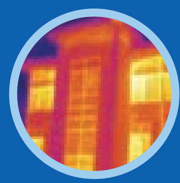
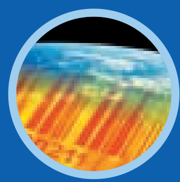
IMI plc Annual Report 2009







engineering advantage

IMI

fast track
to news highlights

Key highlights from our five platform businesses. p2

A resilient performance across the Group. p8

Key themes: contributing to enhanced energy efficiency. p16

Financial review: strong cash generation. p22

contents

applying our market insight to develop products and services to the advantage of our customers

2009 results in brief

Revenue
£1,792m -6%
2008 £1,901m

Segmental operating profit
£234.2m -12%
2008 £266.3m

Profit before tax
£186.2m +6%
2008 £176.0m

Adjusted profit before tax *
£211.7m -17%
2008 £254.7m

Adjusted earnings per share **
45.8p -15%
2008 54.1p

* before exceptional items (restructuring, Severe Service investigation costs and fines, acquired intangible amortisation and impairment and financial instruments excluding the reversal of economic hedge contract losses) totalling £25.5m (2008: £78.7m)

** before the after tax cost of exceptional items totalling £15.7m (2008: £59.7m)

Total dividend per share
21.2p +2%
2008 20.7p

Basic earnings per share
40.8p +15%
2008 35.4p

IMI At a glance

12,850 employees provide innovative knowledge-based engineering solutions for market leading customers around the world.

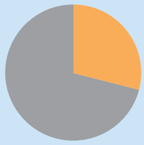
IMI plc is the ultimate holding company of the Group and has been listed on the London Stock Exchange since 1966. At 31 December 2009 it had a market value of £1.7billion and shareholders' funds of £400m. The Company's headquarters is at Lakeside, Birmingham Business Park, England. The trading activities of the IMI Group are conducted through subsidiary companies.

PLATFORM BUSINESSES

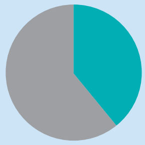
revenue | segmental operating profit

Severe Service

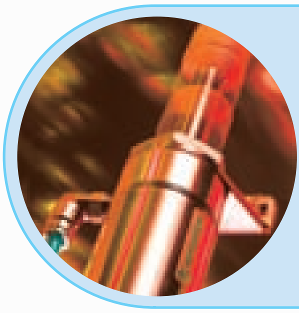
Controlling critical in-plant processes by providing superior custom engineered valve, actuation and control solutions.



29% £512m

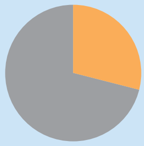


43% £101.4m

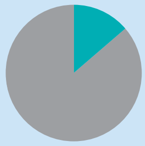


Fluid Power

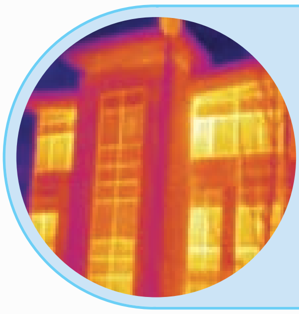
Engineering advantage in motion and fluid control applications.



29% £520m

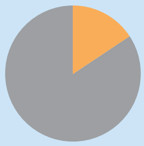


14% £32.8m

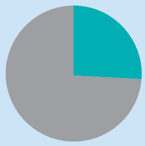


Indoor Climate

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



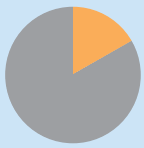
16% £292m



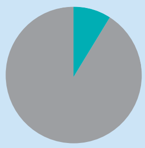
26% £60.7m

Beverage Dispense

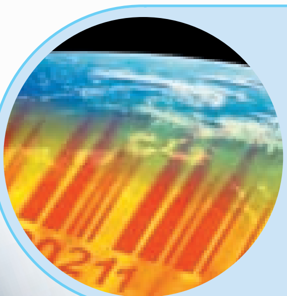
Supplying innovative beverage cooling and dispense solutions to brand owners and retailers. Providing complete beverage and food service parts management solutions.



17% £297m

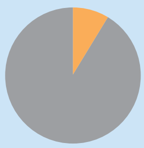


9% £21.1m

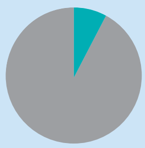


Merchandising

Providing permanent point of sale solutions and technologies that enhance retailer and brand owner profitability by driving impulse purchase.

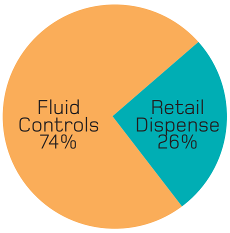


9% £164m

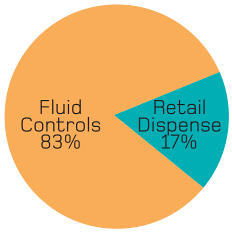


8% £18.2m

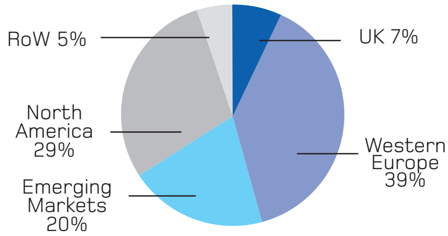
Group revenue
£1,792m



Segmental operating profit
£234.2m



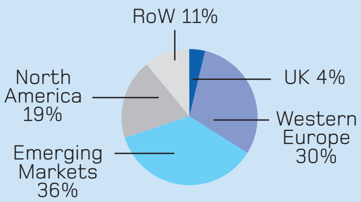
Group revenue by geographical destination



revenue by geographical destination

FACTFILE

revenue £m | **segmental operating profit £m** | **operating margin %**

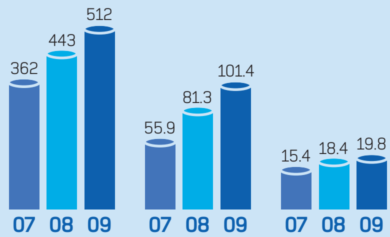


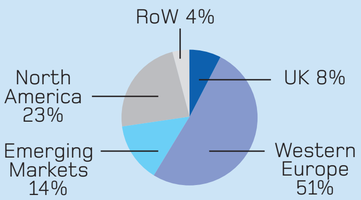
Key businesses
CCI, Orton, Truflo Rona, Newman Hattersley

Main markets
Fossil and nuclear power generation; oil & gas production; combined heat & power (CHP); liquified natural gas (LNG); petrochemical and gas processing.

