatives' disclosed in the Consolidated statement of comprehensive income in the prior year are now disclosed as the 'Gain/(loss) arising on hedging instruments designated in hedges of the net assets in foreign operation'. Prior year comparatives have been re-presented.

Consolidated interim statement of cash flows

The 'Settlement of transactional derivatives' previously recorded within 'Cash flows from investing activities' are now disclosed as 'Cash flows from operating activities' within the 'Consolidated interim statement of cash flows'. Prior year comparatives have been re-presented.

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, 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. The results and financial position are not affected by seasonality.

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, key sources of estimation and uncertainty and presentation that were applied in the preparation of the Company's consolidated financial statements for the year ended 31 December 2020 as described in the 2020 Annual Report and Accounts, except where new or revised accounting standards have been applied as described in section (i) below.

(i) New or amended UK Endorsed Accounting Standards adopted by the Group during 2021

Noted below are the amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2021, none of which has a material impact on the financial statements:

- IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39 – amendments to Interest Rate Benchmark Reform (Phase 2)
- IAS 38 'Intangible Assets' – guidance regarding expenditure associated with cloud computing arrangements

2. Alternative Performance Measures and Adjusting items

Alternative Performance Measures

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 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 that are considered different in nature from the underlying trading and normal quantum and where treatment as an adjusting item provides stakeholders with additional information to better assess period-on-period trading.

APM	Definition	Reconciliation to statutory measure
Adjusted profit before tax	Adjusted profit before tax is statutory profit before tax before adjusting items as shown on the income statement.	See income statement.
Adjusted net interest cost	Adjusted net interest cost is statutory net interest costs before adjusting items as shown on the income statement.	See income statement.
Adjusted earnings per share	Adjusted earnings per share is defined within the table in note 4.	See note 4.
Adjusted effective tax rate	The adjusted effective tax rate is the tax impact on adjusted profit before tax divided by adjusted profit before tax.	See note 6.
Adjusted EBITDA	This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation.	See note 11.
Adjusted operating profit	Adjusted operating profit is statutory operating profit before adjusting items as shown on the income statement.	See income statement and segmental reporting note in note 3.
Adjusted operating margin	Adjusted operating margin is adjusted operating profit divided by revenue.	
Organic growth	This measure removes the impact of adjusting items, acquisitions, disposals and movements in exchange rates and is reconciled in note 3. There have been no acquisitions or disposals during 2021 or 2020. IMI PBM was acquired in September 2019 so has been adjusted out of the results for the purposes of the organic growth calculation compared to 2021.	
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.
Free cash flow before corporate activity	This measure is a subtotal in the reconciliation of adjusted EBITDA to Net Debt and is presented to assist the reader to understand the nature of the current year's cash flows excluding dividends, share buybacks and the purchase and issuance of own shares.	See note 11.

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. Accordingly, adjusting items are included in a separate column on the face of the income statement. Outlined below are the adjusting items impacting these Interim Financial Statements:

	Key	**6 months to 30 June 2021**	6 months to 30 June 2020	Year to 31 Dec 2020
Recognised in arriving at operating profit				
Reversal of net economic hedge contract (gains)/losses	(a)	**(4.9)**	0.3	(1.5)
Restructuring costs	(b)	**(6.6)**	(9.7)	(36.1)
Impairment losses	(c)	**-**	-	(1.6)
Acquired intangible amortisation	(d)	**(7.3)**	(9.4)	(18.7)
		(18.8)	(18.8)	(57.9)
Recognised in net financial expense				
Financial income	(a)	**9.0**	6.3	14.1
Financial expense	(a)	**(4.1)**	(9.5)	(15.8)
Recognised in taxation				
Tax impact of adjusting items above	(e)	**3.4**	4.7	13.4
Change in UK tax rate	(e)	**(18.0)**	-	-
Resolution of tax authority audit	(e)	**5.2**	-	-
		(9.4)	4.7	13.4

(a) **Reversal of net economic hedge contract gains/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 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) **Restructuring costs** - restructuring costs of £6.6m were incurred in the six months to 30 June 2021. This primarily relates to the finalisation of projects initiated in 2020, which included the restructuring of our European business and site closures in the Americas in IMI Precision Engineering (£4.4m), the right sizing of IMI Critical Engineering (£0.7m) and a site closure and the consolidation of distribution within IMI Hydronic Engineering (£1.5m).

