

engineering advantage



CONTENTS

2010 Results in brief **1**

BUSINESS OVERVIEW

IMI at-a-glance **2**

Our goals and how we are achieving them **4**

Measuring our business performance **6**

GROUP OPERATING REVIEW

Chairman's statement **8**

Chief executive's review **10**

Our five platform businesses **12**

Key Themes:
Contributing to cleaner energy production **14**

Key Themes:
Helping our customers to achieve energy efficiency **16**

Key Themes:
Contributing to a healthier lifestyle **18**

Key Themes:
Investing in our core competencies of Key Account Management and Engineering Advantage **20**

Financial review **22**

RESPONSIBLE BUSINESS

High standards of responsibility **28**

BOARD REPORTS

Principal risks and uncertainties **34**

Board of directors **36**

Directors' report **38**

Chairman's governance introduction **42**

The Board's corporate governance report **43**

Remuneration report **48**

Statement of directors' responsibilities **64**



Key Themes: helping our customers to achieve energy efficiency

P16

FINANCIAL STATEMENTS

Independent auditor's report **65**

Consolidated income statement **66**

Consolidated statement of comprehensive income **67**

Consolidated balance sheet **68**

Consolidated statement of changes in equity **69**

Consolidated statement of cash flows **70**

Notes to the financial statements **71**

Independent auditor's report **118**

Company balance sheet **119**

Company notes to the financial statements **120**

Subsidiary undertakings **126**

Five year summary **128**

Shareholder information **130**

General information **131**

Index **132**



A very strong performance with encouraging progress across most of the Group

P8

Key Themes: contributing to cleaner energy production

P14



Key Themes: contributing to a healthier lifestyle

P18

2010 RESULTS IN BRIEF

Segmental operating profit

£319.7m +37%
2009 £234.2m

Profit before tax

£306.1m +64%
2009 £186.2m

Basic earnings per share

70.4p +73%
2009 40.8p

Adjusted profit before tax¹

£304.4m +44%
2009 £211.7m

Adjusted earnings per share²

66.3p +45%
2009 45.8p

Total dividend for year

26.0p +23%
2009 21.2p

Revenue

£1,911m +7%
2009 £1,792m

¹continuing operations before exceptional items (restructuring, acquired intangible amortisation, financial instruments excluding the reversal of economic hedge contract gains and losses, and employee benefit curtailment - UK scheme) totalling a gain of £1.7m (2009: loss £25.5m)

²continuing operations before the after tax gain from exceptional items totalling £0.5m (2009: loss £15.7m)

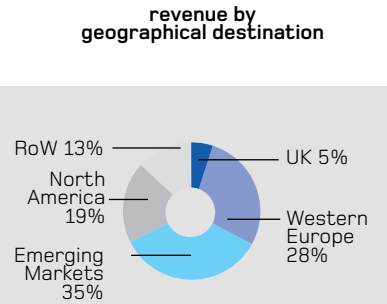
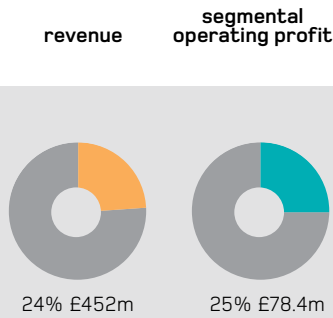
IMI COMPRISES FIVE BUSINESSES WITH GROWING LEADERSHIP POSITIONS IN FOCUSED NICHE MARKETS. 14,700 EMPLOYEES* PROVIDE INNOVATIVE KNOWLEDGE-BASED ENGINEERING SOLUTIONS FOR MARKET LEADING CUSTOMERS AROUND THE WORLD.

IMI plc is the ultimate holding company of the Group and has been listed on the London Stock Exchange since 1966. At 31 December 2010 it had a market value of £3.0bn and shareholders' funds of £526m. The Company's headquarters is at Lakeside, Birmingham Business Park, England. The trading activities of the IMI Group are conducted through subsidiary companies.

PLATFORM BUSINESSES

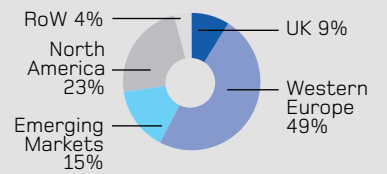
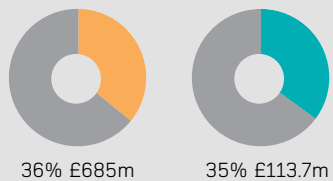
Severe Service

Controlling critical in-plant processes by providing superior custom engineered severe service valve, actuation and control solutions.



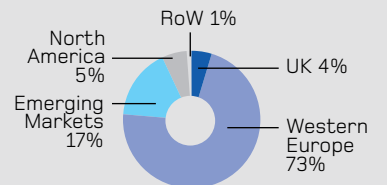
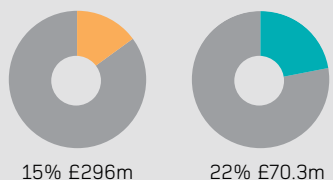
Fluid Power

Engineering advantage in motion and fluid control applications.



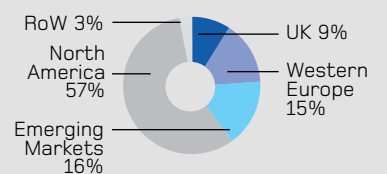
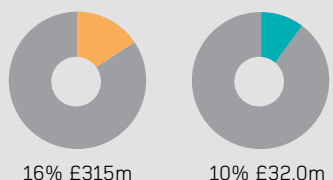
Indoor Climate

Perfecting indoor climate through the provision of critical energy efficient valve products and related services for water-based heating and cooling systems.



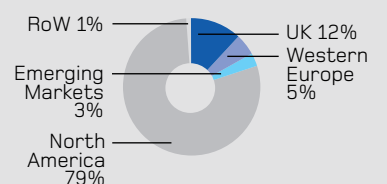
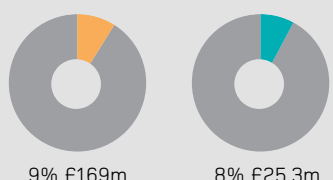
Beverage Dispense

Supplying innovative beverage cooling and dispense solutions to brand owners and retailers around the world. Providing complete beverage and food service parts management solutions.



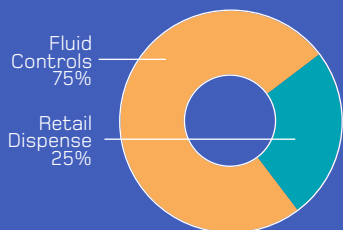
Merchandising

Providing permanent point of sale solutions and technologies that enhance retailer and brand owner profitability by driving impulse purchase. The main markets are global brand owners and retail sales outlets.

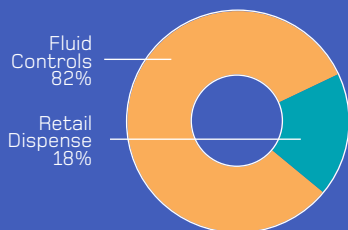


* As at 31 December 2010, including temporary agency and contractor staff and approximately 200 head office employees.

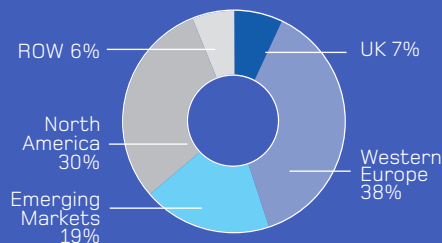
Group revenue
£1,911m



Segmental operating profit
£319.7m



Group revenue by geographical destination



FACTFILE

Key brands

CCI, BTG, IMI Nuclear, Orton, Truflo Rona, STI, Z&J

Main markets

Fossil and nuclear power generation; oil & gas production; combined heat & power (CHP); liquefied natural gas (LNG); iron & steel; petrochemical and gas processing.

Major operational locations

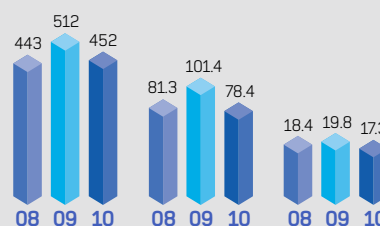
USA, Switzerland, Italy, Sweden, Czech Republic, South Korea, UK, Japan, China, Canada, Germany, South Africa and Belgium.

Employees 3,350

revenue
£m

segmental operating profit
£m

operating margin
%



Key brands

Norgren, FAS, Kloehn, Herion, Buschjost, KIP

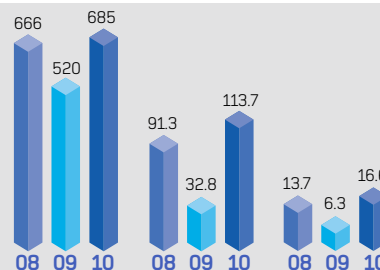
Main markets

Industrial pneumatic applications; commercial vehicles; rail; energy; life sciences; food & beverage.

Major operational locations

UK, USA, Germany, Switzerland, Mexico, Czech Republic, Brazil and China.

Employees 6,050



Key brands

TA Hydronics, FDI, TA Heimeier, Pneumatex

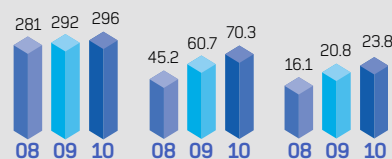
Main markets

Heating and cooling systems for commercial buildings and temperature control for residential buildings.

Major operational locations

Sweden, Germany, Poland, Switzerland and USA.

Employees 1,850



Key brands

Cornelius, 3Wire

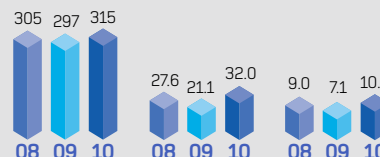
Main markets

Soft drinks, health and wellness drinks and alcoholic beverage cooling, dispense and point of sale equipment for bars, restaurants and retail outlets.

Major operational locations

USA, UK, Germany, Mexico and China.

Employees 2,250



Key brands

Artform, Cannon Equipment, DCI Marketing, Display Technologies

Main markets

Global brand owners and retail sales outlets.

Major operational locations

USA and UK.

Employees 1,000



OUR GOALS AND HOW WE ARE ACHIEVING THEM

OUR GOAL IS TO BECOME ONE OF THE WORLD'S LEADING ENGINEERING COMPANIES IN THE NICHEs WE SERVE, RECOGNISED FOR OUR INNOVATION, APPLICATIONS EXPERTISE AND GLOBAL SERVICE.

WE AIM TO DELIVER SUSTAINABLE ORGANIC GROWTH IN EXCESS OF GDP GROWTH AND OVER TIME TO REACH OPERATING MARGINS OF AT LEAST 20% IN EACH OF OUR FLUID CONTROLS BUSINESSES AND 15% IN EACH OF OUR RETAIL DISPENSE BUSINESSES.

We are focused on growth with industry or sector leading customers in niche global markets. Adding value to such customers and improving their performance is the route to sustainable profit growth for our shareholders. We seek to operate in those markets which have good exposure to the key global trends, including climate change, resource scarcity, urbanisation and ageing populations which are shaping our future and driving growth, where we already hold or can achieve a market leadership position and where we can clearly differentiate ourselves from our competitors with end-user insight and the application of innovative technology.

ACCELERATING OUR KEY ACCOUNT FOCUS

Highly talented, customer-focused, entrepreneurial-minded teams of people in IMI add long-term value for both customers and ourselves. Developing these skills, understanding the drivers of our customers' businesses, and our own, and ensuring that we work with the best customer partners, are critical components of our business model. Recognising where value can be added for both parties is a fundamental part of our approach. A centrally-based 'Key Account Academy' helps to train our people and ensure that best practice is shared across the Group.



Mike Doody was recently promoted to President of our DCI Merchandising business having successfully generated value to our customers, and to IMI, through our key account activities in sectors such as consumer electronics.

INVESTING IN ENGINEERING ADVANTAGE

We invest in techniques that improve market understanding and customer insight. We then apply our acquired knowledge and our engineering capabilities to the issues faced by our customers. The result is relevant, bespoke technologies and new products that create real value and strengthen our customer relationships. This core capability effectively engineers solutions that provide advantages for our customers and we refer to this as Engineering Advantage. Our current aim is to accelerate our investment in research and development and thereby increase the percentage of revenue from new products, launched in the prior three years, to over 20% by the end of 2013.



Jay Faramarzi has a worldwide reputation in the control valves technology that underpins CCI's Engineering Advantage. Jay has accountability for the highly skilled engineering group in CCI and for leveraging our engineering capabilities to add value to our customers.

World class key account management and project management are important disciplines for the effective delivery of bespoke solutions to our customers in these markets. We also provide aftermarket support in the form of service and spares to our customers' installed product base.

Our five business platforms share this common philosophy. The Severe Service, Fluid Power and Indoor Climate business platforms serve Fluid Controls markets, where our customers include plant operators, original equipment manufacturers and building owners.

The Beverage Dispense and Merchandising businesses operate in Retail Dispense markets, where our customers are brand owners and retailers.

Our strategic growth drivers set out below are understood by all the senior management in IMI and embedded throughout our businesses. We believe in the highest ethical standards and The IMI Way, our code of responsible business, is at the heart of everything we do.

SEIZING THE INITIATIVE IN EMERGING ECONOMIES

We continue to invest in emerging economies including China, India, Brazil and Eastern Europe which currently offer stronger growth opportunities than most developed economies. To take advantage of these opportunities we are accelerating our investment in both engineering and in key account managers. In addition we are continuing to invest in a significant manufacturing and procurement presence in these markets with sites in Mexico, Brazil, the Czech Republic, China, Poland and most recently India.

Focused investment of this sort enables us to support our customers as they seek themselves to grow in these developing markets.

Ricardo Rodrigues, who began his career with IMI on our Global Graduate Programme, now has accountability for Norgren's Latin Americas Region. Ricardo is spearheading our growth with a special focus on Brazil, a key emerging market.

BALANCE SHEET MANAGEMENT

The Group remains strongly cash generative and maintains a healthy balance sheet with relatively low levels of debt. IMI's financial strength means that it is extremely well placed to invest for the future in organic growth, in partnering with our key customers to develop new, innovative and bespoke engineering solutions and in value enhancing acquisitions. Acquisitions must align with our strategic criteria with good exposure to the key global trends identified above and should bring technology, talent and key account relationships with the ability to create significant differentiation, so strengthening further our leadership positions in our well-defined niche markets. They must also be supportive of our growth and margin targets. All potential acquisitions and all major investment proposals must be able to demonstrate positive economic value added on a cumulative basis within three years.

MingMing Gao leads the finance function in IMI China where she guides the businesses to ensure we have tight financial controls in place and drives the effective optimisation of our balance sheet to get maximum value from our investment programme in China.



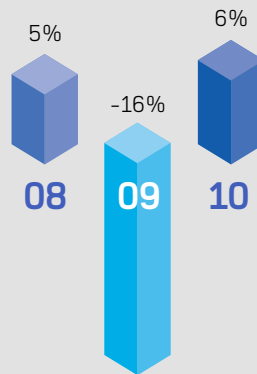
MEASURING OUR BUSINESS PERFORMANCE

BUSINESS PERFORMANCE IS EVALUATED REGULARLY BY THE BOARD OF IMI USING A VARIETY OF TOOLS. THE FIVE MOST IMPORTANT KEY PERFORMANCE INDICATORS (KPIs) ARE SHOWN HERE.



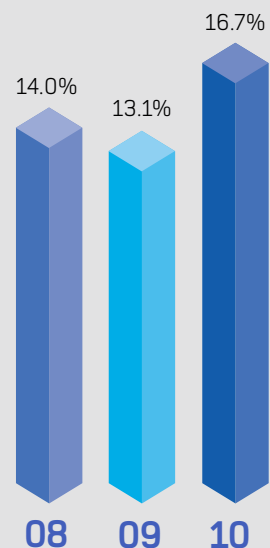
ORGANIC REVENUE GROWTH

Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2010, the Group's revenue grew by 6% on an organic basis reflecting our broadly balanced mix of early and late cycle businesses.



OPERATING MARGINS

Operating margins are defined as the ratio of segmental operating profit as a percentage of segmental revenues. In 2010 these margins were 16.7% compared to 13.1% in 2009. This represents a significant improvement and is the first time the Group has exceeded its historic long term objective set in 2001 of 15%. Consequently, we have now raised the long term objective for operating margins in each of our three Fluid Controls businesses to 20% while retaining a 15% objective for each of our Retail Dispense businesses.



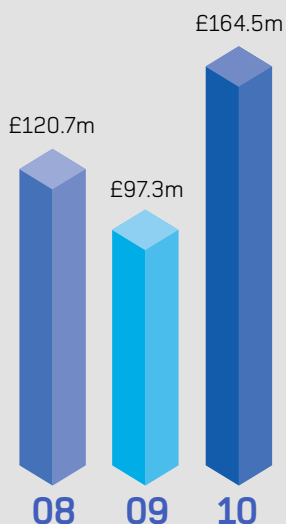
Each business unit of IMI participates in an annual round of planning meetings with the Executive Committee of the Board, during which future plans for that business are reviewed and updated. These plans include specific local, regional

and sector targets and KPIs which reflect and measure business performance. In addition, each business has its own regular business reviews from weekly updates to formal quarterly reviews.

This process enables the Board to review performance against tactical and strategic milestones and allows informed decisions to be taken at each level of the organisation.

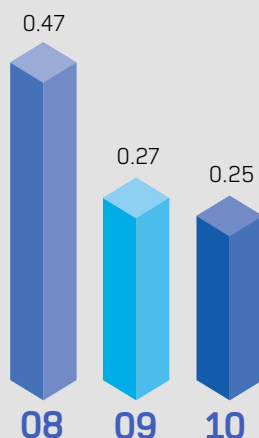
ECONOMIC VALUE ADDED

Economic value added (EVA) is defined as the segmental operating profit after tax less a capital charge. The capital charge is arrived at by applying the Group's after tax weighted average cost of capital of 8% to the average invested capital. Invested capital is net assets plus net debt and the IAS19 pension deficit (net of deferred tax), excluding exceptional items in the balance sheet (being restructuring provisions, net derivative liabilities and Severe Service investigation costs). The 2010 EVA was £164.5m which is an increase of 69% over 2009. 2010 EVA has been calculated on a different basis to previous years' figures to be in line with the EVA calculated for internal reporting and incentive purposes and prior year figures have therefore been restated. The major changes are in respect of the treatment of restructuring cost and the IAS19 pension deficit.



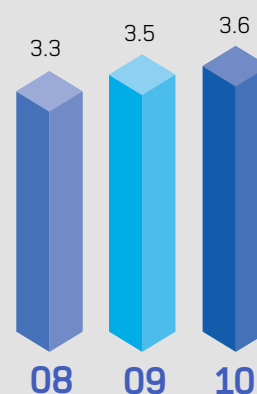
LOST TIME ACCIDENT RATES

The Group takes seriously its responsibility for the safety of all employees, contractors and visitors. Our lost time accident (LTA) rate improved by 7% in 2010 to 0.25 accidents per 100,000 hours worked from 0.27 in 2009. We are on track to deliver our current health and safety target of no more than 0.22 accidents per 100,000 hours worked by 2012.



CO₂ EMISSIONS

Our CO₂ emissions in 2010 amounted to 97,000 tonnes, an increase of 8% on last year (2009: 90,000 tonnes). Normalised against hours worked, our performance deteriorated to 3.6 CO₂ tonnes/1,000 hours worked (2009: 3.5 CO₂ tonnes/1,000 hours worked). Despite a range of good initiatives across the Group overall performance was impacted by abnormally cold weather experienced in Europe and North America during the year. Last year we set a new target to reduce this KPI to no more than 3.2 CO₂ tonnes/1,000 hours worked by 2012. The Group has a renewed focus in 2011 to improve performance in this area.



'A TOTAL DIVIDEND FOR THE YEAR OF 26.0p, AN INCREASE OF 23% OVER LAST YEAR'S 21.2p'

I AM PLEASED TO REPORT A VERY STRONG PERFORMANCE WITH ENCOURAGING PROGRESS ACROSS MOST OF THE GROUP. REVENUE, OPERATING PROFIT, OPERATING MARGIN AND EARNINGS PER SHARE HAVE ALL SHOWN SIGNIFICANT UPLIFT ON 2009 REFLECTING THE INCREASE IN DEMAND SEEN IN MANY OF OUR MARKETS, AND STRONG DISCIPLINE IN THE MANAGEMENT OF OUR COST BASE.

Group segmental revenues grew by 6% on an organic basis. Segmental operating profit increased by 37% and the operating margin improved from 13.1% to 16.7%. Adjusted earnings per share increased by 45% to a record 66.3p. This together with our strong performance on cash conversion and confidence in the future prospects of the Group lead the Board to recommend that the final dividend be increased by 29% to 17.0p. This makes a total dividend for the year of 26.0p, an increase of 23% over last year's 21.2p.

Collectively our three Fluid Controls businesses performed well helped by a significant recovery in Fluid Power volumes where organic revenue growth was 31% for the year. This performance, together with good progress on margins in both Fluid Power and Indoor Climate, helped to offset the expected lower activity levels in our later cycle Severe Service business. Overall, on a constant currency basis, Fluid Controls revenues grew by 7%. Operating margins for Fluid Controls rose to 18.3% from 14.7% last year.

In Retail Dispense, both Beverage Dispense and Merchandising made encouraging progress with revenues up 4% on an organic basis despite a deliberate and focused programme to improve margins by exiting from a

number of lower margin, older and more commoditised products. Operating margins also benefited from operational efficiencies and an improved project mix, increasing to 11.8% from 8.5% last year.

The IMI Way

During 2010 we continued to embed our code of responsible business 'The IMI Way' across all of our worldwide operations. The code targets the very highest standards of ethical business and compliance as well as setting out our responsible business priorities. Importantly we are seeing a growing positive convergence between these priorities, including our focus on the key business drivers of energy efficiency and cleaner energy, and our customers' own responsible business agendas.

IMI people

The most important factors behind IMI's success over many years are the skills, expertise and energy displayed by my colleagues across the world and I am deeply grateful for their continued efforts and enthusiasm. We continue to invest in upgrading our talent through new innovative training programmes such as the Management Boot Camp which we launched in 2010.

We were pleased to announce in August 2010 that Ian Whiting,



Norman B M Askew
Chairman

President of Severe Service, had been promoted to the Board and assumed the important additional responsibilities for developing IMI's interests in the emerging markets and for the Group's procurement function.

As I announced in November 2010, I intend to retire from the Board during the course of 2011 once a successor is found. Since I joined the Group in 2005, IMI has made great progress in its development into one of the leading global engineering businesses, with a clear focus on the precise control of fluids in critical applications. Importantly, in 2010 IMI emerged as a stronger business from

the global economic downturn seen in late 2008 and 2009. The Group is now well placed, under a strong management team, for a more progressive agenda with an increased focus on growth.

A handwritten signature in black ink that reads "Norman B M Askew".

Norman B M Askew
Chairman
2 March 2011

'WE HAVE DETAILED PLANS TO ACCELERATE GROWTH, DELIVER FURTHER MARGIN IMPROVEMENT AND MAKE GREATER USE OF OUR STRONG BALANCE SHEET'

2010 WAS ANOTHER VERY ENCOURAGING YEAR FOR IMI, WITH ORGANIC REVENUE GROWTH OF 6% AND RECORD OPERATING MARGINS OF 16.7%, WELL AHEAD OF THE GROUP'S HISTORIC LONG TERM OBJECTIVE OF 15%.

The 2010 results reflect the significant benefits that have been derived from the gradual but fundamental reshaping of the Group, which has been underway for many years. The focus on achieving leading positions in niche global markets, with highly bespoke engineered products and a low cost manufacturing base has created a significant and sustainable improvement in the underlying quality and profitability of the Group.

Looking forward, IMI is now well placed to move on to its next stage of development. Over the next few years we will focus on four key areas:

1. Strategic convergence

IMI's preferred area of operation is best defined by the convergence of three key attributes:

- technology leadership in the precise control of fluids in critical applications;
- market leadership in global niches populated by large successful customers who value highly customised and differentiated products; and
- high exposure to the key global trends which we see shaping the future and driving economic growth.

Today around half of IMI's operations have a high exposure to all three of these attributes. These parts of IMI are characterised by higher growth, higher margins and greater resilience. Over time we would expect to significantly increase this proportion through disciplined choices around customer selection, new product development and acquisitions.

The global trends shaping our future and providing higher than average growth opportunities for IMI include:

- climate change - with opportunities for IMI to provide solutions for cleaner energy (such as liquefied natural gas and nuclear), improved energy efficiency and better environmental control;
- resource scarcity - with opportunities for IMI in process improvement and automation;
- urbanisation in the emerging economies - with major opportunities for IMI around building design and mass transit infrastructure; and
- an ageing population - with its rising aspirations for a more balanced and healthier lifestyle and an improved quality and longevity of life.

2. Growth acceleration

Having established a firm platform for development, we are now in a position to increase investment in sales and engineering resource to accelerate revenue growth. More specifically we intend to:

- allocate a greater proportion of current sales and engineering resource in favour of those end markets where growth is benefiting from the favourable global trends as set out above;
- double our investment in sales and engineering resource in the key markets of China, India and Brazil to significantly increase our revenues from emerging markets over the next three years; and

- accelerate our investment in research & development and thereby increase the percentage of revenues generated from new products, launched in the previous three years, to 20% by the end of 2013.

Overall we expect to invest an additional £45m, spread over the next three years, in new sales and engineering resources to help us achieve these goals.

3. Margin improvement

The Group has been successful in driving margin improvement over many years. In 2010 we delivered a full year operating margin of 16.7%, ahead of the Group's long term objective of 15% for the first time. Within this, the three Fluid Controls businesses collectively achieved an overall operating margin of 18.3% and the Retail Dispense businesses an operating margin of 11.8%. Given this strong progress it is now appropriate to raise the long term margin objective for each of the three Fluid Controls businesses to 20%, whilst maintaining the 15% margin objective for Retail Dispense.

We can expect continued progress in margins over the next few years as a result of the following initiatives:

- expanding our use of pricing specialists across the business to optimise the value of our products and services;
- improving product mix through the introduction of new products at higher margins, an increased focus on high margin aftermarket sales and selective exit from low margin or commoditised product lines; and



Martin J Lamb
Chief Executive

- investing a further £15m in each of the next two years to transfer further manufacturing to our established facilities in the lower cost economies of China, Mexico, India, Poland and the Czech Republic with the aim of increasing the percentage of low cost manufacturing to over 55% by 2014.

4. Balance sheet utilisation

At the end of the year we were pleased to complete the acquisition of Zimmermann & Jansen (Z&J), in our Severe Service division. Z&J has a strong reputation for its engineering expertise, has market-leading positions and technologies and a strong aftermarket business. Its activities in the petrochemical and iron & steel markets open up a number

of new niche opportunities for the combined business, as does Z&J's growing emerging markets exposure.

Looking forward the Group will make greater use of its strong balance sheet to fund further value enhancing acquisitions. At the same time, the Group will continue to focus on cash generation with the aim of maintaining cash conversion at over 90%.

Outlook

IMI delivered a very strong set of results in 2010 with record profits, margins and earnings. We are now well placed for the next stage in the Group's development and have detailed plans to accelerate growth, deliver further margin improvement and make greater use of our strong balance sheet in delivering value enhancing acquisitions.

In light of this performance, and our confidence in future prospects we are pleased to raise the final dividend by 29%.

We remain optimistic that the Group will continue to make good progress in 2011.

Martin J Lamb
Chief Executive
2 March 2011

OUR FIVE PLATFORM BUSINESSES



SEVERE SERVICE

SEVERE SERVICE

Our Severe Service business saw an overall organic revenue decline of 14% for the full year. This performance was a reflection of the later cycle nature of its markets and the lower order intake seen in new construction markets in 2009. As previously indicated shipments of new valves in both the Oil & Gas and Fossil Power sectors were significantly down on 2009. Activity levels in the Nuclear sector were slightly down, whilst in the Aftermarket, shipments were stronger than last year. As expected, margins were impacted by lower volumes and fell to 17.3% for the full year. Our new manufacturing facility in the Czech Republic opened in May 2010 and its sister facility in India is now operational.

The order book at the year-end was up 17% on the position at the beginning of the year. Order intake was up 3%, with like-for-like orders up 9% after adjusting for the effect of the multiyear, master contract agreed with EdF in 2009. The strong recovery in the Oil & Gas sector and the LNG markets in particular continued with order intake up around 70% in the full year. As previously indicated we have seen a slower recovery in bookings in the Fossil Power market where order intake was down around 20% in the year. There continues to be significant opportunities in the Nuclear market and we were pleased to sign a memorandum of understanding with the Shanghai Automation Instrumentation Company Ltd in December to create a new venture to supply control valves into the China nuclear industry.

At the end of December we completed the acquisition of Zimmermann & Jansen (Z&J), a leading engineering business specialising in severe service valves and related flow control products, for a consideration (net of cash acquired) of £110m. The acquisition of Z&J is highly complementary, both in market terms, extending our interests into downstream Oil & Gas (Refining and Petrochemical) and into Iron & Steel; and in technology terms, with Z&J's highly acclaimed isolation valve technology a natural fit alongside the Truflo technology acquired in 2006. The use of IMI's global sales and aftermarket infrastructure is expected to improve Z&J's geographic penetration.

The increased order intake seen in the year, together with ongoing strength in the Nuclear and Aftermarket businesses, are expected to support a return to growth in 2011. However, margins in the first half of 2011 will be impacted by an unfavourable mix of lower margin Nuclear and Oil & Gas projects.

FLUID POWER

The overall organic growth in revenues was 31% for the full year reflecting the continued improvement in end markets after the significant falls seen in 2009.

During the year we have continued to make good progress in developing our sector business. This part of our business, which focuses on bespoke solutions for key original equipment manufacturer (OEM) customers in global niche markets, grew at 38% in the full year, compared to 28% for the rest of the Fluid Power business.



FLUID POWER

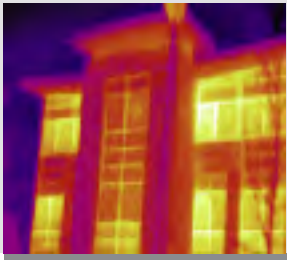
All of the five key global sectors - Commercial Vehicles, Life Sciences, Rail, Energy and Food & Beverage - performed well with a particularly strong bounce back in commercial vehicle volumes after a difficult 2009. Overall our targeted sectors now represent 41% of total Fluid Power revenues.

The business continued to deliver strong profits drop-through on higher volumes throughout the year with segmental operating profits up 247% and operating margins up at 16.6% compared with the 6.3% delivered last year and 13.7% in 2008. This step change in margin performance has been driven by increased operational efficiencies as we continue to transfer manufacturing to our low cost facilities in China, the Czech Republic, Brazil and Mexico, and by our initiatives to deliver material cost savings and to maximise the value secured for our products and services.

The positive momentum in Fluid Power seen in 2010 has been maintained in the first two months of 2011.

INDOOR CLIMATE

As expected, the Indoor Climate business returned to growth in the second half of the year and delivered full year organic revenue growth of 2% despite the lacklustre construction market. This resilient performance continued to be driven by strong refurbishment activity levels and the increasing impact of European energy efficiency legislation. Overall refurbishment activity represented two thirds of sales in the year reflecting the growing trend to retrofit our products into existing



INDOOR CLIMATE

buildings in the drive to improve energy efficiency and deliver more effective climate control.

We continued to invest in educating the market to help drive demand for our energy efficient products and solutions with over 60,000 customers attending one of our seminars during the year. We are expanding this seminar programme further in 2011 with particular focus on North America, Germany and China.

We benefited during the year from the cumulative impact of a number of cost saving initiatives implemented during 2009 and operating profit for Indoor Climate increased by 16% to £70.3m. The operating margin showed further strong progression on last year, rising from 20.8% to 23.8% in 2010 as we continued to benefit from the positive mix of renovation business. Underlying margins in the second half were nearer 24% as we benefited from the recovery of certain legal costs incurred in prior years. In recent months we have faced significantly higher copper prices albeit we expect to recover this through improved pricing.

As energy costs continue to rise we expect the drive to make both existing and new buildings more energy efficient to accelerate. To take advantage of this opportunity we are expanding our engineering and sales resource, notably in the emerging markets and North America, as well as investing further in our industry leading seminar programme. The ongoing drive for improved energy efficiency positions us well for higher growth in 2011.



BEVERAGE DISPENSE

BEVERAGE DISPENSE

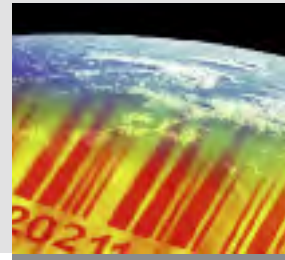
Beverage volumes continued to recover throughout the year with overall organic revenue growth of 5% on 2009, notwithstanding our decision to exit a number of lower margin product lines which accounted for around 3% of 2009 revenue.

The strongest markets were in the Americas and China which more than offset the more challenging conditions seen in Europe where volumes were impacted by the weaker Spanish, Greek and Irish markets and by our decision to exit some of the lower margin beer business. 3Wire, our parts management business in North America, continued to perform well.

Operating profit increased by 52% to £32.0m resulting in a strong uplift in operating margin to 10.2%. This positive performance reflects both our focus on improving the quality of the business and a further improvement in operational efficiencies.

We have continued to make good progress on new product development where we are targeting the higher growth water, juice, frozen drinks and smoothies markets. The demand for our new more energy efficient coolers is also growing as these products fit well with our major customers own sustainability initiatives.

Looking forward we expect to benefit from increased investment in emerging markets by our major global customers which together with continued strength in North America and our new product initiatives should support further positive progress in 2011.



MERCHANDISING

MERCHANDISING

Overall organic growth for the year was 2%. As expected, after a weaker first half, the second half benefited from some good project wins in the automotive sector with second half organic growth of over 15%. While the automotive sector was stronger, the cosmetics sector ended slightly down on last year and the food and beverage sector was broadly flat.

Operating profits were up 39% compared to 2009. As with Beverage Dispense, Merchandising has been focusing on improving the overall quality of the business by targeting higher margin project opportunities. The business has made good progress in this regard delivering operating margins of 16.8% in the second half and 15.0% for the full year, a significant improvement on the 11.1% achieved last year.

In 2011 we are planning to open our new 'In-Vision' customer experience centre in the US which will be used to explain to customers the science of merchandising and to visually demonstrate how we can add greater value for them.

KEY THEMES CONTRIBUTING TO CLEANER ENERGY PRODUCTION

CCI is known internationally for providing reliable turbine bypass valves to the fossil power generating fleet, and it is now becoming the partner of choice for the emerging solar thermal industry. Capable of providing precise flow control and withstanding cyclic operation, CCI is providing the technology today that tomorrow's generating fleet needs.



Clean energy

If the world is to meet its ambitious aims to reduce the growth of carbon emissions over the coming decades without constraining overall growth in output, then the proportion of energy generation coming from sustainable, low carbon and cleaner sources will have to significantly increase. To achieve these aims a wide combination of solutions and technologies will be required, ranging from sustainable energy sources such as hydro, wave, wind, thermal and solar, through next generation nuclear power reactors and also the use of cleaner fossil power sources such as natural gas. Natural gas is considered to be the most environmentally friendly fossil fuel because it has the lowest CO₂ emissions per unit of energy and because it is suitable for use in high efficiency combined cycle power stations. Going forward, we expect increasing worldwide government sponsorship of cleaner energy solutions through a combination of legislation and grants which should support strong growth in this area.

How we contribute

IMI, principally through our Severe Service and Fluid Power businesses, is actively involved in supplying a number of fluid control solutions to clean energy providers. For instance, over the last few years we have supplied a range of control valves for thermo solar power generation projects in Spain. More recently in 2010 we supplied our first turbine bypass solution to a new biomass power generation plant in Texas.

In natural gas we have a market leading position in the supply of critical control and isolation valves used in liquefied natural gas (LNG) trains. LNG is a high growth market as countries with limited local resources of natural gas, such as China, seek to import supplies from resource rich countries like Australia in an efficient and secure way. We supply a range of valves in the liquefaction plants including anti-surge control valves, which protect the compressor, and also control and isolation valves in the regasification plants. Worldwide LNG capacity is expected to continue to grow over the next few years which should represent a major opportunity for IMI.

Nuclear power is also a key strategic low carbon solution. There are approximately 400 reactors in operation around the world today to which IMI has a long history of supplying parts and services to maintain these reactors in optimal condition. More recently, ambitious plans have been developed by a number of countries to expand this population and IMI is positioned well to benefit from this expansion as and when it materialises.



"When we converted our Bayside Station in Florida from coal-fired generation to gas, the plant began a new era of cleaner but more severe service operation. As the operating conditions were now going to require more variable operation, the valve solution needed re-engineering to help us improve the temperature and thermal shocks this kind of clean generation requires. In addition to reducing our maintenance costs, CCI provided us with the sales, engineering and product design support necessary to solve our problem helping us to reduce maintenance and down time along with increased reliability."

Paul Lofton, Specialist Engineer, Tampa Electric Co. Bayside Station.



For more than 50 years, Thompson Valves, a business unit of Norgren and part of IMI Nuclear, has been the internationally recognised benchmark for nuclear control and instrumentation.



KEY THEMES HELPING OUR CUSTOMERS TO ACHIEVE ENERGY EFFICIENCY

Display Technologies' Freedom Barrel helps our customers meet their environmental impact goals. Predominantly made from reprocessed materials, it can also be easily disassembled for recycling. Three units are packed in approximately the same space as a single traditional unit, providing freight and warehouse savings of more than 50%.



