

News release from IMI plc

28 August 2008

IMI plc 2008 First Half Results

IMI plc, the international engineering group, today announced its interim results for the six months ended 30 June 2008.

	2008	2007 restated	% change
Revenue	£911m	£781m	+17
Adjusted: *			
Operating profit	£120.6m	£94.1m	+28
Profit before tax	£115.5m	£94.0m	+23
As reported:			
Operating profit	£108.8m	£76.9m	+41
Profit before tax	£103.7m	£76.8m	+35
Adjusted earnings per share **	24.5p	18.9p	+30
Basic earnings per share	22.2p	15.4p	+44
Restructuring costs	£5.6m	£10.9m	
Dividend	8.0p	7.5p	+7

* before restructuring, investigation costs and acquired intangible amortisation.

** before the after tax cost of restructuring, investigation costs, acquired intangible amortisation and change in fair value of financial instruments totalling £7.2m (2007: £11.7m).

Norman Askew, Chairman of IMI commented:

“This is a strong set of results with all businesses contributing positively to another period of good organic growth. This growth and the higher margins associated with new products together with benefits arising from our restructuring programme have delivered a 30% increase in adjusted earnings per share. We remain confident of continued progress in the remainder of this year”.

INTERIM REVIEW

Interim Management Report

The Directors submit their Interim Management Report ("IMR"), together with condensed consolidated financial statements of the Group for the six months ended 30 June 2008.

(Important information on the status of statements made in this report and the definition of terms used are given in note 12)

Summary

In the six months ended 30 June 2008, IMI Group delivered organic growth in revenue of 6% and in operating profit of 15%. Reported operating profit was £108.8m, up 41% on the prior period. Underlying operating profit (before restructuring, investigation costs and acquired intangible amortisation) increased by 28%. We have made further progress towards our operating margin target of 15%, reaching 13.2% against 12.0% in the first half of 2007.

Reported profit before tax was £103.7m, up 35% on the prior period; underlying profit before tax (before restructuring, investigation costs and acquired intangible amortisation) was £115.5m, up 23%.

Our three year £60m restructuring programme is nearing completion and the anticipated benefits are being delivered in line with our expectations. We continue to build on our new product development capabilities and the percentage of revenues derived from new products launched in the prior three years is now 13%. Our business in emerging markets continues to respond to the investments that we are making and is showing good growth. These ongoing initiatives, together with our low cost procurement activities, have helped improve our operating margins despite raw material and energy cost inflation.

The on-market share buyback programme has continued, albeit at a lower level than the prior year. We continue to target at least £80m-£100m of bolt-on acquisitions each year and we maintain a strong balance sheet to support this acquisition programme.

The Board has decided to increase the interim dividend by 7% to 8.0p (2007: 7.5p).

Review of results

Revenues increased by 17% to £911m, which includes £25m from 2007 acquisitions. Organic growth was 6% and exchange rate movements contributed £60m or an additional 8 points of growth, helped by the appreciation of the Euro which was 13% stronger than in the prior period. Operating profit was £120.6m, a 28% increase on the prior period. Acquisitions contributed £1.9m to these profits and exchange rate translation accounted for a further £9.5m or 10 percentage points of the increase. The remaining organic operating profit growth was 15%.

Interest costs on net borrowings were £8.3m and were covered 16 times by earnings before interest, tax, depreciation and amortisation. The IAS19 pension net financing credit was £1.9m, compared to £5.3m in the first half of 2007, reflecting the higher discount rate used to arrive at the financing costs of the defined benefit obligations. The change in the fair value of financial instruments under IAS39 was a credit of £1.3m. The total net financing costs were £5.1m.

Adjusted profit before tax was £115.5m, an increase of 23%.

Restructuring costs were £5.6m (2007: £10.9m) which includes further rationalisation of Fluid Power's European distribution network, the completion of the Shipston UK plant closure and certain redundancy costs from other selected cost containment programmes. After these restructuring costs, the amortisation of acquired intangibles, principally in respect of customer relationships of Truflo and Kloehn, of £3.5m (2007: £6.3m) and Severe Service investigation costs of £2.7m (2007: £nil), reported profit before tax was £103.7m, an increase of 35% on the corresponding period.

The estimated effective tax rate for 2008 is 30%, which compares to an effective rate of 31% applied for the first half of 2007. The total profit for the period was £72.6m and after minority interests, the profit attributable to the equity shareholders of the Company was £71.2m. The average number of shares in issue during the period was 320.2m, giving a basic earnings per share of 22.2p, up 44% on the prior period's 15.4p. Adjusted basic earnings per share from continuing operations was 24.5p, compared to 18.9p, an increase of 30%.