Restructuring costs of £36.1m were recognised in 2020 (six months to 30 June 2020: £9.7m). These included the continuation of a cost and footprint rationalisation programme within IMI Precision Engineering, £4.8m in Europe and £2.5m in the Americas, which included the closure of a manufacturing site in each region. In IMI Critical Engineering, adjusted restructuring costs related to a restructuring programme in the EMEA region of £22.4m, which included the closure of manufacturing at two Italian sites and restructuring at two German sites, and £2.1m in the Americas to right size the workforce. In IMI Hydronic Engineering, there were costs of £5.1m related to closure of a manufacturing site in Slovenia and consolidation of the Swedish and German distribution hubs into one hub in Poland. There was a provision release of £0.8m related to the Corporate HQ following the closure of matters relating to previous projects.

(c) **Impairment losses -** during the 12 months to 31 December 2020, the Group recorded an adjusting impairment charge of £1.6m associated with the restructuring programmes ongoing in IMI Precision Engineering and IMI Critical Engineering.

(d) **Acquired intangible amortisation -** the acquired intangible amortisation charge in the six months to 30 June 2021 was £7.3m (six months to 30 June 2020: £9.4m, 12 months to 31 December 2020: £18.7m), which largely relates to the amortisation of the intangible assets recognised on the acquisition of Bimba in 2018.

(e) **Taxation -** the tax effect of the above items has been recognised as an adjusting item and amounts to £3.4m (six months to 30 June 2020: £4.7m; year ended 31 December 2020: £13.4m). The UK Government announced an increase in the corporation tax rate from 19% to 25%, with an effective date of April 2023, which was substantively enacted on 24 May 2021. The impact of this on the Group's deferred tax liabilities of £18.0m during the period has been recorded as an adjusting item. A credit of £5.2m relating to the resolution of a tax authority audit has also been recorded as an adjusting item within 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.

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

	Revenue			**Operating profit**			**Operating margin**		
	6 months to 30 June 2021 £m	6 months to 30 June 2020 £m	Year to 31 Dec 2020 £m	**6 months to 30 June 2021 £m**	6 months to 30 June 2020 £m	Year to 31 Dec 2020 £m	**6 months to 30 June 2021 %**	6 months to 30 June 2020 %	Year to 31 Dec 2020 %
IMI Precision Engineering	***440***	*430*	*877*	***76.6***	*72.9*	*151.4*	***17.4%***	*17.0%*	*17.3%*
IMI Critical Engineering	***297***	*293*	*643*	***42.9***	*35.1*	*106.5*	***14.4%***	*12.0%*	*16.6%*
IMI Hydronic Engineering	***170***	*144*	*305*	***34.2***	*24.6*	*55.7*	***20.1%***	*17.1%*	*18.3%*
Corporate costs				***(11.6)***	*(11.6)*	*(28.9)*			
Total revenue/adjusted operating profit and margin	**907**	867	1,825	**142.1**	121.0	284.7	***15.7%***	14.0%	15.6%
Reversal of net economic hedge (gains)/losses				**(4.9)**	0.3	(1.5)			
Restructuring costs				**(6.6)**	(9.7)	(36.1)			
Acquired intangible amortisation				**(7.3)**	(9.4)	(18.7)			
Impairment losses						(1.6)			
Statutory revenue/operating profit	**907**	867	1,825	**123.3**	102.2	226.8			
Net financial expense				**(0.5)**	(8.6)	(12.5)			
Statutory profit before tax				**122.8**	93.6	214.3			

