

IMI plc

Press Release



29 July 2016

Interim results, six months ended 30 June 2016

	Reported ¹				Statutory		
	2016 H1	2015 H1	Change	Organic ⁴	2016 H1	2015 H1	Change
Continuing operations:							
Revenue	£759m	£765m	-1%	-5%	£763m	£772m	-1%
Operating profit	£96m	£116m	-18%	-23%	£80m	£98m	-18%
Operating margin	12.6%	15.2%	-260bps	-290bps			
Profit before tax	£86m	£107m	-19%		£70m	£87m	-20%
Basic EPS²	24.4p	30.3p	-19%		19.4p	28.4p	-32%
Operating cash flow³	£85m	£85m	0%				
Dividend per share	14.0p	13.9p	+1%				
Net debt	£334m	£289m					

¹ Excluding the effect of items reported as exceptional in the income statement.

² Statutory amounts for Basic EPS include both continuing and discontinued operations.

³ Operating cash flow, as described in note 10 to the financial statements.

⁴ Change shown after adjusting for exchange rates and excluding the impact of acquisitions and disposals.

Key Points

- Results in line with expectations
- Good progress against 5-year Strategic Plan
- Good cash flow and further improvement in working capital
- Adverse currency impact on net debt of £70m
- Favourable currency impact on profits expected in the full year
- Proposed 1% increase in interim dividend

Mark Selway, Chief Executive, commented:

“Despite continuing challenging economic and market conditions in a number of key sectors, we delivered results in line with expectations and continued to make good progress against our strategic plan. In particular, the various initiatives to drive growth including improving operational efficiency, enhancing processes and launching new products are making a difference and our market competitiveness is improving.

Whilst continued volatility is expected, the second half results will benefit from a normal seasonal bias as well as some escalation of benefits accruing from previous reorganisation initiatives. With a broad international manufacturing footprint and less than 6% of sales in the UK, the transactional impact of Brexit is expected to be modest, with the greatest business sensitivities likely to stem from any general shift in business confidence and investment. Our focus remains resolutely on delivering great products and unparalleled support to our customers, notwithstanding any wider uncertainties and distractions.

Based on current market conditions, and on an organic constant currency basis, we expect full year 2016 results will be in line with current market expectations. In the remainder of the year organic revenue is expected to have a comparable percentage reduction to the first half result. Second half margins, supported by improved results in Critical and Precision, together with second half seasonality and new products in Hydronic, are expected to be broadly equivalent to the second half of 2015.

If average exchange rates in the first two weeks of July (US\$1.31 and €1.19) remain constant for the balance of the year, both revenue and segmental operating profit would be significantly enhanced in the full year.”

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A live webcast of the analyst meeting taking place today at 8:30am (BST) will be available on the investor page of the Group's website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 10 November 2016.

Results overview

Overall, results for the first half of the year are in line with market expectations and good progress was made against the five-year plan. Increased momentum was evident across the Group's various strategic growth initiatives.

On a reported basis, revenues of £759m (2015: £765m) were 1% lower after the impact of favourable exchange rate movements of £38m. Group revenues on an organic basis were 5% lower than the comparable period in 2015. Also on a reported basis, segmental operating profit of £96m (2014: £116m) was 18% lower. Excluding the favourable impact of exchange rate movements of £7m, segmental operating profit on an organic basis was 23% lower than the comparable period in 2015.

The Group's segmental operating margin was 12.6% (2015: 15.2%) reflecting the impact of lower margins in Critical due to order book phasing and lower margins in Hydronic principally reflecting incremental investment and the impact of exchange rate movements on a comparable basis.

Operating cash flow continued to be strong at £85m (2015: £85m). The results include the benefits of improved working capital management (+£13m) when compared to the previous half year. After an adverse currency impact of £70m, Net Debt was £334m (2015: £289m) resulting in a net debt to EBITDA ratio of 1.3x.

The pre-exceptional tax charge was £18.9m (2015: £23.6m) giving an effective tax rate of 22%.

The resulting adjusted basic earnings per share were 24.4p (2015: 30.3p).

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending that the interim dividend be increased by 1% to 14.0p (2015: 13.9p). This will be paid on 16 September 2016 to shareholders on the register at the close of business on 12 August 2016.

Outlook

Based on current market conditions, and on an organic constant currency basis, we expect full year 2016 results will be in line with current market expectations. In the remainder of the year organic revenue is expected to have a comparable percentage reduction to the first half result. Second half margins, supported by improved results in Critical and Precision, together with second half seasonality and new products in Hydronic, are expected to be broadly equivalent to the second half of 2015.

If average exchange rates in the first two weeks of July (US\$1.31 and €1.19) remain constant for the balance of the year, both revenue and segmental operating profit would be significantly enhanced in the full year.

Divisional review

The following review relates to our continuing businesses: IMI Critical Engineering, IMI Precision Engineering and IMI Hydronic Engineering and compares their performance during the half year ended 30 June 2016 with the same period in 2015.

For ease of comparison, references to organic numbers are on an Organic Constant Currency (OCC) basis and therefore exclude the impact of foreign exchange movements and the results of disposals and acquisitions. To assist in meaningful comparisons, the comparative 2015 results are re-stated.

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.

	2016 H1	2015 H1
Organic:		
Order intake	£281m	£329m
Revenue	£285m	£308m
Operating profit	£30.7m	£42.8m
Operating margin	10.8%	13.9%

Market review

In line with our previous outlook statement, Critical Engineering's most significant markets have continued to be challenging. Lower oil prices, the continued lack of significant nuclear investment and, more recently, delays to power station maintenance outages in North America, have impacted orders and sales.

Despite these external challenges, Critical Engineering's inherent strengths, including the division's significant installed base, its concentration on critical and semi-critical applications, and its commitment to value engineering, have enabled the business to maintain market share and deliver a robust outcome relative to its peers.

While the half-year order book at £496m (2015: £535m) was 7% lower, margins were comparable with those at the same point in 2015. A number of Critical Engineering's important markets continue to offer significant opportunity, even if the near term will be sensitive to order timing.

Performance

On an organic basis, order intake at £281m was 14% lower when compared to the same period last year (2015: £329m).

New Construction orders largely followed an expected profile with Petrochemical rising strongly in the period following a notable PTA order in China. Oil & Gas was £19m lower with LNG representing the largest reduction of £17m following the record order input delivered in 2015. Oil & Gas orders included improvements in HIPPS and Midstream while, as expected, Downstream orders were lower, ahead of an anticipated recovery in the second half of the year. Fossil Power orders reduced £14m reflecting lower levels of new construction in Asia and the Middle East which is expected to continue, albeit to a lesser extent, through the balance of this year.