Energy efficiency

Moving towards energy sustainability will require a change, not only in the way that energy is generated and supplied, but also in the way that it is used, so reducing the amount of energy required to deliver various goods and services is essential. According to the International Energy Agency, improved energy efficiency in buildings, industrial processes and transportation could reduce the world's energy needs in 2050 by one third, and thereby help control global emissions of CO₂. As well as climate change, the other key factor behind the drive for more energy efficient products is the increasing cost of energy itself. A combination of higher raw material costs and the move towards more sustainable and more expensive energy production technologies is increasing the cost of energy worldwide. By investing in more energy efficient solutions, companies can reduce the impact of these higher costs.

How we contribute

IMI has long identified energy efficiency as a major growth driver for the Group. It is fundamental to our own responsible business agenda where we not only have a priority to reduce the Group's own carbon emissions, but also have a priority to engage with our customers on their own responsible business agendas which, almost without exception, include the reduction of carbon emissions. Consequently, there continues to be increasing demand from our customers across all of our businesses for more energy efficient products and services. This is often supported by government legislation whether relating to truck emissions, or the energy efficiency of buildings. Energy efficiency therefore remains a key driver of our new product development activity.

Our Severe Service business has developed a range of valve and actuator solutions to help customers reduce energy usage and emissions of CO₂ and other gases. Recent examples of this include the 'CoolMist' solution in Combined Cycle Plants which reduces emissions by around 20% and our solutions to help reduce fugitive emissions in the Oil & Gas markets. Similarly, product development in our Fluid Power business is largely focused on helping to improve efficiencies in key sectors such as rail and commercial vehicles.

Our Indoor Climate business is almost entirely focused on providing more energy efficient valve solutions for both commercial and residential buildings. As has been highlighted previously, these trends are increasingly supported by legislation and there is growing evidence that greater energy efficiency can have a positive impact on building occupancy rates and valuations.

Energy efficiency is now one of the key priorities in the development of all new dispensing equipment in our Beverage Dispense business. Over the last few years we have developed a range of new coolers for the beer and carbonated soft drinks markets, such as the Energize and IntelliBlue systems, which both use around 40% less energy than traditional coolers. This resonates well with the global drinks brand owners who are all now very focused on reducing their carbon footprints. Similarly in Merchandising, we are increasingly focused on developing more energy efficient product designs for our customers.

McDonald's welcomed the opportunity to partner with IMI Cornelius on its new drink cooling system – Energize, resulting in 40% energy savings, equivalent to CO₂ emissions of 3.0 tonnes a year, and reducing typical restaurant energy costs by £425 per year. This type of energy efficient technology is aiding McDonald's in achieving their global sustainability targets.



"The objective for our state of the art head office in Prague was to have a reliable and energy efficient heating and cooling network, operating in an environmentally friendly way. The long standing cooperation between IMI Indoor Climate, the consultants and us, on the heating and cooling network, helped us to achieve our goal. This successful collaboration contributed to the building, with its sustainable design features, becoming the first LEED certified building in the Czech Republic with a gold award – an internationally recognised green building certification."

Pavel Kavánek, Chief Executive Officer, CSOB



KEY THEMES CONTRIBUTING TO A HEALTHIER LIFESTYLE

Healthier living

Ageing populations is a global trend. In the more developed regions the population aged 60 or over is increasing at the fastest pace ever and is expected by the United Nations to increase by more than 50% over the next four decades, rising from 264 million in 2009 to 416 million in 2050. In the developing world, the population is ageing even more rapidly, with the population over 60 forecast to rise from 475 million to 1.6 billion over the same time period. Population ageing has a number of major implications notably in the area of healthcare with spending in this area expected to rise significantly as populations grow older. At the same time as developing countries become wealthier, they are also likely to increase the proportion of national income spent on healthcare to bring them up towards the levels spent in more developed countries. We therefore expect that healthcare and related markets are likely to be a major growth opportunity over the next few years. In addition, people, particularly in the developed world, are looking for healthier options in terms of the food and drinks that they consume as part of a trend towards an overall healthier lifestyle.



The technical experts from Indoor Climate provided a system solution for the Sarvar Spa & Wellness centre in Hungary which not only optimises the performance and energy efficiency of the heating system, but also controls the water temperature, ensuring an enjoyable and safe environment for the Spa visitors.

How we contribute

In Fluid Power, IMI has identified Life Sciences as one of its key global sectors. In 2010, revenues in this sector grew by over 20% and it remains a very strong growth opportunity for the business. Fluid Power has a range of bespoke valve solutions which are used in a wide variety of medical equipment including respirators, anaesthesia machines and oxygen concentrators. In addition, through its Kloehn business in the US, Fluid Power is supplying precise micro-dosing pump solutions for dispensing reagents in new DNA sequencing systems, which is a very fast growing area of medicine. As well as providing energy efficient solutions, Indoor Climate systems are also able to optimise the climate control and conditions in a building to provide the perfect environment for the building users. This is particularly important in hospital buildings where

demands on the indoor climate and air quality system are very high. This is most critical in specialist areas, such as surgery and pulmonary medicine, where precise air treatment and humidity levels are extremely important. Indoor Climate's expertise and industry leading solutions, such as their differential pressure control valves, have successfully delivered these solutions in a number of new hospital projects.

The fastest growing area of the market for our Beverage Dispense business is health and indulgence. Consumers are demanding healthier drinks such as water and juices and we have successfully developed a number of new dispensing solutions to address this area of the market. This has included multi-purpose purified still, carbonated and hot water dispensing solutions for both the commercial and domestic markets.



“Luxfer’s new Intelligent Oxygen System (IOS®) features our patented SmartFlow® technology, an exceptionally efficient valve-regulator that delivers dependable flow and near-complete use of cylinder contents. This a unique feature that allows patients to breathe longer on one fill, which increases ambulatory time and improves a patient’s fitness level and quality of life. We chose to work with Norgren on this project because of their reputation for high quality engineering.”

David Rix, Managing Director – Europe – Luxfer Gas Cylinders



Pearlmax3 from IMI Cornelius is a stylish water dispenser specially designed to supply organisations and venues with fresh drinking water. The unit is made to ensure the highest levels of hygiene and connects to the mains water supply so is always ready to dispense a perfectly chilled and refreshing glass of water.



KEY THEMES

INVESTING IN OUR CORE COMPETENCIES OF KEY ACCOUNT MANAGEMENT AND ENGINEERING ADVANTAGE

The balancing instrument TA-SCOPE optimises the hydronic balancing process, ensuring that the heating and cooling system in a building provides comfort using the absolute minimum of energy. TA-SCOPE enables accurate measurement of differential pressure, flow, temperature and power and has advanced functions for data analysis.



The two core competencies common to all of IMI's businesses are Key Account Management and Engineering Advantage. IMI is increasing its investment in these two key areas to underpin the Group's aspirations of accelerating top line growth and delivering further margin improvement.

Key Account Management

World class Key Account Management is central to our strategic aims. By understanding the value drivers for our customers we are able to create greater value for them. We aim to select the best customers to partner with and manage those relationships closely for the benefit of both the customer and IMI.

We set up our Key Account Management Academy in 2003 with the help of Cranfield University. Since then our Key Account Managers (KAMs) from across our platform businesses have had regular opportunities to share best practice and develop their skill sets within the framework of the academy. The next phase of our KAM development is being led by Sean Toomes, President of Indoor Climate and Executive Committee member, who is refocusing our efforts in this important area.

The new framework breaks Key Account Management down into five core skills:

- Backing winners
- Insight
- Engineering Advantage
- Capturing value
- Execution ability

This new framework will be used to train and develop all our KAMs across the Group. At the same time IMI is investing in new KAMs in each business with over 100 expected to be recruited in 2011 alone. Recruitment is heavily weighted towards the faster growing emerging markets.

Engineering Advantage

We create value for our customers in three critical ways:

- we help them increase the value of the products or systems they are selling to their own customers and create competitive advantage for them in their own markets;

- we reduce their life costs and risks by minimising installation and warranty costs through our engineered solutions; and
- we help them optimise their initial investment in their equipment, system or plant.

We call this Engineering Advantage.

As with Key Account Management we are increasing our investment in Engineering Advantage over the next few years to help drive future growth, particularly in the emerging markets. This will result in more 'Valve Doctors' in Severe Service and an increase in the number of engineers in our technical centres in Fluid Power. In Indoor Climate we are investing in a new engineering support centre in Poland and an increase in the number of 'Hydronic Gurus' to help develop our programme of seminars around the world.



"Product development has been central to our Company's growth plans and the new Neptune series of engines is an example of this success. The engine is designed to set benchmarks, offering superior levels of performance, power and fuel efficiency. In order to also meet the demanding requirements of emissions legislation, we needed a partner to work with, who had the experience to provide a proven solution & appropriate technical support and we chose Norgren. Norgren's proportional valve to control the exhaust gas recirculation system has provided a precise, compliant and reliable solution. Their ability to integrate all the components that are needed for installation has reduced the number of sub-suppliers we use and the installation time required."

Mr. Murali Saketheran, Neptune Programme Manager & Special Director – Central Quality, Ashok Leyland

To further enhance understanding of the process challenges in the development of severe service solutions, IMI Severe Service has developed the IMI Severe Service University to provide customers with both classroom and on-site training. The course design team works directly with the Valve Doctors, engineers, and field service experts to create courses that provide the ideal mix of industry knowledge, subject expertise, and hands-on experience.

In Beverage Dispense there will be renewed focus on our new product development activity and in Merchandising we are opening a new interactive 'In-Vision' laboratory using the latest visual display technology to explain the science of merchandising based on the knowledge that we have built up over many years.

Overall we have plans to add well over 200 new engineers across the Group in the next couple of years. Investing in Engineering Advantage is key to creating value for our customers and thereby creating greater value for our shareholders.



FINANCIAL REVIEW

THE GROUP'S SEGMENTAL OPERATING PROFIT MARGIN WAS 16.7%, COMPARED TO 13.1% IN 2009. PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND EXCEPTIONAL ITEMS WAS UP 44% AT £304.4M.

With effect from 1 January 2010, the Group has implemented IFRS3 (revised) '*Business Combinations*' and the amendments to IAS27 '*Consolidated and Separate Financial Statements*', IFRS2 '*Group Cash-settled Share-based Payment Arrangements*' and IAS39 '*Financial Instruments*'. With the exception of IFRS3 (revised) the amendments do not have a material impact on the financial statements. IFRS3 (revised) is applied prospectively and there is therefore no impact on prior periods. The income statement has been re-presented to show net finance expense from defined benefit pension schemes separately from other finance income and expense. This provides a more meaningful analysis of net financial expense and the comparatives have been restated accordingly. In all other respects, these financial statements have been prepared on a consistent basis using the accounting policies set out in the IMI Annual Report and Financial Statements for the year ended 31 December 2009.

On 31 December 2010 IMI acquired Zimmermann and Jansen (Z&J) for a consideration of £110m (net of cash acquired). The acquisition of Z&J is highly complementary in both market and technology terms and it is anticipated the use of IMI's global sales and aftermarket infrastructure will improve Z&J's geographic penetration. Z&J's balance sheet as at 31 December 2010 has been consolidated into the Group under acquisition accounting per IFRS3 '*Business Combinations*'.

As the acquisition completed on 31 December 2010 there is no impact on the Group's 2010 consolidated income statement.

In 2010 revenues were up 7%. Excluding a favourable exchange impact of £19m, organic sales growth was 6%. The following review of our business areas for 2010 compares the performance of our operations as reported under IFRS8 '*Operating Segments*' with 2009. Revenue growth has been stated on a constant currency basis.

In Fluid Controls, the Severe Service business declined by 14% in the year reflecting the later cycle nature of its markets and lower order intake seen in new construction markets in 2009. As expected margins were impacted by the lower volumes and fell to 17.3% for the full year (2009: 19.8%).

Fluid Power rebounded strongly in 2010, growing at 31% for the year reflecting the significant improvement seen in end markets. All of Fluid Power's five key global sectors (Commercial Vehicles, Life Sciences, Rail, Energy and Food & Beverage) performed well and now represent 41% of Fluid Power volumes. Operating margins were particularly strong at 16.6% for the year compared to 6.3% in 2009. This step change in margin performance has been driven by increased volumes as well as increased operational efficiencies; including further moves to lower cost manufacturing locations and procurement benefits.



Douglas M Hurt
Finance Director

As expected, the Indoor Climate business returned to growth in the second half of the year and delivered full year growth of 2% despite the depressed construction market. A number of cost saving initiatives contributed to margin growth from 20.8% to 23.8%. Underlying margins were about one percentage point lower than reported in the second half as we benefited from a recovery of legal fees expensed in previous years.

In Retail Dispense, the Beverage Dispense business continued to recover during the year and posted 5% growth; notwithstanding our decision to exit a number of lower margin product lines that accounted for 3% of 2009 revenue. Operating margins improved to 10.2% for the year following the favourable mix and further improvement in operational efficiencies.

In Merchandising, sales growth was 2% for the year following a stronger second half, notably in the automotive sector. Operating margins improved

to 15.0% for the year and delivered operating profits in 2010 up 39% over 2009.

The Group's segmental operating profit margin was 16.7%, compared to 13.1% in 2009. In the traditionally stronger second half, the Group delivered an operating margin of 17.6% (2009 H2: 15.3%). The segmental operating profit was up 37% at £319.7m (2009: £234.2m).

Interest costs for the year of £15.3m (2009: £18.5m) were covered 24 times (2009: 14 times) by earnings before interest, tax, depreciation and amortisation of £369.2m (2009: £262.5m).

A gain arose on the revaluation of financial instruments and derivatives under IAS39 of £12.3m (2009: gain of £7.7m) reflecting primarily the movements in exchange rates during the year on forward foreign exchange contracts.

Profit from continuing operations before tax and exceptional items was up 44% at £304.4m (2009: £211.7m).

Restructuring costs in the year were £16.0m (2009: £34.9m) as the Group continued to seek operational efficiencies and move more activity to lower cost manufacturing locations. Of this amount the largest costs were in the Severe Service (£4.8m) and Beverage Dispense businesses (£5.0m). The majority of these costs were closure and redundancy costs but they also include plant transfer, installation and set up costs incurred in the year. The Group expects to incur restructuring costs of around £15m in each of the next two years as part of a plan to move production to its lower cost manufacturing centres.

Acquired intangible amortisation was £7.0m (2009: £7.2m). This charge will be higher in 2011 following the acquisition of Zimmermann & Jansen. There was no impairment of goodwill in the year (2009: £nil).

Profit before tax from continuing operations was £306.1m (2009: £186.2m), an increase of 64% over the prior year.

A summary of the major changes in revenue and profit over each six month period compared to the prior period is as follows:

	Revenue £m	PBTE* £m	PBT £m
First half			
2009	900	86.4	79.7
Effects of currency translation	3	1.0	1.0
Organic growth	34	47.2	47.2
Net interest cost		0.5	0.5
Other financing items		1.3	1.3
Financial instruments excluding economic hedge contract gains and losses			(10.5)
Restructuring costs			14.2
Acquired intangible amortisation			0.1
Reversal of economic hedge contract gains and losses	(12)		
2010	925	136.4	133.5
Second half			
2009	892	125.3	106.5
Effects of currency translation	16	3.0	3.0
Organic growth	79	34.3	34.3
Net interest cost		2.7	2.7
Other financing items		2.7	2.7
Financial instruments excluding economic hedge contract gains and losses			3.5
Restructuring costs			4.7
Employee benefit curtailment - UK Scheme			15.1
Acquired intangible amortisation and impairment			0.1
Reversal of economic hedge contract gains and losses	(1)		
2010	986	168.0	172.6
Year	1,911	304.4	306.1

* Profit before tax and exceptional items.

Half year analysis

The comparison for the first and second halves of the year is as follows:

	Change %	2010 £m	2009 £m
Revenue			
First half	+3	925	900
Second half	+11	986	892
	+7	1,911	1,792
Segmental operating profit			
First half	+49	145.6	97.4
Second half	+27	174.1	136.8
	+37	319.7	234.2
PBTE*			
First half	+58	136.4	86.4
Second half	+34	168.0	125.3
	+44	304.4	211.7
Restructuring costs			
First half		(3.3)	(17.5)
Second half		(12.7)	(17.4)
		(16.0)	(34.9)
Employee Benefit Curtailment - UK Scheme			
Second half		15.1	-
		15.1	-
Acquired intangible amortisation and impairment			
First half		(3.6)	(3.7)
Second half		(3.4)	(3.5)
		(7.0)	(7.2)
Financial instruments excluding economic hedge contract gains and losses			
First half		4.0	14.5
Second half		5.6	2.1
		9.6	16.6
Profit before tax			
First half	+68	133.5	79.7
Second half	+62	172.6	106.5
	+64	306.1	186.2

* Profit before tax and exceptional items.

Taxation

The effective tax rate for the Group before exceptional items was unchanged at 30% (2009: 30%). After taxation of £92.5m (2009: £53.8m) the profit was £213.6m (2009: £132.4m), an increase of 61%. The taxes paid in the year of £56.3m (2009: £52.6m) are still largely based on prior period profit levels. The Group is planning a series of organisational and process restructuring initiatives to reduce the effective tax rate over time.

Discontinued operations

£12.8m of income (2009: £nil) attributable to discontinued operations was recognised in the year. This comprised £5.4m being the partial rebate of a fine from the EU levied in 2005, which related to a business sold in 2002 and £7.4m deferred contingent consideration received in respect of the disposal of Polypipe in 2005. No tax is chargeable on the discontinued items.

Earnings per share (EPS)

Basic EPS was up 73% at 70.4p (2009: 40.8p) and diluted EPS was 69.4p (2009: 40.6p). The Board considers that a more meaningful indication of the underlying performance of the Group is provided by earnings from continuing operations before charging/(crediting) exceptional items after tax. Details of this calculation are given in note 9. On this basis the adjusted EPS from continuing operations was 66.3p, an increase of 45% over last year's 45.8p.

Cash flow

The Group's consolidated statement of cash flows is shown on page 70. The change in net debt is summarised in the table opposite.

The operating cash flow from continuing operations was £335m (2009: £278m). This represents a conversion rate of segmental operating profit after restructuring costs into operating cash flow of 110% (2009: 139%). Cash spent on property, plant and equipment in the year was £46m (2009: £37m) which was equivalent to 1.0 times (2009: 0.8 times) depreciation. Expenditure on research and development in the year was £42m (2009: £39m). Of this amount development costs capitalised in the year were £5m (2009: £5m).

After payment of interest and tax, the free cash flow generated from operations was £267m (2009: £198m). The additional pension contributions of £65m comprised £16.8m in accordance with the repayment plan agreed and an additional special contribution of £48.6m.

After Severe Service investigation costs and the refund of the EU fine, free cash flow before corporate activity was £203m (2009: £168m). £130m was spent on acquisitions in the year, driven largely by the acquisition of Z&J. Dividends paid to shareholders totalled £71m in the year (2009: £66m) and there was a net cash outflow of £28m in respect of shares purchased and issued (2009: inflow of £1m). The investment by the UK Pension Fund in the pension partnership was £48.6m giving a net cash flow of £30m (2009: £82m) which reduced net debt to £145m (2009: £172m).

	2010 £m	2009 £m
EBITDA from continuing operations*	369.2	262.5
Working capital requirements	32.2	60.7
Capital expenditure (including development expenditure)	(50.8)	(42.2)
Other	(15.8)	(3.0)
Operating cash flow	334.8	278.0
Tax paid	(56.3)	(52.6)
Interest/derivatives	(11.5)	(27.3)
Operating cash flow after interest and tax	267.0	198.1
Severe Service investigation costs and fine	(4.3)	(13.5)
Additional pension scheme funding	(65.4)	(16.8)
Refund of EU fine	5.4	-
Free cash flow before corporate activity	202.7	167.8
Acquisitions (including non-controlling interests)	(129.8)	(19.4)
Polypipe earnout recovery	7.4	-
Dividends paid to equity shareholders	(70.9)	(66.0)
Dividends paid to non-controlling interests	(0.5)	(1.6)
Net (purchase)/issue of shares	(27.9)	1.4
Investment in pension partnership by UK Pension Fund	48.6	-
Net cash flow	29.6	82.2
Opening net debt	(172.4)	(298.7)
Foreign exchange translation	(2.6)	44.1
Closing net debt	(145.4)	(172.4)

* Earnings before interest, tax, depreciation, amortisation and impairment.

Balance sheet

Net debt at the year end was £145m compared to £172m at the end of last year. The year end net debt to EBITDA ratio was 0.4 times (2009: 0.7 times).

At the end of 2010 the US loan notes totalled £252m, with a weighted average maturity of 7.4 years and other loans totalled £16m. Total committed bank loan facilities available to the Group at the year end were £226m of which £13m were drawn.

Intangible assets

The value of the Group's intangible assets increased to £517m at 31 December 2010 (2009: £386m). Most of this increase was due to the recognition of £77m of acquired intangibles and £49m of goodwill on the acquisition of Z&J. The charge for intangible amortisation will be higher in 2011 following the acquisition of Z&J.

Property, plant and equipment

The net book value of the Group's investment in property, plant and equipment at 31 December 2010 was £241m (2009: £233m). The movement was driven by the addition of Z&J's property, plant and equipment (£12m) with capital expenditures of £46m (2009: £37m) more than offset by depreciation at £47m (2009: £49m).

Total equity

Total equity at the end of December 2010 was £576m, an increase of £174m since the end of 2009, which includes the attributable profit for the year of £226m, less an after-tax actuarial loss on the defined benefit pension plans of £19m (2009: £109m) and the 2009 final and 2010 interim dividends totalling £71m.

The IMI Scottish Limited Partnership ('the partnership') was established during the year ended 31 December 2010. The IMI Pension Fund invested a special contribution of £48.6m made by the Group during the year into the partnership, giving them rights to receive income of £4.4m per year for twenty years or until the fund is no longer in deficit. The partnership is fully consolidated in these accounts with the pension fund's interest presented within equity in the Group's consolidated balance sheet, separately from equity attributable to the owners of the parent.

Share buybacks

No shares were repurchased during the year. 3.7m shares costing £29.5m were purchased by the IMI Employees Benefit Trust for potential use in relation to employee share schemes.

Dividends

The Board has recommended a final dividend in respect of 2010 of 17.0p per share, an increase of 29% over last year's level. This makes a total dividend for the year of 26.0p (2009: 21.2p). The cost of the final dividend is expected to be £54m, giving a total dividend cost of £83m in respect of the year ended 31 December 2010. Dividend cover based on adjusted earnings is 2.6 times.

Pensions

The Group recognises there is a funding and investment risk inherent within defined benefit pension arrangements. It has therefore undertaken a number of key initiatives to manage this risk, including the closure of six schemes to new entrants and five to future accrual.

The IMI Pension Fund, the largest employee benefit obligation within the Group was closed to future accrual on 31 December 2010 resulting in a curtailment gain of £15.1m. The Fund has also worked with the Group to reduce the interest rate, inflation and mortality risks and purchased £325m of annuities to fully match certain liabilities thereby reducing the volatility of the funding position. The Group also made a special contribution of £48.6m which the Fund invested into a partnership as described above.

The last triennial actuarial valuation of the IMI Pension Fund was as at 31 March 2008. This valuation resulted in a funding deficit of £118m. A recovery plan was agreed with the pension fund Trustee that requires additional cash contributions from the Company of £16.8m each year until July 2016. Accordingly an additional contribution of this amount was made in July 2010. A further such contribution will be paid in July 2011. The next triennial actuarial valuation will be conducted as at March 2011. The Group expects to agree a revised recovery plan with the Trustee in late 2011 or early 2012, but in any event by 30 June 2012.

The IAS19 deficit at 31 December 2010 for the Group's employee defined benefit pension plans was £199m down from £258m at the end of 2009. The decrease was mainly due to the actions taken to mitigate risk. The Group continues to explore with the Trustee various options to reduce further the funding risk in respect of the UK defined benefit scheme and will continue its programme of closing overseas plans where they are neither mandatory nor an operational necessity.

Treasury policy

IMI's centralised Treasury function provides treasury services to Group companies including funding liquidity, credit, foreign exchange, interest rate and base metal commodity management. It ensures that the Group

operates within Board approved guidelines in order to minimise the major financial risks and provide a stable financial base. The use of financial instruments and derivatives is permitted where the effect is to minimise risk to the Group. Compliance with approved policies is monitored through a control and reporting system. There have been no changes in the year or since the year end to the major financial risks to the Group or the way in which they are managed.

Foreign exchange and interest rate risk

Further information on how the Group manages its exposure to these financial risks is shown in note 18 to the financial statements. The translation impact on the 2010 segmental operating profit was an improvement of £4m. The most important foreign currencies for the Group remain the Euro and the US Dollar and the relevant rates of exchange were:

	Average		At 31 December	
	2010	2009	2010	2009
Euro	1.17	1.12	1.17	1.13
US Dollar	1.54	1.57	1.57	1.61

If the exchange rates as at 1 March 2011 of US\$1.63 and €1.18 had been applied to our 2010 results, it is estimated that revenue and segmental operating profit would have been 1.3% and 0.4% higher respectively.

Economic value added

Economic value added (EVA) is defined as the segmental operating profit after tax less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital to the average invested capital. Invested capital is defined as net assets plus net debt and the IAS19 pension deficit (net of deferred tax), excluding exceptional items in the balance sheet (being restructuring provisions, net derivative liabilities and Severe Service investigation costs). For 2010 the segmental operating profit was £319.7m and the Net Operating Profit after Tax ('NOPAT') was £223.8m. The Group's invested capital at the end of 2010 was £715.3m comprising £685.9m of net assets excluding exceptional items and £29.4m of net debt (excluding the impact of Z&J on net debt). The average invested capital was £741.4m. Applying the 2010 WACC of 8% to the invested capital gives a charge of £59.3m. The EVA in 2010 was £164.5m, representing an increase of 69% over the 2009 EVA of £97.3m. EVA has been calculated on a different basis to 2009 to be in line with EVA used for internal reporting and incentive purposes. The major changes are in respect of the treatment of restructuring costs and the IAS19 pension deficit.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Operating Review on pages 8 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in this Financial Review. In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Note 19 to the financial statements addresses the management of the funding risks of the Group's employee benefit obligations.

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 2011. 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. Additionally, as part of the Group's normal ongoing funding review, the Group has received indicative offers of additional funding facilities and confirmation of the lenders' intention to agree to the renewal of a number of existing facilities.

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 annual report and financial statements.

Share price and shareholder return

The share price at 31 December 2010 was 945p (2009: 519p), an increase of 82% over the year. Based on the year end share price, the proposed total dividend of 26.0p represents a yield of 2.8%.



Douglas M Hurt
Finance Director
2 March 2011

HIGH STANDARDS OF RESPONSIBILITY ARE AT THE HEART OF EVERYTHING WE DO

WE BELIEVE THAT RESPONSIBILITY IMPACTS POSITIVELY ON PROFITABILITY, RETURNS TO SHAREHOLDERS, REPUTATION AND GROWTH. OUR INTERNAL STANDARDS DEMAND SOUND MANAGEMENT OF OUR RESPONSIBLE BUSINESS AGENDA AND AIM TO INTEGRATE THIS THINKING WITHIN ALL ASPECTS OF OUR BUSINESS.

THE IMI WAY; Our Code of Responsible Business

The most consistent factor in IMI's longstanding business success has been our commitment to a guiding set of values that exemplify how our employees behave. Wherever anyone works in IMI and whenever an IMI employee is encountered, you can expect to see these values at work:

- IMI people pursue excellence and deliver results
- IMI people innovate and provide value to our customers
- IMI people act with integrity

In 2009, IMI formalised these values into a code of responsible business entitled 'The IMI Way'. We believe that it is vital for our future business performance that we continue, as a Group, to demonstrate the values and behaviours that set IMI apart.

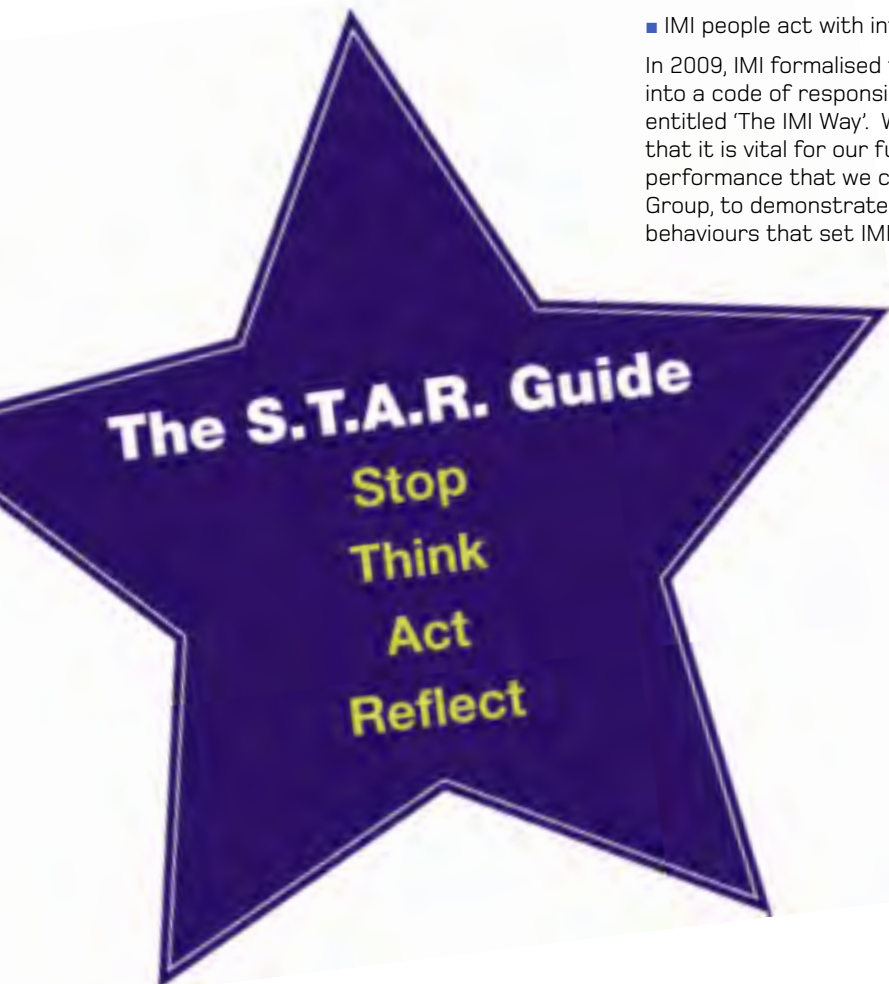
Our code of responsible business is a guide to help employees consistently demonstrate their commitment to The IMI Way throughout our worldwide operations. It can help determine the right course of action, for instance, in a feedback conversation with a colleague, in negotiations with a major customer or supplier, in an assessment of our health and safety performance or in a review of product innovations.

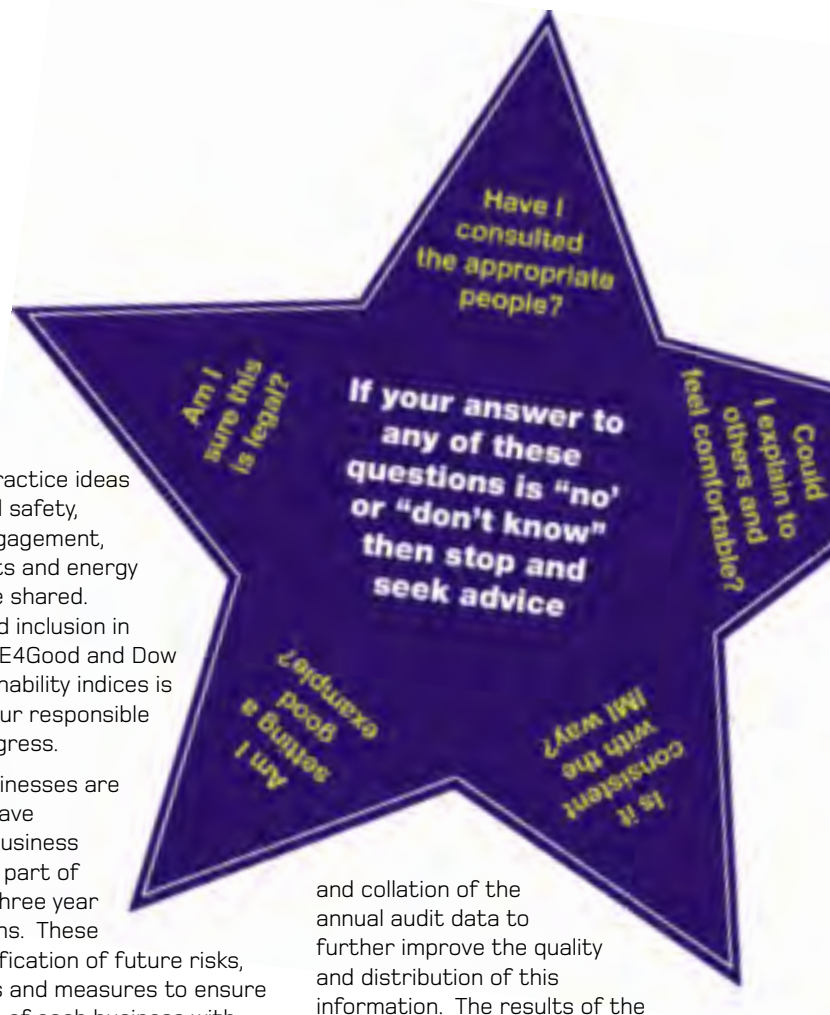
During 2010 face-to-face training was again given to all our employees worldwide. Two of our businesses, Severe Service and Indoor Climate, held IMI Way days where all of their employees were trained and took part in team building activities on the same day. Training this year covered the introduction of the new STAR Guide, which stands for Stop Think Act Reflect and acts as a user friendly aide memoire for considering ethical dilemmas in the workplace. There was also more functional specific face-to-face training which focused on ethical dilemmas for sales, finance and procurement personnel.

In 2011, all five platform businesses are planning to hold IMI Way days and training will include the introduction of the new UK Bribery Act. We will also be seeking input from all of our employees for an updated version of The IMI Way which is planned for 2012.

A comprehensive programme of anti-corruption processes, procedures and training has been developed for implementation across the Group. This programme is led by Jo Morgan, the IMI Chief Compliance Officer, with direct sponsorship from the Executive Committee. Group compliance staff and a team at CCI are working closely with the monitor appointed pursuant to a CCI settlement with the US Department of Justice.

In addition, we use The IMI Way to highlight any conduct which is not in line with our values and we provide our employees with an anonymous hotline





service on the telephone and via the internet to raise any such concerns. All hotline issues are reviewed by the Ethics and Compliance Committee on a monthly basis and reported to the Executive Committee and the Board as appropriate.

Again, in 2010 we presented CEO awards for The IMI Way, recognising the achievement of individuals and teams for their commitment to The IMI Way. Additionally, the targets associated with The IMI Way form part of the overall incentive bonuses for the senior management group of the Company.

IMI Responsible Business initiatives

As a reflection of the values that underpin The IMI Way, we take our responsibilities to the environment and the communities in which we operate very seriously. We put particular emphasis on ensuring that our management of people, social, environmental and economic issues is aligned and integrated with the overall management of the business. To support this commitment, IMI is a signatory to the UN Global Compact, which establishes standards for human rights, labour practices, the environment and anti-corruption. We strongly believe that high standards of responsibility are not just compatible with, but positively support growth and business efficiency.

In 2010, we continued to make good progress on our initiatives in this area. Responsible business activities are managed by a Steering Group chaired by Sean Toomes, President of Indoor Climate and the member of the Executive Committee with functional responsibility for health, safety and environment ('HS&E') matters. Douglas Hurt has main Board responsibility for HS&E. Quarterly calls are held with platform business presidents and responsible business champions from across the Group in

which best practice ideas on health and safety, customer engagement, supplier audits and energy efficiency are shared. Our continued inclusion in both the FTSE4Good and Dow Jones Sustainability indices is evidence of our responsible business progress.

All of our businesses are required to have responsible business objectives as part of their rolling three year strategic plans. These include identification of future risks, opportunities and measures to ensure full alignment of each business with the Group's four responsible business priorities, as well as specific local objectives. This also feeds into our Strategic Risk Assessment process. Typical local actions include measures to improve health and safety, energy efficiency, waste minimisation and recycling and steps to gain relevant HS&E or quality accreditation in particular facilities.

Responsible Business priorities

The IMI Way sets out our four responsible business priorities:

- Health and safety
- Supporting our customers' responsible business priorities
- Supply chain and manufacturing in lower cost economies
- Energy efficiency and carbon management

Our four key priorities are reviewed at least annually to ensure that they remain relevant and appropriate. The performance of our business units on these four key priorities is assessed during an annual responsible business audit and throughout the year through other processes such as our risk control surveys and supplier audits. Last year we introduced a web-based system for the collection

and collation of the annual audit data to further improve the quality and distribution of this information. The results of the responsible business audit are reviewed by the Board and statistics from the annual audit are published on our website www.imiplc.com.

1. Health and safety

We promote a strong health and safety culture to minimise risk for our people, the environment, adjacent communities and other stakeholders. During 2010, we made further progress in improving our health and safety record. We now have 45 full-time health, safety and environmental officers across the Group, up 20% on 2009. We also increased capital expenditure in this critical area. Our overall lost time accident rates fell from 0.27 accidents per 100,000 hours worked in 2009 to 0.25 in 2010, a 7% improvement. Whilst modest compared to last year's improvement, this performance demonstrates the continued clear focus and commitment at all levels across the Group on health and safety matters.

We have increased resources, improved the quality of reporting and focused more attention on near misses to address health and safety risks more proactively. In particular, we continue to see positive changes in many of our sites which had previously been underperforming.