Cash flow

The net cash from operating activities was £64m, compared to £21m in the corresponding period. Capital expenditure on plant property and equipment amounted to £25m and was 1.2 times the depreciation charge for the period of £21m. This expenditure includes the ongoing expansion of capacity at Orton for supply of Severe Service valves to the oil and gas sector, which should complete in early 2009. The major cash outflows in the period were £24m of tax, dividends of £41m and share buybacks of £15m. The total cash outflow for the period was £25m, compared with an outflow in the corresponding period of £118m.

Balance sheet

Closing net debt was £275m (June 2007: £192m). The debt to annualised EBITDA ratio was 1.0 at the end of June. Net debt was £42m higher than at 31 December 2007, comprising the cash outflow during the period and a translation loss of £16m on the revaluation of the Group's foreign currency debt.

As part of the Group's normal funding programme, an additional three year bank facility for £25m was finalised in January 2008. \$100m of US loan notes maturing in 2009 were refinanced in early 2008 extending the maturity to 2018 and increasing the principal to \$150m. This was achieved at a coupon below 6%. The average maturity of the Group's borrowings is now 4.5 years.

The IAS19 pension deficit was revalued to £129m which compares to the deficits of £41m at June 2007 and £64m at December 2007. The increase in the deficit was primarily due to a decline of nearly 7%, or £75m, in the value of the pension assets. The triennial actuarial valuation of the UK defined benefit pension plan as at 31 March 2008 has commenced. While the exact funding requirement will not be known until the valuation has been completed, it is likely that further additional contributions from the Company will be required, in line with the practice over the last three years.

During the period, the Company bought back into Treasury a further 3.1m shares at a cost of £14.8m. At 30 June 19.1m shares were held in Treasury, representing 5.6% of the issued share capital. Whilst we continue to believe that the acquisition of our own shares at current price levels remains attractive, we are looking to maintain a strong balance sheet allowing us to take advantage of increased acquisition opportunities that a more uncertain macroeconomic environment may present.

Shareholders' equity at the end of June was £375m, a reduction of £31m since the end of last year, which includes the attributable profit for the period of £71m, less an after tax actuarial loss on the defined benefit pension plans of £48m, the 2007 final dividend of £41m paid in May and share buybacks of £15m.

Severe Service investigation

The independent investigation into the Severe Service business is being finalised and external counsel expect to report to the Department of Justice in September. The investigation has also identified possible incidental breaches of US trade law. In the period, the Company incurred costs of £2.7m connected with this investigation. At this stage, it is still not possible to assess the level of any fines, defence or other costs arising from any action which may be taken or the timing of any such actions and accordingly no provision has been made for them in these accounts. The Company is hopeful that matters can be resolved with the Department of Justice by the end of the first quarter next year.

Operations review

The following review of our business areas for the six months to 30 June 2008 compares the performance of our operations with the six month period to 30 June 2007. This section also comments on the current market conditions in each of our businesses.

Severe Service

Revenues in the first half were up 12% to £191m (2007: £171m) and operating profit rose 22% to £31.8m (2007: £26.0m). Reported operating profit was £26.8m (2007: £21.1m).

Despite the disruption earlier in the year arising from the investigation, the organic revenue growth recovered to a better than anticipated 3% for the half year. Routes to market are now fully restored and order intake has fully recovered. The order book at the end of June was some 20% higher than at the end of June 2007. The North American and emerging markets performed well, but the phasing of certain fossil and nuclear power projects resulted in a decline in our Japanese revenues. The aftermarket business, which accounts for about 30% of Severe Service revenues, grew at close to 10%. Interest in new nuclear applications continues to grow and we have made good progress in securing the required industry certifications.

The Severe Service operating margin was 16.6%, an improvement on the prior period's 15.2%, helped somewhat by the stronger aftermarket business.

We are now well placed to benefit from the continued buoyancy of the oil and gas and power markets. Second half revenue growth is expected to be around 10%.

Fluid Power

Revenues in the first half were up 20% to £339m (2007: £282m) and operating profit rose 37% to £48.2m (2007: £35.1m). Reported operating profit was £42.6m (2007: £25.5m).

The organic growth in revenues was 7%. Our sector business within Fluid Power accounts for about 35% of the revenues and targets niche markets with major Original Equipment Manufacturers that serve the commercial vehicle, automotive plant, life science, rail, print, packaging and PET/beverage markets. Our commercial vehicle business grew at over 10% globally, including some recovery in the US which we expect to continue into the second half. Our rail and PET/beverage sectors showed good growth while the automotive plant and print sectors were weaker. The remainder of the business provides general pneumatic and fluid control solutions for a broad range of industrial users. In this space Asia Pacific grew at 15% and both our US and German businesses grew at around 10%. The growth in our UK business was more muted.