Aftermarket orders were 12% lower at £135m (2015: £153m) principally due to delayed Power outages in North America and the non-repeat of significant upgrade work which was booked in the first half of 2015. Aftermarket Oil & Gas orders of £27m (2015: £32m) remained resilient but excluded the benefits of pre-production LNG spares booked in 2015. Petrochemical Aftermarket has remained stable.

Reported revenue of £285m (2015: £295m) was down 3%. After adjusting for the impact of positive exchange rate movements of £16m and disposals of £3m, organic revenues were lower by 7%. On an organic basis, segmental operating profit of £31m (2015: £43m) resulted in reduced margins of 10.8% against 13.9% in the prior period. Reduced profitability and margins resulted from the impact of project mix, lower overhead recovery and reduced levels of higher margin spares sales, all offset in part by the benefits of restructuring.

Strategic progress

The division's recent success in relation to Value Engineering and Cost Optimisation helped win a number of significant new bookings in what was a tough trading and competitive market environment. In particular, the division's expertise in these areas helped secure the period-end order book of £496m (2015: £535m) at broadly equivalent margins to the prior year while further enhancing the division's sustainable competitive advantage.

Critical Engineering also achieved other important milestones, including the on time and on budget implementation of the IFS ERP system into Japan and Sweden, with an expectation that a further two sites will go live in the second half of 2016. In addition, the division continued to make substantial progress in improving its operational performance and achieved a mid-year lean audit score of 60%, against its first ever score of 26%. The benefits of lean will become far more evident as the market recovers and a more fully utilised factory loading is achieved.

Outlook

In the balance of the year, organic revenue performance is expected to have a similar percentage reduction to the first half of this year. Both second half revenues and margins are expected to show a significant improvement on the first half of the year due to the continuing cost reduction initiatives and phasing of the order backlog.

IMI plc

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IMI Precision Engineering

IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies wherever precision, speed and reliability are essential to the processes in which they are involved.

	2016 H1	2015 H1
Organic:		
Revenue	£341m	£358m
Operating profit	£57.1m	£67.6m
Operating margin	16.7%	18.9%

Market review

The 2016 global economic outlook remains mixed with leading market indicators in Precision Engineering's most important markets showing some early signs of improvement. There was continued volatility in North America, whilst China showed some signs of greater stability. In the truck sector we expect the European market to remain stable while North America is forecast to continue the lower activity levels which have been experienced in the first half of the year.

Performance

Reported revenue of £341m was consistent with the first half of 2015 and after adjusting for the impact of positive exchange rate movements of £17m and £1m related to the disposal of NPSL, revenue of £341m (2015: £358m) was 5% lower on an organic basis.

Revenue performance across our markets contained few surprises and included Industrial Automation revenue of £188m, which was down £5m with Food and Beverage accounting for the largest part of that fall. In Commercial Vehicles, overall sales of £82m were down £7m with the expected decline in the Americas (£9m) more than offsetting modest growth in all other regions. Energy sales of £30m were £4m lower and continued to be impacted by lower activity levels in Oil & Gas.

On a reported basis, segmental operating profit of £57m was 10% lower and after excluding the impact of positive exchange rate movements and prior period disposals, organic operating profits were 16% lower at £57.1m (2015: £67.6m). Like last year, the first half results include a £4m gain on property disposals.

Strategic progress

New Product Development work within Precision Engineering continues to accelerate, with a significant number of new platform product launches scheduled for their commercial debuts in 2017.

The successful implementation in early July of the division's JD Edwards 'out of the box' ERP system on time and on budget in Brookville, USA represented a further important milestone for the division. In addition, excellent progress continued to be made on the division's FIX8 and Project Janus supply chain management projects, both of which will be reviewed by the Board in the latter part of this year. The successful implementation of lean programme initiatives also continued to contribute to the reduction in overall inventories and the division's average lean score further improved to 62% from its first ever score of 32%.

Outlook

In the second half, on a constant currency basis, organic revenues are expected to be broadly in line with the second half of last year. We continue to expect an improved operating margin performance in the second half of the year when compared to the first half, reflecting the benefits of ongoing cost reduction and business improvement initiatives.

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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.

	2016 H1	2015 H1
Organic:		
Revenue	£133m	£133m
Operating profit	£21.4m	£23.8m
Operating margin	16.1%	17.9%

Market review

Hydronic Engineering's most important markets include the European residential and commercial construction markets, which continued to experience the subdued conditions that have prevailed in the past few years. In absolute terms, the construction markets in Europe, which represent almost 80% of Hydronic revenue, declined c.1% in the first half of 2016.

Sales relating to North America are expected to remain robust in the second half of the year, whilst China is likely to remain challenging.

Performance

Reported revenue of £133m (2015: £128m) was up 4% on the same period in 2015. After adjusting for the impact of positive exchange rate movements of £5m, organic revenue was flat. New products launched in the past 24 months accounted for 9% of revenues.

Strong sales in Germany (+£3m) and the USA (+£2m) offset weaker performances in Switzerland, Sweden, France and more importantly, China.

Segmental operating profit of £21m (2015: £23m) was 7% lower on a reported basis and, after adjusting for £1m of exchange rate movements, organic operating profits were 10% below the same period in 2015. Operating margins at 16.1% (2015: 18.0%) were impacted by lower volumes, the on-going investment for growth and the impact of the increase in value of the Swiss Franc against the Euro.

Strategic progress

Momentum in New Product Development continues at pace and the heating season in the second half of 2016 is expected to deliver further gains from products which have recently launched. The division's over-the-counter strategy is also starting to bear fruit with important new distributor agreements signed in the first half of the year. Operational performance continued to improve across all Hydronic Engineering operations, with the average lean score rising to 73% from its first score of 37%. The successful launch of the division's new global ERP system in Switzerland and Poland was another significant achievement in the first half of the year.

Outlook

Underpinned by the success of new products, during the balance of the year we continue to expect good revenue growth when compared to the second half of 2015. Margins are expected to increase significantly on the first half as the business benefits from the normal seasonally higher volumes, and be broadly similar to the second half of 2015.

Financial review

Reported revenues of £759m were down 1% (2015: £765m) and statutory revenues were down 1% to £763m (2015: £772m). After adjusting for disposals and for favourable exchange rate movements, organic revenues were down 5%. Segmental operating profit was £96m, an 18% decline on the prior period (2015: £116m). On an organic basis operating profit was down 23%. Group segmental operating margin was 260 basis points lower at 12.6% (2015: 15.2%), whilst statutory operating profit was down 18% at £80m (2015: £98m).

Net interest costs on borrowings were £9m (2015: £8m) and were covered 13.1 times by earnings before interest, tax, depreciation and amortisation (EBITDA) on continuing operations of £115m (2015: £134m). The IAS19 pension net financing income was £1m (2015: £nil). The total net financing costs were £8m (2015: £8m). Profit before tax and exceptional items was £86m, a decrease of 19% (2015: £107m).