Major operational locations
USA, Switzerland, Italy, Sweden, The Czech Republic, South Korea, UK, Japan, China, Canada

Employees 2,600



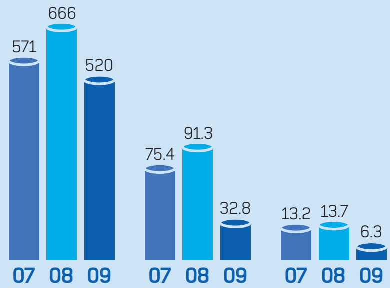


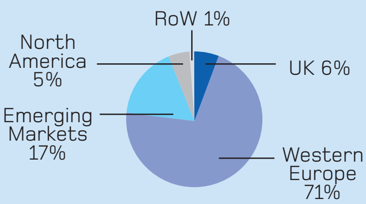
Key businesses
Norgren, FAS, Kloehn, Herion, Buschjost

Main markets
Industrial pneumatic applications; commercial vehicles; rail; oil, chemical & gas; life sciences; in-plant automotive; printing and PET bottling.

Major operational locations
UK, USA, Germany, Switzerland, Mexico, The Czech Republic and China

Employees 5,350



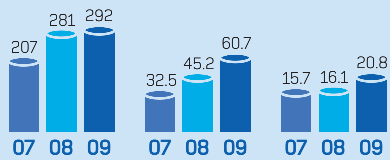


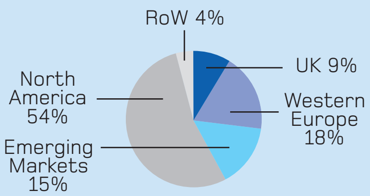
Key businesses
TA, Heimeier, FDI, Pneumatex

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 1,800



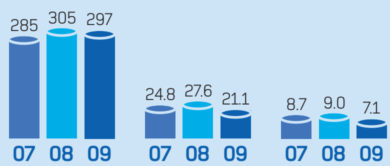


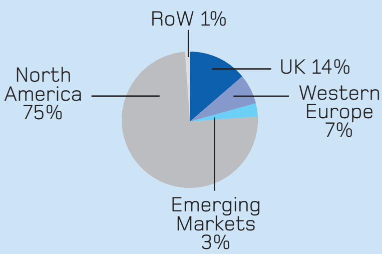
Key businesses
Cornelius, 3Wire

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 1,950



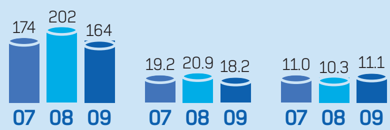


Key businesses
Artform, Cannon Equipment, DCI Marketing, Display Technologies

Main markets
Brand owners and retailers serving the food and beverage, cosmetics, automotive and consumer electronics markets.

Major operational locations
USA and UK

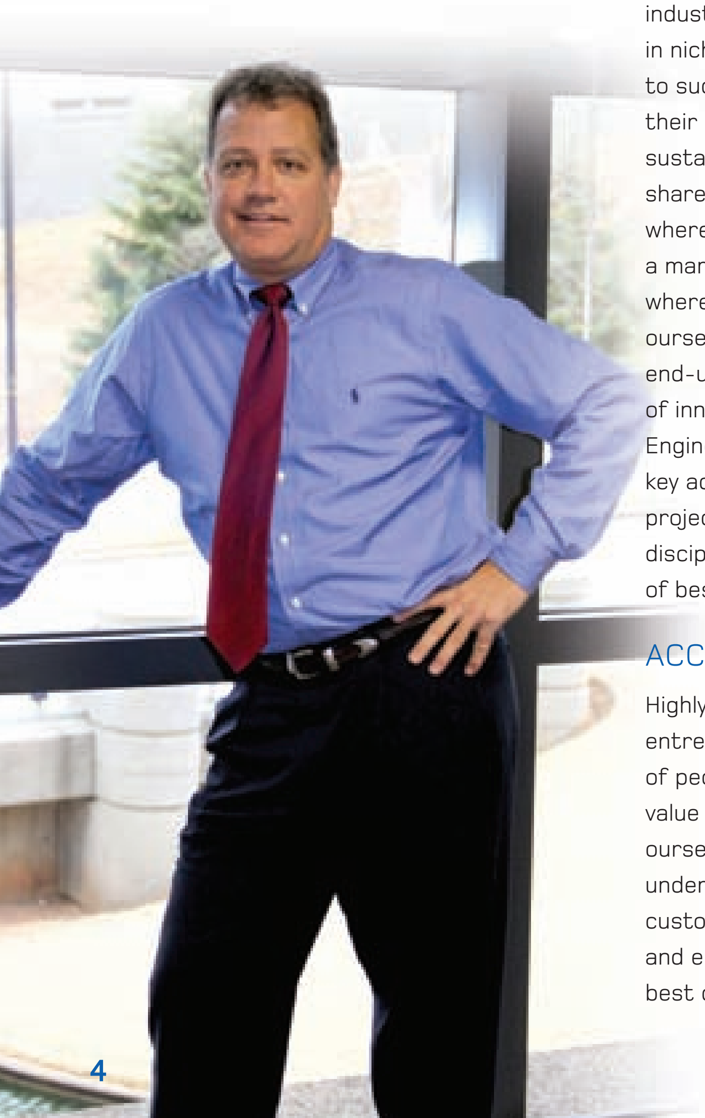
Employees 1,000



our goals and how we are achieving them

WE AIM TO DELIVER SUSTAINABLE ORGANIC GROWTH IN EXCESS OF GDP GROWTH AND OVER TIME TO REACH OPERATING MARGINS OF AT LEAST 15%.