Across the whole of the Fluid Power business, Western Europe, excluding the UK, now accounts for 55% of our revenues and grew organically at 6%. The emerging markets performed very strongly with growth over 20% and we will be investing to expand our Chinese capacity in the second half of 2008.

The operating margin for the period was 14.2%, being a 180 basis point improvement on the first half of 2007. The closure of plants in the UK and US and a restructuring in Switzerland resulting in the transfer of production to Mexico and the Czech Republic, have contributed to this improvement. The business continues to face increasing cost pressures, albeit these were successfully offset in the first half through efficiency programmes and continued procurement initiatives.

Momentum generally remains encouraging. Our sector business should show good second half growth, albeit the recovery in the US truck market is slower than anticipated and the US automotive business, although a relatively small sector for us, continues to deteriorate. Our general pneumatics business, whilst dependent on the capital equipment cycle, is holding up well.

Indoor Climate

Revenues in the first half were up 39% to £135m (2007: £97m) and operating profit rose 37% to £18.9m (2007: £13.8m). Reported operating profit was £18.8m (2007: £13.8m).

Organic revenue growth was 7% in the period. Price increases have offset increased energy and metal costs. Pneumatex, which was acquired in September 2007, contributed £17m of revenues in the period. Integration of this business has proceeded to plan and investments are being made to broaden the geographic presence of its range of water conditioning equipment. Our balancing valve business performed well in both West and East European markets. Our thermostatic radiator valve business has continued to grow in East European markets but was marginally lower than the prior period in its largest market, Germany.

Our new product activities continue to focus on initiatives to improve energy efficiency which, over time, will enhance the value of our balancing valve systems to specifiers and end users alike, thus extending our recent track record of increasing our revenues per project.

The operating profit margin was 14.0% compared with 14.2% in the prior period. The anticipated seasonality in the Pneumatex business impacted the operating margin in the period.

Project activity remains high, and the demand for energy efficient solutions is growing. We are witnessing some slowdown in the commercial construction market, but the number of project delays or cancellations experienced to date has not had a significant impact on our business. Whilst residential construction markets have weakened in much of Western Europe, our thermostatic radiator valve business is more dependent on replacement and maintenance activity which, in the main, has held up reasonably well, with Germany stabilising after a weak second half in 2007 and continued growth in Eastern Europe.

Beverage Dispense

Revenues in the first half were up 7% to £157m (2007: £147m) and operating profit rose 28% to £14.3m (2007: £11.2m). Reported operating profit was £13.4m (2007: £8.6m).

Organic revenue growth was 3% in the period. Our North American business performed strongly in the first half with sales to the Quick Service Restaurant sector showing good growth. Our continental West European markets also performed well helped by the continuing progress of new products.

With the UK beer industry continuing to see big declines in on-trade beer volumes, our UK business, comprising around 15% of Beverage Dispense and focused on the supply of drinks dispense equipment to the brewers, has declined by nearly 20%.

Our new product agenda continues to make good progress with several new launches and test programmes addressing the growing demand for draft dispense of newer age drinks categories and more energy efficient equipment.

The operating profit margin was 9.1% compared with 7.6% in the prior period, although the prior period margin was closer to 9.0% after adjusting for the impact of a flood at our Sheffield site in June 2007. The operating margin benefitted from the closure of one US and one UK plant in 2007 but has been held back by increases in raw material costs. We continue to address the cost base, especially in the UK, through headcount reductions and further procurement and operating efficiencies.

Our Beverage Dispense business does face a more challenging environment in the second half, with no signs of improvement in the difficult UK beer sector, and evidence, in recent weeks, of a slowdown in demand from soft drinks bottlers and food service distributors in the US market. We now expect overall volumes for the year to be little changed, if not slightly down, on last year.

Merchandising

Revenues in the first half were up 6% to £89m (2007: £84m) and operating profit declined 8% to £7.4m (2007: £8.0m). Reported operating profit was £7.2m (2007: £7.9m).

Organic growth in revenues was 9%. Revenues from the merchandising units for confectionery, beverages and newspapers within US grocery stores performed very well, helped by the first shipments of one large contract towards the end of the period. Our consumer electronics sector business also made a strong recovery from its 2007 levels. The cosmetics sector saw good revenue growth, but our plans to make in-roads into the US market are taking longer than anticipated. Our legacy carts and machinery business was down quite sharply as US businesses cut material handling budgets in the face of a worsening economy. The automotive sector was also below last year's levels.