1. Health and safety (continued)

Utilising the 'IMI Safety First, Safety Always' slogan, we are committed to effective communication and consultation on HS&E matters with all relevant stakeholders, particularly with employees. IMI requires those working for us directly, or on our behalf as contractors, to comply with our HS&E standards and procedures.

In support of these general commitments, IMI and each subsidiary manages its activities to ensure that improvement in these areas is cumulative and constant. In 2010, Group-wide HS&E forums were again held in the UK, the Americas and in Continental Europe. Two of our platform businesses, Fluid Power and Indoor Climate, held their own individual HS&E forums and there were other arrangements for sharing best practice throughout the year.

Examples of best practice included:

- During 2010 the Group mandated a safety stand down procedure across all sites worldwide; where any greater than 3-day lost time incident occurs the site is required to stop operations in the area impacted for a period of time and formally review the incident and how it can be avoided in future. This ensures that valuable lessons are learnt from any accident that takes place.
- Our Severe Service business has taken on the leadership role in implementing a global HS&E strategy and action plan to reduce overall accidents, including a global framework approach being developed and implemented to manage health and safety risks for our field service personnel. This included new training, a new risk manual, risk assessment tools and near miss reporting requirements which have helped materially to reduce the number of accidents.

- Our employees at the Webber, Fluid Power site in Bristol, UK have initiated and organised regular mock disaster incidents to enable first aiders to get simulated experience of having to deal with a major incident on site. Emergency, evacuation and chemical spill procedures are all audited and have resulted in operational controls being improved.

During 2010 the Chief Executive again presented awards for health and safety excellence recognising significant achievements by individuals, teams and whole sites across all of IMI's operations. In addition, health and safety targets were again used as one of the main benchmarks for determining the responsible business element of annual bonuses for senior managers in 2010 and will also apply in 2011.

2. Supporting our customers' responsible business priorities

Our continued success lies in creating superior long-term value for our customers and inspiring their trust. We place significant emphasis on helping our customers to meet their own responsible business commitments - from diversity targets to carbon emissions - recognising the opportunities for sustainability and developing our respective businesses. Global concerns relating to energy issues and climate change, whether driven by legislation or not, have a positive impact on customer demand for our products and services - many of which are clearly dedicated to energy efficient operation. Our customers also value the high standard ethical and business practices set out in the IMI Way which is particularly relevant in emerging markets where responsible business risks can be higher.



IMI Global Graduates transformed a drab stairwell at a primary school in Birmingham into a colourful display of geometric shapes designed by local pupils.

There are a wide range of excellent examples across the Group, many of which are highlighted elsewhere in this Annual Report, which demonstrate how we are helping our customers to meet their own responsible business commitments. Each year our Indoor Climate business holds a number of customer insight councils in its main markets where customers' responsible business agendas are a regular topic of discussion. It is increasingly evident that greater energy efficiency has a direct, positive impact on building occupancy rates and valuations and our customers are looking for IMI to assist them in achieving their goals in this area.

Our Severe Service business has been developing a variety of new products to help customers reduce emissions of carbon and other gases. This has included its new 'CoolMist' solution which has helped a major customer reduce CO₂ emissions by around 20% in the interstage attemperation application of a combined cycle plant in North America. Similarly, our Fluid Power business has a number of new products being developed with a green agenda including a proportional control valve solution for a new combined heat and power (CHP) system aimed at the domestic market.

Both our Beverage Dispense and Merchandising businesses continue to develop more sustainable solutions for global brand owners and retailers, who themselves have set very demanding targets aimed at reducing their carbon footprints. Our new energy efficient coolers for both carbonated soft drinks and beer continue to make good progress. We also launched the 'Freedom Barrel' for merchandising cold drinks. This is the first truly portable knock-down barrel, manufactured from reprocessed materials, which delivers significant reductions in packaging materials, transportation requirements and warehousing space.

All of these examples demonstrate how, by engaging closely with our key customers on their responsible business agendas and initiatives, we can generate end market opportunities which create real commercial advantage for IMI.

3. Supply chain and manufacturing in lower cost economies

IMI's manufacturing plants in emerging economies such as Mexico, China, the Czech Republic and India have all been developed with full attention to HS&E risks and energy efficient, lean manufacturing techniques.

We hold annual supplier days in China for each platform business, focusing on ensuring that regional suppliers fully understand and can meet IMI's demanding legal compliance, quality assurance and responsible business requirements, including adherence to the UN Global Compact.

We operate a supplier evaluation process and as part of this, suppliers are subject to rigorous and ongoing audits by our procurement teams, including a substantial team based in China. This process follows a risk-based methodology for assessment and audit against our global responsible business measures. In addition, IMI's risk control team conducts regular supplier visits and training of our procurement personnel.

In 2010, over 140 supplier audits took place and this process continues to be reviewed and enhanced. As a result of these audits we have required improvement plans and, where appropriate, we have also terminated our relationships with a number of suppliers who were not able to meet our strict responsible business requirements. In 2011 we will be refining this audit process to reflect the latest profile of risks and we will be providing further training and development for our supply chain employees to ensure excellence in this important area.

4. Energy efficiency and carbon management

IMI has an ongoing commitment to reduce its CO₂ emissions and become more energy efficient in both our products and processes. This has both environmental and cost saving benefits. All of our major factories have local energy savings targets and initiatives in place and regular teleconferences help to ensure that ideas and best practice are shared around IMI's operations worldwide. IMI measures its CO₂ emissions by looking at tonnes of CO₂ emitted per 1,000 hours worked.

In 2010 our sites implemented a range of initiatives aimed at reducing energy consumption and costs and at being more environmentally friendly. These included:

- In the UK, our manufacturing sites at Lichfield (Fluid Power) and Loughborough (Merchandising) implemented a range of new lighting management initiatives including the use of zonal control, motion sensors, daylight roof panels and the replacement of light fittings with newer more energy efficient alternatives.
- In the USA, our Severe Service business invested in a new compressed air generation unit to replace two older inefficient compressors. This not only delivered a significant improvement in energy usage but also increased air capacity by over 50% and was supported by rebates from the local electricity company.
- In our Beverage Dispense facility in Reynosa, Mexico the business invested in a new water filtration and reverse osmosis system which enables the site to recycle waste water and is saving over 250,000 gallons of water usage per annum.

4. Energy efficiency and carbon management (continued)

Importantly, in July 2010 IMI's UK facilities became certified to The Carbon Trust Standard (CTS). This represents a great endorsement for all the work we have been doing on our energy efficiency and carbon management initiatives. The CTS certifies that an organisation has genuinely reduced its carbon footprint, and is committed to making further reductions year on year.

Despite all these efforts, in 2010 our key performance indicator rose slightly from 3.5 to 3.6 CO₂ tonnes per 1,000 hours worked. This primarily reflected the adverse impact of the abnormally cold weather experienced in Europe and North America at different points in the year. Total CO₂ emissions rose from 90,000 tonnes to 97,000 tonnes reflecting the significant increase in activity levels. Further information will be provided in the 2010 environmental and health and

safety performance report that will be posted to the IMI plc website, www.imiplc.com, in due course.

In 2011, we have a clear priority to improve this performance through more regular reporting and closer monitoring efforts. In particular, we will be focusing our efforts on our top twenty energy consuming locations which are responsible for around 70% of the Group's energy usage. We will be targeting a number of common key initiatives in these locations including lighting, compressed air management, equipment upgrades, induction motor controllers and also opportunities to take advantage of local government support schemes. These efforts should assist the Group to meet its emissions target set last year to reduce normalised CO₂ emissions by 10% over a three year period to no more than 3.2 CO₂ tonnes/1,000 hours worked in 2012. Regular updates on our achievement against this target are given on the Group's website.

Community engagement

IMI has benefited greatly from the communities in which we operate. We have a duty to be a responsible business citizen and to meet our commitments to these communities. We want to show appreciation to these neighbours for their support. To this end, IMI continues to demonstrate high economic, social and environmental standards, remains respectful of human rights and assists our local communities through charitable activities and community volunteering. We also make sure that we communicate appropriately with all of our stakeholders. One way that we support our local communities is through responsibly sponsoring recognised national and local charities and causes, generally with auditable accounts, that are most aligned with IMI or its companies regarding location, supported cause or relevance.

Across all our businesses, we actively encourage positive contributions to local communities and environments, whilst still delivering the necessary business performance. For IMI people, responsibility and business performance are directly and intimately connected.

During 2010, IMI continued to provide support for many charities with its two main corporate charities being:

- Care for Children, a charity that exists to relieve hardship, distress and sickness in abandoned and orphaned children in China by placing them with foster and adoptive families.
- DebRA, a charity working on behalf of people with the genetic skin blistering condition, Epidermolysis Bullosa.



Team 469 from the Detroit area, sponsored by Norgren, won the Michigan state championship and a silver medal at the World Championships in an annual high school robotics competition.

Severe Service employees in California worked in teams to build bicycles for a charity that provides food and gifts to local families over the Thanksgiving and Christmas holidays.



Elsewhere, employees right across our businesses have been involved in a wide range of fund raising activities for local charities and other good causes. For example our Severe Service employees in Japan are collecting drinks bottle caps which can be exchanged for polio and other important vaccinations for children in developing countries through the Ecocap Movement. Our Fluid Power business, Norgren, sponsored a team of local high school students in Detroit, USA in a robotics competition where they won the Michigan state championship and then went on to win a silver medal at the World Championships.

Employee investment and talent development

The geographical distribution of our operations and activities across the world enables us to draw upon a broad spectrum of talented people from diverse ethnic, cultural and business backgrounds. In recent years, we have accelerated the development of programmes and disciplines that will deliver the human resources necessary to maintain and grow our business. Ensuring that the Company has the appropriate expertise and skills at all levels is a fundamental management responsibility.

During 2010 the businesses worked on the actions arising from the first all employee engagement survey. Employees reported high levels of commitment and engagement with their business and with the IMI Group and this has been built upon with greater investment in local communication forums. The survey will be repeated in 2011, progress tracked and further actions developed to drive excellence.

IMI encourages its operating units to train and develop employees at all levels through a wide range of business-related education and training. At the operational level each IMI facility ensures that employees receive suitable and continuing on-the-job training and support, with health and safety and environmental matters being a particularly important focus.

In 2010, IMI launched the Leadership Blueprint which defines the critical skills and characteristics of successful business leaders at IMI. The Blueprint includes the core requirements for an IMI Leader and underpins the new suite of Leadership programmes (the Leaders Boot Camp and Management Fundamentals) that began in 2010. A diverse group of top managers and high potential business people are experiencing challenging personal development through this considerable investment.

The IMI graduate programme continues to provide a pipeline of engineering talent into the business. The programme is now aligned with our business footprint and with our growth markets. The programme continues to be a rich source of talent for senior roles in the Company.

IMI continued to invest heavily in health and safety resources, tools and training to drive improvements in accident prevention and safe working conditions. Similar investment continued with The IMI Way, with ongoing education about the IMI confidential hotline, and continued rigour with ethics and compliance training.

We again invested in training in two core competency areas - Key Account Management (KAM) and Engineering Advantage. KAM training concentrated on developing customer insight and customer driven value propositions. Engineering Advantage training, particularly in our Fluid Power business, has reinforced the strong product and technology understanding that our engineers, sales and customer facing employees need to help deliver more added value customer solutions.

In common with all businesses, there are a number of risks and uncertainties which could have a material impact on the Group's long-term performance. The Group has in place an established risk management structure and internal controls framework which together are designed to identify, manage and mitigate business risk. A summary of the Group's risk management processes is given on page 46 and the Group's approach to corporate social responsibility and associated risks is

described on pages 28 to 33. In addition to the risks described here, the Group is also exposed to a number of financial market risks including credit risk, liquidity risk, counterparty risk, fluctuations in foreign exchange rates, interest rates and commodity prices. A description of these risks and the Group's centralised approach to managing them is described in note 18 to the financial statements. Further information about pension liabilities is given in note 19 to the financial statements.

KEY RISKS

Risk	Description of risk and potential impact	Examples of mitigating actions
Legal and regulatory	The Group's worldwide operations and expansion in emerging markets expose it to different legal and regulatory requirements and standards in each of the jurisdictions in which it operates including those for financial reporting, taxation, environmental, operational, anti-corruption and competition matters. The Group is also exposed to the potential for litigation from third parties which may arise in the ordinary course of business.	<ul style="list-style-type: none"> ■ Commitment to good governance practices which are embodied in The IMI Way providing a guiding set of values that exemplify how IMI employees should behave ■ Policies, training, business processes and monitoring of key compliance and legal risks ■ Increase in resources dedicated to legal and regulatory compliance ■ Training of employees on The IMI Way and key risk areas such as competition law and anti-corruption ■ Availability and promotion of the IMI Hotline to anonymously report concerns ■ Maintenance of insurance programmes
Compliance and internal controls	The Company operates various corporate governance, compliance and internal control frameworks which are essential for the effective management of such geographically diverse businesses. Failures in these controls might have a material impact on the Group.	<ul style="list-style-type: none"> ■ The IMI Way provides a guiding set of values that exemplify how IMI employees should behave and is supplemented by annual face-to-face training for all employees ■ Detailed manuals set out internal controls and procedures ■ Concerns regarding compliance matters or breaches in internal controls can be reported in confidence via the IMI Hotline ■ Regular business reviews to monitor financial performance ■ Bi-annual finance conference which includes training and reinforcement of key accountabilities ■ Internal financial control audits by IMI Group Assurance
Health, safety and environmental	The Group recognises that it has a duty of care to all of its employees and to others that the Group interacts with through its products and operations. In the event of any failure in the Group's health, safety and environmental procedures, there is a potential risk of injury or death to IMI's employees or others; or environmental damage, with the consequential impact on the operations and the risk of regulatory action against the Group.	<ul style="list-style-type: none"> ■ Established systems in place under the 'IMI Safety First, Safety Always' slogan, to ensure that health, safety and environmental matters are appropriately addressed and any such risks are minimised including monthly reporting to, and review at, the Executive and quarterly review at the IMI Board ■ Increase of full-time health, safety and environmental officers across the Group to ensure policies are embedded and measured ■ Provision of travel risk advice appropriate to the nature and extent of travel ■ Regular review of Group safety performance ■ Group Environment, Health and Safety function with experienced specialist employees to provide support and guidance to businesses - including the conduct of regular risk control surveys ■ Maintenance of insurance for costs associated with any employers' liability, workers compensation or equivalent claims and also certain environmental incidents (in common with all classes of insurance, the policies do not cover fines or penalties which could, in the event of a significant failure, be material to the Group)
Pension funding	The Group's defined benefit pension arrangements are exposed to the risk of changes in interest rates and the market values of investments as well as inflation, increased longevity of members and statutory requirements. This may result in the cost of funding defined benefit pension arrangements becoming an increasingly significant burden on the Group's financial resources.	<ul style="list-style-type: none"> ■ Alternative funding and deficit reduction plans implemented where appropriate ■ Closure of UK defined benefit scheme to future accrual ■ Closure of overseas defined benefit plans to new members and future accrual where permissible ■ Active management of pension scheme assets and long term view of liability assumptions

KEY RISKS

Risk	Description of risk and potential impact	Examples of mitigating actions
Products and technology	The Group is exposed to risks associated with the commercial failure of products, projects and technologies such as product liability and warranty claims. The quality and safety of our products is of the highest importance and there is an associated risk if they are below standard. For product claims not covered by insurance, the costs that cannot otherwise be recovered may be material to the Group.	<ul style="list-style-type: none"> Continued focus on quality and safety Processes to mitigate the reputational and legal implications of any failure Maintenance of insurance cover for product liability claims Contract management resources for both sales and purchases
Economic and market environment	The status of the global economy and the levels of activity in the markets in which the Group operates could adversely affect the Group's revenues. The Group's cost base includes many costs that cannot be reduced in the short-term in line with reductions in profitability. The Group may also be required to reassess the carrying value of acquired goodwill and other assets if certain end markets deteriorate further or for longer, which may result in impairment charges.	<ul style="list-style-type: none"> Diverse business portfolio serving different customers and markets Monitoring of customer and supplier financial security Cost base reduction initiatives Regular updating of contingency plans Effective cash management Investment in new product development Allocation of resource to more resilient customers, markets and geographies
Key customers	Certain of the Group's businesses benefit from close commercial relationships with key customers. The loss of certain of these key relationships whether through competition, consolidation or insolvency could have a material impact on the Group's results. The Group's top ten customers represent approximately 15% of total Group revenues.	<ul style="list-style-type: none"> Collaborative development of bespoke new products Development of strong relationships with new accounts to maintain a diverse portfolio across business sectors and geographic regions Monitoring of markets for advance warning of negative commercial developments Further investment in and development of Key Account Management and Engineering Advantage
Supply chain	The Group has a significant number of contracts with a broad base of suppliers. In the current economic environment there is a risk that their access to credit or adverse trading conditions could lead to an inability to meet their contractual commitments to the Group. In addition, upward price pressure from the supply chain could erode profits. The increasing use of suppliers in low cost economies could introduce risks related to quality or responsible business practices. All this could have a material impact on the Group's results.	<ul style="list-style-type: none"> Monitoring of risk and development of contingency plans to mitigate the impact of any supplier failure or increased prices Review of supply base to reduce over-reliance on key suppliers Moves to new lower cost manufacturing facilities, ongoing review of alternative low cost economy based suppliers and, where appropriate, supplier consolidation Training and audit programme to validate suppliers' business processes, quality and standards
Competitive markets	The Group operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the Group's results. The Group's continued success depends upon its ability to continue to develop and produce new and enhanced products and services on a cost effective and timely basis in accordance with customer demands.	<ul style="list-style-type: none"> Initiatives and investment in research and development targeted to sustain the Group's Engineering Advantage Monitoring of competing markets and products, including adjacent technologies, to facilitate early identification of potential threats and development of contingency plans Cost base reduction initiatives, including supplier rationalisation and value engineering Processes for managing investment in research and development including appropriate stage gates for reviewing progress against clearly defined, often customer driven, technical and commercial objectives
M&A activity	IMI's growth strategy is in part dependent on acquisitions. The execution and integration of acquisitions involves a number of risks, including diversion of management's attention, failure to retain key personnel of the acquired business and risks associated with unanticipated events or liabilities. The Group may also be subject to liabilities as a result of past or future disposals.	<ul style="list-style-type: none"> Rigorous due diligence process with clear financial targets Formal internal approval requirements Appropriate business integration processes to ensure that the Group's policies, values, compliance and control framework are adopted and embedded
Talent acquisition and retention	A loss of key personnel or the inability of the Group to recruit and retain high calibre managers and engineering talent may lead to the Group not being able to effectively implement its business plans and strategy and experiencing delays, or increased difficulty, in the strategic development of the Group, including in developing and selling its products and services.	<ul style="list-style-type: none"> Succession plans in place and regularly reviewed Group-wide training and development programmes Regular employee wide surveys and action plans targeted by company or geography

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS



NORMAN B M ASKEW Chairman

Age 68; non-executive; joined the IMI Board in 2005.

Norman Askew has extensive international experience in industry including previous positions as Chief Executive of Virginia Power in the USA and BNFL and the chairmanship of both Taylor Wimpey plc and the Board of Governors of Manchester University. Norman chairs the Nominations Committee.



TERRY M GATELEY

Age 57; non-executive; joined the IMI Board in 2003.

Terry Gateley began his career as a chartered accountant and was in private practice with KPMG until moving into investment management in 1999. Terry chairs the Audit Committee and is the senior independent director.



KEVIN S BEESTON

Age 48; non-executive; joined the IMI Board in 2005.

Kevin Beeston is Chairman of Taylor Wimpey plc and also chairs two private businesses which are Partnerships in Care Limited and Domestic and General Limited and is an Operating Partner with the global private equity firm Advent International.



ANITA M FREW

Age 53; non-executive; joined the IMI Board in 2006.

Anita Frew is Chairman of Victrex plc, senior independent director of Aberdeen Asset Management PLC, and a non-executive director of Lloyds Banking Group plc. She was previously an executive director of Abbott Mead Vickers PLC and Director of Corporate Development at WPP Group Plc.



BOB J STACK

Age 60; non-executive; joined the IMI Board in 2008.

Bob Stack is a non-executive director of J Sainsbury plc where he is Chairman of the Remuneration Committee. He is a Trustee of Earthwatch Europe and on the Board of Earthwatch International. His recent past directorships include executive director of Cadbury plc where he served for 12 years. Bob chairs the Remuneration Committee.

EXECUTIVE DIRECTORS



MARTIN J LAMB Chief Executive
Age 51; joined IMI in 1986.

Martin Lamb has been Chief Executive of IMI since 2001 having been appointed to the Board in 1996. Martin, who has an engineering background, has worked for IMI for over 25 years and has held a number of senior management roles across the Group during this time. He is also a non-executive director of Severn Trent Water plc.



DOUGLAS M HURT
Finance Director

Age 54; joined IMI and the Board in 2006.

Douglas Hurt was previously with GlaxoSmithKline, where he held both financial and operational roles including a number of US and European senior management positions. He is a member of the Institute of Chartered Accountants. He is also a non-executive director of Tate & Lyle PLC.



ROY M TWITE
Executive Director

Age 43; joined IMI in 1988.

Roy Twite was appointed to the Board in February 2007. During his career with IMI, Roy has held a number of senior roles; in 2010 Roy retained responsibility for Fluid Power whilst accepting the additional management accountability for the Retail Dispense businesses.



IAN W WHITING
Executive Director

Age 47; joined IMI in 2005.

Ian Whiting was appointed to the Board in 2010. He joined Control Components Inc in 2005 from Novar plc where he was President of Novar Systems Americas. Ian is President of IMI's Severe Service division with additional responsibilities for developing IMI's interests in the emerging markets and for the Group procurement function.

DIRECTORS' REPORT

The directors present their report, together with the audited financial statements for the year ended 31 December 2010.

Business review

The Companies Act 2006 requires the Company to present a business review in this report. The information that fulfils the business review requirements can be found on pages 4 to 35 and page 46, which are incorporated into this report by reference. This includes a review of the development and performance of the business of the IMI group of companies (the 'Group'), including the financial performance during the financial year ended 31 December 2010, key performance indicators, the principal risks and uncertainties facing the Group and our risk management processes.

Principal activities

IMI plc is a global engineering solutions group focused on the precise control and movement of fluids in critical applications. IMI plc is the holding company of the Group. The Group's businesses comprise five platforms organised into two principal activities: Fluid Controls, comprising Severe Service, Fluid Power and Indoor Climate; and Retail Dispense, comprising Beverage Dispense and Merchandising. The main subsidiary companies operating within these two principal activities are listed on pages 126 and 127. The segmental revenue, profit, assets and liabilities attributable to each of these businesses is shown in note 2 on pages 81 to 83.

Results and dividend

The Group consolidated income statement is shown on page 66. Segmental operating profit amounted to £319.7m (2009: £234.2m) and profit before taxation amounted to £306.1m (2009: £186.2m).

The directors recommend a final dividend of 17.0p per share (2009: 13.2p per share) on the ordinary share capital payable, subject to shareholder approval, on 23 May 2011 to shareholders on the register at the close of business on 15 April 2011. Together with the interim dividend of 9.0p per share paid on 15 October 2010, this final dividend will bring the total distribution for the year to 26.0p per share (2009: 21.2p per share).

Research and development

Expenditure on research and development in the year was £41.9m (2009: £39.1m): of this amount £5.0m (2009: £4.9m) has been capitalised.

Shareholders' funds

Shareholders' funds increased from £399.8m at the end of 2009 to £525.7m at 31 December 2010.

Share capital

As at 31 December 2010, the Company's share capital comprised a single class of share capital which is divided into ordinary shares of 25p each. Details of the share capital of the Company are set out in note 22 to the financial statements on pages 114 and 115. The ordinary shares are listed on the London Stock Exchange.

With effect from 16 February 2011, a Level 1 American Depository Receipt ('ADR') programme was established in the USA for which Citibank, N.A acts as Depository. The ADR programme is a convenient way for certain US investors to invest in IMI plc shares through American Depository Shares which are evidenced by ADRs and are traded on the USA over-the-counter market, where each ADR represents two ordinary shares.

As at 31 December 2010, 4,198,166 shares are held in an employee trust for use in relation to certain executive incentive plans representing 1.3% of the issued share capital (excluding treasury shares) at that time. The voting rights attached to shares held in the employee trust were not exercised during the year.

During the year, 406,063 new ordinary shares were issued under employee share schemes: 189,823 under the all employee share ownership scheme and save as you earn plans and 216,240 under executive share plans. Shares acquired through Company share schemes and plans rank equally with the shares in issue and have no special rights.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of ordinary shares are entitled to receive the Company's report and accounts, to attend, speak and vote at general meetings of the Company, and to appoint proxies to exercise their rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or propose resolutions at annual general meetings. Voting rights for ordinary shares held in treasury are suspended and the treasury shares carry no rights to receive dividends or other distributions of assets.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions as may from time to time be imposed by laws and regulations (for example insider trading laws); and
- pursuant to the Company's share dealing code whereby the directors and certain employees of the Company require approval to deal in the Company's shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights. None of the ordinary shares carries any special rights with regard to control of the Company. The only restrictions on voting rights are those that apply to the ordinary shares held in treasury, as described above. Electronic and paper proxy appointments and voting instructions must be received by the Company's registrars not later than 48 hours before a general meeting, or any adjournment thereof.

Own shares acquired by the Company

At the annual general meeting of the Company held on 7 May 2010 authority was given for the Company to purchase up to 48,000,000 of its ordinary shares of 25p each. The Company did not use this authority to make any purchases of its own shares during the period. At the next annual general meeting of the Company, shareholders will be asked to give a similar authority, details of which are contained in the separate circular.

As at 31 December 2010, 19,124,700 ordinary shares (nominal value £4,781,175) were held in treasury representing 6% of the issued share capital (excluding treasury shares) at that time.

Substantial shareholdings

Information provided to the Company pursuant to the FSA's Disclosure and Transparency Rules is published on a regulatory information service. As at 2 March 2011, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules, have been notified to the Company:

BlackRock, Inc.	9.98%
Standard Life Investments Limited	9.02%
AXA Investment Managers UK Limited	4.86%
Newton Investment Management Limited	3.96%
Legal and General Group plc	3.95%
BT Pension Scheme Trustees Limited	3.01%

So far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company other than those noted above.

Statement on corporate governance

The required disclosures are contained in the corporate governance report on pages 42 to 47 and are incorporated into this report by reference.

Employment policies

The Group continues to support employee involvement at all levels in the organisation and strongly encourages each of its businesses to keep its employees informed on Group and individual business developments and to make its employees aware of the financial and economic factors affecting the performance of the business in which they work, using their own consultation and communication methods. A European Works Council has been in operation since 2003 and meets at least once a year to exchange views on pan-European issues facing the Group. At the date of this annual report, there are 14 members of the European Works Council comprising 10 employee representatives nominated from among employees from each of our European businesses with the balance being Company appointees. The Group's financial results and important initiatives are communicated through a number of mechanisms including newsletters and intranets for the individual businesses and the Company's website.

Share schemes are a long established and successful part of our total reward package, encouraging and supporting employee share ownership. Full details of employee share schemes are set out in the Remuneration Report on pages 52 to 55 and in note 20 to the financial statements on pages 111 to 113.

A number of people development initiatives are co-ordinated across the Group, including the IMI graduate programme and the Leadership Blueprint. These initiatives and the Company's approach to employee investment and talent development are explained on page 33.

It is Group policy to promote equal opportunities in employment consistent with the requirements of the countries in which the Group operates. The policy applies to both employees and applicants for employment. Companies in the Group are required to eliminate discrimination and communicate and promote the policy to all employees. Managing Directors of operating units have responsibility for compliance and each employee is required to abide by the policy. Every effort is made to ensure that applications for employment from disabled persons are fully and fairly considered and that disabled employees have equal opportunity in training and promotion.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment. Information on our key performance indicators in this area is given on page 7 and further information is available on our website www.imiplc.com.

DIRECTORS' REPORT

Policy and practice on the payment of trade creditors

Operating units are responsible for setting terms of payment when agreeing the terms of each business transaction, ensuring that suppliers are made aware of the terms of payment and abiding by such terms, subject to the supplier performing to its obligations. IMI plc is a holding company and has no trade creditors.

Donations

£180,000 was given during 2010 (2009: £233,000) for community and similar purposes including £180,000 (2009: £224,000) for charitable purposes. The Group supports a range of selected national charities and smaller charitable organisations operating in communities where the Group has a presence. Our approach to charitable and other donations is explained on pages 32 and 33. No political donations were made during the year.

Directors

The membership of the Board and biographical details of the directors are given on pages 36 and 37 and are incorporated into this report by reference. Ian Whiting was appointed to the Board as an executive director with effect from 1 September 2010. Norman Askew has informed the Board of his intention to retire when a successor has been appointed, which is expected to be during the course of 2011.

The rules for the appointment and replacement of directors are set out in the Company's articles of association which provide for regular retirement as well as for the appointment and removal of directors by the Board and general meetings of the Company. Each new appointee to the Board is required to stand for election at the next annual general meeting following their appointment and Ian Whiting will seek election having been appointed to the Board during the year. In addition, the Company's articles of association require each director to stand for re-election at least once every three years. However, in accordance with the new provision contained in the UK Corporate Governance Code, all continuing directors will submit themselves for re-election at the next annual general meeting and are recommended for re-election. Changes to the articles of association must be approved by a special resolution of the shareholders (75% majority required) in accordance with the legislation in force at the time.

The Company maintains directors and officers liability insurance and all directors of the Company benefit from qualifying third party indemnity provisions which were in place during the financial year. At the date of this Annual Report there are such indemnity arrangements with each director in respect of the costs of defending civil, criminal and regulatory proceedings brought against them, in their capacity as a director, where not covered by insurance and subject always to the limitations set by the Companies Act 2006.

Directors' powers

The powers of the directors are determined by UK legislation and the articles of association of the Company in force from time to time. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares. These powers are exercised under the authority of resolutions of the Company passed at its annual general meeting. Further details of authorities the Company is seeking for the allotment, issue and purchase of its ordinary shares are set out in the separate circular containing the notice of the annual general meeting.

Directors' interests

The interests of the persons (including the interests of any connected persons) who were directors at the end of the year, in the share capital of the Company, and their interests under share option and incentive schemes, are shown on pages 60 to 62.

Essential contracts and change of control

The Group does not have any single contract or other arrangement which is essential to its business taken as a whole.

The Company and its subsidiaries are party to a number of agreements that may allow the counterparties to alter or terminate the arrangements on a change of control of the Company following a takeover bid, such as commercial contracts and employee share plans. Other than as referred to in the next paragraph, none of these is considered by the Company to be significant in terms of its likely impact on the Group as a whole.

In the event of a change of control of the Company, the Group's main funding agreements allow the lenders to renegotiate terms or give notice of repayment for all outstanding amounts under the relevant facilities. In the current economic climate this could have a significant effect on the liquidity of the business.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment specifically resulting from a takeover, although provisions of the Company's share schemes include a discretion to allow awards granted to directors and employees under such schemes to vest in those circumstances.

Going concern

A statement in relation to the adoption of the going concern basis in preparing the financial statements appears on page 27 and is incorporated into this report by reference.

Disclosure of information to auditor

Each director confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Cautionary statements

The business review and other content of this Annual Report have been prepared for and only for the members of the Company as a body and no other persons. Neither the Company nor its directors or officers accept or assume responsibility to any person for this Annual Report beyond the responsibilities arising from the production of this Annual Report pursuant to and for the purposes required by UK legislation.

Sections of this Annual Report may contain forward-looking statements about the Group, including, for example, statements relating to: future demand and markets for the Group's products and services, research and development relating to new products and services, tax rates, liquidity and capital resources and implementation of restructuring plans and efficiencies. Any forward-looking statements are by their nature subject to numerous risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements depending on a variety of factors, including, for example, those described in this Annual Report under the heading 'Principal risks and uncertainties'. IMI undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this Annual Report should be construed as a profit forecast.

Annual general meeting

The annual general meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Friday 6 May 2011, commencing at noon.

Auditor

Resolutions for the reappointment of Ernst & Young LLP as auditor of the Company and to authorise the directors to determine their remuneration will be proposed at the next annual general meeting.

By order of the Board

John O'Shea

Company Secretary

2 March 2011

IMI plc is registered in England No. 714275

CHAIRMAN'S GOVERNANCE INTRODUCTION

As Chairman I have taken a leading role in shaping the governance agenda and wanted to take this opportunity to address shareholders on what I believe are the important governance developments at IMI over the last year.

First, following the publication in June 2010 of the UK Corporate Governance Code by the Financial Reporting Council, the Board reflected on how it operates and prepared for the new Code coming into effect in 2011. As a result the Board put together a new core document, the IMI Corporate Governance Framework, to restate and update the various statements of roles and responsibilities at Board level which were previously in place. The framework was agreed by the Board in December 2010 and is on the Company's website. For me the most significant features are the increased emphases on strategy and risk, which are already reflected in the focus of the Board during meetings.

Secondly, I am encouraged that the Company is continuing to develop senior talent in-house and one of the great strengths of the successful management team at IMI is their length of service, experience of the businesses and long-term perspective in planning and operational decisions. Recent promotions include the appointment of a fourth executive director, Ian Whiting, adding to the depth and breadth of management representation on the Board and this, in conjunction with other changes in operational management responsibilities, allows the Chief Executive, Martin Lamb, to increase his focus on the delivery of the Company's strategic objectives. The other changes include the addition of Sean Toomes, President of Indoor Climate, to the Executive Committee.

On the non-executive side of the Board, we have a strong team of four independent directors with varied backgrounds and experience. They have all been IMI directors for several years and all are familiar with the businesses and enjoy opportunities for contact with the wider management group at formal Board meetings, management conferences and visits to IMI facilities. In 2010 the non-executives and I have each visited a number of facilities around the Group individually and four of us attended the official opening of a major new IMI factory in the Czech Republic. In January 2011 the non-executive team again joined the top senior managers at IMI's annual senior management conference, which was held in Shanghai and combined with visits to IMI operations in China.

Norman B M Askew

Chairman

2 March 2011

Set out below is the Board's formal report on corporate governance.

Combined Code compliance

The Board is committed to high standards of corporate governance and confirms that throughout the year ended 31 December 2010 the Company has applied the principles of good governance contained in the Combined Code and complied with its best practice provisions as set out below in the Board's report on corporate governance and in its Remuneration Report on pages 48 to 63. The Board is able to report compliance with the Combined Code throughout 2010.

The new UK Corporate Governance Code (the 'new Code') was issued in June 2010 and applies to the Company from the start of 2011. Thanks to the preparations made in 2010, the Board envisages that the Company can comply with the new Code during 2011.

The Board

At the end of the year the Board comprised nine directors: the Chairman; Chief Executive; four independent non-executive directors; the Finance Director and two operational executive directors. Changes in the composition of the Board during the year are noted below and in the Directors' Report.

The non-executive directors are all free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of them meet the criteria for independence under the Combined Code and are regarded by the Board as independent of the Group's executive management. The Chairman, Norman Askew, was also regarded as independent at the date of his appointment in May 2005. Terry Gateley is the senior independent director. The non-executive directors are from varied backgrounds and bring with them a wide range of skills and experience of senior management in commerce and industry. Biographical details of the current directors are shown on pages 36 and 37.

In line with the new Code, all continuing directors will submit themselves for re-election at annual general meetings from 2011.

The Board provides leadership, direction and governance for the Company and oversees business and management performance. In December 2010, the Board adopted a Corporate Governance Framework which defines Board roles and includes the list of matters reserved to it and written delegations of authority for its committees and the executive management. Board reserved matters include strategy and key areas of policy, major operational and strategic risks, significant investment decisions and material changes in the organisation of the Group. The Board reviews budgets, forecasts and plans for the businesses of the Group on an annual basis. Quarterly meetings of the Board consider detailed financial and management reports on the operational and strategic progress of the Group, as well as tracking changes in risk assessment and controls. Senior executives from around the Group are regularly invited by the Board to attend meetings to make presentations and join in discussion.

The Company's articles of association include certain provisions relevant to the activity of the Board and its committees and can be viewed on the Company's website. These provisions include requirements for disclosure and approval by the Board of potential conflicts of interest. These procedures apply, inter alia, to external directorships and it is the Board's view that they operated effectively during the year under review.

There is a clear division of responsibility between the Chairman and Chief Executive, which is reflected in the written Corporate Governance Framework approved by the Board. In summary, the Chairman is responsible for the leadership and effectiveness of the Board but does not have any executive powers or responsibilities. The Chief Executive leads the executive management team in running the businesses and implementing operating and strategic plans under authority delegated by the Board.

The four executive directors are: the Chief Executive, Martin Lamb; Finance Director, Douglas Hurt; and two operational executives, Roy Twite and Ian Whiting. Changes in executive responsibilities were announced in August 2010 along with Ian Whiting's appointment to the Board effective from 1 September 2010. Roy Twite, in addition to continuing in his role as President of Fluid Power, assumed responsibility for the Retail Dispense businesses. Ian Whiting, President of Severe Service, joined the Board with additional responsibilities for developing IMI's interests in the emerging markets and for the Group procurement function. The Finance Director has Board level responsibility for environmental, health and safety and Sean Toomes, a member of the Executive Committee, has group functional responsibility for these matters.

Non-executive directors are supported in becoming familiar with the businesses during and after induction and there is regular contact between management and non-executive directors during site visits and formal meetings and events like the annual management conference. The Chairman is responsible for ensuring that the Board meetings operate to an appropriate agenda, and that adequate information is provided sufficiently in advance of meetings to allow proper consideration. He is supported by the Company Secretary, who also assists in ensuring that the Board operates in accordance with good corporate governance under the new Code and relevant regulatory requirements. The Company Secretary acts as secretary to all of the standing committees of the Board. The Board has a recognised procedure for any director to obtain independent professional advice at the Company's expense and all directors have access to the Company Secretary who is a solicitor.