3. Segmental information (continued)

The following table illustrates how revenue and adjusted operating profit have been impacted by movements in foreign exchange compared to the first half of 2020:

	6 months to 30 June 2021				6 months to 30 June 2020		
Revenue	**As adjusted**	**Organic**	**Adjusted growth (%)**	**Organic growth (%)**	As adjusted	Exchange	Organic
IMI Precision Engineering	**440**	**440**	**2%**	**7%**	430	(18)	412
IMI Critical Engineering	**297**	**297**	**1%**	**5%**	293	(10)	283
IMI Hydronic Engineering	**170**	**170**	**18%**	**20%**	144	(2)	142
Total	**907**	**907**	**5%**	**8%**	867	(30)	837
IMI Precision Engineering	**76.6**	**76.6**	**5%**	**10%**	72.9	(3.4)	69.5
IMI Critical Engineering	**42.9**	**42.9**	**22%**	**31%**	35.1	(2.4)	32.7
IMI Hydronic Engineering	**34.2**	**34.2**	**39%**	**40%**	24.6	(0.2)	24.4
Corporate costs	**(11.6)**	**(11.6)**			(11.6)		(11.6)
Adjusted operating profit	**142.1**	**142.1**	**17%**	**24%**	121.0	(6.0)	115.0
Adjusted operating profit margin (%)	**15.7%**				14.0%		13.7%

The following table illustrates how revenue and adjusted operating profit have been impacted by movements in foreign exchange and acquisitions compared to the first half of 2019 by restating 2019 to the 2021 first half average rates and removing the impact of IMI PBM from the 2021 results:

	6 months to 30 June 2021				6 months to 30 June 2019		
Revenue	**As adjusted**	**Organic***	**Adjusted growth (%)**	**Organic growth (%)**	As adjusted	Exchange	Organic
IMI Precision Engineering	**440**	**440**	**-5%**	**-1%**	463	(18)	445
IMI Critical Engineering	**297**	**286**	**1%**	**1%**	294	(11)	283
IMI Hydronic Engineering	**170**	**170**	**11%**	**13%**	153	(2)	151
Total	**907**	**896**	**0%**	**2%**	910	(31)	879
IMI Precision Engineering	**76.6**	**76.6**	**2%**	**5%**	74.8	(2.1)	72.7
IMI Critical Engineering	**42.9**	**41.0**	**29%**	**30%**	33.2	(1.6)	31.6
IMI Hydronic Engineering	**34.2**	**34.2**	**34%**	**33%**	25.5	0.2	25.7
Corporate costs	**(11.6)**	**(11.6)**			(15.5)		(15.5)
Adjusted operating profit	**142.1**	**140.2**	**20%**	**22%**	118.0	(3.5)	114.5
Adjusted operating profit margin (%)	**15.7%**				13.0%		13.0%

*Excludes the impact of IMI PBM for the first 6 months of the year in 2021 as the acquisition was made in September 2019.

3. Segmental information (continued)

Balance sheet

	Assets			Liabilities		
	30 June 2021	30 June 2020	31 December 2020	**30 June 2021**	30 June 2020	31 December 2020
	£m	£m	£m	**£m**	£m	£m
IMI Precision Engineering	***677.7***	*718.8*	*645.0*	***179.6***	*176.5*	*154.3*
IMI Critical Engineering	***712.0***	*793.4*	*749.8*	***244.7***	*251.6*	*256.4*
IMI Hydronic Engineering	***250.3***	*236.8*	*224.7*	***92.6***	*72.8*	*84.8*
Total segmental assets/liabilities (including lease liabilities)	**1,640.0**	1,749.0	1,619.5	**516.9**	500.9	495.5
Corporate items	**16.0**	19.0	18.3	**36.7**	37.4	35.4
Employee benefits	**102.8**	91.3	69.1	**75.9**	88.9	91.1
Investments	**3.1**	3.7	3.1	**-**	-	-
Net debt items (excluding lease liabilities)	**145.6**	114.1	207.9	**390.5**	443.4	435.8
Net taxation and others	**42.2**	35.4	39.6	**103.6**	103.3	100.2
Total assets and liabilities in Group balance sheet	**1,949.7**	2,012.5	1,957.5	**1,123.6**	1,173.9	1,158.0