The operating margin was 8.3%, down from the 9.5% level reported in the corresponding period. The first half margin was impacted significantly by the rapid increase in steel costs which rose by about 60% between January and June and there is a lag before we recover these costs through price increases. We have recently announced the closure of one of our US west coast plants and the capacity will transfer to our other facilities.

Our Merchandising business has a strong order book and is well placed to continue the momentum in its revenue growth into the second half. The carts, machinery, and US cosmetics sectors will continue, however, to remain difficult. The margin is expected to recover in the second half as a result of selling price increases and further supply chain efficiencies.

Outlook

With a healthy order book, and continued momentum from both new products and emerging markets, we are confident of further revenue progression in the second half. We remain focussed on margin improvement with ongoing cost reduction initiatives expected to mitigate the impact of raw material and energy cost increases. We are alert to the possibility of a further deterioration in economic conditions, and whilst we may continue to experience some pockets of weakness, we anticipate another period of solid progress in the remainder of the year.

Risks and Uncertainties

The Group has in place a risk management structure and internal controls 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 page 40 of its 2007 Annual Report (a copy of which is available at IMI's website at www.imiplc.com), the Company set 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 include: political and natural catastrophe; economic cycle; environmental; key customers and suppliers; legal and regulatory; financial market risks; competitive markets; talent acquisition; internal controls; new products and technology; M&A activity; and pension funding. Many of these risks are such that their potential to impact the Group's operations are inherent to IMI as a global business and they remain valid as regards their potential to impact the Group during the remainder of the second half of 2008. The impact of the economic and end-market environments in which the Group's businesses operate are considered in the operations review and outlook sections of this Interim Management Report above, together with an indication if management is aware of any likely change in this situation.

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
 - (a) 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
 - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

M J Lamb
Chief Executive

D M Hurt
Finance Director

28 August 2008

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 2008 which comprises the Condensed Consolidated Interim Income Statement, the Condensed Consolidated Interim Balance Sheet, the Condensed Consolidated Interim Statement of Cash Flows, the Condensed Consolidated Interim Statement of Recognised Income and Expense and the related explanatory notes. 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 the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

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 DTR of the UK FSA.

As disclosed in note 12, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

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 UK. 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 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Birmingham
28 August 2008

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Notes	6 months to 30 June 2008 (unaudited)	6 months to 30 June 2007 (unaudited)	Year to 31 Dec 2007
	1	£m	Restated £m	Restated £m
Revenue	2	911	781	1,599
Operating profit before restructuring, investigation costs, acquired intangible amortisation and other income	1,2	120.6	94.1	207.8
Restructuring costs		(5.6)	(10.9)	(22.0)
Severe Service investigation costs		(2.7)	-	(4.9)
Acquired intangible amortisation		(3.5)	(6.3)	(10.9)
Other income		-	-	1.7
Operating profit	2	108.8	76.9	171.7
Financial income	3	42.3	40.0	81.1
Financial expense	3	(47.4)	(40.1)	(81.8)
Net financial expense	3	(5.1)	(0.1)	(0.7)
Profit before tax				
Before restructuring, investigation costs, acquired intangible amortisation and other income		115.5	94.0	207.1
Restructuring costs		(5.6)	(10.9)	(22.0)
Severe Service investigation costs		(2.7)	-	(4.9)
Acquired intangible amortisation		(3.5)	(6.3)	(10.9)
Other income		-	-	1.7
Total		103.7	76.8	171.0
Taxation	4			
UK taxation		(6.4)	(2.6)	(10.5)
Overseas taxation		(24.7)	(21.3)	(42.5)
Total		(31.1)	(23.9)	(53.0)
Profit of continuing businesses after tax		72.6	52.9	118.0
Gain from discontinued operations (net of tax)	5	-	-	1.9
Profit for the period		72.6	52.9	119.9
Attributable to:				
Equity shareholders of the Company		71.2	51.3	117.0
Minority interest		1.4	1.6	2.9
Total profit for the period		72.6	52.9	119.9
Earnings per share	6			
Basic earnings per share		22.2p	15.4p	35.4p
Diluted earnings per share		22.0p	15.3p	35.3p
Basic earnings per share (continuing operations)		22.2p	15.4p	34.8p
Diluted earnings per share (continuing operations)		22.0p	15.3p	34.7p

