9 September 2002

IMI plc presents its First Half Results

IMI plc, the major international engineering group, today announced its interim results for the six months ended 30 June 2002.

	2002	2001
Sales	**£826m**	£847m
Results before rationalisation & restructuring *		
Profit before tax	**£66.0m**	£68.6m
Adjusted earnings per share	**12.5p**	14.5p
Rationalisation & restructuring	**£14.1m**	£11.8m
Net borrowings	**£329m**	£414m
Gearing	**65%**	81%
Interest cover before rationalisation & restructuring*	**8x**	6x

* Before goodwill amortisation and exceptional items

- ***Solid progress with strategic initiatives***
- ***Another strong cash performance***
- ***Interim dividend maintained at 6.0p***

CHAIRMAN'S STATEMENT

New products and market share gains limited volume reduction to around 2% compared to the first half of last year. Market conditions generally remain subdued.

We have pressed ahead with our restructuring measures and investment programme. We have made solid progress with the transfer of manufacturing activities to Mexico and China and are on target for our new plants in the Czech Republic to be fully operational early next year. Overhead reduction is being achieved as we continue with the streamlining of our businesses. Resources in technology, customer relationship management and e-commerce, particularly our beverage aftermarket initiative (Bevcore), have all been increased.

The drive to reshape the Group is continuing. Earlier this year we announced the sale of the Eley shotgun cartridge business and the acquisition of STI in our Severe Service business. In August we completed the sale of the Copper Fittings business for £65m and acquired DCI Marketing in our Merchandising Systems business for £43m. Since January 2001 we have realised £120m from the sale of businesses and spent £90m on acquisitions.

Cash generation remains sharply in focus and it is pleasing to report another strong performance with operating cash flow after restructuring increasing to £60m, compared to £48m in the first half of last year. Free cash flow before dividend was £50m (2001: £21m).

When we embarked on our repositioning of IMI it was our intention to maintain dividends throughout the period of restructuring. The interim dividend is being maintained at 6.0p at a cost of £21m.

Results Summary

Reported sales at £826m compare with £847m last year. After adjusting for acquisitions and first half disposals, organic sales were £15m (2%) lower. Operating profit before restructuring costs was £75.5m (2001: £82.6m) after revenue investments of £9m (2001: £1m). The interest charge at £9.5m was £4.5m lower, leaving profit before rationalisation and restructuring costs, goodwill amortisation and exceptional items down 4% at £66m (2001: £68.6m).

Rationalisation and restructuring costs charged against profit were £14.1m (2001: £11.8m), resulting in profit before tax, goodwill amortisation and exceptional items of £51.9m (2001: £56.8m).

For 2002 the effective rate of tax on profit before goodwill amortisation and exceptional items, is expected to be 32%. The 2001 tax charge benefited from overseas tax credits on profit distributions and the effective rate was 25%, with the underlying rate the same as this year at 32%.

Adjusted earnings per share (before rationalisation and restructuring costs, goodwill amortisation and exceptional items) were 12.5p (2001: 14.5p). It is estimated that the first half 2001 adjusted earnings per share benefited by 1.3p from the reduction in the tax charge.

Borrowings at the end of June were £329m, a reduction of £16m from the end of December 2001 and £85m from the end of June last year. Gearing was 65% (June 2001: 81%; December 2001: 70%). Interest cover for the six months based on operating profit before rationalisation and restructuring costs was 8 times (2001: 6 times) and after rationalisation and restructuring costs, 6.5 times (2001: 5 times).

OPERATIONS REVIEW

Fluid Controls

Our Severe Service valves business continued its record of growth with another increase in sales and profit. Strong new valve shipments and a growing order intake underpin our decision to continue the investment in specialist sales engineers and capacity expansion. The new facility in Tijuana, Mexico is coming on stream and STI of Italy, purchased earlier in the year, has been integrated fully.