The effective tax rate on profit before exceptional items for 2016 is 22%, which is unchanged from 22% for the full year in 2015.

Exceptional items

Restructuring costs of £1m were incurred but not treated as exceptional (2015: £1m). Exceptional restructuring costs were £10m (2015: £7m), primarily relating to the restructuring of our European operations in Critical Engineering.

In the first half of 2016, following the conversion to a non-inflation linked pension for certain members of our UK Funds, an exceptional net gain of £2m was realised. On 14 June 2016, the Group also completed a bulk insurance buy-in exercise in relation to certain members of the UK Funds. The difference between the value of the liabilities insured and the cost of the premium to insure them of £18m has been recognised in other comprehensive income.

Amortisation of acquired intangibles was £10m (2015: £21m), decreasing to more normal levels principally as a result of the acquisition of Bopp & Reuther in the prior period, when the order book of £9m was fully amortised. The only other exceptional items affecting continuing businesses were the reversal of net economic hedge contract losses of £3m (2015: losses of £7m) and net exceptional financial instrument losses of £2m (2015: losses of £3m).

After these exceptional items, statutory profit before tax was £70m (2015: £87m). The total profit for the period after taxation was £54m (2015: £78m) and, after non-controlling interests, the profit attributable to the equity shareholders of the Company was £53m (2015: £77m).

Earnings per share

The average number of shares in issue during both periods was 271m, resulting in basic earnings per share of 19.4p (2015: 28.4p) and diluted earnings per share of 19.4p (2015: 28.2p). Adjusted basic earnings per share from continuing operations were 24.4p, compared to 30.3p from the first half of 2015, a decrease of 19%.

Foreign exchange

The impacts of translation on the reported growth of first half revenues and segmental operating profits were increases of £38m (5%) and £7m (6%) respectively. Should first half rates prevail in the second half, full year revenues and segmented operating profits would likely be impacted by 6% and 7%, respectively. The most significant foreign currencies for the Group remain the Euro and the US Dollar and the relevant rates of exchange for the period and at the period end are shown in note 14 to this report.

Cash flow

Operating cash flow¹ was flat at £85m. This included a working capital outflow of £3m against an outflow of £15m in the comparable period. Trade and other receivables decreased by £14m, inventories increased by £19m and trade and other payables increased by £2m. Capital expenditure amounted to £31m and was 1.5 times the depreciation and amortisation charge for the period of £21m.

The other major cash outflows in the period were £13m of tax, £30m of derivatives and dividends of £66m. The total cash outflow for the period was £58m, compared with an inflow of £17m in the first half of the previous year.

Balance sheet

The balance sheet remains strong with the ratio of net debt to the last twelve months' EBITDA (before exceptional items) being 1.3 at the end of June 2016 (December 2015: 0.9). Net debt increased during the period to £334m (December 2015: £237m) principally due to the cash flows as highlighted above and £40m in relation to the weakening of sterling during the period.

The Group maintains an appropriate mixture of cash and short, medium and long-term debt arrangements which provide sufficient headroom for both ongoing activities and acquisitions. Total committed bank loan facilities available to the Group at 30 June 2016 were £300m (December 2015: £294m) of which £nil were drawn (December 2015: £nil).

The IAS19 net pension deficit was £25m which compares to a deficit of £18m at 30 June 2015 and a surplus of £4m at 31 December 2015. Of this amount, a surplus of £85m (31 December 2015: £89m) related to the UK Funds is the most significant of the Group's defined benefit schemes. The deficit relating to the overseas schemes increased to £110m (31 December 2015: £84m).

Shareholders' equity at the end of June was £542m, a decrease of £4m since the end of last year, which includes the attributable profit for the period of £53m, an after-tax actuarial loss on the defined benefit pension plans of £18m, exchange differences of £27m and the 2015 final dividend of £66m paid in May.

Other regulatory information

Going concern

The Group has considerable financial resources together with long-standing relationships with a number of customers, suppliers and funding providers across different geographic areas and industries. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its current bank facilities without needing to renew facilities expiring in the next 12 months. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Financial Report.

Principal risks and uncertainties

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

In common with all businesses, IMI faces a number of risks and uncertainties which could have a material impact on the Group's long-term performance.

On pages 32 to 35 of its 2015 Annual Report (a copy of which is available on IMI's website: www.imiplc.com), the Company sets out what the directors regarded as being the principal risks and uncertainties facing the Group and which could have a material impact on the Group's long-term performance. These risks include an increase in macro-economic instability; major project implementation; product quality; acquisition risk; supply chain; cyber security; regulatory breach; competitive markets; new product development and health, safety & environmental controls. These risks remain valid and have the potential to impact the Group during the remainder of the second half of 2016. The impact of the economic and end-market environments in which the Group's businesses operate are considered in the divisional review and outlook sections of this Interim Financial Report above, together with an indication of whether management is aware of any likely change in this situation. The impact of Brexit has been considered as part of the Group's overall risk assessment, and the effects are set out earlier in this announcement.

Cautionary 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. Nothing in this Interim Financial Report should be construed as a profit forecast.

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

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS34 '*Interim Financial Reporting*' as adopted by the EU;
- the Interim Financial Report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year;
- there were no related party transactions or changes in the related party transactions described in the 2015 Annual Report that materially affected the Group's results or financial position during the six months ended 30 June 2016.

The directors of IMI plc are listed in the IMI Annual Report for the year ended 31 December 2015.

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

Mark Selway
Chief Executive
28 July 2016

INDEPENDENT REVIEW REPORT TO IMI plc

Introduction

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 2016 which comprises a Condensed Consolidated Interim Income Statement, a Condensed Consolidated Interim Statement of Comprehensive Income, a Condensed Consolidated Interim Balance Sheet, a Condensed Consolidated Interim Statement of Changes in Equity, a Condensed Consolidated Interim Statement of Cash Flows and the related explanatory notes 1 to 16. 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.