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	30 June 2008 (unaudited) £m	30 June 2007 (unaudited) Restated £m	31 Dec 2007 £m
Assets			
Intangible assets	306.7	317.9	314.7
Property, plant and equipment	220.8	188.0	207.9
Employee benefit net assets	1.4	14.8	1.3
Deferred tax assets	51.1	32.9	37.2
Total non-current assets	580.0	553.6	561.1
Inventories	294.6	244.1	252.0
Trade and other receivables	382.5	324.1	332.6
Current tax	1.9	8.8	1.9
Investments	14.8	15.4	14.4
Cash and cash equivalents	107.1	83.0	106.5
Total current assets	800.9	675.4	707.4
Total assets	1,380.9	1,229.0	1,268.5
Liabilities			
Bank overdraft	(7.5)	(5.8)	(29.1)
Interest-bearing loans and borrowings	(0.2)	(33.0)	(5.0)
Provisions	(5.9)	(11.1)	(6.9)
Current tax	(26.2)	(19.3)	(21.0)
Trade and other payables	(382.4)	(348.0)	(350.0)
Total current liabilities	(422.2)	(417.2)	(412.0)
Interest-bearing loans and borrowings	(373.9)	(235.7)	(305.5)
Employee benefit net obligations	(130.7)	(55.3)	(64.9)
Provisions	(33.5)	(33.6)	(34.0)
Deferred tax liabilities	(18.8)	(19.6)	(18.8)
Other payables	(20.5)	(20.0)	(20.4)
Total non-current liabilities	(577.4)	(364.2)	(443.6)
Total liabilities	(999.6)	(781.4)	(855.6)
Net assets	381.3	447.6	412.9
Equity			
Share capital	84.7	90.7	84.6
Share premium	164.2	160.6	163.3
Other reserves	3.4	(0.1)	6.8
Retained earnings	122.8	194.1	151.8
Total equity attributable to equity shareholders of the Company	375.1	445.3	406.5
Minority interest	6.2	2.3	6.4
Total equity	381.3	447.6	412.9

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

Cash flows from operating activities	6 months to 30 June 2008 (unaudited) £m	6 months to 30 June 2007 (unaudited) £m	Year to 31 Dec 2007 £m
Profit for the period	72.6	52.9	119.9
Adjustments for:			
Depreciation	20.6	18.9	35.9
Amortisation	4.9	7.8	13.9
Profit from discontinued operations (net of tax)	-	-	(1.9)
Other income - disposal of business	-	-	(1.7)
Gain on sale of property, plant and equipment	-	-	(0.1)
Financial income	(42.3)	(40.0)	(81.1)
Financial expense	47.4	40.1	81.8
Equity-settled share-based payment expenses	1.8	1.1	3.1
Income tax expense	31.1	23.9	53.0
Increase in inventories	(29.6)	(27.4)	(18.6)
Increase in trade and other receivables	(34.4)	(32.3)	(12.6)
Increase in trade and other payables	26.4	24.6	20.5
(Decrease)/increase in provisions and employee benefits	(10.3)	2.4	(6.6)
Cash generated from the operations	88.2	72.0	205.5
Income taxes paid	(24.3)	(17.8)	(37.1)
	63.9	54.2	168.4
European Commission fine	-	(32.8)	(32.8)
Additional pension scheme funding	-	-	(15.6)
Net cash from operating activities	63.9	21.4	120.0
Cash flows from investing activities			
Interest received	4.7	3.0	7.2
Proceeds from sale of property, plant and equipment *	1.9	1.2	8.3
Sale of investments	-	-	0.1
Purchase of investments	(0.2)	(0.9)	(1.2)
Acquisition of subsidiaries, net of cash acquired	-	(34.8)	(52.2)
Disposal of businesses (net of cash disposed)	-	-	2.0
Acquisition of property, plant and equipment	(25.3)	(20.8)	(49.9)
Capitalised development expenditure	(1.3)	(2.1)	(3.2)
Net cash from investing activities	(20.2)	(54.4)	(88.9)
Cash flows from financing activities			
Interest paid	(12.7)	(8.4)	(19.9)
Purchase of own shares	(14.6)	(41.4)	(93.3)
Proceeds from the issue of share capital for employee share schemes	1.0	5.8	8.7
Drawdown of borrowings	55.1	91.7	110.7
Dividends paid to minority interest	(2.0)	(1.9)	(2.4)
Dividends paid	(40.7)	(39.2)	(63.9)
Net cash from financing activities	(13.9)	6.6	(60.1)
Net increase/(decrease) in cash and cash equivalents	29.8	(26.4)	(29.0)
Cash and cash equivalents at start of period	77.4	103.6	103.6
Effect of exchange rate fluctuations on cash held	(7.6)	-	2.8
Cash and cash equivalents at end of period	99.6	77.2	77.4