Fluid Power volumes remain disappointing, around 9% lower than the first half of last year. This included a difficult second quarter at our automotive tooling subsidiary, ISI. The momentum behind the cost reduction initiatives is gathering pace with a good start to manufacturing in Mexico and simplification of the infrastructure leading to reductions in headcount. The pace will accelerate in the second half and the new facility in the Czech Republic is expected to be fully operational early in 2003.

Indoor Climate, as expected, suffered lower volumes in Germany but the impact on profit was restricted by cost saving initiatives. Implementation of the downsizing of the German operations is continuing and benefits will materialise in the second half. Balancing valve volumes generally are about level with last year. We again added to our European commissioning capability with the purchase of a small French service company in June.

Retail Dispense

Beverage Dispense sales in the US included the roll out of the major order for new frozen carbonated beverage equipment received late last year, most of which was shipped in the first half of this year. The benefit of this order has more than absorbed the expected costs arising from the closure of two US plants and transfers to Mexico and China, and the investment cost of establishing Bevcore . Underlying volumes were generally around 3% ahead of last year.

Merchandising Systems continued to see low levels of demand with some customers' advertising and promotional spend remaining on hold since the events of 11 September 2001. We are confident that this market will see strong long term growth and were pleased to secure the acquisition of DCI Marketing in early August. With this addition, the pro forma annual sales of our Merchandising Systems business are around $250m, up from $100m in 2000.

Building Products

In Building Products, the pipe businesses within Polypipe performed well despite upward pressure on PVC prices. Elsewhere in Polypipe the results were mixed. Copper Tube had a difficult period with a rising copper price putting pressure on margins. Our Copper Fittings business, which was sold in August, had a solid six months trading performance.

Outlook

We are not anticipating any improvement in general market conditions in the near term. As a result of our restructuring and rationalisation, however, the Group is better equipped to manage in difficult trading environments, and we remain confident of reporting progress for the year as a whole.

GROUP PROFIT AND LOSS ACCOUNT

		6 months to 30 June 2002			6 months to 30 June 2001		Year to 31 December 2001	
	Notes	**Before restructuring, goodwill and exceptionals £m**	**Restructuring, goodwill amortisation & exceptional items £m**	**Total £m**	Before restructuring, goodwill and exceptionals £m	Total £m	Before restructuring, goodwill and exceptionals £m	Total £m
Turnover								
Continuing operations	1	**784**		**784**	778	778	1526	1526
Discontinued operations		**42**		**42**	69	69	116	116
Total turnover		**826**		**826**	847	847	1642	1642
Operating profit	1							
Continuing operations before rationalisation and restructuring		**71.7**		**71.7**	77.9	77.9	139.9	139.9
Rationalisation/restructuring			**(14.1)**	**(14.1)**		(11.1)		(39.2)
Goodwill amortisation			**(8.4)**	**(8.4)**		(8.0)		(16.4)
Total continuing operations		**71.7**	**(22.5)**	**49.2**	77.9	58.8	139.9	84.3
Discontinued operations		**3.8**		**3.8**	4.7	4.0	11.5	6.1
Operating profit		**75.5**	**(22.5)**	**53.0**	82.6	62.8	151.4	90.4
Exceptional items								
Profit on disposal of discontinued operations			**1.0**	**1.0**		19.6		20.3
Profit on disposal of property			**2.5**	**2.5**				1.0
Profit before interest		**75.5**	**(19.0)**	**56.5**	82.6	82.4	151.4	111.7
Net interest payable		**(9.5)**		**(9.5)**	(14.0)	(14.0)	(25.3)	(25.3)
Profit on ordinary activities before taxation		**66.0**	**(19.0)**	**47.0**	68.6	68.4	126.1	86.4
Tax on profit	2	**(21.1)**	**5.1**	**(16.0)**	(17.1)	(14.7)	(31.6)	(21.2)
Profit on ordinary activities after taxation		**44.9**	**(13.9)**	**31.0**	51.5	53.7	94.5	65.2
Equity minority interests		**(0.9)**		**(0.9)**	(0.4)	(0.4)	(0.7)	(0.7)
Profit for the financial year		**44.0**	**(13.9)**	**30.1**	51.1	53.3	93.8	64.5
Dividends paid and proposed	3			**(21.1)**		(21.1)		(54.5)
Transfer to reserves				**9.0**		32.2		10.0
Adjusted earnings per share	4	**12.5p**			14.5p		26.7p	
Earnings per share	4			**8.5p**		15.2p		18.3p
Diluted earnings per share	4			**8.5p**		15.2p		18.3p