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 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 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 condensed set of financial statements included in this half-yearly financial report has 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 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 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 Ireland) 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 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Birmingham
28 July 2016

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Notes	6 months to 30 June 2016 (unaudited)			6 months to 30 June 2015 (unaudited)			Year to 31 Dec 2015		
		Reported	Except- ional items	Statutory	Reported	Except- ional items	Statutory	Reported	Except- ional items	Statutory
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	2	759	4	763	765	7	772	1,557	10	1,567
Segmental operating profit	2	95.6		95.6	116.2		116.2	239.4		239.4
Reversal of net economic hedge contract losses			2.8	2.8		7.4	7.4		7.6	7.6
Restructuring costs		(1.3)	(9.7)	(11.0)	(1.1)	(6.7)	(7.8)	(2.1)	(27.1)	(29.2)
Gains on special pension events			2.5	2.5		3.2	3.2		9.1	9.1
Acquired intangible amortisation			(9.8)	(9.8)		(20.6)	(20.6)		(32.2)	(32.2)
Loss on disposal of subsidiaries			-	-	(0.4)	-	(0.4)	(0.4)	(8.4)	(8.8)
Operating profit	2	94.3	(14.2)	80.1	114.7	(16.7)	98.0	236.9	(51.0)	185.9
Financial income	3	2.1	8.0	10.1	1.4	13.8	15.2	3.2	20.9	24.1
Financial expense	3	(10.9)	(9.8)	(20.7)	(9.4)	(16.8)	(26.2)	(21.6)	(25.9)	(47.5)
Net finance income relating to defined benefit pension schemes	3	0.6		0.6	0.1		0.1	0.2		0.2
Net financial expense	3	(8.2)	(1.8)	(10.0)	(7.9)	(3.0)	(10.9)	(18.2)	(5.0)	(23.2)
Profit before tax		86.1	(16.0)	70.1	106.8	(19.7)	87.1	218.7	(56.0)	162.7
Taxation	4	(18.9)	2.5	(16.4)	(23.6)	6.8	(16.8)	(48.1)	8.7	(39.4)
Profit from continuing operations after tax		67.2	(13.5)	53.7	83.2	(12.9)	70.3	170.6	(47.3)	123.3
Profit from discontinued operations after tax	7		-	-		7.9	7.9		6.7	6.7
Total profit for the period		67.2	(13.5)	53.7	83.2	(5.0)	78.2	170.6	(40.6)	130.0
Attributable to:										
Owners of the parent				52.6			76.8			127.6
Non-controlling interests				1.1			1.4			2.4
Profit for the period				53.7			78.2			130.0
Earnings per share	6									
Basic - from profit for the period				19.4p			28.4p			47.2p
Diluted - from profit for the period				19.4p			28.2p			46.8p
Basic - from continuing operations				19.4p			25.5p			44.7p
Diluted - from continuing operations				19.4p			25.3p			44.4p
Basic - from adjusted profit for the period				24.4p			30.3p			62.2p
Diluted - from adjusted profit for the period				24.3p			30.1p			61.7p

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2016 (unaudited)		6 months to 30 June 2015 (unaudited)		Year to 31 Dec 2015	
	£m	£m	£m	£m	£m	£m
Profit for the period	53.7		78.2		130.0	
Other comprehensive income/(expense)						
Items reclassified to profit and loss in the current period:						
Foreign exchange gain reclassified to income statement on disposal of operations	-	-	-	2.0		
					2.0	
Items that may be reclassified to profit and loss:						
Change in fair value of effective net investment hedge derivatives	(12.7)		(4.8)		(11.0)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	39.8		(5.8)		2.9	
Fair value gain/(loss) on available for sale financial assets	0.7		(0.9)		(1.7)	
Related tax effect on items that may subsequently be reclassified to profit and loss	5.6		1.3		(1.6)	
	33.4		(10.2)		(11.4)	
Items that will not subsequently be reclassified to profit and loss:						
Re-measurement (loss)/gain on defined benefit plans	(23.4)		13.3		27.8	
Related taxation effect in current period	5.3		(3.1)		(5.6)	
Taxation in relation to restructure of UK Pension Fund	-		-		0.5	
Effect of rate change on previously recognised items	-		-		(5.1)	
	(18.1)		10.2		17.6	
Other comprehensive income for the period, net of tax	15.3		-		8.2	
Total comprehensive income for the period, net of tax	69.0		78.2		138.2	
Attributable to:						
Owners of the parent	67.9		76.8		135.8	
Non-controlling interests	1.1		1.4		2.4	
Total comprehensive income for the period, net of tax	69.0		78.2		138.2	

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	30 June 2016 (unaudited)	30 June 2015 (unaudited)	31 Dec 2015
Notes	£m	£m	£m
Assets			
Intangible assets	512.1	447.9	457.2
Property, plant and equipment	259.5	222.8	230.8
Employee benefit assets	13 84.9	70.1	88.7
Deferred tax assets	22.2	16.4	19.8
Other receivables	6.1	4.0	4.6
Total non-current assets	884.8	761.2	801.1
Inventories	285.1	254.5	233.3
Trade and other receivables	383.0	373.0	351.4
Other current financial assets	6.6	7.9	2.8
Current tax	3.4	7.6	10.4
Investments	29.6	25.9	27.0
Cash and cash equivalents	73.6	56.0	114.2
Total current assets	781.3	724.9	739.1
Total assets	1,666.1	1,486.1	1,540.2
Liabilities			
Bank overdraft	(23.7)	(20.0)	(6.4)
Interest-bearing loans and borrowings	(57.9)	(1.5)	(54.1)
Provisions	(24.6)	(14.8)	(25.1)
Current tax	(41.3)	(41.6)	(44.6)
Trade and other payables	(379.9)	(351.9)	(342.1)
Other current financial liabilities	(22.3)	(6.8)	(8.9)
Total current liabilities	(549.7)	(436.6)	(481.2)
Interest-bearing loans and borrowings	(325.8)	(323.0)	(290.6)
Employee benefit obligations	13 (109.8)	(88.5)	(84.3)
Provisions	(19.6)	(14.4)	(17.5)
Deferred tax liabilities	(51.6)	(33.3)	(53.5)
Other payables	(26.2)	(23.1)	(24.2)
Total non-current liabilities	(533.0)	(482.3)	(470.1)
Total liabilities	(1,082.7)	(918.9)	(951.3)
Net assets	583.4	567.2	588.9
Equity			
Share capital	12 81.8	81.7	81.8
Share premium	11.8	11.2	11.8
Other reserves	209.4	175.1	176.4
Retained earnings	238.7	255.2	276.1
Equity attributable to owners of the parent	541.7	523.2	546.1
Non-controlling interests	8 41.7	44.0	42.8
Total equity	583.4	567.2	588.9