	Adjusting restructuring costs		
	6 months to 30 June 2021	6 months to 30 June 2020	Year to 31 Dec 2020
	£m	£m	£m
Total Group	**6.6**	9.7	36.1
IMI Precision Engineering	***4.4***	*4.9*	*7.3*
IMI Critical Engineering	***0.7***	*1.9*	*24.5*
IMI Hydronic Engineering	***1.5***	*3.2*	*5.1*
Corporate Costs	***-***	*(0.3)*	*(0.8)*

3. Segmental information (continued)

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

	H1 2021 Revenue £m	H1 2020 Revenue £m
IMI Precision Engineering		
Factory Automation	**194**	184
Rail	**17**	19
Motion Control	**211**	203
Life Sciences	**48**	79
Process Control	**51**	45
Energy	**39**	40
Fluid Technologies	**138**	164
Commercial Vehicles	**91**	63
Total IMI Precision Engineering	**440**	430
IMI Critical Engineering*		
Power	**67**	62
Refining & Petrochemical	**44**	40
Nuclear	**21**	14
Oil & Gas	**19**	26
Marine	**4**	9
Other	**8**	9
Aftermarket	**163**	160
Oil & Gas	**41**	23
Refining & Petrochemical	**40**	53
Power	**23**	19
Marine	**9**	11
Nuclear	**2**	3
Other	**19**	24
New Construction	**134**	133
Total IMI Critical Engineering	**297**	293
IMI Hydronic Engineering		
TA	**81**	71
Heimeier	**55**	43
Pneumatex	**28**	23
Other	**6**	7
Total IMI Hydronic Engineering	**170**	144
Revenue	**907**	867

*The IMI Critical Engineering sector segmentation has been re-ordered to display Aftermarket and New Construction totals for the division, with the total of each segment included in the table consistent with the prior year.

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 and provide insight into the performance of the Group.

	Key	**30 June 2021 million**	30 June 2020 million	31 Dec 2020 million
Weighted average number of shares for the purpose of basic earnings per share	A	**270.7**	271.4	271.4
Dilutive effect of employee share options		**0.4**	0.1	0.5
Weighted average number of shares for the purpose of diluted earnings per share	B	**271.1**	271.5	271.9

	Key	**6 months to 30 June 2021 £m**	6 months to 30 June 2020 £m	Year to 31 Dec 2020 £m
Statutory profit for the period	C	**84.7**	74.0	170.2
Total adjusting items charges included in profit for the period, before tax		**13.9**	22.0	59.6
Total adjusting items charges/(credits) included in taxation		**9.4**	(4.7)	(13.4)
Earnings for adjusted EPS	D	**108.0**	91.3	216.4

Statutory EPS measures				
Statutory basic EPS	C/A	31.3p	27.3p	62.7p
Statutory diluted EPS	C/B	31.2p	27.3p	62.6p
Adjusted EPS measures				
Adjusted basic EPS	D/A	39.9p	33.6p	79.7p
Adjusted diluted EPS	D/B	39.8p	33.6p	79.6p