THE BOARD'S CORPORATE GOVERNANCE REPORT

The Board (continued)

The Board met on eleven occasions during the year including four quarterly reviews, strategy discussions, visits to operations and meetings convened for special purposes as the need arose. All members of the Board were in attendance at each of the meetings held during their tenure save that Anita Frew and Kevin Beeston missed one meeting and Bob Stack missed two meetings but none of them missed a quarterly or strategy meeting.

The non-executive directors met individually and as a group with the Chairman on a number of occasions during the year. The senior independent director, Terry Gateley, met with the other non-executive directors in the absence of the Chairman, inter alia, to review the Chairman's performance as contemplated by the Combined Code.

Board induction, continuing professional development and evaluation

A formal induction process for new directors has been well established for several years and is the responsibility of the Chairman with support from the Chief Executive, Company Secretary and the Group Human Resources Director. During and after induction directors are expected to visit business units around the Group and to meet with operating management and corporate staff. Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in some appropriate training during the year. The Chairman will be formulating personal development plans with each of the directors during 2011.

In line with the new Code the Board has agreed that the Chairman should arrange an externally facilitated evaluation process at least once every three years starting from 2011. An internal evaluation of the Board and its committees was carried out in 2010, the results of which the Chairman reported to the Board. This process included questionnaires and appropriate face-to-face discussions including individual meetings between the Chairman and the non-executive directors. In addition, the other directors met with the senior independent director regarding the performance of the Chairman. The Board received the findings of the evaluation in March 2011 and the directors confirmed that the Board is fulfilling its responsibilities appropriately. Actions agreed as a result include further developing succession planning at Board and senior executive levels.

The evaluation concluded that the Board and its committees were effective and that each director demonstrated a valuable contribution. The contribution and performance of the non-executive directors, all of whom are standing for election or re-election at the 2011 annual general meeting, is further commented on in the notice of the annual general meeting.

Standing committees of the Board

The standing committees of the Board are: the Audit Committee, the Remuneration Committee, the Nominations Committee and the Executive Committee. Each of these committees operate under written terms of reference which clearly set out their respective delegated responsibilities and authorities. The full terms of reference of these committees were updated in December 2010 and are part of the Corporate Governance Framework which appears on the Company website. The committees report to the Board on their work, normally through their respective Chairman, at quarterly or more frequent intervals as appropriate.

Audit Committee

The Audit Committee is chaired by Terry Gateley. All of the other independent non-executive directors were also members of the Audit Committee. Terry Gateley is a qualified Chartered Accountant and has significant recent and relevant financial experience. The committee acts in an oversight role in respect of the financial statements and reports that are prepared by executive management. The committee received reports from the external auditor who attended its meetings when required to do so. The committee's work included reviewing the financial statements, accounting policies, significant issues of judgement (including contingent liabilities, fair values and impairments), and, as described below under the section headed 'Internal Control' starting on page 47, it looked at the effectiveness of internal financial controls. The committee approved the proposed external audit approach and scope as well as the internal audit programme. The committee takes a risk based approach to audit and other assurance activity.

The committee considered the independence and objectivity of the external auditor. In assessing auditor independence the committee had regard to the Smith Guidance for audit committees and required the auditor to confirm that its ethics and independence policies complied with the requirements of the Institute of Chartered Accountants in England and Wales. The Group policy on the use of the auditor for non-audit work is monitored by the committee and requires approval by the Chairman of the committee for any non-audit engagement where fees exceed £150,000 and does not allow work to be placed with the auditor if it could compromise auditor independence, such as functioning in the role of management or auditing its own work. The committee also receives reports from and monitors the work of the internal audit function, known as the 'IMI Group Assurance Department', and reviews the operation of the Group whistle blowing policy and the independent hotline (www.imihotline.com).

The committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor and believes the work has been satisfactory since Ernst & Young was first appointed in June 2009. The committee recommended and the Board approved the proposal to re-appoint Ernst & Young as the external auditor at the forthcoming annual general meeting.

The committee met on four occasions during the year with all members in attendance. Minutes and papers are normally circulated to all members of the Board. The committee normally calls upon the Chairman, all of the executive directors, the Group Financial Controller and the Group Assurance Director to attend meetings but holds at least part of several meetings each year alone with the auditor. The committee reviewed its own performance and terms of reference and approved the foregoing report on its work.

Remuneration Committee

The Remuneration Committee is chaired by Bob Stack and Norman Askew, Kevin Beeston, Anita Frew and Terry Gateley were members of the Remuneration Committee throughout the year. The committee's main responsibilities are to determine the remuneration policy and individual terms and conditions in respect of the executive directors, including new appointments and to set the Chairman's remuneration. As well as salary and annual bonuses, the committee is responsible for the structure and level of the performance related elements of executive remuneration and other benefits. The committee also reviews the packages of those at the next most senior level of management and has regard to pay for employees across the Group when determining executive remuneration. The committee met on six occasions during the year with all members in attendance. External consultants are engaged by the committee to provide independent advice and the Chief Executive, Finance Director and the Group Human Resources Director attended its meetings when required. The committee reviewed its own performance and terms of reference and approved the foregoing summary report on its work. More details in respect of remuneration matters are given in the Remuneration Report.

Nominations Committee

The Nominations Committee comprised the Chairman, Norman Askew, who chairs the committee, all of the independent non-executive directors and the Chief Executive. During the year the committee reviewed the Board composition and made nominations for appointments to the Board and its committees. External consultants are normally engaged by the committee in relation to any search for successor non-executives. Appointments of non-executives are made on the basis of a standard form of appointment letter. Each non-executive director and the Chairman were appointed on the basis of a stated minimum time commitment judged appropriate by the committee. The committee considers that the time given by each non-executive was sufficient. The committee also reviewed the roles of the non-executive directors and during the year it made recommendations, which were approved by the Board, concerning the appointment of an additional executive director. The committee met on four occasions during the year with all members in attendance. During the year the committee spent a substantial part of its time on executive talent development and succession planning. The senior independent non-executive director, Terry Gateley, is leading the search for a new Company Chairman along with the other members of the committee excluding the incumbent Company Chairman. The committee reviewed its own performance and terms of reference and approved the foregoing report on its work.

Executive Committee

The Executive Committee of the Board is chaired by the Chief Executive and consists of all the executive directors, the President of Indoor Climate and the Group Human Resources Director. The secretary to the committee is the Company Secretary. Senior executives and line managers from around the Group are regularly called upon to attend meetings of the Executive Committee. It meets monthly and more often as may be required in order to monitor performance, review progress against strategic objectives, consider business management issues and formulate budgets and proposals on strategy, policy and resource allocation for consideration by the Board. It also acts as the risk committee of the Board and receives regular reports on health and safety, compliance and legal and corporate affairs. Its minutes are circulated to all members of the Board. The committee reviewed its own performance and terms of reference and approved the foregoing report on its work.

Investor relations

The annual general meeting is regarded by the Board as an important opportunity to meet and communicate with shareholders, particularly private investors. The 2010 annual general meeting was chaired by the Chairman, and attended by the chairmen of the standing committees of the Board and all of the other directors. The Chairman encouraged debate and questions at the formal meeting and informally during refreshments afterwards.

Each substantially separate issue was put to the 2010 annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the directors' report for 2009. A separate resolution for the approval of the Remuneration Report was also put to the meeting. Notice of the 2010 annual general meeting was issued more than twenty working days in advance and the level of proxy votes lodged for and against each resolution, together with details of abstentions, were disclosed at the meeting and are shown on the Company's website. The Board values its good relations with shareholders and resolutions proposed at the 2010 annual general meeting received great support.

In addition to the Annual Report, the Company issues preliminary results and interim results announcements in March and August, respectively, as well as, interim management statements in May and November. The Company website includes recordings of certain key presentations made by senior management, recent annual and interim reports, interim management statements, other corporate announcements and links to the websites of Group businesses. The Company has arranged a dealing service for the convenience of shareholders with J.P. Morgan Cazenove (details are shown on page 130). A sponsored Level 1 American Depository Receipt programme was established on 16 February 2011 for which Citibank, N.A. acts as Depository.

THE BOARD'S CORPORATE GOVERNANCE REPORT

Investor relations (continued)

The Board as a whole seeks to maintain a balanced understanding of the issues and concerns of major shareholders and to assist them in the stewardship of their investments. Dialogue is maintained with shareholders and the executive directors meet regularly with institutional investors. The Chief Executive and Finance Director have primary responsibility at board level for investor relations and report thereon to the Board at least quarterly. They are supported by the Investor Relations Director, Will Shaw.

In addition, financial analysts' notes are circulated to the directors and regular feedback reports from the Company's brokers are supplemented by periodic, independent surveys of major investors' views. The Chairman, senior independent director and other non-executives do meet with major shareholders upon request, and will do so if any of them considers it appropriate: some informal meetings of this type did take place in 2010 and there were also consultations with the larger shareholders and institutional shareholder representative bodies in respect of remuneration matters.

Information about share capital, substantial shareholdings, voting and other rights of shareholders, directors' appointments, removal and powers is set out in the Directors' Report on pages 38 to 41.

Risk management processes

The Board has assigned specific responsibility to the Executive Committee to act as the risk committee of the Board. This is a key feature of the remit of the Executive Committee, which was updated by the Board in December 2010 and is part of the IMI Corporate Governance Framework. The Executive Committee is responsible for implementing and monitoring internal controls and other elements of risk management systems in respect of which the Board has oversight.

The annual strategic risk review process is integrated into the annual forecasting and business planning requirements of the Group and monitoring and updates are carried out between annual reviews. Each operating unit and corporate function is therefore required to undertake a regular process of business risk assessment and reporting. The President of each business division has appointed a Risk Champion with responsibility for embedding the Group risk assessment process in their business. During 2010 the Risk Champions received training on their role and responsibilities from the Head of Group Risk Management and external specialists. The businesses' risk reports, including mitigation action plans for significant risks, are reviewed by the most senior executive within the relevant business and then considered by the Head of Group Risk Management, who puts reports to the Executive Committee, which in turn submits a full annual risk review and at least two updates to the Board. The other corporate functions go through a similar process and their input is reflected in these reports. The Group Risk Management function reports to the Finance Director. Terry Gateley, the senior independent non-executive and chair of the Audit Committee, attended the Executive Committee's annual risk review meeting. The divisional business Presidents present their strategic risks to the Board as part of the annual business plan session and the Board explicitly considers the risks associated with the Company's strategic objectives. The Executive Committee also reports to the Board on major business and other risks involved in specific investment decisions including acquisitions.

During the year the Board received reports on risk issues from the Executive Committee and reviewed the effectiveness of the Group's system of internal control in relation to financial, operational and compliance controls and risk management. In addition, the Audit Committee considered and reported to the Board on the financial aspects of internal control. The Audit Committee also reviewed the nature and scope of the external audit and the internal audit work carried out by the IMI Group Assurance Department. The Remuneration Committee conducted a review of incentive arrangements with reference to their alignment with strategic objectives and appropriate risk-taking.

Through these processes significant risks are identified, assessed and ranked according to their probability and materiality and, following Executive Committee review, the Board considers what measures are appropriate in order to mitigate, transfer or avoid such risks. Principal risks and uncertainties are described on pages 34 and 35.

Financial reporting processes

The use of the Group accounting manual and prescribed reporting requirements by finance teams throughout the Group are important in ensuring that the Group's accounting policies are clearly established and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting package by all entities in the Group ensures that information is presented in a consistent way that facilitates the production of the consolidated financial statements.

Internal control

The Board has responsibility for oversight of the Group's system of internal control and confirms that the system of internal control takes into account the Combined Code and relevant guidance as updated in 2005 by the Financial Reporting Council (the 'Turnbull Guidance').

In the IMI Corporate Governance Framework the Board has clearly defined in writing those matters which are reserved to it and the respective delegated authorities of its committees and it has also set written limits of authority for the Executive Committee. The Group has a clear organisational structure and well established reporting and control disciplines. Managers of operating units assume responsibility for and exercise a high degree of autonomy in running day-to-day trading activities. They do this within a framework of clear rules, policies and delegated authorities regarding business conduct, approval of proposals for investment and material changes in operations.

All operating units prepare forward plans and forecasts which are reviewed in detail by the Executive Committee and consolidated for review by the Board. Performance against forecast is continuously monitored by the executive directors, reviewed at monthly meetings of the Executive Committee and on a quarterly basis by the Board. Minimum standards for accounting systems and controls, which are documented and monitored, are promulgated throughout the Group. Certified quarterly reports are required from senior executives of operating units, confirming compliance with Group financial reporting requirements. There is also a central internal audit function, the IMI Group Assurance Department, which operates a rolling programme of internal assurance reporting and reviews. These include on site reviews of selected operating units which are carried out by the IMI Group Assurance Department. Additionally, visits to operations are carried out by senior Group finance personnel. These internal assurance processes are co-ordinated with the external auditor.

Capital investments are subject to a clear process for investment appraisal, authorisation and post-investment review, with major investment proposals referred for consideration by the Executive Committee and, according to their materiality, to the Board. In addition, the Executive Committee and the Board regularly review the operation of corporate policies and controls in relation to ethics and compliance matters, treasury activities, environmental issues, health and safety, human resources, taxation, insurance and pensions. Compliance and audit reports are made to the Board, and to the Audit Committee and the Executive Committee, to enable control issues and developments to be monitored.

Control processes are dynamic and continuous improvements are made to adapt them to the changing risk profile of operations and to implement proportionate measures to address any identified weakness in the internal control system. More information in relation to risk is given above under the heading 'Risk management processes'.

Through the procedures outlined above the Board has considered the effectiveness of all significant aspects of internal control for the year 2010 and up to the date of this Annual Report. The Board believes that the Group's system of internal control, which is designed to manage rather than eliminate risk, provides reasonable but not absolute assurance against material misstatement or loss.

Responsible business

A major ethics and compliance programme, known as The IMI Way, has been adopted across the Group and is led by the Chief Compliance Officer, Jo Morgan. Reports on compliance and The IMI Way programme are considered at every regular meeting of the Board and the Executive Committee.

The Board takes account of the social, environmental and ethical impact of its decisions and The IMI Way Code of Responsible Business incorporates a series of corporate policies and standards for responsible business across the Group. At a Group level, responsible business activity is co-ordinated through a steering group chaired by an Executive Committee member and key issues of corporate social responsibility are identified, monitored and addressed through the Group's general business processes and risk management framework.

The Company satisfies the FTSE4Good global corporate responsibility criteria and has been awarded membership of the FTSE4Good Index. In addition, in 2010 IMI retained its membership of the Dow Jones Sustainability Index and IMI is a signatory to the UN Global Compact. More information on corporate social responsibility matters is given on pages 28 to 33 and on the Company's website.

By order of the Board

John O'Shea

Company Secretary

2 March 2011

REMUNERATION REPORT

Overview

In 2010 the Remuneration Committee reviewed the remuneration policy with particular emphasis on alignment with the creation of shareholder value, providing balance between long-term and short-term reward and compatibility with the Company's approach to risk. The main conclusions of the review were that the remuneration policy supports the corporate strategy, financial performance is reflected in executive reward and the incentive arrangements are appropriate. The committee is encouraged by the outstanding results achieved by the business and regards performance pay as an important element of remuneration and a driver of success.

A review of remuneration decisions and proposals is set out below:

- Base salaries: reflecting the wider initiatives to control fixed costs across the Group, no base salary increases were awarded to the executive directors and the other most senior executives in 2009 or 2010. Taking into account in particular the financial performance and internal relativities within the senior management team highlighted by recruitments made in the previous two years, salary increases have been awarded in 2011.
- Closure of the IMI Pension Fund: the main UK defined benefit fund was closed to future accrual on 31 December 2010.
- Executive pension provision: the committee's policy approach has been to provide a long term savings opportunity for UK executives which is both tax efficient and cost neutral to the Company. During 2010 an executive retirement plan, which is an unregistered defined contribution pension plan, was established for UK senior managers. At the 2010 annual general meeting shareholder approval was given to amend the Share Matching Plan and the Performance Share Plan so that the awards could, at the committee's discretion, be settled as employer contributions into this executive retirement plan. In response to changes announced by the UK Treasury in December 2010 the executive retirement plan will have to be reviewed again in 2011.
- Annual bonus: in 2010 the bonus metrics were profit before tax and exceptional items, return on sales, cash conversion percentage (to ensure that cash is managed effectively across the Group) and some non-financial measures (based on health and safety, ethics and compliance and personal objectives). This worked well in 2010 and the same approach has been taken for 2011 bonuses.
- Claw-back: power to seek recovery of bonuses in certain circumstances where they ought not to have been paid has been attached to bonuses since 2009. This claw-back power has been applied to the Share Matching Plan since 2009 and in 2010 the committee decided to extend claw-back power to the Performance Share Plan.
- Share Matching Plan: the committee reverted to the normal three year economic value added targets for 2010 matching awards and this policy will continue in 2011 (save that targets will be based on segmental operating profit with no charge for acquired intangible amortisation).
- Share Matching Plan awards for 2011 and subsequent years will be subject to percentage targets for improvement in economic value added (EVA). The percentage targets are designed to be more transparent than the absolute internal targets used for previous awards. Subject to these targets remaining appropriate in the conditions prevailing at the time awards are made, the vesting scale for 2011 and future awards would be: 10% of maximum for positive EVA, 25% for 6% EVA growth and 100% for 17% or more EVA growth. EVA will be measured as a compound annual growth rate over a three year period calculated by reference to EVA over the previous three year period with vesting in each band being on a linear scale.
- Performance Share Plan: awards made in 2010 were subject to a combination of earnings per share (50% weighting), relative Total Shareholder Return (TSR) (25% weighting) and a new performance measure, return on operating capital (25% weighting). The same metrics will be used for 2011 (save that the latter element will be targeted excluding all intangible assets).
- A risk review of the remuneration policy and its implementation was undertaken. Overall the committee was satisfied that risk is appropriately managed, but three actions resulting from this review were: (1) introducing a claw-back power to future Performance Share Plan awards so that claw-back extended to all equity incentive plans for which executive directors are eligible, (2) having a process whereby all long term incentive targets are reviewed at the time of any material corporate transactions, and (3) continuing the improvement in the communication and understanding of the incentive schemes.
- Reflecting the international nature of the Group, close to 200 IMI senior managers were granted market-value share options in 2010. At the 2011 annual general meeting we will be seeking shareholder approval for this plan in order to introduce the flexibility to use new issue and treasury shares to satisfy awards under it.
- New all-employee global share plans: at the forthcoming annual general meeting we will be seeking shareholder approval for new share plans that will enable employees outside the UK to choose to make regular savings that can be used to buy IMI plc shares. This is an exciting project and the committee fully endorses the principle of employee share ownership. It will reinforce the IMI culture across our businesses and emphasise the Group's combined value. Initially, the intention is to operate the new plans, if approved, in the USA and Germany and to extend that over time to other countries.

Remuneration Committee's composition

The members of the Remuneration Committee throughout the year were Bob Stack (Chairman), Kevin Beeston, Terry Gateley, Anita Frew and Norman Askew, the Company's non-executive Chairman. In accordance with the Combined Code, all of the foregoing non-executive directors were regarded by the Board as independent and Norman Askew was considered independent on his appointment as Chairman of the Company.

Remuneration Committee's role

The Remuneration Committee determines the remuneration policy and rewards for the executive directors and, in his absence, the Chairman. The committee also reviews the packages of those at the next most senior level of management and has regard to levels of pay across the Group. A copy of the Remuneration Committee's terms of reference is available from the corporate governance section of the IMI website, where it appears as part of IMI's Corporate Governance Framework. New terms of reference were adopted in December 2010 which explicitly recognise the committee's responsibility for considering the risk implications of incentives and the remuneration structure and for reviewing its compatibility with the Group's risk policies and systems.

Advice received by the Remuneration Committee

The committee consulted the Chief Executive, Martin Lamb, regarding the remuneration policy and the packages of the other executive directors and senior managers. It also received the advice and services of the Finance Director, Douglas Hurt, the Group Human Resources Director, Matt Huckin and the Company Secretary, John O'Shea, who is secretary to the committee. None of these executives was involved in determining their own remuneration.

Independent remuneration advisors, Hewitt New Bridge Street have been appointed by the committee to provide advice on directors' remuneration to the committee. These advisors also attended certain meetings at the request of the committee. During the year Hewitt New Bridge Street also provided advice to the Group Human Resources Director in relation to the implementation of the committee's decisions. The terms of engagement with the committee's advisors are available on request from the Company Secretary.

Chairman's remuneration

The Chairman's sole remuneration consists of fees of £195,000 per annum inclusive of all committee and other work. The level of fees was last revised in 2007 and has remained fixed since that time. The Chairman is non-executive.

Non-executive directors' remuneration

The remuneration of the non-executive directors is determined, after reference to external benchmarks, by the Chairman and the executive directors.

The policy on non-executive remuneration is to pay an appropriate level on a comparative basis for their time and work on the Board and its committees. They do not participate in any bonus or employee share schemes of the Company and no part of their remuneration is conditional upon the performance of the Company. The remuneration of the non-executive directors is shown in the table on page 58. Annual remuneration in 2010 was as follows:

Non-executive director's fee £45,000.

Additional remuneration for chairing a committee £10,000.

Additional remuneration for the senior non-executive director £5,000.

Following the first review since 2007, the basic non-executive directors' fee has been increased from £45,000 to £52,500 with effect from January 2011.

Terms of appointment of the Chairman and the non-executive directors

Letters of appointment set out the key duties and expectations for the non-executive Chairman and the independent non-executive directors. They include appropriate time commitments, provisions for induction and familiarisation with the businesses and wider senior management team and require approval for other directorships and potential conflicts of interest.

The Board has established a shareholding guideline for non-executive directors, each of whom is encouraged to build up a holding of at least 7,500 shares, or 10,000 shares in the case of the Chairman, within a reasonable period of appointment. All of the non-executives held the relevant number of shares at the year end (see table of directors' interests on page 62).

REMUNERATION REPORT

The dates and unexpired terms of the letters of appointment for the non-executive directors, which are available for inspection at the annual general meeting and at the Company's registered office, are as follows:

	Date of letter of appointment	Unexpired term at 01.01.11	Date of appointment as a director
N B M Askew	01.03.11	1 year	14.05.05
K S Beeston	05.01.11	1 year 2 months	08.03.05
A M Frew	05.01.11	2 years 2 months	02.03.06
T M Gateley	05.01.11	1 year 10 months	01.11.03
R J Stack	05.01.11	3 years 5 months	13.06.08

The normal period for initial appointment and first renewal is three years. After six years, renewal is usually considered on an annual basis and this currently applies to Kevin Beeston. However, in January 2011 Terry Gateley's term was extended until October 2012, at which time he will have been a non-executive director for nine years, to ensure he continues to be available as senior independent director to support the transition to a new Chairman. Appointments are made under a letter of agreement subject to removal under the Company's articles of association, and with effect from 2011, all directors will be submitting themselves for annual re-election at the annual general meeting in accordance with the new UK Corporate Governance Code. There are no provisions for the Company to give notice or pay compensation in relation to the early termination of the appointment of the Chairman or any non-executive director. There is a provision in the appointment letters to the effect that a non-executive director is normally expected to give at least one month's prior notice of termination to the Company.

Executive directors' remuneration and terms of appointment

Statement of policy

The Company aims to ensure that remuneration generally and incentives in particular provide strong links between individual performance and shareholder interests. The remuneration policy also recognises that the Company operates in global and highly competitive markets with the vast majority of its activities outside the UK.

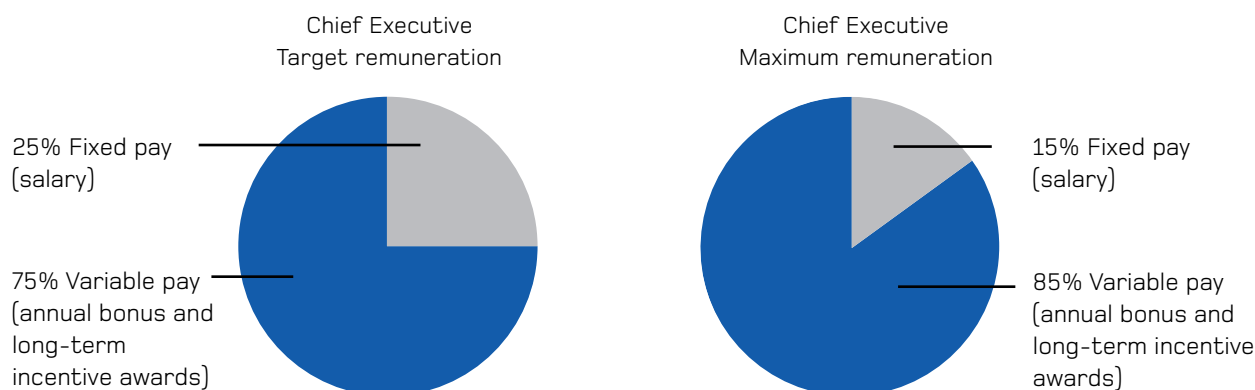
The policy is to provide competitive remuneration packages to attract, motivate, reward and retain executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to specific short and long term performance measures. During 2010 the committee reviewed the structure and metrics of the incentive arrangements for the executive directors from a risk perspective and concluded that they were aligned with appropriate risk-taking and shareholders' interests.

The Remuneration Committee considers it to be important to maintain the flexibility to respond to individual circumstances. However, its normal approach has been to pay salaries within appropriate market competitive ranges, combined with realistic potential for above market total compensation if performance is outstanding. Remuneration comprises basic salaries, annual performance bonuses, benefits in kind, pension arrangements or a cash allowance and participation in a share matching plan and a performance share plan. In the case of the new operational executive director, Ian Whiting, relocation assistance has and will be provided to support his move in 2011 to new divisional head offices in Switzerland.

In setting the remuneration of each executive director, the Remuneration Committee takes into account their role and responsibilities, skills and individual performance and makes reference to market rates as evidenced by published studies and comparisons with international UK-based groups of a similar size and complexity. In connection with this the committee considered benchmarking data prepared by Hewitt New Bridge Street. The committee uses such data with caution in view of the risk of an upward ratchet of remuneration levels. It also has received information about and had regard to pay and conditions of employees throughout the Group. The committee has the discretion to take account of environmental, social and corporate governance matters when setting the remuneration of the executive directors.

The policy of the committee is to set performance conditions for incentives which are both stretching but also reasonably attainable in the environment in which the Company is then operating.

The following charts show the fixed and performance related elements of the Chief Executive's remuneration at both target and maximum based on the proposed 2011 incentive arrangements (assuming maximum personal investment in the Share Matching Plan and excluding the impact of changes in share price). This supports the committee's policy that a significant proportion of remuneration should be performance related. The mix of remuneration for the other executive directors is broadly comparable, although their maximum bonus potential and maximum matching plan awards are lower.



Consistent with the policy on service contracts, the executive directors' service contracts are subject to termination on one year's notice by the Company or the executive. Contractual retirement age for UK based executive directors is 65 but none applies to Ian Whiting who is employed in the USA. These contracts do not include any specific provision for compensation payable upon early termination save that, as a consequence of the closure of the IMI Pension Fund on 31 December 2010, the Company has made alternative contractual arrangements in lieu of certain contractual entitlements to pension benefits, which, but for the closure, would have been provided through the IMI Pension Fund to all members in the same membership category as the Chief Executive. The alternative contractual arrangements for all these members include augmentation of Fund benefits (to the level that would have been provided save for the closure) or payment in lieu in respect of benefits arising on early retirement by reason of redundancy or other termination at the Company's instance. Had such benefits arisen for the Chief Executive as at 31 December 2010, the estimated cash cost to the Company would have been approximately £4.7m. The payment in lieu computation is designed to be neutral to the Company on a net of tax basis and compared with the cash contributions that would otherwise have been expected to provide the benefits through the Fund.

It is the policy of the Remuneration Committee to limit any compensation which might be paid in the event of early termination of an executive director's contract to the legal minimum, taking into account mitigation and other relevant factors.

The dates of the contracts and period to normal retirement age for those serving as executive directors during the year are as follows:

	Date joined Group	Date of appointment to Board	Date of service contract	Notice period	Period to normal retirement age as at 31 December 2010
M J Lamb	31.10.86	18.07.96	01.01.11	12 months	14 years 1 month
D M Hurt	01.05.06	01.07.06	01.10.06	12 months	10 years 6 months
R M Twite	26.09.88	01.02.07	01.02.07	12 months	22 years 5 months
I W Whiting	18.07.05	01.09.10	01.01.10	12 months	N/A*

* I W Whiting is a US employee and is not subject to a normal retirement age

Base salary

Salary reviews for the executive directors are conducted annually with any increases effective from 1 January. Salaries are set by the Remuneration Committee taking into account the executive's role, responsibilities and individual performance and pay conditions elsewhere in the Company and external benchmark data (looking at UK listed companies of similar size, complexity and international presence). The normal policy is to pay salaries within appropriate market competitive ranges for each role.

Reflecting the wider initiative to control fixed costs across the Group, the executive directors salaries were not increased in the annual reviews conducted in either December 2008 or December 2009. The salaries for the 2011 financial year were reviewed in December 2010 and the committee decided that it was no longer appropriate to freeze salaries. The two most compelling reasons for awarding an increase were the outstanding financial performance of the Group and addressing concerns arising from internal relativities. During the past two years recruitments have been made into the senior management group, both in terms of direct replacements and expansion, and this has caused unacceptable internal differences. Accordingly, a thorough salary analysis was undertaken by the committee. These inputs resulted in the committee making the following changes to take effect from 1 January 2011:

M J Lamb - £720,000 (2008, 2009 and 2010: £656,000).

D M Hurt - £395,000 (2008, 2009 and 2010: £360,000).

R M Twite - £373,000 (2008, 2009 and 2010: £340,000).

I W Whiting - £345,000 (£330,000 at appointment on 1 September 2010).

In making these decisions the committee took account of the salary increases that have been and will be awarded to staff, as well as the salary multiple of the directors' salaries to that of the average UK staff salary.

REMUNERATION REPORT

Annual bonus

Executive directors participate in an annual performance bonus plan. Maximum bonus is only payable if the stretching targets set by the Remuneration Committee are met and for both 2010 and 2011 the maxima are:

	Maximum bonus as a % of salary
Chief Executive	150%
Finance Director	125%
Operational executive directors	115%

All the bonus metrics have a sliding scale calibration and in 2011 on-target bonus will pay 50% of the maximum bonus.

Details of the bonus metrics are given on page 48 in the section headed 'Overview'.

The executive directors and senior executives are subject to share ownership guidelines. To the extent that an individual does not meet their shareholding guideline, then up to 50% of the annual bonus award is required to be invested in shares and a matching award will be made under the Share Matching Plan (at a lower level of maximum match). If the individual meets the shareholding guideline, then investment of bonus in shares is encouraged through participation in the SMP with matching at a higher level.

The Remuneration Committee always reserves the right to apply discretion in awarding bonuses and performance shares and may exercise this freedom should an executive not achieve their share ownership guideline within a reasonable period.

The committee retains power to reduce or withhold annual bonus payments in exceptional circumstances and in 2009 following best practice it introduced the power to seek claw-back of bonuses in certain cases where the bonus should not have been paid in the first place.

Under the rules of the executive retirement plan (ERP), UK based directors and senior managers may waive their bonus entitlement. The Remuneration Committee may then choose, at its discretion, to make a contribution into the ERP on their behalf.

Long term incentive arrangements

The Company operates two share incentive plans for executive directors:

1. the Share Matching Plan (formerly the Deferred Bonus Plan) which is a co-investment arrangement; and
2. the Performance Share Plan which is a conventional long term incentive plan.

Share Matching Plan

The Share Matching Plan (SMP) runs in conjunction with the annual incentive plan and is linked to the achievement of the share ownership guidelines for executive directors and senior executives.

Under the SMP individuals may invest up to 100% of their maximum annual bonus potential into shares; the limit being set on an annual basis by the Remuneration Committee. The committee intends to allow such a level of investment in 2011. By investing in the SMP, matching shares may be earned, which vest after three years, subject to the achievement of stretching performance conditions. Current policy is that awards made under the share matching arrangements, where settled in shares, will be satisfied through shares purchased in the market but the committee retains the flexibility to use new issue and treasury shares.

Since 2009, matching awards have allowed for a higher level of match (up to 2:1) for shares that are purchased through the voluntary investment of bonus or other monies. The lower levels of match (up to 1.25:1 for the Chief Executive and 1:1 for other executive directors) apply to annual bonus that is to be compulsorily paid in shares, being up to 50% of the bonus according to whether, and, if so, the extent to which, an executive has not met their share ownership guideline.

The matching share awards are usually subject to EVA performance over a three year period. The calculation of EVA is based on segmental operating profit after tax with appropriate adjustments, less a capital charge on the invested capital in the business reflecting IMI's cost of capital. Further details of the performance conditions attaching to existing awards are set out in the notes to the table on page 61 (including details of the change made to the targets attached to 2010 SMP awards following the acquisition of Z&J). The EVA targets for intended 2011 awards are described in the section above headed 'Overview'. For 2011 and subsequent awards there will be no charge to NOPAT for acquired intangible amortisation, which will reduce the volatility in the measure caused by the valuation and amortisation of intangible assets following an acquisition.

The 2007 SMP awards vested in 2010 at 63.5% of maximum and the 2008 SMP awards will vest in 2011 at 97% of maximum.

Performance Share Plan

The Performance Share Plan (PSP) allows for share-based awards worth up to the maximum of 100% of annual salary. Details of the awards made under the PSP are contained in the table of directors' awards on page 60.

The vesting of awards is subject to the satisfaction of stretching performance conditions over a three year period. The current policy is for PSP awards, where settled in shares, to be satisfied through shares purchased in the market but the committee retains the flexibility to use new issue and treasury shares.

The 2007 awards vested in 2010 at 44.7% of maximum. The 2008 PSP awards will vest in 2011 at maximum.

For awards made up to and including 2008, one half of the award is subject to an earnings per share (EPS) performance condition and the other half to a comparative total shareholder return (TSR) target. EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings and because the Remuneration Committee believed it worked well in combination with TSR which is a comparative measure. TSR is well understood and accepted as a performance measure for long-term incentives and links rewards to shareholder value. Details of the performance conditions attached to awards granted under the PSP are shown in the notes to the table on page 60.

PSP awards granted under the plan in 2009 were subject to a single performance condition in respect of relative TSR because economic uncertainties made it difficult to set a realistic three year EPS target. Measures applied to awards made in 2010 are described under the 'Overview' section above along with the metrics to be used for intended 2011 PSP awards.

The TSR comparator group for awards made in 2008 and 2009 and for awards made in 2010 are shown below:

Name	Country*	Name	Country*
Amada	Japan	Johnson Matthey	United Kingdom
Atlas Copco A	Sweden	Manitowoc	United States
BBA Aviation	United Kingdom	Meggitt	United Kingdom
Bodycote International	United Kingdom	Metso Corporation	Finland
Borgwarner	United States	NSK	Japan
Charter	United Kingdom	Parker-Hannifin	United States
Cobham	United Kingdom	Pentair	United States
Cookson Group	United Kingdom	Rotork	United Kingdom
Eaton	United States	Sandvik	Sweden
Emerson Electric	United States	Seco Tools B	Sweden
Fanuc	Japan	SKF B	Sweden
Flowsolve Corp	United States	SMC	Japan
GKN	United Kingdom	Spectris	United Kingdom
Halma	United Kingdom	Spirax-Sarco Engineering	United Kingdom
Heidelberg Druck	Germany	Sulzer AG	Switzerland
Honeywell	United States	THK	Japan
IDEX Corp	United States	Tyco International	United States
Illinois Tool Works	United States	Weir Group	United Kingdom
Ingersoll-Rand	United States	Yaskawa Electric	Japan
Invensys	United Kingdom		

* Country is shown as country of primary listing.

Note: Enodis, Tomkins and FKI had been included in the comparator group but delisted.

The 2011 comparator group will be the same as it was in 2010 subject to any delistings.

REMUNERATION REPORT

Long term incentive arrangements (continued)

Performance Share Plan (continued)

25% of the 2010 and intended 2011 PSP awards are subject to a TSR performance condition. TSR is defined as the movement in the share price during the performance period on a local currency basis with adjustments to take into account changes in capital structure and dividends (which are assumed to be reinvested in shares on the ex-dividend date). The vesting schedule for the element of awards subject to the TSR performance condition is as follows:

Ranking	Vesting
Upper quartile (top 25%) or above	100%
Between median and upper quartile	Pro-rata between 25% and 100%
Median	25%
Below median	0%

To ensure that TSR reflects improvement in the underlying performance of the Company the Remuneration Committee must be satisfied that the financial performance of the Company over the performance period warrants the level of vesting as calculated under the TSR condition. In the event that the Remuneration Committee is not satisfied in this respect on the vesting of a PSP award it has committed to disclose the factors that it reviewed and give a commentary on the exercise of its overriding discretion.

The performance condition for one half of the 2010 PSP awards and the intended 2011 PSP awards will be based on the Company's compound annual EPS growth over a three-year period. The Remuneration Committee sets the EPS targets in respect of each annual award at the level it considers appropriately stretching given the conditions in which the Company is operating. The vesting schedule for the awards subject to the EPS performance condition proposed to be granted in 2011, which is the same as for the 2010 awards, is as follows:

Compound EPS growth	Vesting
15% per annum	100%
Between 6% and 15% per annum	Pro-rata between 25% and 100%
6% per annum	25%
Less than 6% per annum	0%

As for 2010 awards, the EPS measure for 2011 PSP awards will be based on EPS subject to certain adjustments including the elimination of the after tax cost of restructuring, acquired intangible amortisation and impairment, and financial instruments excluding economic hedge contract gains and losses.