Craig Heetland leads the business relationship between Coca Cola and Cornelius, driving initiatives to partner with them and add value to their business.



Our clearly defined strategy, which has served us well in the good times, has proved itself equally effective in the global economic downturn experienced in 2009. We have faith in this strategy and we will continue to pursue it vigorously.

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 operate in markets 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 – we call this Engineering Advantage. World class key account management and project management are important disciplines for the effective delivery of bespoke solutions to our leading customers. 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 are plant operators and original equipment manufacturers. The Beverage Dispense and Merchandising businesses operate in Retail Dispense markets, where our customers are brand owners and retailers.

Our strategic growth drivers 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.

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.

In his role as HR Manager at CCI's office in India, Joe Motha has been responsible for the management of our growth in shared services, global payroll, engineering and sales back office organisation.

INVESTING IN ENGINEERING ADVANTAGE

We invest in techniques that improve market and customer insight, frequently working with academics and other partners who can aid our understanding. We then apply our acquired knowledge and our engineering capabilities through Engineering Advantage to the issues faced by our customers. The result is relevant, new, value-adding technologies and products that strengthen our customer relationships.

Gilbert Wu spearheads our business in China for Norgren with accountability for key automation accounts and turning customer insight into Engineering Advantage products.

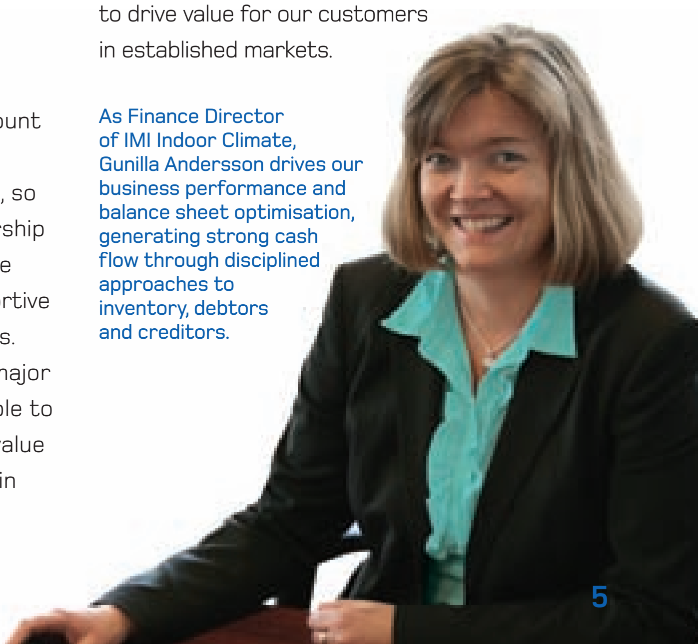
BALANCE SHEET STRENGTH

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 value enhancing acquisitions, in organic growth and in partnering with our key customers to develop new, innovative and bespoke engineering solutions. Acquisitions must align with our strategy and should bring technology, talent, market sector or 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.

SEIZING THE INITIATIVE IN EMERGING ECONOMIES

We continue to invest in the emerging markets of Eastern Europe, South America, the Middle East and Asia, particularly China, which continue to offer good growth opportunities despite the current global economic difficulties.
In recent years we have significantly increased our ability to generate sales, manufacturing and procurement opportunities in these territories through the development of regional and local teams with relevant local industry knowledge and experience. We have developed a significant manufacturing presence in Mexico, the Czech Republic and China and are now establishing a presence in India. Focused investment of this sort enables us to support our customers as they enter new markets, whilst also helping to drive value for our customers in established markets.

As Finance Director of IMI Indoor Climate, Gunilla Andersson drives our business performance and balance sheet optimisation, generating strong cash flow through disciplined approaches to inventory, debtors and creditors.



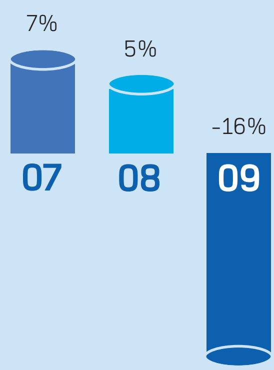
measuring our business performance

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.

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.

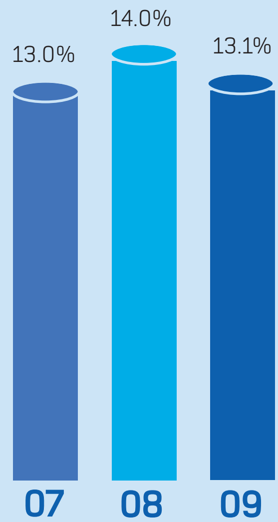
Organic revenue growth

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 2009, as has been previously highlighted, the Group was significantly impacted by the global economic downturn, with the Group's revenue declining 16% on an organic basis.



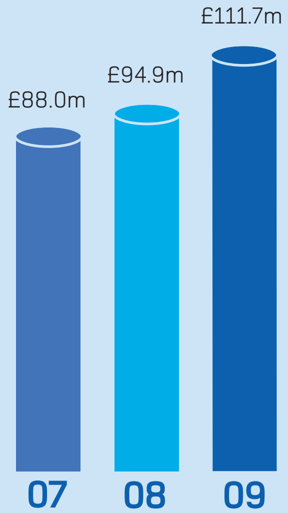
Operating margins

Operating margins are defined as the ratio of segmental operating profit as a percentage of segmental revenues. In 2009 these margins were 13.1% compared to 14.0% in 2008. This represents a significant achievement given the sharp fall in demand and compares very favourably to operating margins reported in previous recessions. Our long-term target is to achieve an operating margin of 15% or higher. This target was exceeded in the traditionally stronger second half of 2009, when operating margins were 15.3%.