5. Net financial expense

Recognised in the income statement	6 months to 30 June 2021 Interest	6 months to 30 June 2021 Financial instruments	6 months to 30 June 2021 Total	6 months to 30 June 2020 Interest	6 months to 30 June 2020 Financial instruments	6 months to 30 June 2020 Total	Year to 31 Dec 2020 Interest	Year to 31 Dec 2020 Financial instruments	Year to 31 Dec 2020 Total
Interest income on bank deposits	1.5		1.5	3.3		3.3	3.8		3.8
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		4.6	4.6		1.5	1.5		7.9	7.9
- future period transactions		4.4	4.4		4.8	4.8		6.2	6.2
Financial income	1.5	9.0	10.5	3.3	6.3	9.6	3.8	14.1	17.9
Interest expense on interest-bearing loans and borrowings	(5.8)		(5.8)	(7.5)		(7.5)	(12.3)		(12.3)
Interest expense on leases	(1.4)		(1.4)	(1.3)		(1.3)	(2.5)		(2.5)
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading			-		(4.1)	(4.1)		(10.4)	(10.4)
- future period transactions		(4.1)	(4.1)		(5.4)	(5.4)		(5.4)	(5.4)
Financial expense	(7.2)	(4.1)	(11.3)	(8.8)	(9.5)	(18.3)	(14.8)	(15.8)	(30.6)
Net finance income relating to defined benefit pension schemes	0.3		0.3	0.1		0.1	0.2		0.2
Net financial (expense)/income	(5.4)	4.9	(0.5)	(5.4)	(3.2)	(8.6)	(10.8)	(1.7)	(12.5)

Included in financial instruments are current period trading gains and losses on economically effective 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 £28.7m (year ended 31 December 2020: £57.5m) which equates to an adjusted 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 2020. The normalised rate of 21.0% has been calculated using the full year projections and has been applied to adjusted profit before tax for the period ended 30 June 2021.

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 rate of corporation tax in the UK for the year ending 31 December 2021 is 19.0% (year ended 31 December 2020: 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 of 2021, the Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. As a result of this change, a tax charge of £18.0m relating to timing differences has been recorded as an adjusting item within the income statement and a credit of £15.8m has been recorded in the statement of comprehensive income relating to timing differences on the UK pension scheme. A credit of £5.2m relating to the resolution of a tax authority audit has been included in adjusting items within the income statement. These items are considered to be one-off tax events that would materially distort the underlying trading performance unless they were accounted for in adjusting items.

The tax effects of other adjusting items have been based on the applicable rates of tax applying to the adjusting items arising in the period ended 30 June 2021.

The statutory tax charge of £38.1m (year ended 31 December 2020: £44.1m) equates to an effective tax rate of 31.0%. This compares to a rate of 20.9% for the six months ended 30 June 2020 and 20.6% for the year ended 31 December 2020. The main reasons for the increase in rate for 2021 relates to the effect of the UK rate change and the resolution of the tax authority audit as detailed above. Excluding the impact of these items, the rate of tax would have been 20.6% for the six months ended 30 June 2021.

7. Dividends

The final dividend relating to the year ended 31 December 2020 of 15.0p per share (2019: 26.2p) was paid in May 2021 amounting to £40.7m (2020: £71.0m).

In addition, the directors have declared an interim dividend for the current year of 7.9p per share (2020: 7.5p per share) amounting to £20.9m which will be paid on 17 September 2021 to shareholders on the register on 13 August 2021. In accordance with IAS10 'Events after the Balance Sheet Date' this interim dividend has not been reflected in these Interim Financial Statements.

8. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £18.2m (2020: £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 £4.0m (2020: £6.7m). This included £0.5m (2020: £2.3m) in respect of capitalised development costs and £3.5m (2020: £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 2021 was £26.9m (31 December 2020: liability of £22.0m); made up of assets of £694.1m (31 December 2020: £718.8m) and liabilities of £667.2m (31 December 2020: £740.8m). The UK net surplus in the Funds increased to £102.8m (31 December 2020: £69.1m). The increase is a result of favourable movements in the actuarial assumptions.