The vesting of the other 25% of the 2010 and the intended 2011 PSP awards will depend on IMI's average return on operating capital employed (RoOCE) over the three years from the year of grant. Operating capital used for the calculation of RoOCE for the 2011 PSP awards will exclude intangible assets. This is considered appropriate as it will reduce the volatility in the measure caused by the valuation and amortisation of acquired intangible assets under IFRS3 following acquisitions. Following the acquisition of Z&J, the RoOCE targets attached to 2010 PSP awards were adjusted to allow 25% vesting at 24% RoOCE (originally 25%) and between 25% and 100% vesting for RoOCE in the range from 24% to 30% (originally 25% to 32%).

For the intended 2011 and subsequent awards, RoOCE will not include intangible assets and the 2011 awards will be calibrated as follows:

Average RoOCE	Vesting
85%	100%
Between 65% and 85%	Pro-rata between 25% and 100%
65%	25%
Less than 65%	0%

UK SAYE plan

The Company operates an HM Revenue and Customs approved savings-related share option scheme which is open to the majority of the Group's UK employees, including the UK-based executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in their employer's business or group.

UK All Employee Share Ownership Plan

UK executive directors also participate in an All Employee Share Ownership Plan which is open to the majority of the Group's UK employees. In 2011 shares to a value equal to the lesser of £3,000 and 0.6% of each participant's basic salary will be acquired at market value by the trustee of the plan in respect of their participation during 2010. The plan is not operated subject to specific performance conditions but the level of shares awarded to participating employees is set taking into account performance, in particular that of the UK operations of the Group. Eligible employees are also able to invest up to £1,500 annually in a tax-efficient manner in purchasing partnership shares under the plan. Each of the UK executive directors makes the maximum contribution from their salary towards partnership shares under the plan. Matching shares may be awarded in respect of partnership shares acquired under the plan although the policy to date has been not to award any matching shares.

Global All Employee Share Plans

As mentioned above, proposals for the establishment of two new 'all-employee' share plans to encourage employee investment in IMI shares are to be put to shareholders for approval at the 2011 annual general meeting. Further details are contained in the notice of annual general meeting.

Share Option Plan

A share option plan for senior employees was established in 2009 but awards under it are not made to executive directors or others who receive PSP awards. As explained in the 'Overview' section above, shareholder approval of this plan will be sought at the forthcoming annual general meeting in order to introduce the flexibility to satisfy awards using new issue and treasury shares and further details are given in the notice of meeting.

Share ownership guidelines

The shareholding guidelines were increased in 2009 to 125% of salary for all the executive directors to be achieved by 30 June 2011 or, for new appointments, within a five year period after joining the Board.

All of the executive directors met the guidelines at the year end. The levels of holdings at the end of 2010 relative to basic salaries (calculated using the average share price in December 2010) were as follows:

Executive director	Level of share ownership
M J Lamb	581%
D M Hurt	479%
R M Twite	399%
I W Whiting	596%

Share dilution

The Association of British Insurers has set recommended guidelines on the number of new issue and treasury shares that can be used under a company's share plans. The guidelines are 10% of the issued share capital in any 10 year period for all share plans, with an inner limit of 5% in 10 years for executive schemes. IMI operates within these limits and its standing as at 31 December 2010 was 3.59% and 2.33% respectively.

REMUNERATION REPORT

Pension entitlement

During 2010 the Board with appropriate support from the Remuneration Committee undertook a comprehensive review of pension provision at IMI. This was prompted by the Board's desire to manage pension risks. With regard to the pension provision for executive directors the main principle adopted when undertaking this review was that any new arrangements should be cost neutral for IMI.

The IMI Pension Fund was closed to all employees in respect of future service from 31 December 2010 and alternative pension arrangements were established including an executive retirement plan (ERP), which is intended to be a tax efficient long term savings vehicle for UK senior managers to save for retirement outside the registered pensions regime.

Pension benefits provided for 2010 service

In respect of 2010 the executive directors were entitled to and waived the following pension benefits:

	Value of pension allowance	Value of allowance waived
Martin Lamb	£229,600 (35% of salary)	£82,000
Douglas Hurt	£126,000 (35% of salary)	£105,000
Roy Twite	£119,000 (35% of salary)	£99,000
Ian Whiting	£38,500 (35% of salary since appointment)	N/A

Executive directors are entitled to receive a taxable cash allowance instead of pension benefits. UK executive directors may waive some or all of this cash allowance, and any annual bonus award, and the Remuneration Committee may then choose, at its discretion, to make a contribution into the ERP, which is an unregistered defined contribution arrangement structured as an offshore trust. Such contributions to the ERP in respect of executive directors are determined on a basis that is intended to be cost neutral to the Company. At the 2010 AGM shareholders approved changes to the rules of the SMP and PSP that permit these awards to be settled in the form of employer contributions to the ERP. Martin Lamb waived part of his cash allowance payable in lieu of future accrual in the IMI Pension Fund and all of his 2010 bonus, and the Company exercised its discretion to make contributions to the ERP totalling £979,000. He also waived his 2009 bonus entitlement, and the Company exercised its discretion to make contributions to the ERP totalling £747,000. Douglas Hurt waived part of his cash allowance payable in lieu of pension benefits and all of his 2010 bonus, and the Company exercised its discretion to make contributions to the ERP totalling £513,000. Roy Twite waived part of his cash allowance payable in lieu of pension benefits and 2010 bonus, and the Company exercised its discretion to make contributions to the ERP totalling £313,000.

Ian Whiting is eligible for benefits under three arrangements in the USA. The first is a defined contribution arrangement, the IMI 401(k) Plan. In the period from 1 September 2010, when he was appointed as an executive director, to 31 December 2010, no contributions were made to this plan. The second is a defined benefit arrangement, the Control Components Inc Employees' Pension Plan. His pension from this plan is payable from age 65 without further increase. The third is also a defined benefit arrangement, the IMI Americas Supplemental Executive Retirement Plan. His pension from this plan is payable from age 65, subject to completion of 10 years service with the Group, without further increase. On retirement Ian Whiting has the option of exchanging part of his pension to provide for a spouse's pension payable on his death after retirement.

Pension benefits for past service

Martin Lamb and Roy Twite were previously active members of the defined benefit IMI Pension Fund. Martin Lamb opted out with effect from 6 April 2006 and Roy Twite opted out with effect from 1 February 2007. As a result they retain past pensionable service up to these dates and the value of this is shown in the table on page 59. The nature of these benefits are more complicated than the pension benefits provided in respect of 2010, but the key elements are summarised below:

- The normal retirement age under the Fund is 60 for Martin Lamb and 62 for Roy Twite. Martin Lamb may elect to retire from employment with IMI and receive a pension at any time after age 57 without any actuarial discount and Roy Twite may retire from employment with IMI any time after age 60 without actuarial discount.
- On death after retirement, a dependant's pension is provided equal to two-thirds of the member's pension for Martin Lamb and 50% of the member's pension for Roy Twite.
- Should Martin Lamb die within the first five years of retirement, a lump sum is also paid equal to the balance of five years' pension payments. For Roy Twite, the dependant's pension is increased to 100% of the member's pension for the remainder of the five year period.
- Pensions in payment, in excess of any guaranteed minimum pension, are increased each year in line with price inflation up to a maximum of 5% in respect of pension built up before 1 January 2006, and 2.5% in respect of pension built up after 1 January 2006.
- Martin Lamb's past pension benefits generally continue to be linked to final salary inflation (averaged over the past three years) and equivalent benefits to those provided for under the Fund rules immediately prior to closure are preserved in relation to ill-health retirement, death-in-service and early retirement at the Company's instance. The difference between these benefits and those automatically provided under the Fund will be assessed as at 31 December of 2011 and each subsequent year end until death in service, retirement on ill-health grounds or retirement at the Company's instance and there will be a payment to the Fund (to augment Fund benefits) or a payment in lieu to Martin Lamb (or his estate) or by way of contribution to the ERP or another pension arrangement shortly after each year end until a final augmentation or payment is made following death in service or relevant early retirement event.

The policy regarding pension arrangements for new executive director appointments will be flexible to take account of the individual position, the cost of pension arrangements to the Company, including in particular the cost of defined benefits, and the alternative forms of pension provision. However, the norm would be not to offer defined benefits to new executive directors.

Save as indicated below, the remainder of this report has been audited. The auditor's report is on page 65.

External appointments

Executive directors may accept one external appointment with the consent of the Board, and are normally allowed to retain fees from external non-executive directorships. Martin Lamb was appointed a non-executive director of Severn Trent Water plc on 29 February 2008 and received fees in the year to 31 December 2010 of £42,500 (2009: £35,351). Douglas Hurt was appointed as a non-executive director of Tate & Lyle PLC on 10 March 2010 and received fees in the year to 31 December 2010 of £39,682.

REMUNERATION REPORT

Summary of directors' remuneration

	Salary and fees £000	Non-cash benefits £000	Sums by way of taxable allowances £000	Bonus £000	Total 2010 £000	Bonus and pension allowance waived ¹ 2010 £000	Restated Total ¹ 2009 £000	Bonus and pension allowance waived ¹ 2009 £000
Non-executive								
N B M Askew	195	-	-	-	195	-	195	-
K S Beeston	45	-	-	-	45	-	49	-
A M Frew	45	-	-	-	45	-	45	-
T M Gateley	60	-	-	-	60	-	60	-
R J Stack	55	-	-	-	55	-	51	-
Executive								
D M Hurt ¹	360	5	38	-	403	534	887	-
M J Lamb ¹	656	5	169	-	830	1,020	911	777
R M Twite ¹	340	5	37	148	530	325	795	-
D C Nicholas ²							638	-
I W Whiting ³	110	4	71	119	304	-	-	-
Total	1,866	19	315	267	2,467	1,879	3,631	777

¹ M J Lamb, D M Hurt and R M Twite waived all or part of their 2010 bonus entitlement and pension allowance. The Company made discretionary contributions into the executive retirement plan as disclosed on page 56. In 2010 M J Lamb waived his 2009 bonus entitlement of £777,000 and the Company made discretionary contributions into the executive retirement plan as disclosed on page 56. The 2009 comparative total has been restated to exclude this amount.

² D C Nicholas retired as a director on 1 September 2009 and retired as an employee on 11 December 2009.

³ I W Whiting became a director on 1 September 2010.

Remuneration shown above as salaries for non-executive directors includes fees of £205,000 (2009: £205,000). No compensation for loss of office was paid to or receivable by any director in 2010.

Benefits in kind provided to executive directors consist of the provision of private health care arrangements and all employee share ownership plan awards.

All executive directors elected for a cash alternative, instead of a company car. Sums paid by way of taxable allowances in the above table include cash allowances in lieu of company car and certain pension benefits. Relocation assistance was provided to Ian Whiting in respect of his move from the USA to Switzerland which is expected to take place in 2011.

Summary of directors' pension arrangements

Details of the pension benefits earned in the IMI Pension Fund or, in relation to Ian Whiting, the Control Components Inc Employees' Pension Plan and the IMI Americas Supplemental Executive Retirement Plan are summarised in the following table:

Director	Age at 31.12.10	Pensionable service to 31.12.10 ¹ Years	Accrued pension at 31.12.10 ² £000 pa	Transfer value of accrued pension at 31.12.10 £000	Transfer value of accrued pension at 31.12.09 ³ £000	Difference between values at 31.12.09 ³ and 31.12.10 £000	Increase in accrued pension over the year ² £000 pa	Increase in accrued pension over the year (net of inflation) £000 pa	Value of increase in accrued pension at 31.12.10 (net of inflation) £000
M J Lamb	50	20	295	5,290	4,938	352	13	13	233
R M Twite	43	18	58	650	630	20	-	-	-
I W Whiting ⁴	46	5	37	137	148	(11)	-	n/a	n/a

¹ Pensionable service ceased with effect from 6 April 2006 for M J Lamb, 1 February 2007 for R M Twite and 1 September 2010 for I W Whiting.

² The increase in the accrued pension during the year reflects the increase in pensionable earnings to 31 December 2010 for M J Lamb. Under the IMI Pension Fund deferred pensions generally increase with inflation so the increase in the accrued pension over the year (net of inflation) represents the additional pension built up. No allowance is made for the value of benefits that may be derived by the payment of additional voluntary contributions.

³ Or as at date of appointment as a director if later.

⁴ I W Whiting was appointed as a director on 1 September 2010 and the figures shown in the table relate to the period from 1 September 2010 to 31 December 2010. Figures have been converted using exchange rates of £1: \$1.55 as at 1 September 2010 and £1: \$1.57 as at 31 December 2010. As I W Whiting has been a director for less than a year, the increase in accrued pension net of (annual) inflation and the value of the increase in accrued pension net of (annual) inflation are not applicable.

The transfer values that would be payable from the IMI Pension Fund at the relevant date are also shown in the table, together with the transfer value (at the end of the year) of the increase in the accrued pension over the year (net of inflation). A transfer value shown is the estimated capital value of the future pension payments in retirement, determined by the Fund's Trustee in accordance with the appropriate statutory requirements. In respect of I W Whiting's benefits under US pension arrangements, the transfer value quoted is based on the method and assumptions used by the Company to account for the costs associated with its US defined benefit pension schemes (see note 19 to the financial statements on pages 104 to 110).

Under the method and assumptions used by the Company to account for the costs associated with its defined benefit pension schemes, the aggregate value of the accrued benefits as at 31 December 2010 for the executive directors was £8.96m (2009: £8.42m).

REMUNERATION REPORT

Directors' share awards

Share awards/options are outstanding under the following schemes:

SAYE - IMI Savings-Related Share Option Scheme

PSP - Performance Share Plan

SMP - Share Matching Plan (formerly DBP)

SOP - Share Option Plan

As permitted by the rules of the relevant share plans, equity awards that were due to be released in April 2010 and 2011 were amended to allow for release in March of the relevant year.

Table of SAYE, PSP and SOP awards

Director	Scheme	Perf- ormance cond- ition	Date of grant/ award	Award price*	As at 01.01.10 (or date of app- ointment if later)	During the year			As at 31.12.10 (or date of retirement if earlier)	Date from which exercisable/ vesting date	Expiry date	Date of exercise	Mid market price at date of exercise	Notional gain (£)**
						Granted	Exercised / vested	Lapsed						
M J Lamb	SAYE	a)	08.04.03	201.00p	4,980		4,980		Nil	01.08.10	31.01.11	11.08.10	700.00p	24,850
			06.04.04	289.00p	1,335		1,335		Nil	01.08.09	31.01.10	03.02.10	561.50p	3,638
			04.04.06	494.55p	378		378		Nil	01.08.09	31.01.10	03.02.10	561.50p	253
			09.04.09	201.36p	4,544				4,544	01.08.12	31.01.13			
	PSP	b)	05.04.07	592.00p	104,000		53,447+	57,512	Nil	29.03.10	05.04.17	29.03.10	669.00p	357,560
			04.04.08	473.58p	138,500				138,500	28.03.11	04.04.18			
			11.03.09	229.50p	285,800				285,800	11.03.12	11.03.19			
			07.05.10	679.00p	Nil	96,600			96,600	22.03.13	22.03.20			
D M Hurt	SAYE	a)	09.04.09	201.36p	7,772			7,772	01.08.14	31.01.15				
	PSP	b)	05.04.07	592.00p	55,600		28,573+	30,747	Nil	29.03.10	05.04.17	29.03.10	669.00p	191,153
			04.04.08	473.58p	76,000				76,000	28.03.11	04.04.18			
			11.03.09	229.50p	156,800				156,800	11.03.12	11.03.19			
			07.05.10	679.00p	Nil	53,000			53,000	22.03.13	22.03.20			
R M Twite	SAYE	a)	09.04.09	201.36p	4,544			4,544	01.08.12	31.01.13				
	PSP	b)	05.04.07	592.00p	50,600		26,002+	27,982	Nil	29.03.10	05.04.17	29.03.10	669.00p	173,953
			04.04.08	473.58p	71,500				71,500	28.03.11	04.04.18			
			11.03.09	229.50p	148,100				148,100	11.03.12	11.03.19			
			07.05.10	679.00p	Nil	50,100			50,100	22.03.13	22.03.20			
I W Whiting	PSP	c)	04.04.08	473.58p	30,000			30,000	28.03.11	04.04.18				
			03.10.08	376.25p	9,900				9,900	03.10.11	03.10.18			
	SOP	f)	03.09.09	440.93p	120,000			120,000	03.09.12	03.09.19				
			22.03.10	645.00p	75,000				75,000	22.03.13	22.03.20			

+ This includes dividends paid in shares on the vested portion over the three year period.

a) No performance conditions are attached to the SAYE options.

b) 50% of award based on comparative TSR (with an EPS underpin) with vesting at median (30% vests) to upper quartile (full vesting) and 50% based on real annual EPS growth of between 3% (30% vests) to 12% (full vesting) per annum for 2007 awards. For details of the TSR comparator group used for awards made in 2007 please refer to the 2007 remuneration report. 2007 PSP awards vested in 2010 at 44.7% of maximum.

c) 50% of the 2008 awards were based on comparative TSR (subject to the Remuneration Committee being satisfied that the relative TSR position reflects underlying performance) with vesting at median (25% vests) to upper quartile (full vesting), and the remaining 50% on EPS growth of between 6% per annum (25% vests) to 15% per annum (full vesting) over the three-year performance period. 2008 PSP awards will vest in March 2011 at maximum.

d) 2009 awards were entirely based on comparative TSR with the vesting scale as described in c) above.

e) 2010 awards were based on TSR and EPS measures with the vesting scales as described in c) above for 25% and 50% of awards, respectively, and, as to the other 25%, upon RoOCE with vesting on a linear scale from 24% (originally 25% before adjustment made in 2011 following the acquisition of Z&J) of maximum to maximum for RoOCE of between 24% and 30% (originally 25% and 32% before adjustments made in 2011 following the acquisition of Z&J).

f) SOP awards shown were made to I W Whiting prior to his appointment as an executive director and are not subject to performance conditions. Executive directors are not eligible to participate in the SOP.

* The award price is the exercise price for awards structured as options and the price used to calculate the number of shares for PSP awards to UK participants in the PSP which are structured as deferred share awards or nil cost options and, in each case, is determined by reference to an average middle market quotation without discount.

** Notional gains on share options exercised shown above are based on the closing mid-market price at the date of exercise.

The closing price of the Company's ordinary shares at 31 December 2010 was 945.00p per share and the price range during the year was 530.50p to 948.00p.

Table of SMP awards

Director	Performance condition	Date of grant/award	Mid market price at date of award	As at 01.01.10 (or date of appointment if later)	During the year			As at 31.12.10 (or date of retirement if earlier)	Date from which exercisable/ vesting date	Date of exercise/ vesting	Mid market price at date of exercise
					Granted	Exercised / vested	Lapsed				
M J Lamb	a)	05.04.07	593.50p	105,914	330,090	77,324†	38,659	Nil	29.03.10	29.03.10	669.00p
	b)	04.04.08	461.75p	66,100				66,100	28.03.11		
	c)	01.06.09	357.75p	690,359				690,359	26.03.12		
	d)	07.05.10	640.50p	Nil				330,090	22.03.13		
D M Hurt	a)	05.04.07	593.50p	30,869	160,246	22,535†	11,267	Nil	29.03.10	29.03.10	669.00p
	b)	04.04.08	461.75p	28,300				28,300	28.03.11		
	c)	01.06.09	357.75p	174,917				174,917	26.03.12		
	d)	07.05.10	640.50p	Nil				160,246	22.03.13		
R M Twite	a)	05.04.07	593.50p	21,331	131,602	15,570†	7,786	Nil	29.03.10	29.03.10	669.00p
	b)	04.04.08	461.75p	49,702				49,702	28.03.11		
	c)	01.06.09	357.75p	146,645				146,645	26.03.12		
	d)	07.05.10	640.50p	Nil				131,602	22.03.13		
I W Whiting	b)	04.04.08	461.75p	24,446				24,446	28.03.11		
	c)	01.06.09	357.75p	122,370				122,370	26.03.12		
	d)	07.05.10	640.50p	63,729				63,729	22.03.13		

† This includes dividends paid in shares on the vested portion over the three-year period.

a) The applicable performance measure was economic value added over the years 2007-2009. Vesting was tiered (with linear progression in each band) as follows: 0% to 20% of maximum (maximum being a 125% match for the Chief Executive and 100% match for other executive directors) for positive economic value added up to £185m, 20% to 50% for £185m to £275m, 50% to 85% for £275m to £365m and 85% to 100% for £365m to £385m economic value added. 2007 SMP awards vested in 2010 at 63.5% of maximum.

b) The applicable performance measure is economic value added over the years 2008-2010. Vesting is tiered (with linear progression in each band) as follows: 0% to 20% of maximum (maximum being a 125% match for the Chief Executive and a 100% match for other executive directors) for positive economic value added of up to £200m, 20% to 50% for £200m to £290m, 50% to 85% for £290m to £380m and 85% to 100% for £380m to £400m economic value added. 2008 SMP awards will vest in March 2011 at 97% of maximum.

c) Performance measures for 2009 SMP awards were exceptional, and included 1/3 TSR (on the same basis as for the 2009 PSP awards), 1/3 profit before tax (measured annually) and 1/3 annual priority targets (measured annually). The annual priority targets were weighted equally, in 2009 between cash conversion and profit drop through and, in 2010, between cash conversion and return on sales.

d) The performance measure for 2010 SMP awards was economic value added over the years 2010 to 2012. Vesting is tiered (with linear progression in each band) as follows: 0% to 25% of maximum for positive economic value added of up to £235m, 25% to 50% for £235m to £335m, 50% to 75% for £335m to £369m (originally £395m before adjustment made in 2011 following the acquisition of Z&J) and 75% to 100% for between £369m (originally £395m before adjustment made in 2011 following the acquisition of Z&J) and £475m.

REMUNERATION REPORT
Awards under the legacy IMI Deferred Share Plan 2002

Director	Date of DSP award	Purchase price for initial shares (per share)	Number of initial shares purchased	Potential 1 for 4 matching award if initial shares held for three years after acquisition*	Release date
M J Lamb	04.04.08	465.3716p	37,225	9,306	28.03.11
R M Twite	04.04.08	465.3716p	16,872	4,218	28.03.11

* No performance conditions were attached to DSP awards which were made following mandatory reinvestments into the DSP of cash payments under a defunct long term incentive scheme under which no other awards remain outstanding.

Directors' interests

This section of the Remuneration Report is not required to be audited.

The interests (all being beneficial) of the directors and their families in the share capital of the Company are shown below:

Director during 2010	Shares held	Interest as at 31.12.10 or date of retirement if earlier	Interest as at 01.01.10 or date of appointment if later
N B M Askew	Ordinary shares	10,000	10,000
K S Beeston	Ordinary shares	20,000	20,000
A M Frew	Ordinary shares	7,500	7,500
T M Gateley	Ordinary shares	7,500	7,500
D M Hurt	Ordinary shares+	186,243	153,310
M J Lamb	Ordinary shares+	411,574	401,166
R J Stack	Ordinary shares	15,000	7,500
R M Twite	Ordinary shares+	146,605	121,072
I W Whiting*	Ordinary shares+	214,651	214,651

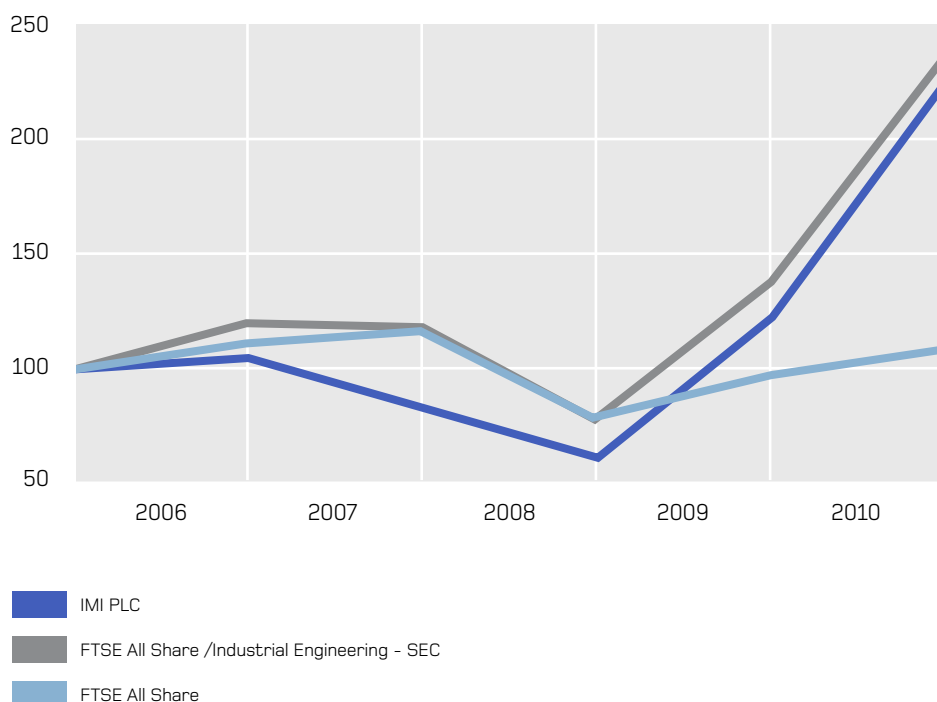
+ Including shares held within company share plans.

* I W Whiting became a director on 1 September 2010.

During the period 31 December 2010 to 2 March 2011 there were no changes in the interests of any current director from those shown save for purchases within the IMI All Employee Share Ownership Plan on 11 January 2011 of 13 shares on behalf of each of Martin Lamb and Roy Twite and 14 shares on behalf of Douglas Hurt at 916.83p per share and on 8 February 2011 of 15 shares on behalf of Martin Lamb and Roy Twite and 14 shares on behalf of Douglas Hurt at 878.00p per share.

Total shareholder return performance graph *This section of the Remuneration Report is not audited.*

The graph below compares the Company's total shareholder return over the five years ended 31 December 2010 with that of the FTSE All Share Industrial Engineering Index and the FTSE All Share Index. The FTSE All Share Industrial Engineering Index was chosen as a comparator index because it is the industry share index in which the Company is classified and provides a reasonable benchmark for assessment of its relative performance. The FTSE All Share Index was chosen as it is a relevant broad equity market index. Over the past five years the total shareholder return has underperformed the FTSE All Share Industrial Engineering Sector Index by 13% and outperformed the FTSE All Share Index by 123%.



Approved by the Board on 2 March 2011 and signed on its behalf by

Bob J Stack

Chairman of the Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report, which includes the Directors' Report, Remuneration Report and Corporate Governance Statement, and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with those International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing those Group financial statements, the directors are required to:

- select suitable accounting policies in accordance with IASB *'Accounting Policies, Changes in Accounting Estimates and Errors'* and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Company has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the Parent Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company and enable them to ensure that the Group and Parent Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation as appropriate. They are also responsible for safeguarding the assets of the Group and the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement under the Disclosure and Transparency Rules

Each of the directors listed on pages 36 and 37 confirms that:

- the Group and Parent Company financial statements in this Annual Report, which have been prepared in accordance with applicable UK law and with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the management report (which comprises the Directors' Report and the business review) includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

John O'Shea

Company Secretary

2 March 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

We have audited the Group financial statements of IMI plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinions on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

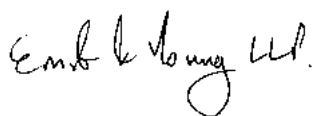
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 40, in relation to going concern; and
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the Parent Company financial statements of IMI plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.



John C Flaherty (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

2 March 2011

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2010

	Notes	2010		Restated (note 1) 2009			
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2,3,4	1,917	(6)	1,911	1,785	7	1,792
Segmental operating profit	2	319.7		319.7	234.2		234.2
Restructuring costs			(16.0)	(16.0)		(34.9)	(34.9)
Employee benefit curtailment - UK scheme	19		15.1	15.1		-	-
Acquired intangible amortisation	11		(7.0)	(7.0)		(7.2)	(7.2)
Reversal of economic hedge contract (gains)/losses	2		(2.7)	(2.7)		8.9	8.9
Operating profit	2,3,4	319.7	(10.6)	309.1	234.2	(33.2)	201.0
Financial income	6	5.2	20.5	25.7	3.7	37.2	40.9
Financial expense	6	(20.5)	(8.2)	(28.7)	(22.2)	(29.5)	(51.7)
Net finance expense relating to defined benefit pension schemes	19	-		-	(4.0)		(4.0)
Net financial (expense)/income	6	(15.3)	12.3	(3.0)	(22.5)	7.7	(14.8)
Profit before tax	7	304.4	1.7	306.1	211.7	(25.5)	186.2
Taxation	8	(91.3)	(1.2)	(92.5)	(63.6)	9.8	(53.8)
Profit for the year from continuing operations		213.1	0.5	213.6	148.1	(15.7)	132.4
Profit from operations discontinued in prior years	5		12.8	12.8		-	-
Total profit for the year		213.1	13.3	226.4	148.1	(15.7)	132.4
Attributable to:							
Owners of the parent				224.7			130.2
Non-controlling interests				1.7			2.2
Profit for the year				226.4			132.4
Earnings per share	9						
Basic - from profit for the year				70.4p			40.8p
Diluted - from profit for the year				69.4p			40.6p
Basic - from continuing operations				66.4p			40.8p
Diluted - from continuing operations				65.4p			40.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	2010		2009	
	£m	£m	£m	£m
Profit for the year		226.4		132.4
Other comprehensive income				
Change in fair value of effective net investment hedge derivatives	(6.5)		13.3	
Income tax effect on above	1.8		(3.7)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	16.9		(28.1)	
Income tax effect on above	(0.9)		3.0	
		11.3		(15.5)
Fair value (loss)/gain on available for sale financial assets		(2.5)		1.2
Actuarial loss on defined benefit plans	(22.2)		(153.3)	
Income tax effect	3.4		44.0	
		(18.8)		(109.3)
Other comprehensive income for the year, net of tax		(10.0)		(123.6)
Total comprehensive income for the year, net of tax		216.4		8.8
Attributable to:				
Owners of the parent		214.4		7.0
Non-controlling interests		2.0		1.8
Total comprehensive income for the year, net of tax		216.4		8.8

CONSOLIDATED BALANCE SHEET
at 31 December 2010

	Notes	2010 £m	Restated (note 1) 2009 £m
Assets			
Intangible assets	11	517.1	386.4
Property, plant and equipment	12	241.3	233.0
Employee benefit assets	19	1.6	0.6
Deferred tax assets	13	56.3	89.6
Other receivables		4.9	5.4
Other financial assets	18	7.0	3.6
Total non-current assets		828.2	718.6
Inventories	14	288.0	249.9
Trade and other receivables	15	344.8	306.0
Other current financial assets	18	15.1	13.3
Current tax		4.8	4.2
Investments	18	19.2	17.7
Cash and cash equivalents	18	122.9	81.0
Total current assets		794.8	672.1
Total assets		1,623.0	1,390.7
Liabilities			
Bank overdraft	18	(2.5)	(5.3)
Interest-bearing loans and borrowings	16,18	(13.2)	(1.2)
Provisions	21	(13.9)	(22.4)
Current tax		(36.8)	(25.8)
Trade and other payables	17	(423.2)	(340.6)
Other current financial liabilities	18	(4.6)	(4.0)
Total current liabilities		(494.2)	(399.3)
Interest-bearing loans and borrowings	16,18	(252.6)	(246.9)
Employee benefit obligations	19	(201.0)	(258.1)
Provisions	21	(47.4)	(44.5)
Deferred tax liabilities	13	(20.3)	(15.0)
Other payables		(31.7)	(24.9)
Total non-current liabilities		(553.0)	(589.4)
Total liabilities		(1,047.2)	(988.7)
Net assets		575.8	402.0
Equity			
Share capital	22	85.0	84.9
Share premium		168.1	166.6
Other reserves		67.4	56.4
Retained earnings		205.2	91.9
Equity attributable to owners of the parent		525.7	399.8
Non-controlling interests		50.1	2.2
Total equity		575.8	402.0

Approved by the Board of Directors on 2 March 2011 and signed on its behalf by

Norman B M Askew
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	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
At 1 January 2009	84.7	165.1	7.9	(2.2)	65.4	131.5	452.4	9.3	461.7
Profit for the year						130.2	130.2	2.2	132.4
Other comprehensive income				9.6	(24.3)	(108.5)	(123.2)	(0.4)	(123.6)
Total comprehensive income				9.6	(24.3)	21.7	7.0	1.8	8.8
Issue of share capital	0.2	1.5					1.7		1.7
Dividends paid						(66.0)	(66.0)	(1.6)	(67.6)
Cancellation of unclaimed dividends						0.2	0.2		0.2
Share based payments (net of tax)						4.8	4.8		4.8
Shares acquired for employee share scheme trust						(0.3)	(0.3)		(0.3)
Acquisition of non-controlling interests								(7.3)	(7.3)
At 31 December 2009	84.9	166.6	7.9	7.4	41.1	91.9	399.8	2.2	402.0

Changes in equity in 2010

Profit for the year						224.7	224.7	1.7	226.4
Other comprehensive income				(4.7)	15.7	(21.3)	(10.3)	0.3	(10.0)
Total comprehensive income				(4.7)	15.7	203.4	214.4	2.0	216.4
Issue of share capital	0.1	1.5					1.6	1.6	
Dividends paid						(70.9)	(70.9)	(0.5)	(71.4)
Share based payments (net of tax)						10.3	10.3		10.3
Shares acquired for employee share scheme trust						(29.5)	(29.5)		(29.5)
Investment in partnership by UK Pension Fund								48.6	48.6
Income earned by partnership								(2.2)	(2.2)
At 31 December 2010	85.0	168.1	7.9	2.7	56.8	205.2	525.7	50.1	575.8

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	2010 £m	Restated (note 1) 2009 £m
Cash flows from operating activities		
Profit for the year from continuing operations	213.6	132.4
Adjustments for:		
Depreciation	47.2	48.7
Amortisation and impairment	12.8	12.8
Gain on sale of property, plant and equipment	(2.9)	-
Loss on disposal of investments	0.1	-
Financial income	(25.7)	(40.9)
Financial expense	28.7	51.7
Net finance expense relating to defined benefit pension schemes	-	4.0
Equity-settled share-based payment expenses	5.5	4.1
Income tax expense	92.5	53.8
(Increase)/decrease in trade and other receivables	(13.3)	48.0
(Increase)/decrease in inventories	(7.8)	57.5
Increase/(decrease) in trade and other payables	53.3	(44.8)
Decrease in provisions and employee benefits	(26.0)	(8.4)
Cash generated from the operations	378.0	318.9
Income taxes paid	(56.3)	(52.6)
	321.7	266.3
CCI investigation costs and fine	(4.3)	(13.5)
Refund of EU fine *	5.4	-
Additional pension scheme funding	(16.8)	(16.8)
Special contribution to the UK Pension Fund	(48.6)	-
Net cash from operating activities	257.4	236.0
Cash flows from investing activities		
Interest received	5.2	3.7
Proceeds from sale of property, plant and equipment	7.1	1.8
Sale of investments	0.8	0.5
Purchase of investments	(0.3)	(1.0)
Settlement of derivatives	4.0	(7.5)
Income from discontinued business (Polypipe) *	7.4	-
Acquisitions of controlling interests	(117.4)	(1.3)
Acquisition of property, plant and equipment	(45.8)	(37.3)
Capitalised development expenditure	(5.0)	(4.9)
Net cash from investing activities	(144.0)	(46.0)
Cash flows from financing activities		
Interest paid	(20.7)	(23.5)
Investment in partnership by UK Pension Fund	48.6	-
Acquisition of non-controlling interests	(12.4)	(18.1)
Purchase of own shares	(29.5)	(0.3)
Proceeds from the issue of share capital for employee share schemes	1.6	1.7
Net drawdown/(repayment) of borrowings	14.2	(125.2)
Dividends paid to non-controlling interest	(0.5)	(1.6)
Dividends paid to equity shareholders	(70.9)	(66.0)
Net cash from financing activities	(69.6)	(233.0)
Net increase/(decrease) in cash and cash equivalents	43.8	(43.0)
Cash and cash equivalents at the start of the year	75.7	119.3
Effect of exchange rate fluctuations on cash held	0.9	(0.6)
Cash and cash equivalents at the end of the year **	120.4	75.7

* Representing profit from operations discontinued in prior years (2009: £nil)

** Net of bank overdrafts of £2.5m (2009: £5.3m)

Notes to the cash flow appear in note 23

1. Significant accounting policies

IMI plc (the 'Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company financial statements present information about the Company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRSs). The Company has elected to prepare its Parent Company Financial Statements in accordance with UK GAAP; these are presented on pages 119 to 125. The financial statements were approved by the Board of Directors on 2 March 2011.

The following relevant standards and interpretations were adopted by the Group during 2010:

- Amendment to IFRS2 '*Group Cash-settled Share-based Payment Arrangements*'

The amendment clarifies the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. This amendment did not have any impact on the financial position or performance of the Group.

- IFRS3 (Revised) '*Business Combinations*'

The revised standard broadens the definition of a business, which may result in more acquisitions being treated as business combinations. IFRS3 (revised) introduces significant changes in the accounting for business combinations such as valuation of non-controlling interests, business combinations achieved in stages, the initial recognition and subsequent measurement of contingent consideration and the accounting for transaction costs. These changes will have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss reported in future periods.

Revised IFRS3 is applied prospectively and therefore there is no impact on prior periods. The acquisition of Zimmermann & Jansen during 2010 has been accounted for under the revised standard.