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total parent equity £m	Non- controlling interests £m	Total equity £m
As at 1 January 2016	81.8	11.8	174.4	0.6	1.4	276.1	546.1	42.8	588.9
Profit for the period						52.6	52.6	1.1	53.7
Other comprehensive income				(10.2)	43.2	(17.7)	15.3		15.3
Total comprehensive income				(10.2)	43.2	34.9	67.9	1.1	69.0
Issue of share capital	-	-					-		-
Dividends paid on ordinary shares						(66.3)	(66.3)		(66.3)
Share-based payments (net of tax)						2.0	2.0		2.0
Shares acquired for employee share scheme trust						(8.0)	(8.0)		(8.0)
Income earned by partnership								(2.2)	(2.2)
As at 30 June 2016	81.8	11.8	174.4	(9.6)	44.6	238.7	541.7	41.7	583.4
As at 1 January 2015	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1
Profit for the period						76.8	76.8	1.4	78.2
Other comprehensive income				(3.8)	(5.8)	9.6	-	-	-
Total comprehensive income				(3.8)	(5.8)	86.4	76.8	1.4	78.2
Issue of share capital	-	0.4					0.4		0.4
Dividends paid on ordinary shares						(64.9)	(64.9)		(64.9)
Share-based payments (net of tax)						(0.5)	(0.5)		(0.5)
Shares issued by employee share scheme trust						2.1	2.1		2.1
Income earned by partnership								(2.2)	(2.2)
As at 30 June 2015	81.7	11.2	174.4	6.9	(6.2)	255.2	523.2	44.0	567.2
As at 1 January 2015	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1
Profit for the year						127.6	127.6	2.4	130.0
Other comprehensive income				(10.1)	1.8	16.5	8.2	-	8.2
Total comprehensive income				(10.1)	1.8	144.1	135.8	2.4	138.2
Issue of share capital	0.1	1.0					1.1		1.1
Dividends paid on ordinary shares						(102.5)	(102.5)		(102.5)
Share-based payments (net of tax)						0.1	0.1		0.1
Shares issued by employee share scheme trust						2.3	2.3		2.3
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2015	81.8	11.8	174.4	0.6	1.4	276.1	546.1	42.8	588.9

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	6 months to 30 June 2016 (unaudited)	6 months to 30 June 2015 (unaudited)	Year to 31 Dec 2015
	£m	£m	£m
Cash flows from operating activities			
Operating profit for the period from continuing operations	80.1	98.0	185.9
Operating profit for the period from discontinued operations	-	-	0.9
Adjustments for:			
Depreciation and amortisation	30.6	39.6	70.4
Impairment of property, plant and equipment and intangible assets	-	-	6.9
Loss on disposal of subsidiaries	-	0.4	8.8
Gain on special pension events	(2.5)	(3.2)	(9.1)
Net economic hedge contract losses	(2.8)	(7.4)	(7.6)
Profit on sale of property, plant and equipment	(3.9)	(5.6)	(6.9)
Equity-settled share-based payment expense	2.4	0.1	1.1
Increase in inventories	(18.9)	(32.1)	(3.5)
Decrease in trade and other receivables	14.6	8.7	38.9
Increase/(decrease) in trade and other payables	1.5	8.4	(9.4)
Increase/(decrease) in provisions and employee benefits	(1.7)	(3.3)	5.6
Cash generated from the operations	99.4	103.6	282.0
Income taxes paid	(13.4)	(16.4)	(36.2)
	86.0	87.2	245.8
Additional pension scheme funding	(1.9)	-	(2.9)
Net cash from operating activities	84.1	87.2	242.9
Cash flows from investing activities			
Interest received	2.1	1.4	3.2
Proceeds from sale of property, plant and equipment	4.7	7.7	12.0
Purchase of investments	-	-	(0.8)
Settlement of transactional derivatives	(2.1)	(3.9)	(5.0)
Settlement of currency derivatives hedging balance sheet	(27.9)	27.9	29.0
Acquisition of property, plant and equipment and non-acquired intangibles	(30.5)	(29.4)	(106.2)
Acquisition of subsidiaries net of cash	-	(106.2)	(70.6)
Proceeds from disposal of subsidiaries net of cash	-	0.2	0.6
Net cash from investing activities	(53.7)	(102.3)	(137.8)
Cash flows from financing activities			
Interest paid	(10.9)	(9.4)	(21.6)
Payment to non-controlling interest	(2.2)	(2.2)	(4.4)
Shares (acquired for)/issued by employee share scheme trust	(8.0)	2.1	2.3
Proceeds from the issue of share capital for employee share schemes	-	0.4	1.1
Net (repayment)/drawdown of borrowings	(0.8)	106.5	107.9
Dividends paid to equity shareholders and non-controlling interest	(66.3)	(64.9)	(102.5)
Net cash from financing activities	(88.2)	32.5	(17.2)
Net (decrease)/increase in cash and cash equivalents	(57.8)	17.4	87.9
Cash and cash equivalents at the start of the period	107.8	20.8	20.8
Effect of exchange rate fluctuations on cash held	(0.1)	(2.2)	(0.9)
Cash and cash equivalents at the end of the period*	49.9	36.0	107.8

* Net of bank overdrafts of £23.7m (31 December 2015: £6.4m; 30 June 2015: £20.0m).

Reconciliation of net (decrease)/increase in cash to movement in net debt appears in note 10.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

Basis of preparation

This condensed set of financial statements has been prepared in accordance with IAS34 '*Interim Financial Reporting*' as adopted by the EU. The Group's annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in the preparation of the condensed financial statements.

This Interim Financial Report is unaudited, but has been reviewed by the Company's auditor having regard to the International Standard on Review Engagements (UK and Ireland) 2410 '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*', issued by the Auditing Practices Board. A copy of their unqualified review opinion is attached.

The comparative figures for the financial year ended 31 December 2015 are derived from the Company's statutory accounts for that financial year as defined in section 435 of the Companies Act 2006. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

Accounting policies

As required by the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, this condensed set of financial statements has been prepared applying the same accounting policies and computation methods that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2015, other than to reflect changes expected to be applied in the subsequent annual financial statements. Noted below are the amended International Financial Reporting Standards which became effective for the Group as of 1 January 2016, none of which has any impact on this Interim Financial Report:

- IFRS 5 '*Non Current Assets Held for Sale and Discontinued Operations*'
- IFRS 7 '*Financial Instruments: Disclosures*'
- IFRS 10 '*Consolidated Financial Statements*'
- IFRS 12 '*Disclosure of Interests in Other Entities*'
- IAS 1 '*Presentation of Financial Statements*'
- IAS 16 '*Property, Plant and Equipment*'
- IAS 19 '*Employee Benefits*'
- IAS 34 '*Interim Financial Reporting*'
- IAS 38 '*Intangible Assets*'

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. Segmental information

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

IMI Critical Engineering

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

IMI Precision Engineering

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

IMI Hydronic Engineering

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

Corporate costs

Whilst our corporate costs do not meet the definition of an operating segment under IFRS8 'Operating Segments', we separately disclose corporate costs before arriving at segmental operating profit so that reporting is consistent with the format used for review by the chief operating decision maker.

Performance is measured based on segmental operating profit which is the profit reported by the business, stated before exceptional items and other restructuring costs.

Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. In accordance with IAS39, these contracts do not meet the technical provisions required for hedge accounting and gains and losses are reversed out of segmental 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 2016	6 months to 30 June 2015	Year to 31 Dec 2015	6 months to 30 June 2016	6 months to 30 June 2015	Year to 31 Dec 2015	6 months to 30 June 2016	6 months to 30 June 2015	Year to 31 Dec 2015
	£m	£m	£m	£m	£m	£m	%	%	%
Continuing operations									
IMI Critical Engineering	285	295	631	30.7	39.8	93.1	10.8%	13.5%	14.8%
IMI Precision Engineering	341	342	662	57.1	63.7	117.7	16.7%	18.6%	17.8%
IMI Hydronic Engineering	133	128	264	21.4	23.0	51.8	16.1%	18.0%	19.6%
Corporate costs				(13.6)	(10.3)	(23.2)			
Total segmental revenue/ segmental operating profit and margin	759	765	1,557	95.6	116.2	239.4	12.6%	15.2%	15.4%
Restructuring costs (non-exceptional)				(1.3)	(1.1)	(2.1)			
Loss on disposal of subsidiaries (non-exceptional)				-	(0.4)	(0.4)			
Total segmental revenue/ operating profit and margin (before exceptional items)	759	765	1,557	94.3	114.7	236.9	12.4%	15.0%	15.2%
Reversal of net economic hedge gains	4	7	10	2.8	7.4	7.6			
Restructuring costs				(9.7)	(6.7)	(27.1)			
Gains on special pension events				2.5	3.2	9.1			
Acquired intangible amortisation				(9.8)	(20.6)	(32.2)			
Loss on disposal of subsidiaries				-	-	(8.4)			
Total revenue/operating profit	763	772	1,567	80.1	98.0	185.9			
Net financial expense				(10.0)	(10.9)	(23.2)			
Profit before tax from continuing operations				70.1	87.1	162.7			

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. Segmental information (continued)

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

	6 months to 30 June 2016				6 months to 30 June 2015			
	As reported	Organic	Reported growth (%)	Organic growth (%)	As reported	Movement in foreign exchange	Disposals	Organic
Revenue								
IMI Critical Engineering	285	285	-3%	-7%	295	16	(3)	308
IMI Precision Engineering	341	341	0%	-5%	342	17	(1)	358
IMI Hydronic Engineering	133	133	4%	0%	128	5	-	133
Total	759	759	-1%	-5%	765	38	(4)	799
Segmental operating profit								
IMI Critical Engineering	30.7	30.7	-23%	-28%	39.8	3.0	-	42.8
IMI Precision Engineering	57.1	57.1	-10%	-16%	63.7	3.3	0.6	67.6
IMI Hydronic Engineering	21.4	21.4	-7%	-10%	23.0	0.8	-	23.8
Corporate costs	(13.6)	(13.6)			(10.3)	-	-	(10.3)
Total	95.6	95.6	-18%	-23%	116.2	7.1	0.6	123.9
Segmental operating profit margin (%)	12.6%	12.6%			15.2%			15.5%

	Restructuring costs*		
	6 months to 30 June 2016	6 months to 30 June 2015	Year to 31 Dec 2015
	£m	£m	£m
Total Group	11.0	7.8	29.2
<i>IMI Critical Engineering</i>	10.2	2.1	13.4
<i>IMI Precision Engineering</i>	0.8	5.5	13.6
<i>IMI Hydronic Engineering</i>	-	0.2	2.2

* Restructuring costs include both exceptional and non-exceptional items. The exceptional costs for the six months to 30 June 2016 are £9.7m relating to IMI Critical Engineering.

The exceptional costs for the six months to 30 June 2015 were £6.7m, £1.6m relating to IMI Critical Engineering and £5.1m relating to IMI Precision Engineering. There were exceptional costs of £27.1m for the year ended 31 December 2015, £13.5m relating to IMI Critical Engineering, £12.1m relating to IMI Precision Engineering and £1.5m relating to IMI Hydronic Engineering.

Balance sheet

	Assets			Liabilities		
	30 June 2016	30 June 2015	31 December 2015	30 June 2016	30 June 2015	31 December 2015
	£m	£m	£m	£m	£m	£m
<i>IMI Critical Engineering</i>	763.7	700.6	682.1	227.8	207.3	196.9
<i>IMI Precision Engineering</i>	470.5	421.5	419.2	102.1	91.7	90.7
<i>IMI Hydronic Engineering</i>	202.8	166.1	165.6	60.4	47.3	53.7
	1,437.0	1,288.2	1,266.9	390.3	346.3	341.3
Corporate items	15.4	21.0	9.1	67.2	51.9	61.5
Employee benefits	84.9	70.1	88.7	109.8	88.5	84.3
Investments	29.6	25.9	27.0	-	-	-
Net debt items	73.6	56.0	114.2	407.4	344.5	351.1
Net taxation and others	25.6	24.9	34.3	108.0	87.7	113.1
Total reported in the Group balance sheet	1,666.1	1,486.1	1,540.2	1,082.7	918.9	951.3

**NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

3. Net financial expense

	6 months to 30 June 2016			6 months to 30 June 2015			Year to 31 Dec 2015		
	Interest	Financial instruments	Total	Interest	Financial instruments	Total	Interest	Financial instruments	Total
Recognised in the income statement									
Interest income on bank deposits	2.1		2.1	1.4		1.4	3.2		3.2
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		0.1	0.1		4.3	4.3		14.5	14.5
- future period transactions		7.9	7.9		9.5	9.5		6.4	6.4
Financial income	2.1	8.0	10.1	1.4	13.8	15.2	3.2	20.9	24.1
Interest expense on interest-bearing loans and borrowings	(10.9)		(10.9)	(9.4)		(9.4)	(21.6)		(21.6)
Financial instruments at fair value through profit or loss:									
Other economic hedges									
- current period trading		(1.8)	(1.8)		(7.5)	(7.5)		(16.8)	(16.8)
- future period transactions		(7.9)	(7.9)		(9.3)	(9.3)		(9.1)	(9.1)
Financial expense	(10.9)	(9.7)	(20.6)	(9.4)	(16.8)	(26.2)	(21.6)	(25.9)	(47.5)
Net finance income relating to defined benefit pension schemes	0.6		0.6	0.1		0.1	0.2		0.2
Net financial expense	(8.2)	(1.7)	(9.9)	(7.9)	(3.0)	(10.9)	(18.2)	(5.0)	(23.2)

Included in financial instruments are current period trading gains and losses on economically effective transactions which for management reporting purposes (see note 2) are included in segmental 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.

4. Taxation

The tax charge before exceptional items is £18.9m which equates to an effective tax rate of 22.0% compared to 22.1% for the comparative six month period in the prior year and 22.0% for the year ended 31 December 2015.

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 ended 31 December 2016 is 20.0% (year ended 31 December 2015: 20.25%). The Group's effective tax rate remains slightly above the UK tax rate due to the Group's substantial overseas profits being taxed at higher rates.