GROUP BALANCE SHEET

	30 June 2002	30 June 2001 restated	31 December 2001
	£m	£m	£m
Fixed assets			
Intangible assets	**291.1**	306.6	298.0
Tangible assets	**361.7**	374.6	373.0
	652.8	681.2	671.0
Current assets			
Stocks	**313.5**	328.4	312.2
Debtors	**342.0**	380.9	311.1
Investments	**8.0**	2.1	7.7
Cash and deposits	**67.9**	59.0	58.2
	731.4	770.4	689.2
Creditors:			
amounts falling due within one year			
Borrowings and finance leases	**(149.3)**	(123.5)	(141.5)
Other creditors	**(348.0)**	(344.6)	(330.6)
Net current assets	**234.1**	302.3	217.1
Total assets less current liabilities	**886.9**	983.5	888.1
Creditors:			
amounts falling due after more than one year			
Borrowings and finance leases	**(248.0)**	(349.8)	(262.0)
Other creditors	**(22.9)**	(29.9)	(24.3)
Provisions for liabilities and charges	**(109.7)**	(90.7)	(108.5)
Net assets	**506.3**	513.1	493.3
Capital and reserves			
Called up share capital	**87.9**	87.9	87.9
Share premium account	**133.0**	132.3	132.4
Revaluation reserve	**1.0**	1.0	1.0
Other reserves	**1.6**	1.6	1.6
Profit and loss account	**279.7**	287.5	267.8
Equity shareholders' funds	**503.2**	510.3	490.7
Minority interests	**3.1**	2.8	2.6
	506.3	513.1	493.3

GROUP CASH FLOW STATEMENT

	6 months to 30 June 2002 £m	6 months to 30 June 2001 £m	Year to 31 December 2001 £m
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	**53.0**	62.8	90.4
Depreciation/amortisation	**44.0**	42.1	87.1
Stocks decrease/(increase)	**0.9**	(12.2)	1.8
Debtors (increase)/decrease	**(35.4)**	(42.0)	37.7
Creditors and provisions increase	**17.7**	22.9	3.7
Net cash inflow from operating activities	**80.2**	73.6	220.7

CASH FLOW STATEMENT

	6 months to 30 June 2002 £m	6 months to 30 June 2001 £m	Year to 31 December 2001 £m
Net cash inflow from operating activities	**80.2**	73.6	220.7
Return on investments and servicing of finance	**(11.4)**	(14.1)	(25.8)
Taxation	**(0.2)**	(14.3)	(27.0)
Capital expenditure and financial investment	**(19.1)**	(24.3)	(60.4)
Acquisitions and disposals	**(2.5)**	8.1	6.5
Equity dividends paid	**(33.4)**	(33.4)	(54.5)
Cash flow before use of liquid resources and financing	**13.6**	(4.4)	59.5
Management of liquid resources	**(15.8)**	(4.3)	2.5
Financing			
Issue of ordinary shares	**0.7**	0.2	0.3
Increase/(decrease) in borrowings	**2.4**	21.8	(44.2)
	3.1	22.0	(43.9)
Increase in cash in the period	**0.9**	13.3	18.1
Reconciliation of net cash to movement in net borrowings			
Increase in cash in the period	**0.9**	13.3	18.1
Cash (inflow)/outflow from borrowings	**(2.4)**	(21.8)	44.2
Cash outflow/(inflow) from movement in liquid resources	**15.8**	4.3	(2.5)
Change in borrowings resulting from cash flows	**14.3**	(4.2)	59.8
Cash assumed with acquisitions	**0.6**	-	-
Currency translation differences	**1.0**	(7.1)	(2.1)
Movement in net borrowings in the period	**15.9**	(11.3)	57.7
Net borrowings at start of period	**(345.3)**	(403.0)	(403.0)
Net borrowings at end of period	**(329.4)**	(414.3)	(345.3)