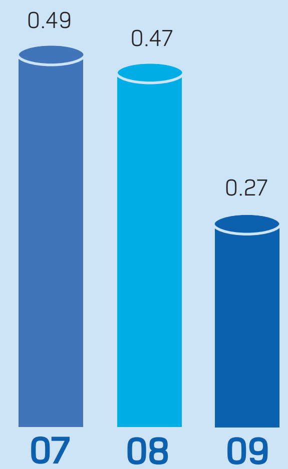
Economic value added

Economic value added (EVA) is defined as the net operating profit after tax on continuing operations before restructuring costs 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 (net assets plus net debt, but net debt excludes the IAS19 pension deficit). The 2009 EVA was £111.7m which is an increase of 18% over 2008.



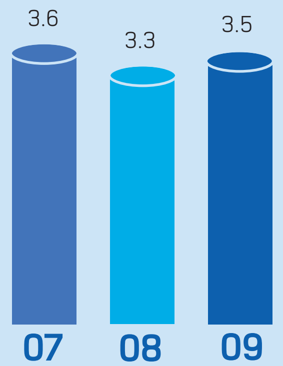
Lost time accident rates

The Group takes seriously its responsibility for the safety of all employees, contractors and visitors. Our lost time accident (LTA) rate improved by 43% in 2009 to 0.27 accidents per 100,000 hours worked from 0.47 in 2008. This significantly beat the 3 year target the Group set last year of 0.35 and is a reflection of the increased resource and attention that has been applied to health and safety across our organisation. We have set a new target to reduce this by a further 20% to not more than 0.22 by 2012.



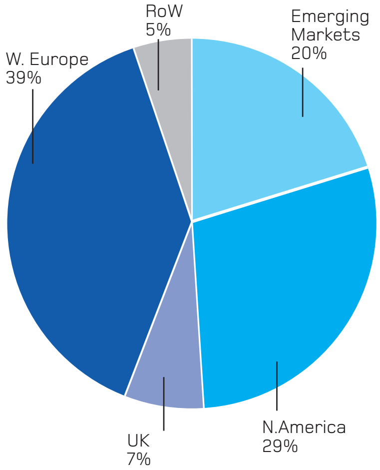
CO_2 emissions

Our CO_2 emissions in 2009 amounted to 90,000 tonnes, a reduction of 11% on last year (2008: 101,000 tonnes). Normalised against hours worked, our performance deteriorated to 3.5 CO_2 tonnes/1,000 hours worked (2008: 3.3 CO_2 tonnes/1,000 hours worked). This was impacted by the sharp fall in activity levels across many of our locations during the year and resulted in a 16% fall in the number of hours worked. In 2010 we have set a new corporate target to reduce this KPI by 10% over the next 3 years to no more than 3.2 CO_2 tonnes/1,000 hours worked.

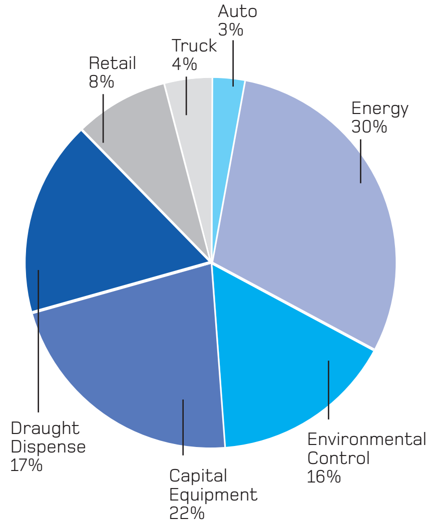


we are well positioned to benefit from any economic recovery

Regional markets
Revenue



End markets
Revenue



The global economic downturn presented the Group with extremely difficult market conditions in 2009. Our businesses responded quickly, taking early and comprehensive action towards minimising the impact on profits of lower revenues, and maximising cash generation to help secure a significant reduction in net debt. Retention of Group operating margins in excess of 13%, despite a 16% organic reduction in revenues, is a measure of the underlying quality and differentiated positions of many of IMI's businesses today, and underlines the value of the strategic repositioning we have undertaken in the years since the last global downturn. These strong market positions, coupled with a reduced cost base and a low level of debt, leave the Group well positioned to benefit from any future improvement in economic conditions.

Performance in 2009

Having experienced sharp falls in demand towards the end of 2008 and early in 2009, most of our markets then stabilised at reduced levels. Overall, at constant exchange rates, segmental revenues and operating profit fell by 16% and 22% respectively. We successfully contained the impact of lower revenues on profit to only 19% of that revenue reduction.

This enabled us to deliver a segmental operating margin of 13.1% for the year, close to the 14.0% achieved in 2008. Operating margins in the second half, which are traditionally stronger than in the first half of the year, were 15.3% (2008 H2: 14.8%).

Adjusted earnings per share fell by 15% from 54.1p to 45.8p. The Board is recommending a final dividend of 13.2p, a 4% increase on last year (2008: 12.7p). This makes the total dividend for the year 21.2p (2008: 20.7p) and exceeds our core objective of maintaining the dividend through the economic downturn.

Within Fluid Controls, both Severe Service and Indoor Climate, which are later cycle businesses, achieved record operating profits. Sales in Fluid Power, which is very exposed to discretionary capital expenditure, dropped sharply in the first half before stabilising thereafter. Overall, on a constant currency basis, Fluid Controls sales fell 15%. Operating margins also fell slightly from 15.7% to 14.7% reflecting a strong margin improvement in Severe Service and Indoor Climate offset by a sharp fall in margins in Fluid Power. Operating margins for Fluid Controls rose to 17.1% in the second half (2008 H2: 16.4%) helped by a significant recovery in Fluid Power margins.

In our Retail Dispense businesses, sales were down 20% on a constant currency basis. Both Beverage Dispense and Merchandising faced sharply lower activity levels as the downturn took hold. However both businesses managed to contain costs in a difficult trading environment and operating margins were held to 8.5% (2008: 9.6%).