- IAS27 (Amended) '*Consolidated and Separate Financial Statements*'

The amended standard requires that a change in the ownership interest by the Group in a subsidiary, while maintaining control, is accounted for as an equity transaction and these transactions will no longer give rise to goodwill or gains and losses. When the Group loses control of a subsidiary any retained interest is remeasured to fair value with gains or losses recognised in profit or loss. During 2010 the cash flow from acquisition of non-controlling interests has been reclassified from investing to financing activities in line with the requirements of the amended standard.

- Amendment to IAS39 '*Financial Instruments: Recognition and Measurement*' – Eligible hedged items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

The following relevant standards and interpretations were issued but are not effective for the year ended 31 December 2010:

- IAS24 (Revised 2009) '*Related Party Disclosures*'

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. The revised standard, which becomes mandatory on 1 January 2011, is not expected to have a material impact on the Group's related party disclosures.

- IFRIC14 (Amended) '*Prepayments of a Minimum Funding Requirement*'

IFRIC14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits treatment of the prepayment of a minimum funding requirement as an asset. The amendment becomes mandatory on 1 January 2011 and is not expected to have a material impact on the Group's consolidated financial statements.

1. Significant accounting policies (continued)

■ IFRS9 'Financial Instruments' - Classification and Measurement (effective 1 January 2013)

IFRS9 as issued reflects the first phase of the IASB's work on the replacement of IAS39 and applies to the classification and measurement of financial assets as defined in IAS39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to IFRSs

The annual improvements project to IFRSs provides a vehicle for making non-urgent but necessary amendments to IFRSs. The 2010 annual improvements project made amendments to a number of standards; these amendments were issued but not effective for the year ended 31 December 2010. These amendments are not expected to have a material impact on the Group financial statements. The cash flow statement has been restated in line with the requirements of IAS27 as described above.

Restatement

Net financial expense has been restated to show net finance expense relating to defined benefit pension schemes separately on the face of the income statement. The directors believe that this presentation provides a more meaningful analysis of net financial expense.

In accordance with the amendment to IAS27 the aggregate cash flows to acquire a non-controlling interest are now classified as financing activities within the consolidated statement of cash flows. Previously these had been classified as investing activities. This revision has been applied retrospectively.

The consolidated balance sheet has been restated to show other receivables and other financial assets due within more than one year as non-current assets.

a) Basis of accounting

The financial statements are presented in Pounds Sterling (which is the Company's functional currency), rounded to the nearest hundred thousand, except revenues which are rounded to the nearest whole million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments; available-for-sale financial assets; and financial assets and liabilities identified as hedged items; and assets and liabilities acquired through business combinations.

Non-current assets and disposal groups held for sale, where applicable, are stated at the lower of carrying amount and fair value less costs to sell.

The following accounting policies have been applied consistently throughout the Group for the purposes of these consolidated financial statements.

b) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The nature of the markets in which the Group operates leads, from time to time, to a variety of possible legal and other claims from customers. Whenever such matters are notified to the Group, they are investigated and any liability which results is recognised in the accounts as soon as a reliable estimate can be made. Where it is not possible to make a reliable estimate of any future liability, a contingent liability is disclosed.

The Company has disposed of a number of its previous businesses. The sale agreements contained various warranties and indemnities. In some cases, the agreements also include the potential for adjustment to the purchase price, sometimes contingent on future events. At the time of disposal, the accounts reflect the best estimate of the likely future impact of these agreements. Estimates are updated at each reporting date to reflect the latest information available.

Information about other areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the notes which follow, on Revenue; Acquisitions; Intangible assets; Deferred tax assets and liabilities; Financial risk management; Employee benefits; Share-based payments; Provisions for liabilities and charges and Contingencies.

c) Basis of consolidation

The Group financial statements consolidate the financial statements of IMI plc and the entities it controls (its subsidiaries) for the year to 31 December.

Basis of consolidation from 1 January 2010

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent company and the IMI Pension Fund interest in the IMI Scottish Limited partnership ('the partnership'). Non-controlling interests are presented within equity in the consolidated balance sheet, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The non-controlling interests have not been restated at 1 January 2010 in respect of the previously applied basis of consolidation in the following respects:

- Acquisition of non-controlling interests, prior to 1 January 2010, was accounted for using the parent-entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the subsidiary were proportionally attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

1. Significant accounting policies (continued)

d) Foreign currencies

i) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies have been translated into Sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translating transactions at the exchange rate ruling on the transaction date are reflected in profit before taxation in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Sterling at foreign exchange rates ruling at the balance sheet date.

ii) Foreign operations

The income statements of overseas subsidiary undertakings are translated at the appropriate average rate of exchange for the year and the adjustment to year end rates is taken directly to reserves.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at foreign exchange rates ruling at the balance sheet date.

Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

e) Financial instruments and fair value hedging

Financial instruments are recorded initially at fair value plus directly attributable transaction costs. Subsequent measurement depends on the designation of the instrument, which follows the categories in IAS39:

- Fixed deposits, comprising principally funds held with banks and other financial institutions are classified as available for sale assets under IAS39, and held at fair value. Short term borrowings and overdrafts are classified as financial liabilities at amortised cost.
- Derivatives, comprising interest rate swaps, foreign exchange contracts and options, metals futures contracts and any embedded derivatives, are classified as 'fair value through profit or loss' under IAS39, unless designated as hedges. Derivatives not designated as hedges are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition changes in fair value of such derivatives and gains or losses on their settlement are recognised in net financial income or expense.
- Long term loans and other interest bearing borrowings are generally held at amortised cost using the effective interest method. Where the long term loan is hedged, generally by an interest rate swap, and the hedge is regarded as effective, the carrying value of the long term loan is adjusted for changes in fair value of the hedge.
- Trade receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.
- Trade payables are stated at cost.
- Financial assets and liabilities are recognised on the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.
- Available for sale assets are carried at fair value with gains and losses being recognised in equity, except for impairment losses which are recognised in the income statement.

f) Other hedging

i) Hedge of monetary assets and liabilities, financial commitments or forecast transactions

Where a derivative financial instrument is used as an economic hedge of the foreign exchange or metals commodity price exposure of a recognised monetary asset or liability, or financial commitment or a forecast transaction, no hedge accounting is applied and any gain or loss resulting from changes in fair value of the hedging instrument is recognised in net financial income or expense.

For segmental reporting purposes, changes in the fair value of economic hedges that are not designated hedges, which relate to current year trading, together with the gains and losses on their settlement, are allocated to the segmental revenues and operating profit of the relevant business segment.

ii) Hedge of net investment in foreign operation

Where a foreign currency liability or derivative financial instrument is a formally designated hedge of a net investment in a foreign operation, foreign exchange differences arising on translation of the foreign currency liability or changes in the fair value of the financial instrument are recognised directly in equity to the extent the hedge is effective. The Company assesses the effectiveness of its net investment hedges based on fair value changes of its net assets, including relevant goodwill designated as foreign currency assets, and the fair value changes of both the debt designated as a hedge and the relevant financial instrument.

g) Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in contracts held by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

1. Significant accounting policies (continued)

Business combinations prior to 1 January 2010

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The minority interest was accounted for using the parent-entity extension method, whereby the difference between the consideration paid and the book value of the share in net assets acquired was recognised in goodwill.

Goodwill was initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities was greater than the cost of the investment, the difference was recognised in profit and loss. Goodwill recognised as an asset as at 31 December 2003 was recorded at its carrying amount under UK GAAP and not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill was stated at cost less any accumulated impairment losses, with the carrying amount being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

The carrying amount of goodwill allocated to cash generating units was taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

h) Intangible assets

i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised provided benefits are probable, cost can be reliably measured and if, and only if, the product or process is technically and commercially feasible and the Group has sufficient resources and intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and directly attributable overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 'Impairment').

ii) Other acquired intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at their fair value calculated by reference to the net present value of future benefits accruing to the Group from utilisation of the asset, discounted at an appropriate discount rate. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

iii) Amortisation of intangible assets other than goodwill

Amortisation is charged to the income statement on a straight-line basis (unless such a basis is not aligned with the anticipated benefit) over the estimated useful lives of intangible assets. Amortisation commences from the date the intangible asset becomes available for use. The estimated maximum useful lives are as follows:

■ Capitalised development costs	5 years
■ Customer relationships	Life of the intangible asset (up to 10 years)
■ Order book	Period of the outstanding order book
■ Other intangible assets	Life of the intangible asset (up to 10 years)

i) Property, plant and equipment

Freehold land and assets in the course of construction are not depreciated.

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 'Impairment').

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Costs in respect of tooling owned by the Group for clearly identifiable new products are capitalised net of any contribution received from customers.

Depreciation is charged to the income statement on a straight-line basis (unless such a basis is not aligned with the anticipated benefit) so as to write down the cost of assets to residual values over the period of their estimated useful lives within the following ranges:

- Freehold buildings 25 to 50 years
- Plant and machinery 3 to 20 years
- Tooling Shorter of the life of tooling or 10 years

j) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see above) and impairment losses (see accounting policy 'Impairment').

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

The majority of leasing transactions entered into by the Group are operating leases.

k) Inventories

Inventories are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost includes all direct costs of production and the appropriate proportion of production overheads.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

m) Impairment

The carrying values of the Group's non-financial assets other than inventories (see accounting policy 'Inventories') and deferred tax assets (see accounting policy 'Income tax'), are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, the recoverable amount of the asset or all assets within its cash generating unit is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For goodwill and assets that are not yet available for use, the recoverable amount is evaluated at each balance sheet date.

i) Calculation of recoverable amount

The recoverable amount of the Group's receivables other than financial assets held at fair value is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration of less than one year are not discounted.

1. Significant accounting policies (continued)

m) Impairments (continued)

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use an individual assessment is made of the estimated future cash flows generated for each cash generating unit (based upon the latest Group three year plan and extrapolated using an appropriate long-term growth rate for each cash generating unit in perpetuity consistent with long term GDP growth) are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management believe that this approach, including the use of the indefinite cash flow projection, is appropriate based upon historical experience and as this is one of the bases management utilise to evaluate the fair value of investment opportunities. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash generating unit to which the asset belongs.

ii) Reversals of impairment

As required by IAS36: '*Impairment of Assets*', any impairment of goodwill or available for sale financial assets is non-reversible. In respect of other assets, an impairment loss is reversed if at the balance sheet date there are indications that the loss has decreased or no longer exists following a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Dividends

Dividends are recognised as a liability in the period in which they are approved by the Company's shareholders or by the subsidiary's shareholders in respect of dividends to non-controlling interests.

o) Employee benefits

i) Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on high quality bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a net asset to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement. Actuarial gains and losses are recognised immediately in equity and disclosed in the statement of comprehensive income.

iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on high quality bonds of the appropriate currency that have durations approximating those of the Group's obligations.

iv) Equity and equity-related compensation benefits

The Group operates a number of equity and equity-related compensation benefits as set out in note 20. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

p) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are valued at management's best estimate of the amount required to settle the present obligation at the balance sheet date.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

q) Revenue

i) Sale of products

Revenue from the sale of products is recognised in the income statement net of returns, trade discounts and volume rebates when the significant risks and rewards of ownership have been transferred to the buyer and reliable measurement is possible. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods.

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 2000, are recognised as revenue when the Group has completed the primary duties required to transfer risks as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside of Incoterms 2000 are generally recognised on delivery to the customer.

ii) Services

Revenue from services rendered is recognised in proportion to the stage of completion of the service at the balance sheet date. The stage of completion is assessed by reference to the contractual agreement with each separate customer. Installation fees are recognised as revenue by reference to the stage of completion on the installation unless they are incidental to the sale of the goods, in which case they are recognised when the goods are sold.

iii) Construction contracts

Revenue from significant machinery or valve contracts is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms unless the contract contains discrete components separately transferring risks and rewards to the customer. Where separate components are present revenue is recognised on each component in accordance with the policy on the sale of products.

1. Significant accounting policies (continued)

r) Exceptional items

Exceptional items are disclosed separately where either the quantum, the one-off nature or volatility of these items would otherwise distort the underlying trading performance.

The following items of income and expense are considered to be exceptional in these financial statements:

- Restructuring costs, which comprise significant costs associated with the closure of activities or factories and the cost of significant reductions in workforce due to excess capacity or the reorganisation of facilities;
- The employee benefit curtailment gain on the closure of the UK scheme to future accrual;
- The amortisation and impairment of acquired intangible fixed assets;
- Gains and losses (including fair value adjustments) on derivative financial instruments excluding the reversal of economic hedge contract gains and losses within segmental profit.

The tax impact of the above items is also shown within Exceptional items.

s) Financial income and expense

Financial income comprises interest receivable on funds invested, income from investments and gains on hedging instruments that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

Financial expense comprises interest payable on borrowings calculated using the effective interest rate method, the interest related element of derivatives and losses on financial instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Net finance expense relating to defined benefit pension schemes represents the difference between the assumed interest on employee benefit plan liabilities and the assumed returns on employee benefit plan assets.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

t) Income tax

Current tax represents the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments in respect of prior years.

Deferred tax is provided, using the balance sheet method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the timing of the reversal of the differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

u) Non-current assets held for sale and discontinued operations

Where applicable, on initial classification as held for sale, non-current disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on the initial classification of assets as held for sale are included in profit or loss, even for assets measured at fair value, as are gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of, is held for sale or is a subsidiary acquired exclusively with a view to re-sale.

2. Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures. Inter-segment revenue is insignificant.

The Group includes the following five operating 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, life science, rail, energy, food and beverage 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.

Information regarding the operations of each reporting segment is included below. Performance is measured based on segmental operating profit which is the profit reported by the businesses, stated before exceptional items including restructuring, acquired intangible amortisation, reversal of economic hedge contract gains and losses and the employee benefit curtailment on the UK scheme. 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 statutory consolidated income statement.

	Segmental revenue		Segmental operating profit	
	2010 £m	2009 £m	2010 £m	2009 £m
Fluid Controls	1,433	1,324	262.4	194.9
Severe Service	452	512	78.4	101.4
Fluid Power	685	520	113.7	32.8
Indoor Climate	296	292	70.3	60.7
Retail Dispense	484	461	57.3	39.3
Beverage Dispense	315	297	32.0	21.1
Merchandising	169	164	25.3	18.2
Total	1,917	1,785	319.7	234.2

2. Segmental information (continued)
Reconciliation of reported segmental revenue and operating profit

	Revenue		Profit	
	2010 £m	2009 £m	2010 £m	2009 £m
Segmental result	1,917	1,785	319.7	234.2
Restructuring costs			(16.0)	(34.9)
Employee benefit curtailment - UK scheme			15.1	-
Acquired intangible amortisation			(7.0)	(7.2)
Reversal of economic hedge contract (gains)/losses	(6)	7	(2.7)	8.9
Total revenue/operating profit reported	1,911	1,792	309.1	201.0
Net financial expense			(3.0)	(14.8)
Profit before tax - continuing operations			306.1	186.2

Balance Sheet

	Segment assets		Segment liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m
Fluid Controls	1,128.3	888.5	337.5	251.2
Severe Service	554.0	328.0	168.0	110.0
Fluid Power	426.5	420.0	106.1	89.4
Indoor Climate	147.8	140.5	63.4	51.8
Retail Dispense	275.0	284.0	80.9	71.7
Beverage Dispense	137.1	145.9	53.0	49.5
Merchandising	137.9	138.1	27.9	22.2
Total	1,403.3	1,172.5	418.4	322.9

Reconciliation of segment assets and liabilities to Group balance sheet

	Assets		Liabilities	
	2010 £m	2009 £m	2010 £m	2009 £m
Segment assets and liabilities	1,403.3	1,172.5	418.4	322.9
Corporate items	14.9	25.1	77.7	96.2
Employee benefits	1.6	0.6	201.0	258.1
Investments	19.2	17.7		
Funds/borrowings	122.9	81.0	268.3	253.4
Net taxation and others	61.1	93.8	81.8	58.1
Per Group balance sheet	1,623.0	1,390.7	1,047.2	988.7

Other information

	Restructuring costs		Capital expenditure		Depreciation & amortisation	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Fluid Controls	10.7	26.8	41.9	34.5	46.8	47.3
Severe Service	4.8	2.7	20.0	13.5	11.2	10.8
Fluid Power	3.1	21.0	15.0	15.7	28.3	28.4
Indoor Climate	2.8	3.1	6.9	5.3	7.3	8.1
Retail Dispense	5.3	8.1	8.7	7.7	11.3	12.0
Beverage Dispense	5.0	7.1	4.9	5.8	8.3	8.3
Merchandising	0.3	1.0	3.8	1.9	3.0	3.7
Subtotal	16.0	34.9	50.6	42.2	58.1	59.3
Corporate	-	-	0.2	-	0.5	0.7
Total	16.0	34.9	50.8	42.2	58.6	60.0

Revenue by geographical destination

	2010 £m	2009 £m
UK	141	132
Germany	261	234
Rest of Europe	542	524
USA	543	491
Asia/Pacific	285	278
Rest of World	145	126
Total segmental revenue	1,917	1,785
Reversal of economic hedge contract (gains)/losses	(6)	7
Total	1,911	1,792

No individual customer, or group of customers, represents more than 10% of Group revenue (2009: none).

Segmental analysis of non-current assets (excluding deferred tax, employee benefit assets, other receivables and other financial assets) by geographical origin

Non-current assets	2010 £m	2009 £m
UK	99.4	108.6
Germany	178.8	77.1
Rest of Europe	186.5	179.1
USA	232.5	210.7
Asia/Pacific	47.2	36.3
Rest of World	14.0	7.6
Total	758.4	619.4

3. Acquisitions

3.1 Controlling interests

The Company acquired 100% of the share capital of Zimmermann & Jansen Technologies GmbH (Z&J) on 31 December 2010 for consideration (net of cash acquired) of £109.5m. This includes £6.3m due from the vendor, which is subject to agreement through the completion accounts process. The results of this acquisition will be reported within Severe Service, however there is no impact on the Group's 2010 results.

Z&J manufactures critical process valve solutions for severe applications, primarily focused in the Refining and Petrochemical and Iron and Steel markets. Approximately 40% of revenue is generated from emerging markets, including Russia, India and China and Z&J has manufacturing facilities in Germany, USA and South Africa. The Group completed this acquisition as Z&J's activities in these markets open up a number of opportunities for the combined business. Assuming that the acquisition of Z&J had been completed on 1 January 2010, it is estimated that the Group segmental revenue and segmental operating profit would have been £2,000m and £333.7m respectively.

The methodology for arriving at fair value, intangible asset values and residual goodwill is described in the accounting policies in note 1 to these financial statements. The goodwill of £49.4m recognised on acquisition principally relates to skills present within the assembled workforce, customer service capability and the synergies available to the combined business from its geographical and sector presence.

The fair value adjustments relate principally to the harmonisation with Group IFRS compliant accounting policies, recognition of intangible assets (which principally comprise the value of non-contractual customer relationships and the order book at acquisition) and adjustments to move the carrying value of the identifiable net assets from cost to fair value.

Transaction costs of £1.9m have been expensed and are included within administrative expenses.

Recognised amounts of identifiable assets acquired and liabilities assumed are summarised below:

	Fair value of net assets acquired
	£m
Customer relationships	54.5
Order book	18.5
Capitalised development cost	2.8
Patents and licences	1.5
Property, plant and equipment	11.5
Inventories	20.9
Trade and other receivables	15.9
Cash and short-term deposits	14.9
Trade and other payables	(32.8)
Current tax	(5.4)
Retirement benefit obligations	(5.2)
Deferred tax	(22.1)
Total identifiable net assets	75.0
Goodwill arising on acquisition	49.4
Total purchase consideration	124.4

Cash flows from the acquisition of controlling interests are shown below:

	Cash flows from acquisition of controlling interests £m
Purchase consideration:	
Cash	130.7
Receivable from vendor	(6.3)
Total purchase consideration for Z&J	124.4
Less cash acquired	(14.9)
Receivable from vendor	6.3
Net cash paid on acquisition of Z&J	115.8
Deferred consideration in respect of previous acquisitions	1.6
Included in cash flow from investing activities	117.4
Transaction costs of the acquisition (included in cash flows from operating activities)	1.9
Total cash flow on acquisition of controlling interests	119.3

Trade and other receivables of £15.9m are stated after a provision for bad debts of £1.3m. The net amount is all expected to be collected within 12 months.

Given the proximity of the acquisition to the year end, the fair values of all assets acquired and consideration for Z&J have been provisionally determined at 31 December 2010. Completion accounts have been prepared and adjustments to both consideration and the fair value of assets acquired may arise when these are finalised.

During the year the Group paid £1.6m deferred consideration in respect of the acquisition of 70% of Pneumatex AG originally completed on 28 December 2007.

On 17 December 2009 the Company acquired the assets of NASS Parts and Service for a cash consideration of £1.4m. The fair value of the net assets acquired was £0.4m resulting in goodwill of £1.0m. The result of this acquisition is reported within Beverage Dispense; however there was no impact on the 2009 results. Had NASS Parts and Service been acquired at the beginning of 2009 Group segmental revenue in that year would have been £1,788m and the impact on segmental operating profit would not have been material.

3.2 Non-controlling interests

The IMI Scottish Limited Partnership ('the partnership') was established during the year ended 31 December 2010. The IMI Pension Fund agreed to invest a special contribution of £48.6m made by the Group during the year into the partnership, giving them rights to receive income of £4.4m per year for twenty years. The partnership is fully consolidated in these accounts with the pension fund's interest presented within equity in the Group's consolidated balance sheet, separately from equity attributable to the owners of the parent. The investment valuation at 31 December 2010 was provided by the Trustee, based on an independent valuation prepared for the Trustee in June 2010.

In December 2009 the Group exercised its option to purchase the remaining 30% non-controlling interest in Pneumatex AG, the controlling interest in which was originally acquired on 28 December 2007. The exercise of the purchase option in December was unconditional and the whole controlling interest accordingly passed to IMI at that date. Consideration of £12.2m was accrued at 31 December 2009 resulting in goodwill of £6.1m. The transaction was finalised on 26 April 2010 and final consideration of £12.4m was transferred. This was prior to the adoption of the amended IAS27: '*Consolidated and Separate Financial Statements*'.

On 1 January 2009 the remaining 19.1% non-controlling interest in Display Technologies LLC, part of the Merchandising group, was acquired by the Group under the terms of the original purchase agreement. At that date the net assets of the company were £6.3m. Based on the contracted pricing mechanism the cash consideration paid was £18.1m, resulting in goodwill of £16.9m. Display Technologies LLC was originally acquired in June 2001.

4. Operating profit	2010	2009
	£m	£m
Revenue (i)	1,911.3	1,791.8
Cost of sales (ii)	(1,097.4)	(1,058.4)
Gross profit	813.9	733.4
Selling and distribution costs (iii)	(234.0)	(235.7)
Administrative expenses (iv)	(270.8)	(296.7)
Operating profit	309.1	201.0

i) includes reversal of £5.8m economic hedge contract gains (2009: loss £6.9m)

ii) includes £1.9m restructuring costs (2009: £7.3m) and a reversal of £3.1m economic hedge contract gains (2009: £2.0m)

iii) includes £2.7m restructuring costs (2009: £3.8m)

iv) includes £11.4m restructuring costs (2009: £23.8m), £7.0m of acquired intangible amortisation (2009: £7.2m) and a curtailment gain of £15.1m on the closure of the UK pension scheme to future accrual

5. Discontinued operations

During the year the General Court of the European Union issued its judgement on the Group's appeal against the fine levied in 2005 in respect of allegations of anti-competitive behaviour among certain manufacturers of copper tube. The result of the appeal was a reduction in the fine of £5.4m. This income has been shown as discontinued operations as it relates to a business that was sold in 2002.

Consideration of £7.4m received during the second half of the year in relation to the disposal of Polypipe during 2005 has also been credited within profit from discontinued operations. In previous years a financial asset of £4.2m was recognised in respect of the estimated deferred contingent consideration payable in respect of Polypipe. This was derecognised in the consolidated statement of comprehensive income within the fair value loss on available for sale financial instruments of £2.5m on receipt of this payment.

No tax is chargeable on the discontinued items in 2010. The basic and diluted earnings per share from discontinued operations was 4.0p (2009: nil).

6. Net financial income and expense

	2010			restated (note 1) 2009		
	Interest	Financial	Total	Interest	Financial	Total
Recognised in the income statement	£m	£m	£m	£m	£m	£m
Interest income on bank deposits	5.2		5.2	3.7		3.7
Financial instruments at fair value through profit or loss:						
Designated hedges		0.5	0.5		2.0	2.0
Other economic hedges						
- current year trading		9.6	9.6		11.6	11.6
- future year transactions		10.4	10.4		23.6	23.6
Financial income	5.2	20.5	25.7	3.7	37.2	40.9
Interest expense on interest bearing loans and borrowings	(20.7)		(20.7)	(22.2)		(22.2)
Interest cost capitalised	0.2		0.2	-		-
Financial instruments at fair value through profit or loss:						
Designated hedges		(0.4)	(0.4)		(1.9)	(1.9)
Other economic hedges						
- current year trading		(7.3)	(7.3)		(20.1)	(20.1)
- future year transactions		(0.5)	(0.5)		(7.5)	(7.5)
Financial expense	(20.5)	(8.2)	(28.7)	(22.2)	(29.5)	(51.7)
Net finance expense relating to - defined benefit pension schemes	-		-	(4.0)		(4.0)
Net financial (expense)/income	(15.3)	12.3	(3.0)	(22.5)	7.7	(14.8)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes (see note 2) are included in segmental operating profit. For statutory purposes these are required to be shown within net financial income and expense above. Gains or losses for future year transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

NOTES TO THE FINANCIAL STATEMENTS

6. Net financial income and expense (continued)

Recognised in other comprehensive income	2010	2009
	£m	£m
Foreign currency translation differences	16.9	(28.1)
Change in fair value of other financial assets	(2.5)	1.2
Change in fair value of effective portion of net investment hedges	(6.5)	13.3
Income tax on financial income/(expense) recognised directly in equity	0.9	(0.7)
Financial income/(expense) recognised directly in equity (net of tax)	8.8	(14.3)
Recognised in:		
Hedging reserve	(4.7)	9.6
Translation reserve	15.7	(24.3)
Retained earnings	(2.5)	1.2
Non-controlling interests	0.3	(0.8)
	8.8	(14.3)

7. The following have been charged in arriving at profit before tax

	2010	2009
	£m	£m
Depreciation of property, plant and equipment	47.2	48.7
Amortisation of intangible fixed assets	11.4	11.3
Impairment of tangible and intangible assets	1.4	1.5
Loss on disposal of investments	0.1	-
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.2	0.2
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	2.4	2.3
Other services pursuant to legislation	0.1	0.1
Tax services	0.1	0.4
Other services	0.2	0.3
Rentals under operating leases:		
Property rents	20.7	21.2
Hire of plant and machinery	8.0	7.7
Research and development *	36.9	34.2
Exchange losses on operating activities net of hedging arrangements	1.0	2.3

* In addition to the above, £5.0m (2009: £4.9m) has been capitalised. See note 11.

8. Taxation

	2010		2009			
	£m	£m	£m	£m		
a) Recognised in the income statement:						
Current tax expense						
UK corporation tax:						
Current tax on income for the year	9.3		5.0			
Adjustments in respect of prior years	0.2		(0.2)			
		9.5		4.8		
Overseas tax:						
Current tax on income for the year	58.2		45.4			
Adjustments in respect of prior years	0.1		(2.2)			
		58.3		43.2		
Total current tax		67.8		48.0		
Deferred tax						
Origination and reversal of temporary differences						
		24.7		5.8		
Total income tax expense		92.5		53.8		
b) Total current and deferred tax recognised directly in equity:						
On equity-settled transactions		(4.8)		(0.7)		
On gains and losses of financial instruments		(1.8)		3.7		
On actuarial gains and losses		(3.4)		(44.0)		
On foreign currency translation differences		0.9		(3.0)		
		(9.1)		(44.0)		
c) Reconciliation of effective tax rate						
	2010		2009			
	Before exceptionals £m	Exceptional items £m	Total £m	Before exceptionals £m	Exceptional Items £m	Total £m
Profit before tax from continuing operations	304.4	1.7	306.1	211.7	(25.5)	186.2
Income tax using the Company's domestic rate of tax of 28.0% (2009: 28.0%)	85.2	0.5	85.7	59.3	(7.1)	52.2
Effects of:						
(Non-taxable)/non-deductible items	0.1	1.7	1.8	1.2	(2.2)	(1.0)
Utilisation of tax losses	(0.1)		(0.1)	(0.1)		(0.1)
Current year losses for which no deferred tax asset has been recognised	1.8		1.8	1.0		1.0
Differing tax rates in different jurisdictions	4.7	(1.0)	3.7	2.7	(0.5)	2.2
Over provided in prior years	(0.4)		(0.4)	(0.5)		(0.5)
Total tax in income statement on continuing operations	91.3	1.2	92.5	63.6	(9.8)	53.8

The standard rate of corporation tax in the UK is 28%. The effective tax rate before exceptional items is 30% (2009: 30%). The effective tax rate on profit before tax is 30% after taking account of exceptional items (2009: 28.9%). As the Group operates worldwide it is subject to several factors which may affect future tax charges, principally the levels and mix of profitability in different jurisdictions in which the Group may or may not have offsetting tax losses and the various tax rates imposed in those jurisdictions.

The Finance (No 2) Act 2010 reduced the main rate of UK Corporation Tax from 28% to 27% from 1 April 2011. Additional changes to the main rate of UK Corporation Tax are proposed, to reduce the rate by 1% per annum to 24% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and consequently are not included in these financial statements. Further UK tax changes, subject to enactment, apply to reduction in the rates of tax depreciation from 1 April 2011, which will impact deferred tax.

No tax is chargeable on the discontinued operations in 2010.

9. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares held as treasury shares or held in trust to satisfy employee share schemes, was 319.0m, 323.8m diluted for the effect of outstanding share options (2009: 318.8m, 321.0m diluted). Basic and diluted earnings per share have been calculated on earnings of £224.7m (2009: £130.2m). On continuing operations the basic and diluted earnings per share have been calculated on earnings of £211.9m (2009: £130.2m).

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.

	2010 £m	2009 £m
Profit for the year from continuing operations	213.6	132.4
Non-controlling interests	(1.7)	(2.2)
	211.9	130.2
Charges/(credits) included in profit for the year:		
Restructuring costs	16.0	34.9
Employee benefit curtailment - UK scheme	(15.1)	-
Acquired intangible amortisation	7.0	7.2
Financial instruments excluding economic hedge contract gains and losses	(9.6)	(16.6)
	210.2	155.7
Taxation on charges/(credits) included in profit before tax	1.2	(9.8)
Earnings for adjusted EPS	211.4	145.9
Weighted average number of shares	319.0m	318.8m
Adjusted EPS	66.3p	45.8p
Diluted adjusted EPS	65.3p	45.5p

10. Employee information

The average number of people employed by the Group during the year was:

	2010	2009
Fluid Controls	9,992	10,413
Retail Dispense	2,988	3,093
Corporate	184	183
Total	13,164	13,689

The average number of Group employees excludes temporary and contract staff. As Z&J was acquired on 31 December 2010, these employees are also excluded.

The aggregate employment cost charged to operating profit for the year was:

	£m	£m
Wages and salaries	456.3	436.7
Share-based payments (see note 20)	5.5	4.1
Social security costs	70.9	67.2
Pension costs	0.8*	10.5
Total	533.5	518.5

* Includes curtailment benefit of £15.1m from the closure of the UK pension scheme.

The detailed information concerning directors' emoluments, shareholdings and options is shown in the audited section of the Remuneration Report.

11. Intangible assets

	Capitalised development cost			Acquired customer relationships			Other acquired intangibles			Total	
	Goodwill										
	Carrying amount £m	Cost £m	Amort- isation £m	Carrying amount £m	Cost £m	Amort- isation £m	Carrying amount £m	Cost £m	Amort- isation £m		Carrying amount £m
At 1 January 2009	342.8	38.9	20.6	18.3	47.7	16.2	31.5	42.0	34.8	7.2	399.8
Exchange adjustments	(25.5)	(2.8)	(1.5)	(1.3)	(3.1)	(1.1)	(2.0)	(3.7)	(3.0)	(0.7)	(29.5)
Acquisitions	24.0	-	-	-	-	-	-	-	-	-	24.0
Additions	-	4.9	-	4.9	-	-	-	-	-	-	4.9
Impairment	-	-	1.5	(1.5)	-	-	-	-	-	-	(1.5)
Amortisation for year	-	-	4.1	(4.1)	-	5.9	(5.9)	-	1.3	(1.3)	(11.3)
At 31 December 2009	341.3	41.0	24.7	16.3	44.6	21.0	23.6	38.3	33.1	5.2	386.4
Exchange adjustments	9.9	1.3	0.7	0.6	0.1	-	0.1	1.9	1.7	0.2	10.8
Acquisitions	49.4	2.8	-	2.8	54.5	-	54.5	20.0	-	20.0	126.7
Additions	-	5.0	-	5.0	-	-	-	-	-	-	5.0
Impairment	-	-	0.4	(0.4)	-	-	-	-	-	-	(0.4)
Amortisation for year	-	-	4.4	(4.4)	-	5.8	(5.8)	-	1.2	(1.2)	(11.4)
At 31 December 2010	400.6	50.1	30.2	19.9	99.2	26.8	72.4	60.2	36.0	24.2	517.1

Cumulative impairment recognised in relation to goodwill is £6m (2009: £6m).

Goodwill is tested annually for impairment with the recoverable amount based on value in use. Value in use is calculated based on the discounted cash flows of the cash generating unit being tested for impairment. The key assumptions in the discounted cash flow calculations are the growth rate and the discount rate. The growth rate is based on the 3 year long term forecasts extrapolated into perpetuity at 2.25%, which is consistent with the long term growth rates of the industry in which the Group operates.

Goodwill is allocated to cash generating units based on the synergies expected to be derived from the acquisition on which the goodwill arose. The Group has approximately 40 cash generating units to which goodwill is attached and no single cash generating unit represents a significant proportion of the total goodwill.

Pre-tax discount rates of between 10% and 15% are applied in determining the recoverable amounts of cash generating units. The discount rates are estimated based on the Group's cost of capital, risk adjusted for individual unit's circumstances.

The Group's estimates of impairments of goodwill are most sensitive to increases in the discount rate used and the long term growth rates used in the forecast cash flows. These growth rates vary significantly depending on the circumstances of each cash generating unit and have been based on the business reviews carried out in the year. There is significant headroom between value in use and carrying value for all cash generating units to which goodwill is attached and therefore no impairment would arise from a reasonably possible change in the assumptions.

The aggregate amount of goodwill arising from acquisitions prior to 1 January 2004 which had been deducted from the profit and loss reserves and incorporated into the IFRS transitional balance sheet as at 1 January 2004 amounted to £364m.

12. Property, plant and equipment

	Land & buildings			Plant & machinery			Assets in course of construction	Total
	Gross book value £m	Depre- ciation £m	Net book value £m	Gross book value £m	Depre- ciation £m	Net book value £m	Net book value £m	Net book value £m
At 1 January 2009	199.4	92.5	106.9	710.3	565.6	144.7	14.8	266.4
Exchange adjustments	(16.4)	(6.6)	(9.8)	(49.9)	(40.3)	(9.6)	(0.8)	(20.2)
Additions	3.0		3.0	24.1		24.1	10.2	37.3
Disposals	(1.2)	(0.7)	(0.5)	(20.9)	(19.6)	(1.3)	-	(1.8)
Transfers	1.7		1.7	7.6		7.6	(9.3)	-
Depreciation for year		4.9	(4.9)		43.8	(43.8)		(48.7)
At 31 December 2009	186.5	90.1	96.4	671.2	549.5	121.7	14.9	233.0
Exchange adjustments	2.0	1.0	1.0	11.3	8.8	2.5	-	3.5
Acquisitions	6.0		6.0	5.2		5.2	0.3	11.5
Additions	3.3		3.3	28.2		28.2	14.3	45.8
Disposals	(9.2)	(6.3)	(2.9)	(35.6)	(34.2)	(1.4)	-	(4.3)
Transfers	1.0		1.0	8.9		8.9	(9.9)	-
Impairment for year		-	-		0.9	(0.9)	(0.1)	(1.0)
Depreciation for year		5.1	(5.1)		42.1	(42.1)		(47.2)
At 31 December 2010	189.6	89.9	99.7	689.2	567.1	122.1	19.5	241.3

Included in the total net book value of plant and machinery is £1.0m (2009: £1.2m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.6m (2009: £0.6m).

13. Deferred tax assets and liabilities
Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Non-current assets	9.5	10.1	(63.1)	(38.1)	(53.6)	(28.0)
Inventories	6.5	6.7	(5.5)	(5.4)	1.0	1.3
Revaluation of derivatives	1.1	0.6	(2.7)	(1.6)	(1.6)	(1.0)
Employee benefits and provisions	92.3	97.5	(5.0)	(2.7)	87.3	94.8
Tax assets	2.9	7.5			2.9	7.5
	112.3	122.4	(76.3)	(47.8)	36.0	74.6
Set off of tax	(56.0)	(32.8)	56.0	32.8	-	-
	56.3	89.6	(20.3)	(15.0)	36.0	74.6

Unrecognised deferred tax assets and liabilities

Deferred tax assets of £25.7m (2009: £26.2m) have not been recognised in respect of tax losses of £97.5m (2009: £95.2m). The majority of the tax losses have no expiry date, and the assets have not been recognised due to uncertainty over their recoverability.