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

	6 months to 30 June 2002	6 months to 30 June 2001	Year to 31 December 2001
	£m	£m	£m
Profit for the period	**30.1**	53.3	64.5
Currency translation differences	**2.9**	(3.9)	(1.5)
Total recognised gains and losses for the period	**33.0**	49.4	63.0
Prior year adjustment from adoption of *FRS19: Deferred tax*			(1.9)
			61.1

GROUP HISTORICAL COST PROFITS AND LOSSES

There is no material difference between the profit before taxation and the retained profit for each period as shown in the Group profit and loss account and their historical cost equivalent.

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	6 months to 30 June 2002	6 months to 30 June 2001 restated	Year to 31 December 2001
	£m	£m	£m
Profit for the period	**30.1**	53.3	64.5
Dividends	**(21.1)**	(21.1)	(54.5)
	9.0	32.2	10.0
Previously written off goodwill taken through profit & loss account in arriving at the profit for the period	**-**	5.7	5.8
Other recognised gains and losses relating to the period	**2.9**	(3.9)	(1.5)
New ordinary share capital issued	**0.6**	0.2	0.3
Net increase in shareholders' funds for the period	**12.5**	34.2	14.6
Shareholders' funds at start of period	**490.7**	476.1	476.1
Shareholders' funds at end of period	**503.2**	510.3	490.7

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Segmental Analysis

(i) **by activity:**

before goodwill amortisation and rationalisation/restructuring

	Turnover			Operating Profit			Operating Assets		
	6 mths to 30 June 2002 £m	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m	**6 mths to 30 June 2002 £m**	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m	**6 mths to 30 June 2002 £m**	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m
Fluid Controls	**328**	342	682	**29.3**	36.2	64.9	**265**	283	246
Severe Service	**69**	55	132	**7.4**	5.4	13.8	**32**	22	29
Fluid Power	**196**	219	416	**11.9**	19.4	29.0	**194**	216	189
Indoor Climate	**63**	68	134	**10.0**	11.4	22.1	**39**	45	28
Retail Dispense	**223**	189	382	**22.6**	19.4	37.2	**130**	146	125
Beverage Dispense	**174**	148	291	**17.7**	14.4	27.2	**109**	125	99
Merchandising Systems	**49**	41	91	**4.9**	5.0	10.0	**21**	21	26
Building Products	**233**	247	462	**19.8**	22.3	37.8	**187**	223	205
Total continuing operations	**784**	778	1526	**71.7**	77.9	139.9	**582**	652	576

after goodwill amortisation and rationalisation/restructuring

	Operating Profit		
	6 mths to 30 June 2002 £m	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m
Fluid Controls	**23.4**	26.8	34.3
Severe Service	**7.2**	5.3	13.5
Fluid Power	**7.3**	10.5	3.4
Indoor Climate	**8.9**	11.0	17.4
Retail Dispense	**14.7**	17.2	27.7
Beverage Dispense	**10.4**	12.4	18.5
Merchandising Systems	**4.3**	4.8	9.2
Building Products	**11.1**	14.8	22.3
Total continuing operations	**49.2**	58.8	84.3

(ii) **by geographical origin:**

after goodwill amortisation and rationalisation/restructuring

	Turnover			Operating Profit			Operating Assets		
	6 mths to 30 June 2002 £m	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m	**6 mths to 30 June 2002 £m**	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m	**6 mths to 30 June 2002 £m**	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m
UK	**256**	269	503	**15.5**	20.1	24.7	**209**	256	223
Rest of Europe	**241**	262	505	**20.4**	23.1	28.8	**209**	208	180
The Americas	**258**	222	467	**11.2**	14.3	28.0	**150**	173	160
Asia/Pacific	**29**	25	51	**2.1**	1.3	2.8	**14**	15	13
Total continuing operations	**784**	778	1526	**49.2**	58.8	84.3	**582**	652	576