The Group's overall resilience in the face of the most severe recession in a generation is a reflection of its repositioning over the last few years to focus on niche end markets and higher added value products. It is also a result of the swift and effective management actions taken in response to the downturn. In particular, management efforts right across the Group were focused on four key areas:

1. Resource allocation:

We focused our efforts on allocating engineering and sales resources in favour of those end markets and customers which we expected to be more resilient. This helped to generate a number of new projects in areas such as energy, infrastructure, rail and life sciences. Opportunities also arose from new legislation particularly in the areas of sustainability, environmental compliance and energy efficiency.

resilient performance across the Group

2. Capacity alignment:

We took immediate and early actions to align capacity to lower demand. We released 17% of the workforce from the peak in 2008 (around 2,600 people). We used short time working arrangements extensively across the Group, and accessed government support schemes for this wherever it was available. As markets have stabilised and in some cases improved we benefited from the flexibility of increasing the hours worked for some of these employees.

3. Product margins:

We were able during the year not only to defend our selling prices in most areas but also where appropriate to increase prices such that overall selling prices in the year were up around 1.5% versus last year. We achieved this through the differentiated nature of our products and by partnering with our customers to remove cost elsewhere in the supply chain. At the same time we were successful in realising the benefits of lower material costs and leveraging our low cost sourcing arrangements in Asia, Eastern Europe and Mexico.

4. Cash optimisation:

Our profit to cash conversion ratio for the year was 139% compared to 98% last year. This is a significant improvement and, assisted by a foreign exchange revaluation of £44m, delivered a step change reduction in net debt of £127m from £299m at the end of 2008 to £172m at the end of 2009. This encouraging performance benefited from a reduction in inventories of 19% (on a constant currency basis) and debtor days reducing by 6.

We also made good progress this year on the well defined operational strategies for each of our businesses. We continued to accelerate our investment in emerging markets where the proportion of Group sales rose to 20% (2008: 19%). We maintained our investment in new product development during the year, maintaining the percentage of revenues derived from new products launched in the last 3 years at 14%. Notable successes during the period included our Indoor Climate business developing a high performance, differential pressure control valve for demanding conditions in large cooling systems and district heating applications and an integrated pneumatic system designed by our Fluid Power business to control gas in anaesthesia ventilators.

In the light of the difficult economic conditions, we decided, alongside the essential right sizing initiatives required, to bring forward our plans to increase the percentage of manufacturing undertaken in low cost economies. A new facility was opened in Shanghai for our Fluid Power business, and we made rapid progress on two new facilities for our Severe Service business, one in Brno (the Czech Republic), the other near Chennai (India), both of which will be largely operational by the end of 2010. As a result, we expect the percentage of manufacturing undertaken by the Group in low cost economies to increase from current levels of around 35% to around 50% within the next 2 to 3 years. The 2009 exceptional charge of these restructuring initiatives, including both rightsizing and transfer to low cost economies, was £35m. The shift to low cost production is expected to improve annual margins by an additional 100 – 150 basis points over the next 3 years.

The IMI Way

During 2009 we also prioritised the Group-wide implementation of our code of responsible business, "The IMI Way", which targets the very highest standards of ethical business and compliance. This code was translated into over 25 languages and rolled out to all employees worldwide. We completed face-to-face training with all 13,000 employees and have reinforced the messages with subsequent web-based training tools.

One of the four responsible business priorities within The IMI Way is the health and safety of our employees. Management and employees have materially improved our performance in this area this year.

In many sites they have embraced a major culture change under the "Safety First, Safety Always" slogan. We have also initiated the regular sharing of best practice ideas between sites across the Group. Our key performance indicator improved from 0.47 accidents per 100,000 hours in 2008 to 0.27 in 2009, a 43% improvement and significantly ahead of the three year target we set ourselves at the end of 2008.

Focus for 2010

In 2010 we will continue to focus on the key areas of cost control, pricing and cash generation. However, we will also make sure that the Group is well positioned to take advantage of growth opportunities as our end markets move into a recovery phase. This will be achieved through developing our long term strategic aims:

- We will enhance our core management skills for engineering advantage and key account management across the Group. Gaining customer insight is key to developing differentiated added value products for them.
- We will continue to progress our current restructuring programme to move a greater proportion of our global manufacturing to lower cost economies. We will ensure that we retain the flexibility to respond to a stronger than expected recovery while at the same time retaining contingency plans for any adverse market developments.
- We will seek to take advantage of our strong balance sheet to look for acquisition opportunities. At the same time, we will seek to enhance our organic growth by investing in new sectors and products and, in particular, by building a bigger market position in the key emerging markets, notably China, where growth opportunities are likely to be strongest.

People

As anticipated, David Nicholas, Executive Director, stepped down from the Board on 1 September and retired from the Company in December. We are grateful to David for his energetic contribution to IMI over the last five years and for the important role he played in the significant development of the Fluid Controls businesses during that time.

Our resilient performance through the global economic downturn is a reflection of the skills, energy, initiative and commitment of our people across our worldwide operations. In 2009 we were particularly grateful for their hard work, enthusiasm and flexible approach which helped us meet the challenges we faced.

Outlook

Compared to 12 months ago, general business conditions are more stable, and visibility has improved. Customers are talking with a little more confidence about their medium-term investment plans, and we have returned to former levels of engagement in respect of new product and new project opportunities.

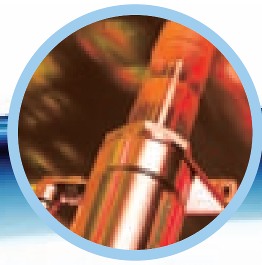
Whilst we have seen a return to more normal growth patterns for emerging markets, we are not anticipating any sharp recovery in the global economy generally. With later cycle and earlier cycle businesses within the Group broadly balanced, volumes in 2010 are not expected to be materially ahead of 2009. A lower cost base, however, with further benefits expected to arise from our ongoing transfer of manufacturing to lower cost economies, should enable us to build on the good progress made to date. In addition, our strong balance sheet and healthy cash generation leave us well placed to exploit further opportunities as they arise.