* including £1.0m in the 2007 year from discontinued operations.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF RECOGNISED
INCOME AND EXPENSE**

	6 months to 30 June 2008 (unaudited) £m	6 months to 30 June 2007 (unaudited) £m	Year to 31 Dec 2007 £m
Foreign exchange translation differences	(5.4)	1.0	(1.0)
Actuarial (loss)/gain on defined benefit plans	(47.6)	54.1	21.5
Change in fair value of other financial assets	-	-	4.2
Effective portion of change in fair value of net investment hedges	2.7	(0.7)	(2.3)
Income and expense recognised directly in equity	(50.3)	54.4	22.4
Profit for the period	72.6	52.9	119.9
Total recognised income and expense for the period	22.3	107.3	142.3

Attributable to:

Equity shareholders of the Company	20.9	105.7	139.4
Minority interest	1.4	1.6	2.9
Total recognised income and expense for the period	22.3	107.3	142.3

Note of changes in shareholders' equity

	6 months to 30 June 2008 (unaudited) £m	6 months to 30 June 2007 (unaudited) £m	Year to 31 Dec 2007 £m
Shareholders' equity at start of the period	406.5	412.7	412.7
Total recognised income and expense for the period	20.9	105.7	139.4
Dividends paid	(40.7)	(39.2)	(63.9)
Share based payments (net of tax)	2.2	1.7	2.9
Issue of ordinary shares net of costs	1.0	5.8	8.7
Purchase of own shares	(14.8)	(41.4)	(93.3)
	(52.3)	(73.1)	(145.6)
Shareholders' equity at end of the period	375.1	445.3	406.5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Restatement

The directors present adjusted operating profit (excluding restructuring, investigation costs, acquired intangible amortisation and other income) to give a more meaningful indication of the Group's underlying performance because either the quantum, the one off nature, or volatility of the excluded items would otherwise distort underlying performance. In prior years the amortisation of internal development costs had also been excluded in the calculation of adjusted operating profit. Due to the importance of development to the Group, and in line with developing practice, development cost amortisation is no longer excluded from adjusted operating profit. Reported adjusted operating profit is £1.4m lower in the half year (six months ended 30 June 2007: £1.5m; year ended 31 December 2007: £3.0m). There is no impact on operating profit, retained earnings or earnings per share. The impact on adjusted earnings per share is a reduction of 0.3p (six months ended 30 June 2007: 0.3p; year ended 31 December 2007: 0.6p).

2007 comparative half year figures have been restated where appropriate to show separately employee benefit net assets and employee benefit net obligations gross in the balance sheet.

2. Segmental analysis

Segmental information is presented in the consolidated interim financial statements in respect of the Group's continuing business segments, which are the primary basis of segment reporting. Inter-segment revenue is insignificant.

The Group includes the following five business segments and activities:

Fluid Controls

Severe Service

Design, manufacture, supply and service of high performance critical control valves and associated equipment for power generation plants, oil & gas producers and other process industries.

Fluid Power

Design, manufacture and supply of motion and fluid control systems, principally pneumatic devices, for original equipment manufacturers in commercial vehicle, medical, print, packaging and other industries.

Indoor Climate

Design, manufacture and supply of indoor climate control systems, principally balancing valves for large commercial buildings and thermostatic radiator valves for residential buildings.

Retail Dispense

Beverage Dispense

Design, manufacture and supply of still and carbonated beverage dispense systems and associated merchandising equipment for brand owners and retailers.

Merchandising

Design, manufacture and supply of point of purchase display systems for brand owners and retailers.

2. Segmental analysis (continued)

	Revenue			Adjusted Operating Profit*		
	6 months to 30 June 2008 £m	6 months to 30 June 2007 £m	Year to 31 Dec 2007 £m	6 months to 30 June 2008 £m	6 months to 30 June Restated 2007 £m	Year to 31 Dec Restated 2007 £m
Fluid Controls	665	550	1,140	98.9	74.9	163.8
Severe Service	191	171	362	31.8	26.0	55.9
Fluid Power	339	282	571	48.2	35.1	75.4
Indoor Climate	135	97	207	18.9	13.8	32.5
Retail Dispense	246	231	459	21.7	19.2	44.0
Beverage Dispense	157	147	285	14.3	11.2	24.8
Merchandising	89	84	174	7.4	8.0	19.2
Segment result	911	781	1,599	120.6	94.1	207.8

* before restructuring, investigation costs, acquired intangible amortisation and other income