It is likely that the majority of unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption. However £48.7m (2009: £35.5m) of those earnings may still result in a tax liability principally as a result of the dividend withholding taxes levied by the overseas tax jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £5.2m (2009: £3.0m) of which only £1.0m has been provided as the Group is able to control the timing of the dividends. It is not expected that further amounts will crystallise in the foreseeable future.

Movement in net deferred tax assets and liabilities during the year

	Balance at 1 Jan 10 £m	Recognised in income £m	Recognised directly in equity £m	Exchange £m	Acquisitions/ disposals £m	Balance at 31 Dec 10 £m
Non-current assets	(28.0)	(0.6)	-	(0.5)	(24.5)	(53.6)
Inventories	1.3	(0.6)	-	-	0.3	1.0
Revaluation of derivatives	(1.0)	(0.3)	-	(0.3)	-	(1.6)
Employee benefits and provisions	94.8	(18.5)	8.5	0.4	2.1	87.3
Tax assets	7.5	(4.7)	-	0.1	-	2.9
	74.6	(24.7)	8.5	(0.3)	(22.1)	36.0

	Balance at 1 Jan 09 £m	Recognised in income £m	Recognised directly in equity £m	Exchange £m	Acquisitions/ disposals £m	Balance at 31 Dec 09 £m
Non-current assets	(23.7)	(6.2)	-	1.9	-	(28.0)
Inventories	1.3	(0.6)	-	0.6	-	1.3
Revaluation of derivatives	4.6	(4.8)	-	(0.8)	-	(1.0)
Employee benefits	48.6	5.1	43.4	(2.3)	-	94.8
Tax assets	7.0	0.7	-	(0.2)	-	7.5
	37.8	(5.8)	43.4	(0.8)	-	74.6

All exchange movements are taken through the translation reserve. Of the £8.5m (2009: £43.4m) recognised directly in equity £4.3m (2009: £43.3m) was charged in the consolidated statement of comprehensive income and £4.2m (2009: £0.1m) was charged directly in the consolidated statement of changes in equity.

14. Inventories

	2010 £m	2009 £m
Raw materials and consumables	101.4	85.7
Work in progress	94.0	72.8
Finished goods	92.6	91.4
	288.0	249.9

In 2010 the cost of inventories recognised as an expense within cost of sales amounted to £1,091.1m (2009: £1,042.2m). In 2010 the write-down of inventories to net realisable value amounted to £5.1m (2009: £9.4m). The reversal of write-downs amounted to £0.7m (2009: £0.5m). The write-down and reversal are included in cost of sales. Write-downs and reversals in both years relate to ongoing assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables

	2010 £m	2009 £m
Falling due for payment within one year		
Trade receivables	314.9	276.1
Other receivables	15.8	18.0
Prepayments and accrued income	14.1	11.9
	344.8	306.0
Receivables are stated after:		
Allowance for impairment	17.4	17.8

The Group's exposure to credit and market risks related to trade and other receivables is disclosed in note 18.

16. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group interest-bearing loans and borrowings. For more information about the Group exposure to interest rate and foreign currency risk, see note 18.

	2010 £m	2009 £m
Current liabilities		
Unsecured bank loans	12.9	0.7
Secured other loans	-	0.2
Current portion of finance lease obligations	0.3	0.3
	13.2	1.2
Non-current liabilities		
Unsecured loan notes and other loans	252.2	246.3
Finance lease liabilities	0.4	0.6
	252.6	246.9

17. Trade and other payables

	2010 £m	2009 £m
Current		
Trade payables	231.7	157.6
Bills of exchange payable	5.1	2.9
Other taxation	15.5	12.6
Social security	4.5	5.5
Other payables	1.5	0.5
Accruals and deferred income	164.9	161.5
	423.2	340.6

18. Financial risk management

Overview

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance Report on page 42, this responsibility has been assigned to the Executive Committee with support and feedback from the Audit Committee and the IMI Group Assurance Department as described below.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The IMI Group Assurance Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's funding and liquidity as well as its exposure to interest rate, foreign exchange and base metal price movements are managed centrally by IMI's treasury function. Treasury uses a combination of derivatives and conventional financial instruments to manage the underlying risks. These derivatives and financial instruments themselves introduce exposure to the following risks;

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, including each of the above risks, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents held by the Group's banks and other financial assets. At the end of 2010 these totalled £479.1m (2009: £391.7m).

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. Approximately 4% (2009: 3%) of the Group's revenue is attributable to sales transactions with our largest single customer. Geographically there is no unusual concentration of credit risk. The Group's contract approval procedure ensures that large contracts are signed off at executive director level at which time the risk profile of the contract, including potential credit risks, is reviewed. Credit risk is minimised through due diligence on potential customers, appropriate credit limits, cash flow management and the use of documentary credits where appropriate.

Counterparty risk

A group of relationship banks provides the bulk of the banking services - with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2010 credit exposure including cash deposited did not exceed £22m with any single institution (2009: £8m).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Under the management of the central treasury function, the Group enters into derivatives in the ordinary course of business, and also manages financial liabilities, in order to mitigate market risks. All such transactions are carried out within the guidelines set by the Board.

18. Financial risk management (continued)

Currency risk

The Group publishes consolidated accounts in Pound Sterling but conducts much of its global business in other currencies. As a result it is subject to the risks associated with foreign exchange movements affecting transaction costs ('transactions'), translation of foreign profits ('profit translation') and translation of the underlying net assets of foreign operations ('asset translation').

Transactions

The Group's wide geographic spread both in terms of cost base and customer locations helps to reduce the impact on profitability of swings in exchange rates as well as creating opportunities for central netting of exposures. It is the Group's policy to minimise risk to exchange rate movements affecting sales and purchases by economically hedging or netting currency exposures at the time of commitment, or when there is a high probability of future commitment, using currency instruments (primarily forward exchange contracts). A proportion of forecast exposures are hedged depending on the level of confidence and hedging is topped up following regular reviews. On this basis up to 50% of the Group's annual exposures are likely to be hedged at any point in time and the Group's net transactional exposure to different currencies varies from time to time.

Profit translation

The Group is exposed to the translation of profits denominated in foreign currencies into the Pound Sterling based income statement. The interest cost related to the currency liabilities hedging the asset base provides a partial hedge to this exposure. Short term currency option contracts may be used to provide limited protection against Pound Sterling strength on an opportunistic basis. The translation of US Dollar and Euro based profits remain the primary risk to the Group.

Asset translation

The Group hedges its net investments in its major overseas operations by way of external currency loans and currency forward contracts. The intention is to manage the Group's exposure to gains and losses in Group equity resulting from retranslation of currency net assets at balance sheet dates. To the extent that an instrument used to hedge a net investment in a foreign operation is determined to be an effective hedge, the gain or loss arising is recognised directly in reserves. The ineffective portion is recognised immediately in the income statement. Detail of the quantum and management of this exposure is provided in note 18.2.

Interest rate risk

As a result of the Group's management of its asset translation risks, it is exposed to a number of global interest rates - the most important of which are US, Eurozone and UK rates. The analysis of this exposure is shown in note 18.3 of these financial statements. The Group adopts a policy of maintaining a portion of its liabilities at fixed interest rates and reviewing the balance of the floating rate exposure to ensure that if interest rates rise globally the effect on the Group's income statement is manageable.

The Group has raised US Dollar debt through the issuance of medium to long term fixed rate Loan Notes. In order to manage its exposure to interest rates, US\$30m of this fixed rate exposure was hedged back to floating through the use of interest rate swaps in 1999 covering loan notes with a maturity of 2014. The interest component of the fair value of this portion of the Loan Notes has been designated as a hedged item and has been revalued accordingly in the financial statements.

The fair value of these interest rate swaps is included in the balance sheet at £3.8m (2009: £4.0m). The hedged item is included in the value of the debt as an increase in liability of £3.8m (2009: increase £4.0m).

Exposure to other interest rate volatility is managed through a combination of fixed rate debt and derivative instruments where appropriate.

Commodity risk

The Group's operating companies purchase metal and metal components with an annual base metal material value of approximately £26m (2009: £20m). It manages this exposure through a centralised process hedging copper, zinc and aluminium designed to protect short term margins. The exposure is managed using a combination of financial contracts and local supply agreements in order to minimise the short term impact of metal price volatility.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have adequate resources to meet its liabilities when due, with sufficient headroom to cope with abnormal market conditions. This position is reviewed on a quarterly basis.

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US Loan Note issues. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12 month view by an appropriate amount taking into account market conditions and corporate activity, including acquisitions and organic growth plans. At the end of 2010 the Group had undrawn committed facilities totalling £213m (2009: £277m) and was holding cash and cash equivalents of £123m (2009: £81m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

Capital management

The Board's policy is to maintain a balance sheet with a broad capital base and the strength to sustain the future development of the business including acquisitions. The Board monitors the demographic spread of its shareholders and employees are encouraged to hold shares in the Company. The underlying capital base of the Group includes total equity and reserves and net debt. Employee benefit obligations net of deferred tax assets form part of the extended capital base. Management of this element of the capital base is discussed further in note 19 to the financial statements. Undrawn committed funding facilities are maintained as described above to provide additional capital for growth (including acquisitions and organic investments) and liquidity requirements as discussed above.

18.1 Capital Base

	2010 £m	2009 £m
Total equity	576	402
Gross Debt	268	253
Cash	(123)	(81)
Capital base	721	574
Employee benefits and deferred tax assets	143	168
Extended capital base	864	742
Undrawn funding facilities	213	277
Available capital base	1,077	1,019

Part of the capital base is held in currencies to broadly match the currency base of the assets being funded as described in the paragraph on asset translation earlier in this section.

The balance between debt and equity in the capital base of the Company is considered regularly by the Board in the light of market conditions, business forecasts, growth opportunities and the ratio of net debt to EBITDA. Funding covenants currently limit net debt to a maximum of 3 times EBITDA. The Board would consider appropriate acquisitions which might take net debt to EBITDA to an internal limit of up to 2 to 2.5 times EBITDA as long as prevailing market conditions and outlook for our existing businesses supported such a move. It is expected that at these levels our debt would still be perceived as investment grade. The potential benefits to equity shareholders of greater leverage are offset by higher risk and the cost and availability of funding.

As part of the capital management process, the Group ensures that adequate reserves are available in IMI plc in order to meet proposed shareholder dividends.

The Board supports a progressive dividend policy with an aim that the dividend should be covered by at least 2 times earnings. In the event that the Board cannot identify sufficient growth opportunities through organic investment and acquisitions, the return of funds to shareholders through share buy backs or special dividends will be considered. It should be noted that a number of shares are regularly bought in the market by an employee benefit trust in order to hedge the exposure under certain management incentive plans. Details of these purchases are shown in note 22 to the financial statements.

The Board will consider raising additional equity in the event that it is required to support the capital base of the Group.

The Group currently uses a post tax Weighted Average Cost of Capital (WACC) of 8% as a benchmark for investment returns. This is reviewed regularly in the light of changes in market rates. The Board tracks the Group's return on invested capital and seeks to ensure that it consistently delivers returns in excess of the WACC. Consistent with this objective the growth in Economic Value Added (EVA) is used as a metric in the Group's long term incentive programmes.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.2 Currency profile of assets and liabilities

	Assets excluding cash and debt 2010 £m	Cash 2010 £m	Debt 2010 £m	Exchange contracts 2010 £m	Net assets 2010 £m	Net assets 2009 £m
Sterling	(28)	23	-	341	336	303
US Dollar	268	12	(254)	6	32	(7)
Euro	266	24	(13)	(222)	55	(1)
Other	215	64	(1)	(125)	153	107
Total	721	123	(268)	-	576	402

Exchange contracts and non-sterling debt are financial instruments used as currency hedges of overseas net assets.

18.3 Interest rate risk profile

	Debt and exchange contracts 2010 £m	Cash and exchange contracts 2010 £m	Floating rate 2010 £m	Fixed rate 2010 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	364	364	-		
US Dollar	(254)	18	(7)	(229)	6.8	7.1
Euro	(235)	24	(168)	(43)	2.4	1.1
Other	(126)	64	(62)	-		
Total	(615)	470	127	(272)		

	Debt and exchange contracts 2009 £m	Cash and exchange contracts 2009 £m	Floating rate 2009 £m	Fixed rate 2009 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(2)	309	307	-		
US Dollar	(261)	7	(26)	(228)	6.8	8.1
Euro	(188)	17	(127)	(44)	2.4	2.1
Other	(108)	54	(54)	-		
Total	(559)	387	100	(272)		

Interest rates are managed using fixed and floating rate debt and financial instruments including interest rate swaps. Floating rate liabilities comprise short term debt which bears interest at short term bank rates and the liability side of exchange contracts where the interest element is based primarily on three month inter bank rates.

All cash surpluses are invested for short periods and are considered as floating rate investments.

Non-interest bearing financial assets and liabilities including short term trade receivables and payables have been excluded from the above two analyses.

18.4 Undrawn committed facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 31 December in respect of which all conditions precedent had been met were as follows:

	2010 £m	2009 £m
Expiring within one year	112	50
Expiring between one and two years	101	125
Expiring after more than two years	-	102
	213	277

The weighted average life of these facilities is 0.7 years (2009: 1.5 years).

18.5 Terms and debt repayments schedule

The terms and conditions of cash and cash equivalents and outstanding loans were as follows:

	Effective interest rate %	Carrying value £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	5 years and over £m
2010									
Cash and cash equivalents	Floating	122.9	122.9	122.9	-	-	-	-	-
US loan notes 2012 - 2022	6.93-7.17%	(22.3)	(32.2)	(1.6)	(14.2)	(0.7)	(0.7)	(0.7)	(14.3)
US loan notes 2014 floating	Floating	(22.9)	(24.0)	(0.3)	(0.3)	(0.3)	(23.1)	-	-
US loan notes 2016	7.26%	(47.8)	(67.3)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(49.8)
US loan notes 2018	5.98%	(95.5)	(136.2)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(107.7)
US loan notes 2019	7.61%	(63.7)	(105.0)	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)	(81.0)
Finance leases	Various	(0.7)	(0.7)	(0.3)	(0.2)	(0.2)	-	-	-
Bank overdrafts	Floating	(2.5)	(2.5)	(2.5)	-	-	-	-	-
Unsecured bank loans	Floating	(12.9)	(12.9)	(12.9)	-	-	-	-	-
Total		(145.4)	(257.9)	91.3	(28.7)	(15.2)	(37.8)	(14.7)	(252.8)
2009									
Cash and cash equivalents	Floating	81.0	81.0	81.0	-	-	-	-	-
US loan notes 2012-2022	6.93-7.17%	(21.7)	(32.8)	(1.5)	(1.5)	(13.9)	(0.7)	(0.7)	(14.5)
US loan notes 2014 floating	Floating	(22.7)	(24.1)	(0.3)	(0.3)	(0.3)	(0.3)	(22.9)	-
US loan notes 2016	7.26%	(46.6)	(69.0)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(52.0)
US loan notes 2018	5.98%	(93.2)	(138.7)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(110.7)
US loan notes 2019	7.61%	(62.1)	(107.2)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(83.7)
Finance leases	Various	(0.9)	(0.9)	(0.3)	(0.5)	(0.1)	-	-	-
Bank overdrafts	Floating	(5.3)	(5.3)	(5.3)	-	-	-	-	-
Unsecured bank loans	Floating	(0.7)	(0.7)	(0.7)	-	-	-	-	-
Other loans	Floating	(0.2)	(0.2)	(0.2)	-	-	-	-	-
Total		(172.4)	(297.9)	59.0	(16.0)	(28.0)	(14.7)	(37.3)	(260.9)

Contractual cash flows include undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.6 Total financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2010 and 31 December 2009.

	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets £m	Amortised Cost £m	Total carrying value £m	Fair value £m
2010						
Cash and cash equivalents	-	-	122.9	-	122.9	122.9
Bank overdrafts	-	-	-	(2.5)	(2.5)	(2.5)
Borrowings due within one year	-	-	-	(13.2)	(13.2)	(13.2)
Borrowings due after one year	(22.9)	-	-	(229.7)	(252.6)	(277.8)
Trade payables	-	-	-	(231.7)	(231.7)	(231.7)
Trade receivables	-	-	-	314.9	314.9	314.9
Investments	-	-	19.2	-	19.2	19.2
Other current financial assets/(liabilities)						
Derivative assets *	3.8	12.0	6.3	-	22.1	22.1
Derivative liabilities **	(2.1)	(2.5)	-	-	(4.6)	(4.6)
Total	(21.2)	9.5	148.4	(162.2)	(25.5)	(50.7)

* Includes £7.0m falling due after more than one year (2009: £3.6m).

** Derivative liabilities include liabilities of £0.6m falling due in more than one year (£0.2m in 1-2 yrs, £0.2m in 2-3 yrs and £0.2m in 3-4 yrs). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The reduction in value of net investment hedge derivatives in the year of £6.5m is shown in the consolidated statement of comprehensive income.

Trade payables are all due within one year.

	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets £m	Amortised Cost £m	Total carrying value £m	Fair value £m
2009						
Cash and cash equivalents	-	-	81.0	-	81.0	81.0
Bank overdrafts	-	-	-	(5.3)	(5.3)	(5.3)
Borrowings due within one year	-	-	-	(1.2)	(1.2)	(1.2)
Borrowings due after one year	(22.7)	-	-	(224.2)	(246.9)	(247.1)
Trade payables	-	-	-	(157.6)	(157.6)	(157.6)
Trade receivables	-	-	-	276.1	276.1	276.1
Investments	-	-	17.7	-	17.7	17.7
Other current financial assets/(liabilities)						
Derivative assets *	8.4	4.3	4.2	-	16.9	16.9
Derivative liabilities **	(0.4)	(3.6)	-	-	(4.0)	(4.0)
Total	(14.7)	0.7	102.9	(112.2)	(23.3)	(23.5)

* Includes £3.6m falling due after more than one year. Derivative assets designated at fair value includes the fair value of net investment hedge derivatives of £4.4m.

** Derivative liabilities include liabilities of £1.8m falling due in more than one year (£0.6m in 1-2 yrs, £0.4m in 2-3 yrs, £0.4m in 3-4 yrs and £0.4m in 4-5 yrs).

Under IAS39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes and transacts all derivatives with suitable investment grade counterparties. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

Trade payables are all due within one year.

Valuations

Cash and cash equivalents, bank overdrafts, short term borrowings, trade payables, trade receivables and other assets are carried at their book values as this approximates to their fair value due to the short term nature of the instruments.

Long term borrowings, apart from any which are subject to hedging arrangements, are carried at amortised cost as it is the intention that they will not be repaid prior to maturity. The fair values are evaluated by the Group based on parameters such as interest rates and relevant credit spreads.

Long term borrowings which are subject to hedging arrangements are valued using appropriate discount rates to value the relevant hedged cash flows.

Derivative assets and liabilities, including foreign exchange forward contracts, interest rate swaps and metal commodity hedges, are valued using comparable observed market prices and a valuation model using foreign exchange spot and forward rates, interest rate curves and forward rate curves for the underlying commodities.

Investments are primarily in publically quoted pooled funds held to fund overseas unfunded pension liabilities. The fair value is based on the price quotation at the reporting date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Long term borrowings which are subject to hedging arrangements of £22.9m (2009: £22.7m) and derivative assets of £22.1m (2009: £16.9m) and liabilities of £4.6m (2009: £4.0m) are valued by Level 2 techniques. Investments are valued by Level 1 techniques.

18.7 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was £164.2m (2009: £115.6m).

	Carrying amount	
	2010 £m	2009 £m
Cash and cash equivalents	122.9	81.0
Investments	19.2	17.7
Other available for sale financial assets	6.3	4.2
Interest rate swaps	3.8	4.0
Forward exchange contracts	11.7	8.4
Metals contracts	0.3	0.3
	164.2	115.6

The maximum exposure to credit risk for trade receivables at 31 December 2010 by geographic region was:

	Carrying amount	
	2010 £m	2009 £m
UK	25.7	23.0
Germany	29.9	19.5
Rest of Europe	101.9	99.1
USA	75.5	68.2
Asia/Pacific	59.8	48.8
Rest of World	22.1	17.5
	314.9	276.1

18. Financial risk management (continued)
18.7 Exposure to credit risk (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by business sector was:

	Carrying amount	
	2010 £m	2009 £m
Severe Service	115.8	92.3
Fluid Power	99.8	83.9
Indoor Climate	39.3	38.0
Beverage Dispense	40.6	42.0
Merchandising	19.4	19.9
	314.9	276.1

The Group's most significant customer, a food and beverage company, accounts for 1.5% of trade receivables carrying amount at 31 December 2010 (2009: 2.5%).

Impairments

The ageing of trade receivables at the reporting date was:

	2010		2009	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	275.3	(1.1)	232.8	(1.4)
Past due 1-30 days	31.7	(0.8)	26.0	(0.8)
Past due 31-90 days	9.0	(1.0)	14.5	(1.4)
Past due over 90 days	16.3	(14.5)	20.6	(14.2)
Total	332.3	(17.4)	293.9	(17.8)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 £m	2009 £m
Net balance at 1 January	17.8	12.9
Charged to the income statement	3.7	10.2
Utilised during the year	(2.6)	(2.9)
Released	(1.7)	(1.4)
Exchange	0.2	(1.0)
Net balance at 31 December	17.4	17.8

The impairment gain recognised of £0.1m (2009: loss £5.9m) relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers across all of its businesses.

18.8 Market risk sensitivity analysis on financial instruments

As described elsewhere in this note 18, the Group uses financial instruments including debt and derivatives to reduce its underlying balance sheet and income statement exposure to volatility in interest rates, currency rates and base metal commodity prices.

In estimating the sensitivity of the financial instruments we have assumed a reasonable potential change in interest rates, currency rates or metal prices. The method used assumes that all other variables are held constant to determine the impact on profit before tax and equity. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Actual results in the future may differ materially from these estimates due to the movements in the underlying transactions, actions taken to mitigate any potential losses, the interaction of more than one sensitivity occurring, and further developments in global financial markets. As such this table should not be considered as a projection of likely future gains and losses in these financial instruments.

Financial instruments sensitivity table

The outputs from the sensitivity analysis are estimates of the impact of market risk assuming that the specified changes occur only to the financial instruments and do not reflect the opposite movement from the impact of the specific change on the underlying business.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in Sterling £m	10% strengthening in Sterling £m	10% increase in base metal costs £m	10% decrease in base metal costs £m
At 31 December 2010						
Impact on income statement: (loss)/gain	(0.4)	0.4	(5.0)	5.0	0.2	(0.2)
Impact on equity: (loss)/gain	-	-	(49.0)	49.0	-	-
At 31 December 2009						
Impact on income statement: (loss)/gain	(0.9)	0.9	(4.9)	4.9	0.2	(0.2)
Impact on equity: (loss)/gain	-	-	(46.1)	46.1	-	-

The above sensitivities are estimates of the impact of market risk on financial instruments only. As noted, it is the Group's policy to use financial instruments to manage its underlying exposure to interest rate, foreign exchange and base metal price movements. In accordance with this policy, the Group is confident that the underlying risks that these financial instruments have been acquired to hedge will move in an opposite direction. To the extent that the underlying currency, interest rate or metals price exposure is not fully hedged, the Group will remain exposed to movements in these variables.

19. Employee benefits

Pension arrangements, other post-employment and other long-term employee benefit arrangements are accounted for in accordance with the requirements of IAS19. As at 31 December 2010 the Group continues to provide pension benefits through a mixture of defined benefit and defined contribution arrangements. Contributions to defined contribution arrangements are recognised in the consolidated income statement as incurred.

The Group has 79 different defined benefit arrangements worldwide. The major pension and other post-employment benefit arrangements are funded with plan assets that have been segregated in a trust or foundation. Assessments of the obligations for funded and unfunded plans are carried out by independent actuaries, based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on the assets. Movements in the pension assets and liabilities that arise during the year from changes in actuarial assumptions or because actual experience is different from the underlying actuarial assumptions are recognised through equity.

The Group also provides a number of other long-term arrangements to our employees, with benefits payable more than 12 months after the related services are rendered. These plans are generally not funded and actuarial gains and losses are recognised in the income statement in the period in which they arise.

The Group's strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible and to minimise the liability of the Group. During 2010 six defined benefit arrangements were closed to new entrants and five to future accrual.

The largest defined benefit arrangement is the IMI Pension Fund in the UK ('the Fund'). This constitutes 83% of the total defined benefit liabilities and 88% of the total assets. The last formal triennial actuarial valuation of the Fund was carried out as at 31 March 2008 and this was the first valuation undertaken in accordance with the Scheme Specific Funding provisions of the Pensions Act 2004. The statement of funding principles agreed with the Trustee resulted in an actuarial deficit of £118m. The Group agreed to pay special contributions of £16.8m in December 2008 and July 2009, 2010 and 2011 as part of the recovery plan to close the deficit by 2016. The valuation as at 31 March 2011 will determine an updated funding position and the Group will agree with the Trustee an appropriate recovery plan to meet any deficit.

The Group recognises there is a risk inherent within defined benefit arrangements that the assets do not match the liabilities at any given point in time. In advance of the IMI Pension Fund 2011 triennial actuarial valuation, the Group has worked with the Trustee to mitigate the risk of a volatile funding position. A number of important initiatives were implemented in 2010 in line with this objective.

The Fund was closed to future accrual on 31 December 2010, which resulted in a curtailment gain of £15.1m which has been recognised as an exceptional credit in the income statement. The Trustee also purchased approximately £325m of annuities to match certain benefit payments due from the Fund. The purchase price of these annuities was greater than the value, measured using the underlying IAS19 assumptions, of the insured benefits. The Trustee also rearranged the remaining Fund assets with the objective of preserving the expected return on the total Fund assets (including the annuity policies). This was achieved, with a reduction in the funding volatility of the Fund, as measured by the Trustee's value at risk model, of approximately 25%. The purchase of the annuities also reduced the mortality risk by around 20%.

The difference between the cost of the annuities and the underlying IAS19 liability was financed by a special contribution to the Pension Fund of £48.6m which the Trustee agreed to invest in a special purpose vehicle giving them rights to receive income of £4.4m a year for twenty years, or until the Fund becomes fully funded.

The Group expects to agree a revised recovery plan with the Trustee in late 2011 or early 2012, but in any event by 30 June 2012.

Reconciliation to the balance sheet as at 31 December

	2010				2009			
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m
Funded schemes in surplus:								
Fair value of assets	-	21.8	-	21.8	-	36.9	-	36.9
Present value of defined benefit obligation	-	(19.1)	-	(19.1)	-	(35.2)	-	(35.2)
	-	2.7	-	2.7	-	1.7	-	1.7
Restriction due to asset ceiling	-	(1.1)	-	(1.1)	-	(1.1)	-	(1.1)
Recognised assets for defined benefit funded schemes	-	1.6	-	1.6	-	0.6	-	0.6
Funded schemes in deficit:								
Fair value of assets	981.5	112.7	-	1,094.2	926.6	81.3	-	1,007.9
Present value of defined benefit obligation	(1,088.4)	(134.3)	-	(1,222.7)	(1,101.4)	(97.3)	-	(1,198.7)
Recognised liabilities for defined benefit funded schemes	(106.9)	(21.6)	-	(128.5)	(174.8)	(16.0)	-	(190.8)
Present value of obligation for unfunded schemes	(3.5)	(54.6)	(14.4)	(72.5)	-	(53.8)	(13.5)	(67.3)
Recognised liabilities for defined benefit obligations	(110.4)	(76.2)	(14.4)	(201.0)	(174.8)	(69.8)	(13.5)	(258.1)
Recognised net liability for defined benefit obligations	(110.4)	(74.6)	(14.4)	(199.4)	(174.8)	(69.2)	(13.5)	(257.5)
Total fair value of assets	981.5	134.5	-	1,116.0	926.6	118.2	-	1,044.8
Total present value of defined benefit obligations	(1,091.9)	(208.0)	(14.4)	(1,314.3)	(1,101.4)	(186.3)	(13.5)	(1,301.2)
Asset ceiling	-	(1.1)	-	(1.1)	-	(1.1)	-	(1.1)
Recognised net liability for defined benefit obligations	(110.4)	(74.6)	(14.4)	(199.4)	(174.8)	(69.2)	(13.5)	(257.5)

19. Employee benefits (continued)
a) Summary of assumptions

	Weighted averages					
	31 Dec 2010		31 Dec 2009		31 Dec 2008	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation rate	3.5	2.0	3.7	2.0	2.8	2.2
Discount rate	5.5	4.1	5.7	4.4	6.5	4.9
Expected rate of salary increases ¹	-	2.8	4.9	2.8	4.0	2.8
Rate of pension increases ²	3.5	0.6	3.7	0.5	2.8	0.5
Rate of increase for deferred pensions ²	3.5	0.6	3.7	0.5	2.8	0.5
Medical cost trend rate ³	n/a	5.0	n/a	5.0	n/a	5.0
Expected return on equities	7.4	7.3	8.1	7.6	7.9	7.0
Expected return on bonds	4.8	3.1	5.3	3.5	5.8	3.9
Expected return on property	6.7	5.1	7.0	5.6	7.0	4.9
Expected return on other assets ⁴	8.4	2.4	4.4	2.5	3.8	2.5
Overall expected return on assets ⁵	7.1	4.4	6.9	4.6	6.9	4.7

¹ For 2009 and earlier, includes 0.2% pa as the average effect of the age-by-age promotional scale for UK.

² In excess of any Guaranteed Minimum Pension (GMP) for UK.

³ Initial rate of 7.5% pa (8.0% pa in 2009, 8.5% pa in 2008) reducing by 0.5% pa each year to 5.0% pa. Assumed healthcare cost trend rates do not have a significant effect on the amounts recognised in the income statement.

⁴ There has been a material change in the assumed return on 'other' assets in the UK which reflects changes in the IMI Pension Fund's investment strategy during the year. See note (e) below for further details.

⁵ Based on the distribution of assets set out in (e) below.

The mortality assumptions used for the IMI Pension Fund reflect its experience, together with an allowance for improvements over time. The experience was reviewed as part of the formal triennial actuarial valuation carried out as at 31 March 2008, and the assumptions used as at 31 December 2010 reflect the results of this review. The table below shows the implied life expectancy from age 65 for the Fund's current and future pensioners based on the assumptions adopted. The allowance for future improvements in mortality rates from 2008 is in line with the published 'medium cohort' rates, with a minimum annual rate of improvement of 1%.

Implied life expectancy (years) from age 65 for:

	31 Dec 2010		31 Dec 2009		31 Dec 2008	
	Males	Females	Males	Females	Males	Females
Current pensioners	20.7	22.4	20.6	22.3	20.5	22.2
Future pensioners	22.7	24.3	22.6	24.2	22.5	24.1

The sensitivity of the balance sheet liability in respect of the IMI Pension Fund to changes in the key assumptions is shown in (j) below.

b) Components of the pension expense recognised in the income statement for the year ended 31 December

	2010				2009			
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m
Defined benefit schemes operating costs								
Current service cost	4.7	4.2	0.6	9.5	4.4	4.7	0.9	10.0
Past service cost	-	(0.8)	-	(0.8)	-	-	0.6	0.6
Recognition of losses/(gains)	-	-	0.9	0.9	-	-	(0.3)	(0.3)
Settlement/curtailment	(15.1)	(1.0)	-	(16.1)	(3.0)	(3.3)	-	(6.3)
Total	(10.4)	2.4	1.5	(6.5)	1.4	1.4	1.2	4.0
Defined benefit schemes financial costs								
Interest cost	61.2	8.0	0.7	69.9	55.7	8.2	0.8	64.7
Expected return on assets	(64.2)	(5.7)	-	(69.9)	(56.1)	(4.6)	-	(60.7)
Total	(3.0)	2.3	0.7	-	(0.4)	3.6	0.8	4.0
Total defined benefit schemes pension expense	(13.4)	4.7	2.2	(6.5)	1.0	5.0	2.0	8.0
Pension expense from defined contribution schemes	1.0	6.3	-	7.3	1.0	5.5	-	6.5
Total pension expense	(12.4)	11.0	2.2	0.8	2.0	10.5	2.0	14.5

c) Income and expense recognised through equity for the year ended 31 December

	2010				2009			
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m
Actuarial losses during the year	(18.6)	(3.5)	-	(22.1)	(151.6)	(2.1)	-	(153.7)
Change in the effect of the asset ceiling	-	(0.1)	-	(0.1)	-	0.4	- 0.4	
Exchange (loss)/gain ¹	-	(1.5)	(0.2)	(1.7)	-	6.2	1.4	7.6
Total (losses)/gains recognised during the year	(18.6)	(5.1)	(0.2)	(23.9)	(151.6)	4.5	1.4	(145.7)
Cumulative amount of actuarial losses at the beginning of the year	(197.4)	(25.7)	(5.7)	(228.8)	(45.8)	(30.2)	(71)	(83.1)
Cumulative amount of actuarial losses at the end of the year	(216.0)	(30.8)	(5.9)	(252.7)	(197.4)	(25.7)	(5.7)	(228.8)

¹2010 figure includes £0.1m as gain on asset ceiling due to exchange rate movements. Equivalent figure for 2009 was £0.1m loss.

19. Employee benefits (continued)
d) Reconciliation of present value of Defined Benefit Obligation (DBO) for the year ended 31 December

	2010			Total £m	2009			Total £m
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m		UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	
Present value of DBO at the beginning of the year	1,101.4	186.3	13.5	1,301.2	881.4	197.0	15.3	1,093.7
Company service cost	4.7	4.2	0.6	9.5	4.4	4.7	0.9	10.0
Interest cost	61.2	8.0	0.7	69.9	55.7	8.2	0.8	64.7
Employee contributions	1.4	2.4	-	3.8	1.5	2.4	-	3.9
Past service cost	-	(0.8)	-	(0.8)	-	-	0.6	0.6
Actuarial (gain)/loss:								
from experience	(11.8)	(1.6)	0.7	(12.7)	(21.1)	(1.8)	(0.2)	(23.1)
from changes in assumptions	10.1	5.8	0.2	16.1	242.7	7.9	(0.1)	250.5
Actual benefit payments	(60.0)	(11.9)	(2.3)	(74.2)	(60.2)	(12.1)	(2.4)	(74.7)
Settlement/curtailment	(15.1)	(3.1)	-	(18.2)	(3.0)	(3.3)	-	(6.3)
Purchase of business	-	4.4	0.8	5.2	-	-	-	-
Exchange	-	14.3	0.2	14.5	-	(16.7)	(1.4)	(18.1)
Present value of DBO at the end of the year	1,091.9	208.0	14.4	1,314.3	1,101.4	186.3	13.5	1,301.2

e) Market value by category of assets as at 31 December

	2010			2009		
	UK £m	Overseas post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Total £m
Equities	41.5	40.4	81.9	521.0	33.6	554.6
Bonds	335.5	71.5	407.0	365.1	62.3	427.4
Property	36.5	6.3	42.8	34.8	5.6	40.4
Other	568.0	16.3	584.3	5.7	16.7	22.4
Total	981.5	134.5	1,116.0	926.6	118.2	1,044.8

During 2010 the UK IMI Pension Fund's assets were restructured. As at 31 December 2010 'Other' assets now include:

- Total return equity swaps with a current market value of £41m. These contracts were executed in June 2010 and provide the IMI Pension Fund with a return equal to the difference between equity returns and LIBOR on a notional initial investment of £324m.
- £318m in respect of insurance (annuity) policies and the IMI Pension Fund's interest in a special purpose vehicle.
- £146m in fund of hedge funds investments.

There are no assets that may be counted against the liabilities for overseas non-post employment arrangements.

f) Reconciliation of the fair value of assets for the year ended 31 December

	2010			2009		
	UK £m	Overseas post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Total £m
Fair value of assets at the beginning of the year	926.6	118.2	1,044.8	837.8	120.4	958.2
Expected return on assets	64.2	5.7	69.9	56.1	4.6	60.7
Actuarial (loss)/gain on assets	(20.3)	0.7	(19.6)	70.0	4.0	74.0
Actual company contributions:						
normal	4.2	5.5	9.7	4.6	5.3	9.9
additional - as agreed under current funding plans	16.8	-	16.8	16.8	-	16.8
additional - other	48.6	-	48.6	-	-	-
Employee contributions	1.4	2.4	3.8	1.5	2.4	3.9
Actual benefit payments	(60.0)	(8.6)	(68.6)	(60.2)	(7.9)	(68.1)
Settlements	-	(2.1)	(2.1)	-	-	-
Exchange	-	12.7	12.7	-	(10.6)	(10.6)
Fair value of assets at the end of the year	981.5	134.5	1,116.0	926.6	118.2	1,044.8

The other additional Company contribution made to UK arrangements during 2010 was in connection with facilitating investment by the IMI Pension Fund in the IMI Scottish Partnership.

g) Reconciliation of actual return on assets for the year ended 31 December

	2010			2009		
	UK £m	Overseas post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Total £m
Expected return on assets	64.2	5.7	69.9	56.1	4.6	60.7
Actuarial (loss)/gain on assets	(20.3)	0.7	(19.6)	70.0	4.0	74.0
Actual return on assets	43.9	6.4	50.3	126.1	8.6	134.7

19. Employee benefits (continued)
h) Additional information

	UK £m	Overseas £m	Total £m
Expected employer contributions to defined benefit schemes for the year ending 31 December 2011			
normal	-	5.9	5.9
additional	16.8	-	16.8
Expected employee contributions to defined benefit schemes for the year ending 31 December 2011	-	2.6	2.6
Expected benefits to be paid by the Company for the year ending 31 December 2011	-	6.0	6.0

The IMI Pension Fund closed to future accrual with effect from 31 December 2010.

i) Historical information

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of the defined benefit obligation	(1,314.3)	(1,301.2)	(1,093.7)	(1,184.1)	(1,176.6)
Fair value of assets	1,116.0	1,044.8	958.2	1,124.0	1,056.0
Deficit	(198.3)	(256.4)	(135.5)	(60.1)	(120.6)
Impact of the asset ceiling	(1.1)	(1.1)	(1.6)	(3.5)	-
Recognised liability for defined benefit obligations	(199.4)	(257.5)	(137.1)	(63.6)	(120.6)
Experience (gain)/loss arising on plan liabilities	(12.7)	(23.1)	(13.0)	0.8	10.3
Experience loss/(gain) arising on plan assets	19.6	(74.0)	245.6	11.3	(20.2)

j) Sensitivities

The balance sheet liability is sensitive to changes in the assumptions used to place a value on the defined benefit obligation, in particular to the discount rate and implied life expectancy, and to changes in the assets, in particular to equity market movements. The IMI Pension Fund constitutes 83% of the total liabilities and 88% of the total assets for the Group's long-term employee benefit arrangements as at 31 December 2010. It is therefore appropriate to consider the sensitivity to changes in key assumptions in respect of the Fund and these are illustrated below (net defined benefit liability as at 31 December 2010 for the IMI Pension Fund is £106.9m).