Norman B M Askew Chairman

3 March 2010

Martin J Lamb Chief Executive

3 March 2010



our five platform businesses

SEVERE SERVICE

Following a strong first half which benefited from operational initiatives to shorten lead times and reduce the order backlog, second half revenues as expected were 5% lower than last year, reducing overall organic growth for the year to 3%.

New construction orders reduced by around 20% during the year, with a sharp slowdown in both fossil power and oil & gas projects partially offset by a number of significant new orders in the nuclear power sector, including our largest ever order for £55m in a project for EDF. Customer service orders however increased by almost 30%, reflecting continued buoyancy in the aftermarket supported by a focus on upgrades of existing valve installations. Overall order intake for the year was down 7% on an underlying basis (after adjusting for the net impact of the CCI investigation, which resulted in a deferral of around £20m of orders from the second half of 2007 into the first half of 2008).

Quotation activity for new construction projects in the oil & gas sector has been improving for several months, and this is now beginning to be reflected in order intake which should support a pick-up in shipments towards the end of 2010 or early 2011. Quotation activity within new construction projects in the fossil power sector has only recently started to improve, suggesting that any recovery in orders for this market will be delayed a further six months or so. Activity within both the nuclear and aftermarket sectors remains buoyant.

Operating margins in the full year improved to 19.8% from 18.4% in 2008, reflecting a healthy aftermarket sales mix and further improvements in operational efficiencies. As expected, following the industry slowdown a number of the recently secured orders in the oil & gas sector were subjected to increased pricing pressure, albeit this should be more than offset by further transfer of production to newly established facilities in Brno, (the Czech Republic), and Chennai, (India), both of which are expected to be operational by the end of 2010.

FLUID POWER

Following the sharp decline in Fluid Power volumes experienced at the end of 2008, activity continued to deteriorate throughout much of the first half, leaving first half revenues down 36% on the prior year. Volumes stabilised in Q3, and began to show some recovery in the last few weeks of 2009, with Asia rebounding quite strongly, and some encouraging signs of improvement in the US (albeit we remain cautious on the extent to which this improvement in the US has been caused by a slowdown or cessation in destocking by distributors and original equipment manufacturers (OEMs)). European markets are off their lows but demand, generally, remains subdued. Second half revenues were 24% lower than last year, resulting in a revenue decline for the year as a whole of 31%.

Despite this difficult market background we continued to invest in our sector strategy where we seek to provide bespoke engineered solutions which add value for our major customers in niche markets. The sector business represented approximately 39% of Fluid Power's revenue in 2009. We have now appointed global sector heads for commercial vehicles, rail, life sciences, in-plant automotive and oil, chemical and gas. As previously highlighted in earlier announcements, certain of these sectors were significantly impacted by the global recession with commercial vehicles and in-plant automotive particularly hard hit. Other sectors, including life sciences, rail and oil, chemical and gas were more resilient with lower levels of decline.

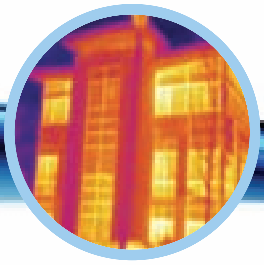
The remainder of the Fluid Power business is split between standard pneumatics products for OEMs and the maintenance, refurbishment and overhaul (MRO) market. As expected, the MRO aftermarket business, where we made good progress with our Norgren Express online solution, proved more resilient than the OEM market.

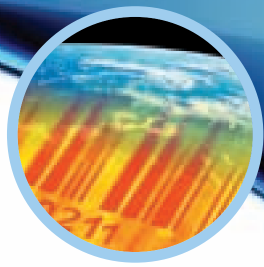
We took early and significant actions to reduce the cost base and protect profitability through a combination of redundancies and the widespread use of short time working arrangements. At the year-end, approximately 800 Fluid Power employees remained on reduced working hours. The benefit of these actions was evident in the second half when margins recovered to 9.6% from 2.9% in the first half on broadly similar volumes. Overall operating margins for the year as a whole were 6.3%.

Following on from the opening of the new manufacturing facility and technical centre in Shanghai, China, the business is currently implementing further restructuring to move production lines from the US and Western Europe to China and our other existing low cost facilities in the Czech Republic and Mexico. All of the actions taken in 2009, combined with the focused management actions for 2010, should lead to a further margin improvement in the year ahead.

INDOOR CLIMATE

In Indoor Climate, revenue showed an organic decline of 4% over the year. The business continued to enjoy reasonably resilient demand levels in the second half particularly during the important heating season of September to November. The Heimeier thermostatic radiator valve business, which is mainly focused on refurbishment markets, showed





pleasing growth, supported by new energy efficiency legislation in Germany which continued to stimulate additional demand. Our TA balancing valve products are more exposed to new commercial construction markets which became more challenging as the year progressed, although our focus on more resilient end markets, including hospitals, schools, and other government-backed infrastructure projects proved successful. We continued to invest in our seminar programmes, training around 45,000 installers, specifiers, and building consultants in hydronic balancing and the critical role it plays in making buildings more energy efficient. This helped to improve further penetration of our balancing valves on new projects.

Pneumatex, the water conditioning business acquired in 2007, grew strongly throughout the year. In December 2009, the Group exercised its option to acquire the remaining 30% non-controlling interest in Pneumatex for a consideration expected to be around £12m.

Operating profit for Indoor Climate increased by 34% to £60.7m. The operating margin showed a strong progression on last year, rising from 16.1% to 20.8%. Second half operating margins of 24.3% (2008: 18.0%) benefited from a combination of lower overheads and sharply lower material costs.