	Operating Profit		
	6 months to 30 June 2008 £m	6 months to 30 June 2007 £m	Year to 31 Dec 2007 £m
Fluid Controls	88.2	60.4	133.8
Severe Service	26.8	21.1	44.2
Fluid Power	42.6	25.5	57.9
Indoor Climate	18.8	13.8	31.7
Retail Dispense	20.6	16.5	37.9
Beverage Dispense	13.4	8.6	17.4
Merchandising	7.2	7.9	20.5
Segment result	108.8	76.9	171.7
Net financial expense	(5.1)	(0.1)	(0.7)
Taxation	(31.1)	(23.9)	(53.0)
Profit of continuing operations after tax	72.6	52.9	118.0
Gain from discontinued operations (net of tax)	-	-	1.9
Total profit for the period	72.6	52.9	119.9

3. Financial income and expense

	6 months to 30 June 2008			6 months to 30 June 2007			Year to 31 Dec 2007		
	Interest	Other	Total	Interest	Other	Total	Interest	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Interest income on bank deposits	3.5		3.5	3.0		3.0	7.4		7.4
Increase in fair value of financial instruments:									
Designated hedges		0.2	0.2		0.9	0.9		0.8	0.8
Other economic hedges		2.9	2.9		1.5	1.5		3.3	3.3
Expected return on defined benefit pension plan assets		35.7	35.7		34.6	34.6		69.6	69.6
Financial income	3.5	38.8	42.3	3.0	37.0	40.0	7.4	73.7	81.1
Interest expense on financial liabilities measured at amortised cost	(11.8)		(11.8)	(8.6)		(8.6)	(20.2)		(20.2)
Reduction in fair value of financial instruments:									
Designated hedges		(0.2)	(0.2)		(0.9)	(0.9)		(0.9)	(0.9)
Other economic hedges		(1.6)	(1.6)		(1.3)	(1.3)		(1.6)	(1.6)
Financial cost of defined benefit pension scheme liabilities		(33.8)	(33.8)		(29.3)	(29.3)		(59.1)	(59.1)
Financial expense	(11.8)	(35.6)	(47.4)	(8.6)	(31.5)	(40.1)	(20.2)	(61.6)	(81.8)
Net financial (expense)/income	(8.3)	3.2	(5.1)	(5.6)	5.5	(0.1)	(12.8)	12.1	(0.7)

4. Taxation

The interim taxation charge of 30% is calculated by applying the directors' best estimate of the annual tax rate that will be applicable to expected total annual earnings to the taxable profit for the period (six months ended 30 June 2007: 31%) in respect of profit before tax.

5. Discontinued operations

There were no businesses discontinued in the period. In 2007 the Group made a profit of £1.9m (net of tax) and realised cash of £1.0m on the disposal of land once occupied by the previously discontinued business of IMI Refiners.

There is no impact from discontinued operations on earnings per share in either the 6 months to 30 June 2008 or 6 months to 30 June 2007. The impact of discontinued operations on both Basic and Diluted EPS for the year to 31 December 2007 was 0.6p.

6. Earnings per share

The weighted average number of shares in issue during the period, net of shares purchased by the Company and held as treasury shares or to satisfy share option vesting was 320.2m, 323.4m diluted for the effect of outstanding share options (six months to 30 June 2007: 333.9m, 334.6m diluted). Basic and diluted earnings per share have been calculated on profit of £71.2m (2007: profit of £51.3m).

The directors consider that adjusted earnings per share figures, using earnings as calculated below, give a more meaningful indication of the underlying performance because either the quantum, the one off nature or volatility of these items would otherwise distort the underlying performance.

6. Earnings per share (continued)

	6 months to 30 June 2008	6 months to 30 June 2007	Year to 31 Dec 2007
	£m	Restated £m	Restated £m
From continuing operations			
Profit for the period after tax	72.6	52.9	118.0
Minority interest	(1.4)	(1.6)	(2.9)
	71.2	51.3	115.1
Adjustments to profit for the period:			
Change in fair value of financial instruments	(1.3)	(0.2)	(1.6)
Acquired intangible amortisation	3.5	6.3	10.9
Restructuring costs	5.6	10.9	22.0
Severe Service investigation costs	2.7	-	4.9
Other income	-	-	(1.7)
Taxation on adjustments	(3.3)	(5.3)	(11.0)
Earnings for adjusted EPS	78.4	63.0	138.6
Weighted average number of shares	320.2m	333.9m	330.7m
Adjusted EPS	24.5p	18.9p	41.9p
Diluted adjusted EPS	24.2p	18.8p	41.8p

7. Dividends

The directors have declared an interim dividend for the current year of 8.0p per share (2007: 7.5p) which will be paid on 17 October 2008 to shareholders on the register on 12 September 2008. In accordance with IAS10 '*Events after the Balance Sheet Date*', this interim dividend has not been reflected in the interim financial statements.