Increase in net defined benefit liability as at 31 December 2010 ¹	£m
Discount rate 0.1% pa lower	15
Inflation-linked pension increases 0.1% pa higher	11
Increase of one year in life expectancy from age 65	25
10% fall in non-bond-like ² assets	60

¹ in each case all other assumptions are unchanged.

² bond-like assets include cash, bonds, insurance (annuity) policies and IMI Pension Fund's interest in a special purpose vehicle.

20. Share-based payments

The Group operates the following share-based payment schemes:

SAYE savings-related share option scheme

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in the business. SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

Performance Share Plan (PSP)

These are open to the executive directors and selected senior managers within the Group. For awards granted prior to April 2009, 50% of these PSP shares vest subject to EPS growth, based on internal financial performance conditions. The plan uses TSR (total shareholder return) as a performance condition for the other 50% of shares granted. For awards granted in 2009, 100% of the shares granted vest subject to TSR as the performance condition. For awards granted in 2010 onwards, 50% of these PSP shares vest subject to EPS growth, based on internal financial performance conditions, 25% vest subject to TSR, and 25% vest subject to RoOCE (Return on Operating Capital Employed).

Share Matching Plan (SMP)

In 2009, the Deferred Bonus Plan (DBP) was amended and renamed, to become the SMP. Under this plan, executive directors and selected senior managers' cash incentive payments are governed by their achievement of a Share Ownership Guideline (SOG). The SOG is a requirement to hold a percentage of salary as IMI shares, and if achieved, any incentive payment is made in cash. If not achieved, a proportion of earned annual bonus will be mandatorily deferred for three years, and delivered in shares in the Company.

Qualifying employees may also elect to voluntarily defer all or part of the remainder of their annual bonus, and invest personal funds, up to a maximum of 100% of incentive opportunity. Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the investment made) if stretching performance conditions are met by the Company over the three year deferral period.

Share Option Plan (SOP)

Share Option awards were made from 2009 to selected senior managers and certain other employees under the Share Option Plan, adopted in 2009. These awards are not subject to performance conditions, but are subject to a three year vesting period.

The following share-based plans are no longer operated, but awards are outstanding under them:

Executive Share Option Scheme

Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005 under the Executive Share Option (1995) Scheme which expired in May 2005. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in earnings per share above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown below.

Long Term Incentive Plan (LTIP)

The LTIP awards were made in 2005 as part of the transition to new long term incentive arrangements introduced in 2005.

The LTIP allows cash awards to executive directors and selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments can (or in the case of executive directors, must) normally be invested in market purchases of the Company's ordinary shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded with one additional share for every four invested with no further performance conditions.

Deferred Bonus Plan (DBP)

Under the DBP, for executive directors and selected senior managers, a proportion of earned annual bonus was mandatorily deferred for three years, and delivered in shares in the Company. Qualifying employees also elected to voluntarily defer all or part of the remainder of their annual bonus. Additional shares, in the form of a matching award, may be earned (to a maximum of 100%, or 125% for the Chief Executive, of the deferred bonus at the entry share price level) if stretching performance conditions are met by the Company over the three year deferral period.

NOTES TO THE FINANCIAL STATEMENTS

20. Share-based payments (continued)

Analysis of options granted

Currently operated share-based payment schemes

Employee SAYE options			Performance Share Plan ¹		Share Matching Plan ¹		Share Option Plan		
Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Weighted awards option price	Normal exercisable date
2003	976	201p	2006-2010	-	-	-	-	-	-
2004	801	289p	2007-2009	-	-	-	-	-	-
2005	464	380p	2008-2010	706	2008	-	-	-	-
2006	251	495p	2009-2011	716	2009	-	-	-	-
2007	204	517p	2010-2012	734	2010	-	-	-	-
2008	342	391p	2011-2013	995	2011	-	-	-	-
2009	832	201p	2012-2014	673	2012	1,783	2012	2,532	441p
2010	190	511p	2013-2015	228	2013	1,145	2013	1,565	645p

Legacy share-based payment schemes

Executive Option Scheme			Long Term Incentive Plan ¹		Deferred Bonus Plan ¹	
Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date
2003	2,258	257p	2006-2013	-	-	-
2004	2,199	358p	2007-2014	-	-	-
2005	484	421p	2008-2015	53	2008	-
2006	-	-	-	44	2009	117
2007	-	-	-	61	2010	184
2008	-	-	-	82	2011	183

¹ These options were granted at an option price of £nil.

The number and weighted average exercise prices of share options outstanding are as follows:

	Options without performance conditions			Options with performance conditions
	Number of options	Range of option prices	Weighted average option price	Number of options
Outstanding at 1 January 2009	1,753,800	201-517p	375p	2,834,177
Exercisable at 1 January 2009	935,267	201-517p	352p	17,700
Granted	3,363,078	201-441p	382p	2,456,289
Exercised	324,469	201-495p	313p	507,251
Lapsed	419,881	201-517p	390p	403,567
Outstanding at 31 December 2009	4,372,528	201-517p	383p	4,379,648
Exercisable at 31 December 2009	715,618	201-517p	361p	15,389
Granted	1,754,639	511-645p	631p	1,372,302
Exercised	362,498	201-517p	359p	412,652
Lapsed	417,664	201-517p	411p	538,422
Outstanding at 31 December 2010	5,347,005	201-645p	464p	4,800,876
Exercisable at 31 December 2010	344,142	201-517p	364p	18,905

Share options previously reported as Employee SAYE options and Executive options have been combined within options without performance conditions. The options previously reported as Long Term Incentive Plan options, Performance Share Plan options and Deferred Bonus Plan options have been combined within options with performance conditions. In both cases these schemes have substantially similar arrangements. Options with performance conditions were granted with an option price of £nil.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 is 7.42 years (2009: 7.46 years).

Included in these balances are share options that have not been recognised in accordance with IFRS2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS2. The number of these share options outstanding was as follows:

1 January 2009: 258,131

31 December 2009 and 1 January 2010: 78,772

31 December 2010: 10,022

The weighted average share price at the date of exercise of share options exercised during the period was £6.91 (2009: £3.94).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes option pricing model. The assumptions used for grants in 2010 included a dividend yield of 3.7% (2009: 7.6%), expected share price volatility of 30% (2009: 30%), a weighted average expected life of 3.6 years (2009: 3.7 years) and a weighted average interest rate of 2.0% (2009: 4.0%). The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The total expense recognised for the period arising from share-based payments is as follows:

	2010	2009
	£m	£m
Equity settled share-based payment expense in employee cost in the income statement	5.5	4.1

The share-based payment expense of £5.5m (2009: £4.1m) comprises a charge of £7.7m for the year offset by a credit of £2.2m (2009: £1.7m) in respect of lapses. £2.8m (2009: £2.5m) of the total charge is in respect of directors.

21. Provisions for liabilities and charges

	Due inside one year			Due outside one year			Total £m
	Restructuring £m	Investigation costs £m	Total £m	Trade warranties £m	Investigation costs £m	Other £m	
At 1 January 2010	17.9	4.5	22.4	27.6	3.5	13.4	44.5
Exchange adjustment	(0.1)		(0.1)	0.7		-	0.7
Acquisitions	-		-	2.6		0.3	2.9
Utilised during the year	(21.9)	(4.3)	(26.2)	(8.6)		(0.1)	(8.7)
Transfers		1.8	1.8		(1.8)		(1.8)
Charge to income statement	16.0		16.0	9.8		-	9.8
At 31 December 2010	11.9	2.0	13.9	32.1	1.7	13.6	47.4

The restructuring provision is expected to be fully utilised within one year. The provision balance reflects residual amounts committed but not spent in relation to a number of specific projects to reorganise operations and facilities.

CCI is subject to oversight by an independent compliance monitor pursuant to the terms of a settlement agreement with the US Department of Justice. Provision has been made for the costs associated with the monitor over the three year monitor appointment period which runs until June 2012. Related to this same matter CCI continues to liaise with customers and regulatory authorities in a number of jurisdictions outside the US and the cost of resolving certain investigation related legal matters has been provided for.

Trade warranties are given in the normal course of business and cover a range of periods, typically of 1-2 years but can be longer, with the expected amounts falling due less than one year included in creditors.

Other provisions are mainly environmental provisions, recognising the Group's obligation to remediate contaminated land at a number of current and former sites. Because of the long term nature of the liability, the timescales are uncertain and the provision represents management's best estimates of these costs.

22. Share capital

	Number of ordinary shares of 25p each		2010 £m	2009 £m
	2010 m	2009 m		
Authorised	480.0	480.0	120.0	120.0
Issued and fully paid:				
In issue at the start of the year	339.5	338.9	84.9	84.7
Issued to satisfy employee share schemes	0.4	0.6	0.1	0.2
In issue at the end of the year	339.9	339.5	85.0	84.9
Of which held within retained earnings	23.3	20.2		

Shares issued and purchased during the year are shown in the table below:

	Employee Benefit Trust	Treasury	Other	Total
	m	m	m	m
In issue at 31 December 2009	1.1	19.1	319.3	339.5
New issues	-	-	0.4	0.4
Market purchases	3.6	-	(3.6)	-
Allocations	(0.5)	-	0.5	-
At 31 December 2010	4.2	19.1	316.6	339.9

During the year 0.4m shares were issued under employee share schemes realising £1.6m.

The Company made market purchases of a total of 3.6m (2009: 0.1m) of its own shares with an aggregate market value of £29.5m (2009: £0.3m) and a nominal value of £0.9m (2009: £nil) including dealing costs of £0.2m (2009: £nil). Of the 23.3m (2009: 20.2m) shares held within retained earnings, 4.2m (2009: 1.1m) shares with an aggregate market value of £39.7m (2009: £5.4m) are held in trust to satisfy employee share scheme vesting.

Dividends

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2010	2009
	£m	£m
17.0p per qualifying ordinary share (2009: 13.2p)	53.9	42.1

The following dividends were declared and paid by the Group during the year:

	2010	2009
	£m	£m
13.2p per qualifying ordinary share (2009: 12.7p)	42.2	40.5
9.0p per qualifying ordinary share (2009: 8.0p)	28.7	25.5
	70.9	66.0

Share options

The majority of UK employees may participate in the IMI Sharesave Plan (SAYE scheme) and selected senior executives within the Group participate in the IMI Executive Share Option (1995) Scheme, the IMI Performance Share Plan and the IMI Share Option Plan. At 31 December 2010, options to purchase ordinary shares had been granted to and not exercised by participants of IMI share option schemes as follows:

	Date of grant	Number of shares	Price	Date of exercise
IMI Sharesave Plan	05.04.05	1,476	380.0p	01.08.10
	04.04.06	42,047	494.55p	01.08.09 or 01.08.11
	16.04.07	39,201	517.18p	01.08.10 or 01.08.12
	14.04.08	149,442	391.41p	01.08.11 or 01.08.13
	09.04.09	740,576	201.36p	01.08.12 or 01.08.14
	06.04.10	181,671	510.92p	01.08.13 or 01.08.15
IMI Executive Share Option (1995) Scheme	03.04.02	10,022	309.1p	03.04.05 to 03.04.12
	02.04.03	72,000	256.9p	02.04.06 to 02.04.13
	24.03.04	98,110	358.0p	24.03.07 to 24.03.14
	23.03.05	153,960	420.5p	23.03.08 to 23.03.15
IMI 2005 Long Term Incentive Plan (also known as IMI Performance Share Plan)	13.05.05	3,050	-	13.05.08 to 13.05.15
	03.04.06	6,534	-	03.04.09 to 03.04.16
	05.04.07	9,321	-	29.03.10 to 05.04.17
	04.04.08	774,764	-	04.04.11 to 04.04.18
	03.10.08	32,461	-	03.10.11 to 03.10.18
	05.11.08	14,360	-	05.11.11 to 05.11.18
	10.03.09	673,400	-	10.03.12 to 10.03.19
07.05.10	227,700	-	07.05.13 to 07.05.20	
IMI Share Option Plan (2009)	03.09.09	2,311,000	440.93p	03.09.12 to 03.09.19
	22.03.10	1,547,500	645.0p	22.03.13 to 22.03.20

NOTES TO THE FINANCIAL STATEMENTS

23. Cash flow notes

a) Reconciliation of cash and cash equivalents

	2010 £m	2009 £m
Cash and cash equivalents in current assets	122.9	81.0
Bank overdraft in current liabilities	(2.5)	(5.3)
Cash and cash equivalents	120.4	75.7

b) Reconciliation of net cash to movement in net borrowings

Net increase/(decrease) in cash and cash equivalents	43.8	(43.0)
Net (drawdown)/repayment of borrowings *	(14.2)	125.2
Cash inflow	29.6	82.2
Currency translation differences	(2.6)	44.1
Movement in net borrowings in the year	27.0	126.3
Net borrowings at the start of the year	(172.4)	(298.7)
Net borrowings at the end of the year	(145.4)	(172.4)

c) Analysis of net debt

	Cash and cash equivalent £m	Borrowings and finance leases due		Total net debt £m
		within one year £m	after more than one year £m	
At 1 January 2010	75.7	(1.2)	(246.9)	(172.4)
Cash flow	43.8	(12.0)	(2.2)	29.6
Currency translation differences	0.9	-	(3.5)	(2.6)
At 31 December 2010	120.4	(13.2)	(252.6)	(145.4)

* This includes drawings for settlement of exchange on net investment hedge derivatives of £2.7m (2009: receipts of £4.6m).

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010		2009	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	16.1	4.9	13.0	5.8
In the second to fifth year	30.7	9.9	35.6	9.5
After five years	26.7	1.5	18.9	0.4
	73.5	16.3	67.5	15.7

Operating lease payments represent rentals payable by the Group primarily for certain of its office properties.

25. Commitments

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date amounted to £6.1m (2009: £13.9m).

26. Contingencies

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £86m (2009: £76m).

27. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Directors are considered to be the key management personnel. Remuneration is as follows:

	2010 £m	2009 £m
Short term employee benefits	2.1	3.2
Contributions to executive retirement plan	1.8	0.8
Share-based payment	3.1	2.5
Total	7.0	6.5

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year. There are no other related party transactions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

We have audited the Parent Company financial statements of IMI plc for the year ended 31 December 2010 which comprise the Company Balance Sheet, and the related notes C1 to C11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 64 the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 required us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of IMI plc for the year ended 31 December 2010.



John C Flaherty (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

2 March 2011

COMPANY BALANCE SHEET

at 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Investments	C6	574.0	574.0
Current assets			
Debtors (including £9.2m due after more than one year (2009: £3.2m))	C7	31.2	15.5
Cash at bank and in hand		0.8	1.0
		32.0	16.5
Creditors:			
amounts falling due within one year			
Borrowings	C8	-	(0.5)
Other creditors	C9	(48.6)	(137.3)
		(48.6)	(137.8)
Net current liabilities		(16.6)	(121.3)
Total assets less current liabilities		557.4	452.7
Creditors:			
amounts falling due after more than one year			
Borrowings	C8	(22.9)	(22.7)
Net assets		534.5	430.0
Capital and reserves			
Called up share capital	C10	85.0	84.9
Share premium account	C10	168.1	166.6
Capital redemption reserve	C10	7.9	7.9
Profit and loss account	C10	273.5	170.6
Equity shareholders' funds		534.5	430.0

Approved by the Board of Directors on 2 March 2011 and signed on its behalf by

Norman B M Askew
Chairman

C1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements, except as noted below:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards except for certain financial instruments as defined by FRS26 *'Financial Instruments: Measurement'* which are stated at fair value.

The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

Under FRS1 *'Cash flow statements'*, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

The Company has taken advantage of the exemptions contained in FRS8 *'Related party disclosures'* and has not disclosed transactions or balances with wholly owned entities which form part of the Group. Related party transactions with the Company's key management personnel are disclosed in the Remuneration Report on pages 48 to 63. The Company has adopted the requirements of FRS29 *'Financial Instruments: Disclosures'* and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS7.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation included in the profit and loss account.

Investments

The Company's cost of investment in subsidiary undertakings is stated at the aggregate of (a) the cash consideration and either (b) the nominal value of the shares issued as consideration when Section 612 of the Companies Act 2006 applies, or (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Financial instruments

The principal financial instruments utilised by the Company are interest rate swaps. These instruments are used for hedging purposes in line with the Group's risk management policy. Interest differentials are taken to net interest in the profit and loss account.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Equity and equity-related compensation benefits

The Company operates a number of equity and equity related compensation benefits as set out in note 20 to the Group financial statements. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options are recharged to the principal employing company.

When a parent grants share-based payments to employees of a subsidiary, UITF41 'Scope of FRS20' and UITF44 'Group and Treasury Share Transactions' state that the parent receives services from the employees indirectly through its subsidiary which should be accounted for as an increase in the investment in the subsidiary by the parent.

Amounts recharged to subsidiaries are recognised as a reduction in the cost of investment in the subsidiary as this recharge is considered to form part of the determination of the net capital contribution from the parent in respect of the share-based payment arrangement. Accordingly, there is no overall increase in the investment in subsidiaries recorded in the Company's financial statements. The recharged amount is recognised as a debtor falling due for payment within one year.

The total amount recharged over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the amount recharged to subsidiary undertakings. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Treasury shares

The consideration paid by the Company on the acquisition of treasury shares is charged directly to retained earnings in the year of purchase. If treasury shares are subsequently cancelled the nominal value of the cancelled shares is transferred from share capital to the capital redemption reserve.

Dividends or shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

C2. Remuneration of directors

The detailed information concerning directors' emoluments, shareholdings and options are shown in the audited section of the Remuneration Report on pages 48 to 62.

C3. Remuneration of auditors

The detailed information concerning auditor's remuneration is shown in note 7 of the Group financial statements.

C4. Staff numbers and costs

With the exception of the directors, the number of people employed by the Company during the year was nil (2009: nil).

The Company participates in the IMI Pension Fund, which is a defined benefit scheme in which the assets are held independently. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and consequently in accordance with FRS17 paragraph 9(b) the Company is required to account for pension costs as if the scheme were a defined contribution scheme. Note 19 to the Group financial statements provides further details regarding the defined benefit scheme.

C5. Dividends

The aggregate amount of dividends comprises:

	2010	2009
	£m	£m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	42.2	40.5
Interim dividends paid in respect of the current year	28.7	25.5
Aggregate amount of dividends paid in the financial year	70.9	66.0

Dividends paid in the year of £70.9m represent 22.2p per share (2009: 20.7p).

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2010	2009
	£m	£m
17.0p per qualifying ordinary share (2009: 13.2p)	53.9	42.1

Dividends proposed after the balance sheet date may differ from the final dividend paid. This is a result of the final number of qualifying shares entitled to dividend differing from those proposed at the balance sheet date.

C6. Fixed assets – investments

	Subsidiary undertakings		
	Shares	Loans	Total
	£m	£m	£m
At 1 January 2010 and 31 December 2010 at cost and net book value	170.1	403.9	574.0

Details of subsidiary undertakings at 31 December 2010 are shown on pages 126 and 127.

C7. Debtors

	2010 £m	restated 2009 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings*	17.3	10.9
Prepayments and accrued income	0.4	0.4
Deferred tax	3.3	0.2
Other financial assets*	1.0	0.8
	22.0	12.3
Falling due for payment after one year:		
Deferred tax	6.4	-
Other financial assets*	2.8	3.2
	9.2	3.2
	31.2	15.5

* The 2009 comparatives for amounts owed by subsidiary undertakings and other financial assets have been reclassified. Group relief debtors and corporation tax receivable from subsidiary undertakings of £6.8m have been reclassified to be shown within amounts owed by subsidiary undertakings. Other financial assets of £4.0m have been reclassified to reflect the split between amounts falling due within one year and after one year. This better reflects the true nature of the balances.

C8. Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see note 18 in the Group financial statements.

	2010 £m	2009 £m
Due within one year:		
Unsecured US overdrafts	-	0.5
Due after more than one year:		
Unsecured US loan notes 2014	22.9	22.7
Terms and debt repayment schedule		
	2010 £m	2009 £m
Debt can be analysed as falling due:		
In one year or less, or on demand	-	0.5
Between one and two years	-	-
Between two and three years	-	-
Between three and four years	22.9	-
Between four and five years	-	22.7
In five years or more	-	-
	22.9	23.2

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C9. Other creditors falling due within one year

	2010 £m	2009 £m
Amounts owed to other subsidiary undertakings	46.9	135.6
Other payables	0.8	0.7
Accruals and deferred income	0.9	1.0
	48.6	137.3

C10. Share capital and reserves

	Share capital £m	Premium account £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2009	84.7	165.1	7.9	246.2	503.9
Retained loss for the year				(13.6)	(13.6)
Issued in the year	0.2	1.5			1.7
Dividends paid*				(66.0)	(66.0)
Cancellation of unclaimed dividends				0.2	0.2
Share-based payments				4.1	4.1
Shares held in trust for employee share schemes*				(0.3)	(0.3)
At December 2009	84.9	166.6	7.9	170.6	430.0
Retained profit for the year				197.8	197.8
Issued in the year	0.1	1.5			1.6
Dividends paid*				(70.9)	(70.9)
Share-based payments				5.5	5.5
Shares held in trust for employee share schemes*				(29.5)	(29.5)
At 31 December 2010	85.0	168.1	7.9	273.5	534.5

Share capital

	2010 £m	2009 £m
Authorised		
480m (2009: 480m) ordinary shares of 25p each	120.0	120.0
Issued and fully paid		
339.9m (2009: 339.5m) ordinary shares of 25p each	85.0	84.9

During the year 0.4m shares were issued under employee share schemes realising £1.6m.

* Details of treasury and employee trust share scheme movements are contained in note 22 to the Group financial statements and details of dividends paid and proposed in the year are shown in note C5.

C11. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £64.8m (2009: £56.9m).

There is a right of set-off with three of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company, as parent of the IMI Group, has contingent liabilities in respect of contingencies within the Group as described in note 26 to the Group financial statements.

SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings listed are those which in the opinion of the directors principally affect the figures shown in the financial statements. A full list of subsidiary undertakings will be included in the Annual Return of IMI plc to be filed with the Registrar of Companies during 2011. Except where indicated, the undertakings are subsidiaries incorporated in the United Kingdom and the share capital consists of ordinary shares only. The principal country in which each subsidiary operates is the country of incorporation. IMI plc's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for IMI Group Ltd which is held directly by IMI plc.

The Group has an interest in a partnership, the IMI Scottish Limited Partnership, which is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the partnership are not required to be and have not been filed at Companies House.

Fluid Controls

Aero Dynamiek BV <i>Netherlands</i>	IMI Norgren Herion Pvt Ltd <i>India</i>	Norgren SpA <i>Italy</i>
Asterm SAS <i>France</i>	IMI Norgren Oy <i>Finland</i>	Norgren Sweden AB <i>Sweden</i>
Buschjost GmbH <i>Germany</i>	IMI Norgren SA <i>Spain</i>	Orton srl <i>Italy</i>
CCI AG <i>Switzerland</i>	IMI Norgren SA de CV <i>Mexico</i>	Pneumatex & CIE NV <i>Belgium</i>
CCI America du Sol Comerico de Equipamentos Industriais Ltda <i>Brazil</i>	IMI Scott Ltd	Pneumatex AG <i>Switzerland</i>
CCI Czech Republic sro <i>Czech Republic</i>	IMI Webber Ltd	Pneumatex BV <i>Netherlands</i>
CCI Flow Control (Shanghai) Co. Ltd <i>China</i>	Industrie Mecanique Pour Les Fluides SAS <i>France</i>	Pneumatex GmbH <i>Germany</i>
CCI Italy srl <i>Italy</i>	Kloehn Inc <i>USA</i>	Pneumatex Manufacture SA <i>France</i>
CCI KK <i>Japan</i>	Newman Hattersley Ltd <i>Canada</i>	Pneumatex SARL <i>France</i>
CCI Ltd <i>Korea</i>	Norgren A/S <i>Denmark</i>	Shanghai CCI Power Control Equipment Co Ltd <i>China (70%)</i>
CCI Valve Technology AB <i>Sweden</i>	Norgren AG <i>Switzerland</i>	Stainless Steel Fasteners Ltd
CCI Valve Technology GmbH <i>Austria</i>	Norgren AS <i>Norway</i>	STI srl <i>Italy</i>
Commtech Ltd	Norgren Automation Solutions Inc <i>USA</i>	TA Isitma ve Havalandirma Sanayi Ticaret ve Servis Limited Şirketi <i>Turkey</i>
Control Components Inc <i>USA</i>	Norgren Automotive GmbH <i>Germany</i>	TA Regulator d.o.o <i>Slovenia</i>
Control Components India Pty Ltd <i>India</i>	Norgren BV <i>Netherlands</i>	Theodor Heimeier Metallwerk GmbH <i>Germany</i>
Eley Ltd	Norgren Co Ltd <i>China</i>	Thompson Valves Ltd
Engineering Appliances Ltd	Norgren European Logistics Company Ltd	Tour & Andersson A/S <i>Denmark</i>
Flow Design Inc <i>USA</i>	Norgren GesmbH <i>Austria</i>	Tour & Andersson AB <i>Sweden</i>
Fluid Automation Systems GmbH <i>Germany</i>	Norgren GmbH <i>Germany</i>	Tour & Andersson AS <i>Norway</i>
Fluid Automation Systems SA <i>Switzerland</i>	Norgren GT Development Corporation Inc <i>USA</i>	Tour & Andersson BV <i>Netherlands</i>
Fluid Automation Systems Technologies SA <i>Switzerland</i>	Norgren Inc <i>USA</i>	Tour & Andersson GesmbH <i>Austria</i>
Herion Systemtechnik GmbH <i>Germany</i>	Norgren Ltd	Tour & Andersson Ltd
Hochdruck-Reduziertchnik GmbH <i>Germany</i>	Norgren Ltd <i>Hong Kong</i>	Tour & Andersson NV/SA <i>Belgium</i>
IMI Components Inc <i>USA</i>	Norgren Ltd <i>New Zealand</i>	Tour & Andersson Oy <i>Finland</i>
IMI Components Ltd	Norgren Ltda <i>Brazil</i>	Tour & Andersson SA <i>France</i>
IMI Indoor Climate Trading (Shanghai) Co Ltd <i>China</i>	Norgren Manufacturing Co Ltd <i>China</i>	Tour & Andersson SA <i>Spain</i>
IMI International Kft <i>Hungary</i>	Norgren Manufacturing de Mexico SA de CV <i>Mexico</i>	Truflo Marine Ltd
IMI International LLC <i>Russia</i>	Norgren NV <i>Belgium</i>	Truflo Rona SA <i>Belgium</i>
IMI International sro <i>Czech Republic</i>	Norgren Pte Ltd <i>Singapore</i>	Z&J Technologies GmbH <i>Germany</i>
IMI International sp zoo <i>Poland</i>	Norgren Pty Ltd <i>Australia</i>	Zimmermann & Jansen Inc <i>USA</i>
	Norgren SAS <i>France</i>	

Retail Dispense

3Wire Group Inc <i>USA</i>	IMI Cornelius (Pacific) Ltd <i>Hong Kong</i>	IMI Cornelius Italia srl <i>Italy</i>
Artform International Inc <i>USA</i>	IMI Cornelius (Tianjin) Co Ltd <i>China</i>	IMI Cornelius Österreich GesmbH <i>Austria</i>
Artform International Ltd	IMI Cornelius (UK) Ltd	IMI Cornelius (Singapore) Pte Ltd
Cannon Equipment Co <i>USA</i>	IMI Cornelius Australia Pty Ltd <i>Australia</i>	<i>Singapore</i>
DCI Marketing Inc <i>USA</i>	IMI Cornelius de Mexico SA de CV <i>Mexico</i>	IMI Cornelius Ukraine LLC <i>Ukraine</i>
Display Technologies LLC <i>USA</i>	IMI Cornelius Deutschland GmbH <i>Germany</i>	IMI Manufacturing de Mexico SA de CV
IMI Cornelius España SA <i>Spain</i>	IMI Cornelius Hellas SA <i>Greece</i>	<i>Mexico</i>
IMI Cornelius Europe SA <i>Belgium</i>	IMI Cornelius Inc <i>USA</i>	

Corporate

IMI Group Ltd	IMI Property Investments Ltd	IMI Holdings GmbH <i>Germany</i>
IMI Kynoch Ltd	IMI Americas Inc <i>USA</i>	Brookvale International Insurance Ltd
IMI Overseas Investments Ltd	IMI Overseas Holdings Inc <i>USA</i>	<i>Bermuda</i>

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES

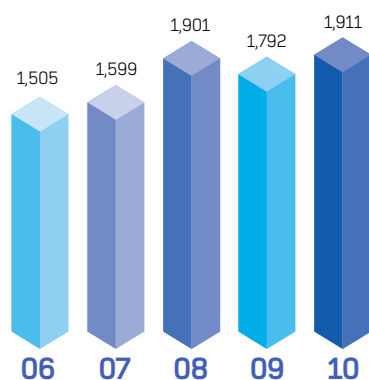
The following table shows the geographic distribution of employees at 31 December 2010 and is not required to be audited.

United Kingdom	2,287
Continental Europe	6,173
Americas	4,402
Asia Pacific	1,704
Others	87
<hr/>	
Total	14,653
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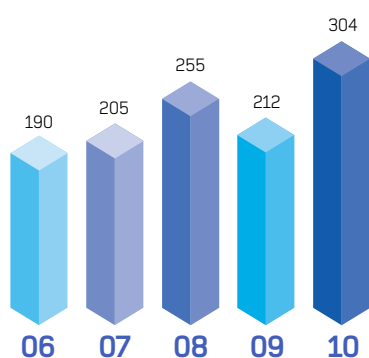
FIVE YEAR SUMMARY

Continuing operations

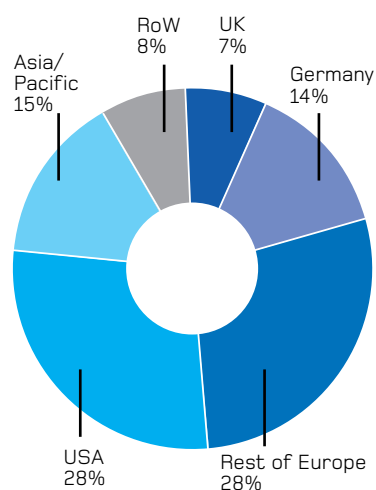
Revenue £m



Profit before tax* £m



2010 Sales by geographical destination**



** before reversal of economic hedge contract gains and losses.

Income statement

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Revenue	1,505	1,599	1,901	1,792	1,911
Segmental revenue*	1,505	1,599	1,897	1,785	1,917
Segmental operating profit*	189.4	207.8	266.3	234.2	319.7
Adjusted profit before tax*	190.2	205.5	254.7	211.7	304.4
Restructuring costs	(19.7)	(22.0)	(19.6)	(34.9)	(16.0)
Employee benefit curtailment - UK scheme	-	-	-	-	15.1
Investigation costs and fines	-	(4.9)	(26.3)	-	-
Acquired intangible amortisation and impairment	(14.6)	(10.9)	(13.2)	(7.2)	(7.0)
Other income	-	1.7	-	-	-
Financial instruments and economic hedge contracts	2.3	1.6	(19.6)	16.6	9.6
Profit before tax from continuing operations	158.2	171.0	176.0	186.2	306.1
EBITDA†	211	220	269	262	369

* before exceptional items.

† earnings before interest, tax, depreciation, amortisation and impairment and other income.

Group sales by destination

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
UK	173	188	183	132	141
Germany	194	209	266	234	261
Rest of Europe	376	423	533	524	542
USA	490	460	517	491	543
Asia/Pacific	183	202	249	278	285
Rest of World	89	117	149	126	145
	1,505	1,599	1,897	1,785	1,917
Reversal of economic hedge contract losses/(gains)	-	-	4	7	(6)
	1,505	1,599	1,901	1,792	1,911

Earnings and dividends

	2006	2007	2008	2009	2010
Adjusted earnings per share (pre-restructuring)	37.8p	41.9p	54.1p	45.8p	66.3p
Earnings per share	21.4p	35.4p	35.4p	40.8p	70.4p
Ordinary dividend per share	18.7p	20.2p	20.7p	21.2p	26.0p

Balance sheet

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Segmental net assets	690	771	973	850	985
Other non-operating liabilities (excluding borrowings)	(193)	(125)	(212)	(276)	(264)
Net borrowings	(80)	(233)	(299)	(172)	(145)
Net assets	417	413	462	402	576

Statistics

	2006	2007	2008	2009	2010
Segmental operating profit as a percentage of segmental revenue	12.6%	13.0%	14.0%	13.1%	16.7%
Segmental operating profit as a percentage of segmental net assets	27.4%	27.0%	27.4%	27.6%	32.5%
Net assets per share (excluding treasury shares)	123.7p	128.1p	144.4p	126.1p	180.5p
Net borrowings as a percentage of shareholders' funds	19.5%	57.3%	66.0%	43.0%	27.7%
Net debt: EBITDA	0.4	1.1	1.1	0.7	0.4
EBITDA: Interest	28	17	17	14	24

Announcement of trading results

The trading results for the Group for the first half of 2011 will be announced on 25 August 2011. Interim management statements will be issued before the AGM on 6 May 2011 and in November 2011. The trading results for the full year ending 31 December 2011 will be announced in March 2012.

Dividend payment

Dividends on ordinary shares are normally paid as follows:

Interim: mid October

Final: mid May

Share prices and capital gains tax

The closing price of the Company's Ordinary Shares on the London Stock Exchange on 31 December 2010 was 945.00p (2009: 518.50p).

The market value of the Company's Ordinary Shares on 31 March 1982, as calculated for capital gains tax purposes, was 53.5p per share.

The Company's SEAQ number is 51443.

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings, please contact the Company's Registrar:

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Telephone 0871 384 2916.*

Corporate Individual Savings Accounts (ISAs)

By arrangement with Equiniti Financial Services Limited, an IMI single company ISA is now being operated. A brochure, application form and further information can be obtained by contacting the Equiniti ISA helpline on 0871 384 2244.*

Share Dealing Service

Managed by J.P. Morgan Cazenove, the Company's stockbrokers, the IMI plc Share Dealing Service provides shareholders with a simple way of buying and selling IMI ordinary shares. Full written details can be obtained from the Secretary's Department, IMI plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ. Telephone 0121 717 3700.

Ordinary shareholders

Range	Number of Holdings	%	Balance as at 31 December 2010	%
1-500 shares	5,846	34.26	1,585,799	0.49
501-1,000 shares	4,694	27.51	3,454,534	1.08
1,001-10,000 shares	5,816	34.09	13,444,898	4.19
10,001-100,000 shares	410	2.40	14,911,137	4.65
100,001-Highest	297	1.74	287,362,122	89.59
Total	17,063	100.00	320,758,490	100.00

19,124,700 treasury shares are excluded from the above totals.

*Calls to this number are charged at 8p per minute from a BT landline. Other telephone provider costs may vary.

GENERAL INFORMATION

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IMI plc is registered in England
No.714275

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INDEX

Accounting policies	71–80	Inventories	93
Annual general meeting	41	Key performance indicators	6–7
Audit Committee	44	Key themes	
Auditor's remuneration	88	Cleaner energy production	14–15
Auditor's reports	65, 118	Energy efficiency	16–17
Balance sheet	68	Healthier lifestyle	18–19
Board of Directors	36–37	Investing in our core competancies	20–21
Borrowing facilities	94, 98–99	Nominations Committee	45
Business review	12–13	Outlook	11
Cash flow statement	70	Pensions	105–110
Chairman's statement	8–9	People	32–33
Chief Executive's review	10–11	Principal risks and uncertainties	34–35
Corporate governance report	43–47	Property, plant and equipment	92
Deferred tax	92–93	Registrars	130, 131
Directors		Remuneration Committee	45
Interests	62	Remuneration report	48–63
Remuneration summary	58	Research and development	38
Report	38–41	Responsible business report	28–33
Responsibility statement	64	Segmental information	81–83
Dividends	38, 115	Share capital	38–39, 114
Donations	40	Shareholder information	130
Earnings per share	90	Strategy	4–5
Employees	90	Statement of changes in equity	69
Environment	7, 31–32	Statement of comprehensive income	67
Executive Committee	45	Subsidiary undertakings	126–127
Financial review	22–27	Substantial shareholdings	39
Five year summary	128–129	Taxation	89
General information	130–131	The IMI Way	28
Geographic distribution of employees	127	Treasury policy	26–27
Going concern	27	Total Shareholder Return	63
Goodwill	91	Website	131
Health and safety	7, 29–30, 39		
IMI at a glance	2–3		
Income statement	66		
Intangible assets	91		
Interest income and expense	87–88		
Internal control	47		



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