(iii) **turnover by geographical destination:**

	6 mths to 30 June 2002 £m	6 mths to 30 June 2001 £m	Year to 31 Dec 2001 £m
UK	**222**	233	432
Germany	**82**	92	180
Rest of Europe	**172**	187	356
USA	**232**	196	401
Asia	**44**	30	76
Rest of World	**32**	40	81
Total continuing operations	**784**	778	1526

1. **Segmental Analysis (continued)**

Discontinued operations

The amounts shown for discontinued operations comprise the turnover and operating profits for the copper fittings businesses sold in August 2002 and the Eley shotgun cartridge business sold in February 2002. Both businesses were previously reported in Building Products and UK and Rest of Europe. 2001 comparatives also include a number of valve companies sold in June 2001 which were located in the UK, France and US.

Rationalisation/restructuring

Rationalisation/restructuring charge is analysed as follows:

	6 months to 30 Jun 2002 £m	6 months to 30 Jun 2001 £m	Year to 31 Dec 2001 £m
Shown as rationalisation/restructuring of continuing operations	**14.1**	11.1	39.2
Included within discontinued operations	**-**	0.7	5.4
Total rationalisation/restructuring charge	**14.1**	11.8	44.6

2. **Taxation**

The tax rate on profit before goodwill amortisation and exceptional items is around 32%, the same as the underlying rate last year. The actual rate in 2001 was 25%, resulting from repatriation of overseas earnings from prior years.

Comparative figures have been restated where necessary following the adoption of *FRS19: Deferred tax* as at 31 December 2001.

3. **Dividends**

The Directors have declared an interim dividend for the current year of 6.0p per share (six months to 30 June 2001: 6.0p) which will be paid on 21 October 2002 to shareholders on the register on 20 September 2002.

4. **Earnings per share**

The weighted average number of shares in issue during the period was 351.6m, 352.9m diluted for the effect of outstanding share options (six months to 30 June 2001: 351.4m, 351.6m diluted). Earnings per share have been calculated on earnings of £ 30.1m, (six months to 30 June 2001: £53.3m). The Directors consider that adjusted earnings per share figures, using earnings as calculated below, give a more meaningful indication of the underlying performance.

	6 months to 30 Jun 2002 £m	**6 months to 30 Jun 2001** £m	**Year to 31 Dec 2001** £m
Profit for the period	**30.1**	53.3	64.5
Goodwill amortisation	**8.4**	8.0	16.4
Exceptional items (after tax)	**(4.1)**	(19.1)	(20.5)
Rationalisation/restructuring (after tax)	**9.6**	8.9	33.4
Earnings for adjusted EPS	**44.0**	51.1	93.8

5. 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 period rates			Balance sheet rates		
	June 2002	June 2001	Dec 2001	**30 June 2002**	30 June 2001	31 Dec 2001
Euro	**1.61**	1.60	1.61	**1.54**	1.66	1.63
US Dollar	**1.45**	1.44	1.44	**1.52**	1.41	1.46

6. Financial information

This interim statement has been reviewed by the Group's auditors having regard to the bulletin *Review of Interim Financial Information*, issued by the Auditing Practices Board. A copy of their unqualified review opinion is attached.

The comparative figures for the year ended 31 December 2001 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 unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The Interim Report will be posted to shareholders on 12 September 2002 and will be available from the same date at the Company's registered office, Kynoch Works, Witton, Birmingham, B6 7BA.

NEXT TRADING ANNOUNCEMENT

Our next trading update will be issued on Wednesday 18 December 2002.

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Independent review report by KPMG Audit Plc to IMI plc

Introduction

We have been instructed by the company to review the financial information set out on pages 5 to 11 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: *Review of Interim Financial Information* issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

KPMG Audit Plc
Chartered Accountants
Birmingham
9 September 2002