8. Reconciliation of net cash to movement in net borrowings

	6 months to 30 June 2008	6 months to 30 June 2007	Year to 31 Dec 2007
	£m	£m	£m
Net increase/(decrease) in cash and cash equivalents	29.8	(26.4)	(29.0)
Drawdown of borrowings	(55.1)	(91.7)	(110.7)
Cash outflow	(25.3)	(118.1)	(139.7)
Currency translation differences	(16.1)	7.0	(13.0)
Movement in net borrowings in the period	(41.4)	(111.1)	(152.7)
Net borrowings at the start of the period	(233.1)	(80.4)	(80.4)
Net borrowings at the end of the period	(274.5)	(191.5)	(233.1)

9. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the period, balance sheets are translated at period end rates. The main currencies are:

	Average rates			Rates as at		
	6 months to 30 June		Year	30 June	30 June	31 Dec
	2008	2007	2007	2008	2007	2007
Euro	1.29	1.48	1.46	1.26	1.49	1.36
US Dollar	1.98	1.97	2.00	1.99	1.85	1.99

10. Contingencies

Following completion of the European Commission investigations into allegations of anti-competitive behaviour in the EU among certain manufacturers of copper tube and copper fittings, the Company has paid fines of £31.3m in February 2005 and £32.8m in January 2007. Both of these fines are the subject of ongoing appeals. In preparing the interim statements, the directors have not anticipated the outcome of either appeal due to the inherent uncertainty of such processes.

The independent investigation into the Severe Service business is being finalised and external counsel expect to report to the Department of Justice in September. The investigation has also identified possible incidental breaches of US trade law. The Company is co-operating with the continuing investigation by the Department of Justice. At this stage, it is still not possible to assess the level of any fines, defence or other costs arising from any action which may be taken or the timing of any such actions and accordingly no provision has been made for them in these accounts. The Company is hopeful that matters can be resolved with the Department of Justice by the end of the first quarter of next year.

11. Related party transactions

Certain short term quasi loan arrangements arose from time to time during the half year in connection with transactions involving Martin Lamb, the aggregate amount of which did not at any time, exceed £1,500, being less than the relevant statutory limits for small transactions of this nature as provided in Section 207(1) of the Companies Act 2006.

Directors are considered to be the key management personnel. Detailed information concerning directors' emoluments, shareholdings, options and retirement benefits are shown in the Remuneration Report in the Annual Report for the year ended 31 December 2007.

12. Financial information

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

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2007 other than restating the disclosure of amortised development costs (see note 1).

This Interim Management 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 Financial Information Performed by the Independent Auditor of the Entity*, issued by the Auditing Practices Board for use in the UK. A copy of their unqualified review opinion is attached.

The comparative figures for the financial year ended 31 December 2007 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

This announcement contains certain 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 the preparation of this announcement and the Company undertakes no obligation to update these forward-looking statements. Nothing in this IMR should be construed as a profit forecast.

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

References in the commentary to operating profit, operating margins and profit before tax, unless otherwise stated, relate to reported numbers for continuing operations after adjustment for restructuring, investigation costs, acquired intangible amortisation and other income. References to EPS, unless otherwise stated, relate to reported EPS for continuing operations adjusted for the per share after tax impact of restructuring, investigation costs, acquired intangible amortisation, other income and the change in fair value of financial instruments. The directors consider that the quantum, one off nature or volatility of these adjustments can distort the underlying performance of the Group and for this reason the commentary discusses these adjusted amounts. The relevant unadjusted Generally Accepted Accounting Principles (GAAP) reported operating profit has been summarised for each business platform for ease of reference.

References to organic growth are to like for like or underlying growth and exclude the impact of exchange rate translation and acquisitions or disposals that are included in headline reported growth figures. The organic growth is derived from excluding any contribution from acquired companies to revenues or profits in the current period until the first anniversary of their acquisition. It also excludes the contribution to revenues or profits in both the current and comparative period from any business that has been disposed of or sold. This adjusted growth in revenues or profits will then be compared to the adjusted prior period after its re-translation at the average exchange rates of the current period to provide the organic growth rate.

The Interim Report will be posted to shareholders on 11 September 2008 and will be available from the same date at the Company's registered office, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ. The Interim Management Report for 2009 will only be distributed electronically.

NEXT ANNOUNCEMENT

Our next interim management statement will be issued on 19 November 2008.

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