Further changes to the rate of UK corporation tax were proposed in the budget of 16 March 2016 to reduce the rate from 1 April 2020 to 17%. As these changes have not yet been substantively enacted, they are not reflected in these Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. Exceptional items

Exceptional items are disclosed separately on the face of the income statement and added back in arriving at reported earnings when items are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to gain a better understanding of the Group's underlying trading performance. The effect of the items added back to reported earnings is disclosed in note 6. The following items are considered to be exceptional in these Interim Financial Statements:

	Key	6 months to 30 June 2016	6 months to 30 June 2015	Year to 31 Dec 2015
Recognised in arriving at operating profit from continuing operations				
Reversal of net economic hedge contract gains	(a)	2.8	7.4	7.6
Restructuring costs	(b)	(9.7)	(6.7)	(27.1)
Gains on special pension events	(c)	2.5	3.2	9.1
Acquired intangible amortisation	(d)	(9.8)	(20.6)	(32.2)
Loss on disposal of subsidiaries	(e)	-	-	(8.4)
Recognised in financial income/(expense)				
Financial income	(a)	8.0	13.8	20.9
Financial expense	(a)	(9.8)	(16.8)	(25.9)

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

(b) Exceptional restructuring costs of £9.7m were incurred in the six months to 30 June 2016. This includes the closure of THJ and merger into Z&J in Germany (£6.5m). Additional costs were incurred in relation to the European wide restructuring (£2.3m) and finalising the transfer of our Nuclear businesses in Canada and Switzerland into Bopp & Reuther (£0.9m), both of which commenced in 2015.

Restructuring costs arising in the first half of £1.3m have been charged below segmental operating profit and included in the reported operating profit as, based on their quantum, they do not meet our definition of exceptional items.

(c) In the first half of 2016, following the conversion to a non-inflation linked pension for certain members of our UK Funds, an exceptional net gain of £2.1m arose, including fees of £0.9m. The offer period to members ended on 30 June 2016, with a 14 day cooling off period. As a result, the exceptional gain reported is the best estimate and may be revised in the full year results.

On 14 June 2016, the Group also completed a bulk insurance buy-in exercise in relation to certain members of the UK Funds. The purchase of an insurance contract is not a settlement under IAS19, therefore the difference between the value of the liabilities insured and the cost of the premium to insure them of £17.6m has been recognised in other comprehensive income.

In addition, following the continuation of the restructuring exercise in Switzerland a curtailment gain of £0.4m was realised. Further special pension events are expected in the second half of the year as the Group continues to focus on managing its exposure to defined benefit obligations.

In the first half of 2015, the gains related to a curtailment gain of £2.9m and a small gain following the partial settlement of one of our US schemes of £0.3m.

(d) The acquired intangible amortisation has decreased by £10.8m. This is due to the acquisition of Bopp & Reuther in January 2015 and the amortisation of the acquired orderbook of £9.3m in the six months ending 30 June 2015.

(e) Exceptional items in relation to the disposal of subsidiaries in 2015.

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

**NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

6. Earnings per ordinary share

Basic and diluted earnings per share have been calculated on earnings attributable to owners of the parent as set out below. Both of these measures are also presented on an adjusted basis, to remove the effects of exceptional items, being 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.

		30 June 2016	30 June 2015	31 Dec 2015
	Key	million	million	million
Weighted average number of shares for the purpose of basic earnings per share	A	270.9	270.3	270.6
Dilutive effect of employee share options		0.9	1.7	1.9
Weighted average number of shares for the purpose of diluted earnings per share	B	271.8	272.0	272.5
		6 months to 30 June 2016	6 months to 30 June 2015	Year to 31 Dec 2015
		£m	£m	£m
Profit for the period		53.7	78.2	130.0
Non-controlling interests		(1.1)	(1.4)	(2.4)
Profit for the period attributable to owners of the parent	C	52.6	76.8	127.6
Profit from discontinued operations, net of tax		-	(7.9)	(6.7)
Continuing profit for the period attributable to owners of the parent	D	52.6	68.9	120.9
Total exceptional items included in profit for the period		16.0	19.7	56.0
Taxation on exceptional items included in profit for the period		(2.5)	(6.8)	(8.7)
Earnings for adjusted EPS	E	66.1	81.8	168.2

EPS measures				
Basic EPS	C/A	19.4p	28.4p	47.2p
Diluted EPS	C/B	19.4p	28.2p	46.8p
Basic continuing EPS	D/A	19.4p	25.5p	44.7p
Diluted continuing EPS	D/B	19.4p	25.3p	44.4p
Adjusted basic continuing EPS	E/A	24.4p	30.3p	62.2p
Adjusted diluted continuing EPS	E/B	24.3p	30.1p	61.7p

Basic discontinued earnings per share were nil (2015 half-year: 2.9p; 2015 year-end: 2.5p). Diluted discontinued earnings per share were nil (2015 half-year: 2.9p; 2015 year-end: 2.4p).

7. Discontinued operations

No gains or losses were recorded in discontinued operations in the six months ending 30 June 2016.

A pre-tax and post-tax gain of £7.9m was incurred in the six months ending 30 June 2015, as a result of the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses, which were sold on 1 January 2014.

In the second half of 2015, an additional pre-tax and post-tax charge of £3.5m was recognised in relation to the disposal of the Retail Dispense businesses and a pre-tax gain of £0.9m and post-tax gain of £2.3m relating to other discontinued operations.

**NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

8. Non-controlling interests

	6 months to 30 June 2016			6 months to 30 June 2015			Year to 31 Dec 2015		
	Shanghai CCI £m	SLP £m	Total £m	Shanghai CCI £m	SLP £m	Total £m	Shanghai CCI £m	SLP £m	Total £m
Opening non-controlling interests	2.1	40.7	42.8	2.5	42.3	44.8	2.5	42.3	44.8
Profit for the period attributable to non-controlling interests	(0.3)	1.4	1.1	-	1.4	1.4	(0.4)	2.8	2.4
Income earned by partnership	-	(2.2)	(2.2)	-	(2.2)	(2.2)	-	(4.4)	(4.4)
Movement in non-controlling interest	(0.3)	(0.8)	(1.1)	-	(0.8)	(0.8)	(0.4)	(1.6)	(2.0)
Closing non-controlling interests	1.8	39.9	41.7	2.5	41.5	44.0	2.1	40.7	42.8

The non-controlling interest denoted Shanghai CCI in the above table represents the 30% ownership interest in the ordinary shares of Shanghai CCI Power Control Equipment Co Limited held by Shanghai Power Station Auxiliary Equipment Works Co Limited.

The non-controlling interest denoted SLP relates to an interest in the IMI Scottish Limited Partnership, which is held jointly by two pension funds, IMI 2014 Deferred Fund and IMI 2014 Pensioner Fund (together 'The Funds'). The interest in the SLP provides the Funds with a conditional entitlement to receive income of £4.4m per annum, unless the Group has not paid a dividend in the prior year or the Funds are fully funded.