Indoor Climate is exposed to a later cycle than some of our other businesses and the private sector commercial new construction market, around 20% of the business, is expected to continue to be challenging in 2010. However, the refurbishment market, which accounts for around 60% of sales, is forecast to remain resilient, benefiting from the drive towards greater energy efficiency in both residential and commercial properties. Increasing endorsement of new energy efficiency legislation by governments throughout many parts of Europe should help to stimulate further demand.

BEVERAGE DISPENSE

The overall organic revenue decline for the year was 15%, reflecting an improved position in the second half where the organic decline reduced to around 7%. This was due to weaker comparators in the second half of 2008 and a good end to the year when we saw increased demand particularly from the North American soft drink bottlers as well as a better than expected performance in Asia and Europe. The UK beer market remained challenging throughout the year with the decline in on-trade beer volumes continuing and major brewers reluctant to engage in significant new investment. 3Wire, our North American parts business, showed greater resilience during the year, with volumes down by just 9%.

The 2009 operating profit margin was 7.1%, a slight improvement on the first half. This reflects the significant cost reduction programmes implemented across the business, a robust defence of selling prices, and an improved contribution from new products.

The successful development of new products is vital to improving margin performance over time, particularly in the growing health and indulgence sector which includes water, smoothies, juices, dairy and frozen beverages. We are making progress in this respect with new dispensing equipment such as Viper, our frozen carbonated beverage dispenser, increasing its market penetration over the year. We are also developing new, more energy efficient cooling equipment which resonates well with the increasing demand from major customers for products which help them to reduce their carbon footprint. We will continue to focus increased investment on these higher added value, higher margin opportunities, whilst managing a gradual withdrawal from some of the older, lower margin commodity product lines with limited differentiation.

MERCHANDISING

The organic decline in revenue for the year was 29%. As expected, second half revenues were significantly lower than last year with the automotive business sharply down and 2008 comparables impacted by the large £25m US grocery chain order, much of which shipped in the third quarter.

A number of our end-market sectors were challenging. Automotive was down 33% for the full year reflecting the major challenges facing the US automotive industry in 2009 which resulted in a significant reduction in the number of dealerships. The cosmetics, beverage, and consumer electronics sectors proved more resilient but, collectively, were still down over 15% on last year.

During the year we acquired the remaining 19.1% non-controlling interest in Display Technologies for approximately £18m in accordance with the terms of the original purchase agreement.

The full-year operating margin in Merchandising was 11.1%, an improvement on the 10.3% achieved last year. The business acted swiftly to reduce costs in response to lower activity levels and also benefited from lower steel prices. The second half operating margin of 14.0% was particularly strong, despite the sharp fall in activity levels. This was due to a better mix of sales towards higher margin activity and the benefit of cost savings implemented in the first half. As in the case of Beverage Dispense, we continued to prioritise higher margin, more differentiated product opportunities, whilst staging a gradual exit from older, more commoditised product lines. Whilst this process will inevitably dampen top line growth it will continue to support margin progression, and an improvement in the underlying quality of the business.

key themes

R&D delivers Engineering Advantage for leading customers

"Norgren's superb fully-integrated module with precise pneumatic control was the key to helping Mindray, despite being a new player, to gain the number one position in the market for anaesthesia machines in China. It will also help Mindray to become a world-class player in the future."

Richard Li
Director
R&D, Product, Anaesthesia
Shenzhen Mindray Bio-Medical Electronics Co Ltd

The "DA 516" is part of TA's range of differential pressure controllers. Stable pressure in heating, ventilating and air-conditioning systems is key to delivering the best system controllability to achieve optimal energy efficiency whilst maintaining the desired indoor climate comfort.

ENGINEERING ADVANTAGE

Our ability to turn insight regarding our customers' needs into new products and services that bring real value to our customer differentiates us from the competition. Applying the best engineering, innovation and technical know-how to generate value for our customers is known at IMI as "Engineering Advantage".

HOW WE CONTRIBUTE

There are three layers of Engineering Advantage:

- The first is where we understand which features and attributes are least appreciated or not valued by our customers, and we seek to value engineer these out of our products. We also seek ways to provide those features that are valued by our customers through more cost effective design. Collectively these initiatives seek to deliver solutions at lower cost to our customers whilst preserving attractive margins for IMI.
- The second level is where we seek to fully understand how our product is utilised within the customer system and all the cost drivers that flow from that utilisation. Through this understanding we can change product designs to substantially reduce overall system or life cost, often through lower installation, service or warranty costs.
- The third and highest level of Engineering Advantage is where we can develop a bespoke product or solution which provides our customers with unique features which allow them to grow their own market share.

World class Key Account Management is central to this strategy. By understanding the value drivers for our customers we are able to create greater value for them.

There are great examples of Engineering Advantage in all areas of the Group. In Severe Service, our engineers, the "valve doctors", have worked closely with a number of power generation companies to increase turbine efficiency utilising our industry leading turbine bypass valve solutions. Every small percentage improvement in efficiency in a power plant represents potentially large financial gains to our customers. In Fluid Power, our miniature solenoid valve technology and pump solutions enable our customers in the life sciences sector to develop new medical devices such as respirators and oxygen concentrators which are smaller and more portable thereby giving them a key competitive advantage in their respective markets.

In our Indoor Climate business we have developed a new range of differential pressure control valves which provide the necessary stabilised pressure in heating and cooling systems to achieve optimal system controllability and energy efficiency. The larger valves were developed for demanding conditions in large scale projects and district heating applications.

Where other wellhead production chokes fail, CCI's 100DPC chokes greatly minimise the risk of unscheduled shutdowns and lost production.

In our Beverage Dispense business we have worked closely with the major drinks companies and restaurant chains to develop a new range of dispensing equipment which help them to sell more drinks to their customers. Viper, our new frozen beverage dispenser, is a great example with its high output capabilities and flexibility to serve a wider range of products. We use intimate knowledge of how the consumer buys to develop design solutions in our Merchandising business which drive impulse sales of high margin consumer goods and in turn creates greater profits for retailers and brand owners alike.

key themes

contributing to enhanced energy efficiency

"TA's innovative differential pressure control valves are now being used following the recommissioning of the installation to regulate the pressure and flow of the hydronic systems. In the experimental phase, significant energy savings were achieved in one of the main buildings of the Polytechnic that utilise this self-regulating climate control technology."