The net deficit in respect of the total overseas obligations decreased to £75.9m (31 December 2020: £91.1m) due to increases 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 2021				31 December 2020			
	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*	**3.1**			**3.1**	3.1		-	3.1
Foreign currency forward contracts		**3.6**		**3.6**		10.8		10.8
	3.1	**3.6**	**-**	**6.7**	3.1	10.8	-	13.9
Financial liabilities measured at fair value								
Foreign currency forward contracts		**(3.1)**		**(3.1)**		(4.7)		(4.7)
	-	**(3.1)**	**-**	**(3.1)**	-	(4.7)	-	(4.7)

*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 and liabilities

Level 2 - significant other observable inputs

Level 3 - unobservable inputs

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £3.6m and £3.1m, 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 2021, 31 December 2020 and 30 June 2020 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 2021	**352.4**	**374.8**
31 December 2020	362.3	394.3
30 June 2020	382.5	419.2

*The US private placement fixed rate loans are valued by level 2 techniques.

11. Cash flow reconciliation

Reconciliation of net cash to movement in net debt

	6 months to 30 June 2021 £m	6 months to 30 June 2020 £m	Year to 31 Dec 2020 £m
Net (decrease)/increase in cash and cash equivalents*	**(18.9)**	14.9	98.4
Repayment of borrowings excluding foreign exchange and net debt disposed/acquired	**-**	17.8	17.8
(Increase)/decrease in net debt*	**(18.9)**	32.7	116.2
Movement in lease liabilities	**(5.3)**	(0.3)	2.1
Currency translation differences	**1.9**	(14.6)	3.3
Movement in net debt in the period	**(22.3)**	17.8	121.6
Net debt at the start of the period	**(316.2)**	(437.8)	(437.8)
Net debt at the end of the period**	**(338.5)**	(420.0)	(316.2)

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

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2021 £m	6 months to 30 June 2020 £m	Year to 31 Dec 2020 £m
Adjusted EBITDA*	**185.5**	166.9	379.5
Working capital movements	**(41.3)**	(32.4)	14.6
Capital and development expenditure	**(22.2)**	(20.5)	(50.7)
Provisions and employee benefit movements**	**0.4**	2.6	8.5
Principal elements of lease payments	**(13.5)**	(15.5)	(28.7)
Other	**1.9**	5.6	11.3
Adjusted operating cash flow***	**110.8**	106.7	334.5
Adjusting items****	**(21.2)**	(23.7)	(36.7)
Tax paid	**(27.9)**	(16.7)	(41.0)
Interest	**(5.7)**	(5.5)	(11.0)
Derivatives	**26.8**	(25.0)	(22.5)
Additional pension scheme funding	**(3.5)**	(3.5)	(7.0)
Free cash flow before corporate activity	**79.3**	32.3	216.3
Dividends paid to equity shareholders	**(40.7)**	-	(91.6)
Share buyback programme	**(60.5)**	-	-
Net issue/(purchase) of own shares	**3.0**	0.4	(8.5)
Net cash flow (excluding debt movements)	**(18.9)**	32.7	116.2

* Adjusted profit after tax (£108.0m), before interest (£5.4m), tax (£28.7m), depreciation (£34.3m), amortisation (£8.9m) and impairment on property, plant and equipment and non-acquired intangible assets (£0.2m).

** Movement in provisions and employee benefits as per the interim statement of cash flows (£14.2m) adjusted for the movement in restructuring provisions (£14.6m).

*** 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 of the period	286.5	81.8
Issued to satisfy employee share schemes	-	-
Cancellation of treasury shares	(3.5)	(1.0)
In issue at the end of the period	**283.0**	**80.8**

On-market purchases of 3,612,988 shares were conducted relating to the share buyback programme. As at 30 June 2021, the Company had cancelled 3,509,729 of these shares.

The number of Treasury shares held on 30 June 2021 amounted to 14,352,095 (31 December 2020: 14,248,836 shares) and the number of shares held in the Employee Benefit Trust on 30 June 2021 amounted to 360,552 (31 December 2020: 1,148,793 shares).

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 2021	6 months to 30 June 2020	Year to 31 Dec 2020	**30 June 2021**	30 June 2020	31 Dec 2020
Euro	**1.15**	1.15	1.13	**1.17**	1.10	1.12
US dollar	**1.39**	1.26	1.28	**1.38**	1.24	1.37