9. Dividend

The final dividend relating to the year ended 31 December 2015 of 24.5p per share (2014: 24.0p) was paid in May 2016 amounting to £66.3m (2015: £64.9m).

In addition, the directors have declared an interim dividend for the current year of 14.0p per share (2015: 13.9p) amounting to £37.9m (2015: £37.6m), which will be paid on 16 September 2016 to shareholders on the register on 12 August 2016. In accordance with IAS10 'Events after the Balance Sheet Date' this interim dividend has not been reflected in these Interim Financial Statements.

10. Cash flow reconciliation

Reconciliation of net (decrease)/increase in cash to movement in net debt

	6 months to 30 June 2016 £m	6 months to 30 June 2015 £m	Year to 31 Dec 2015 £m
Net (decrease)/increase in cash and cash equivalents*	(57.8)	14.6	85.7
Net repayment/(drawdown) of borrowings	0.8	(106.5)	(107.9)
Increase in net debt*	(57.0)	(91.9)	(22.2)
Net cash disposed	-	(0.2)	(0.8)
Net debt acquired	-	(5.6)	(5.6)
Currency translation differences	(39.9)	9.2	(8.3)
Movement in net debt in the period	(96.9)	(88.5)	(36.9)
Net debt at the start of the period	(236.9)	(200.0)	(200.0)
Net debt at the end of the period	(333.8)	(288.5)	(236.9)

* Excluding foreign exchange and net cash disposed/ debt acquired.

**NOTES TO THE CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

10. Cash flow reconciliation (continued)

Reconciliation of EBITDA to movement in net debt

	6 months to 30 June 2016 £m	6 months to 30 June 2015 £m	Year to 31 Dec 2015 £m
EBITDA* from continuing operations	115.1	133.7	275.1
Working capital movements	(2.8)	(15.0)	26.0
Capital expenditure	(30.5)	(29.4)	(70.6)
Loss on non-exceptional disposal of subsidiaries	-	0.4	0.4
Provisions and employee benefit movements**	(0.5)	(6.6)	(4.1)
Other	3.2	2.2	5.4
Operating cash flow (pre-exceptional items)***	84.5	85.3	232.2
Exceptional items****	(10.9)	(3.4)	(9.6)
Operating cash flow (post-exceptional items)	73.6	81.9	222.6
Tax paid	(13.4)	(16.4)	(36.2)
Interest and derivatives	(38.8)	16.0	5.6
Cash generation	21.4	81.5	192.0
Additional pension scheme funding	(1.9)	-	(2.9)
Free cash flow before corporate activity	19.5	81.5	189.1
Acquisition of subsidiaries	-	(109.2)	(109.2)
Dividends paid to equity shareholders and non-controlling interest	(66.3)	(64.9)	(102.5)
Proceeds from disposal of subsidiaries	-	0.4	1.4
Payment to non-controlling interest	(2.2)	(2.2)	(4.4)
Net issue (purchase)/issue of own shares	(8.0)	2.5	3.4
Net cash flow (excluding debt movements)	(57.0)	(91.9)	(22.2)

* Reported earnings before interest (£10.0m), tax (£16.4m), depreciation (£17.6m) and amortisation (£13.0m).

** Movement in provisions and employee benefits as per the interim statement of cash flows (£1.7m), adjusted for the increase in exceptional restructuring provisions (£2.1m) and the decrease in provisions relating to discontinued operations (£3.3m).

*** Operating cash flow is the cash generated from the operations shown in the interim 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. This measure best reflects the underlying operating cash flows of the Group.

**** Cash impact of exceptional items, including an outflow relating to restructuring costs of £7.6m and a cash outflow of £3.3m in relation to discontinued operations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. Fair value hierarchy

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

	30 June 2016				31 December 2015			
	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*	21.0			21.0	18.7			18.7
Cash and cash equivalents	73.6			73.6	114.2			114.2
Foreign currency forward contracts		6.6		6.6		2.8		2.8
	94.6	6.6	-	101.2	132.9	2.8	-	135.7
Financial liabilities measured at fair value								
Foreign currency forward contracts		(22.3)		(22.3)		(8.9)		(8.9)
	-	(22.3)	-	(22.3)	-	(8.9)	-	(8.9)

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

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

Level 2 - significant other observable inputs

Level 3 - unobservable inputs

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £6.6m and £22.3m 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 2016, 31 December 2015 and 30 June 2015 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 2016	382.0	408.9
31 December 2015	341.0	360.2
30 June 2015	322.9	349.7

12. Share capital

	Ordinary shares of 28 4/7p each	
	Number (m)	Value (£m)
In issue at the start of the period	286.2	81.8
Issued to satisfy employee share schemes	-	-
In issue at the end of the period	286.2	81.8

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. Employee benefits

The net defined benefit pension liability at 30 June 2016 was £24.9m (31 December 2015: asset of £4.4m). The UK surplus in the Funds decreased to £84.7m (31 December 2015: £88.7m). The decrease is primarily as a result of the movement in the discount rate applied to the defined benefit obligation offset by increases in bond valuations and therefore the overall defined benefit assets held by the UK Funds. The UK Funds are currently undergoing an annual actuarial valuation for the year ended 31 March 2016. This will be finalised in the second half of the year and, where relevant, factored into the IAS19 valuation as at 31 December 2016. The net deficit in respect of the total overseas obligations increased to £109.6m (31 December 2015: £84.3m) due to the movement in the discount rate and foreign exchange movements.

14. Exchange rates

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

	Income statement and cash flow average rates			Balance sheet rates as at		
	6 months to 30 June 2016	6 months to 30 June 2015	Year to 31 Dec 2015	30 June 2016	30 June 2015	31 Dec 2015
Euro	1.28	1.37	1.38	1.20	1.41	1.36
US dollar	1.43	1.52	1.53	1.32	1.57	1.47

15. Property, plant and equipment and intangible assets

Capital expenditure on property, plant and equipment in the period was £20.5m. This included £20.2m in respect of plant and equipment (including those under construction), and £0.3m in respect of land and buildings.

Capital expenditure on non-acquired intangible assets in the period was £10.0m. This included £1.7m in respect of capitalised development costs and £8.3m in respect of other non-acquired intangible assets (including those under construction).

16. Financial information

Definitions

References to segmental revenue, segmental operating profit and segmental operating margins, unless otherwise stated, relate to amounts on a reported basis before exceptional items as noted on the face of the condensed consolidated interim income statement. References to organic growth exclude the impact of exchange rate translation and acquisitions or disposals that are included in reported figures. The impact on revenue and segmental operating profit of movements in foreign exchange, acquisitions and disposals is set out in note 2.

References to EPS, unless otherwise stated, relate to reported basic adjusted EPS from continuing operations i.e. after adjustment for the per share after tax impact of exceptional items in note 6. The directors' commentary discusses these adjusted amounts 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.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 over 12,000 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.