Daniel W. T. Chan BSc, MPhil, PhD, RPE, CEng, FHKIOA, FBSOMES, FCIBSE, MHKIE, MIMechE, MASHRAE, MIOA
Professor
Department of Building Services Engineering, The Hong Kong Polytechnic University

Cornelius expanded its offering of energy saving products with the latest soft drinks cooling system using 40% less energy than traditional systems.

ENERGY EFFICIENCY

We have long identified energy efficiency as a key market driver for the Group. Over the last year global warming and the resultant drive towards reductions in carbon emissions has risen even further up the agenda for most governments, politicians, companies and individuals. This was clearly highlighted at the United Nations Climate Change conference in Copenhagen in December 2009. Whilst no firm legally binding commitments were made the conference clearly demonstrated that across the world increased legislation is likely to drive demand for both cleaner energy generation from renewables and nuclear power and also for much more energy efficient buildings and products.

HOW WE CONTRIBUTE

Energy efficiency is a key part of our responsible business agenda both in terms of maximising the energy efficiency in our processes and products and in understanding and meeting our customers own responsible business priorities. There is a significant demand from our customers across all of our businesses for more energy efficient products not only to help them meet their own energy efficiency targets but also to help them meet the requirements of greater legislation. Energy efficiency is therefore a key driver of our new product development activity.

In Severe Service we continue to seek opportunities for our valve, actuation and control solutions to support renewable and more sustainable power generation projects. We have had a number of project wins in areas such as thermo solar energy. We have also now aligned all of our nuclear activity into one division which is expected to have a significant role in the new generation of nuclear power stations which are now being planned and built. Similarly in Fluid Power we have been working closely with our key customers to develop more energy efficient products. These are often legislation driven such as the requirement to meet new emissions standards on commercial vehicles.

The main driver in our Indoor Climate business is energy efficiency and associated legislation. Both commercial and residential buildings are increasingly required by law to become more energy efficient. Our hydronic balancing systems and thermostatic radiator valves help our customers to meet these local and international regulatory obligations, considerably reduce energy consumption and deliver high levels of climate control. We also make a major investment each year in training seminars for our customers to explain how to optimise energy efficiency in new construction projects which pulls through demand for our market leading brands in this area.

In Beverage Dispense we continue to develop our portfolio of more energy efficient products. We have developed beverage cooling systems which reduce energy consumption by between 40% and 60% in comparison with traditional models. This is important in helping the global drinks companies to meet their public commitments to reduce their carbon footprints. In Merchandising we have utilised new LED lighting systems for one of our major US retail customers. This has reduced CO_2 emissions by on average 33 tonnes per store.

CCI's severe service control valves provide the reliability and performance required in today's demanding solar energy power plants.

key themes

aftermarket focus - delivering product support globally

"Control valve problems were the leading cause of downtime with the first generation of supercritical boilers built in the USA. Since we have replaced all of our control valves with the proven DRAG technology from CCI, downtime due to control valves is reduced to almost nothing."
Lee Bell, Senior Engineer
Homer City Power plant

Norgren is developing its on-line aftermarket solution, Norgren Express, which provides fast, easy access to their pneumatic product range.

AFTERMARKET

An attractive aftermarket for service and replacement parts is one of the key characteristics that IMI looks for in its chosen end markets. Aftermarket support helps to lock in strong relationships with our key global customers, provides more predictable long term revenue streams and also often generates more attractive margins than for the original equipment.

HOW WE CONTRIBUTE

As detailed elsewhere in this report the aftermarket for service and replacement parts provides a significant revenue stream in most of our businesses.

In Severe Service we have an installed base of around 100,000 valves around the world and generate significant revenues from supplying parts for these valves which get serviced on a regular basis. In 2009 the aftermarket represented over 30% of Severe Service revenues and generated attractive margins for the business.

Approximately one third of Fluid Power's revenues are generated from maintenance, refurbishment and overhaul (MRO) activity where customers require our pneumatics parts to repair or refurbish existing machinery. We are growing our position in this important part of the market through the development of our Norgren Express offering, which enables customers to order parts easily online. Availability and short delivery times rather than price are key to meeting our customers' requirements.

In Indoor Climate, 60% of activity is focused on refurbishment rather than new construction. In the thermostatic radiator valve (TRV) market in particular we benefit from having a market leading brand in Heimeier which is often the brand of choice when TRVs need replacing or upgrading.

In Beverage Dispense we have arrangements with the large brand owners to remanufacture older dispensing equipment to extend their useful life. We also have a major parts business, 3Wire, which supplies parts for both beverage dispensing equipment and food service equipment right across North America. 3Wire represents approximately 25% of the Beverage Dispense businesses revenue and has industry-leading customer service and logistics systems to maintain its market leading position.

Finally in Merchandising we get a significant pull through revenue stream from many of our merchandising systems as parts require replacement or updating to take account of changes in the size or shape of the branded products being sold. This is particularly true in the cosmetics market where our base systems require regular upgrades over their normal life span of approximately three years.

The spares process that Artform now offers to clients such as L'Oreal provides a truly comprehensive and efficient spares service. The introduction of Webstore greatly aided this improvement and has turned out to be a key reporting tool from which all their customers are now able to benefit.

key themes

increasing focus on emerging markets for sales and low-cost manufacturing

"Our new manufacturing facility and advanced technical centre in Shanghai will support our growth and Engineering Advantage strategy in China and the rest of Asia."
Dr Chon-Kwo Tsai
Managing Director
Norgren Asia-Pacific

Growth in emerging markets is a strategic focus for our Indoor Climate business, which has won some prestigious projects in Eastern Europe including this office, residential, leisure & entertainment complex in Slovakia.

EMERGING MARKETS

It has become increasingly evident that emerging markets are the relative winners from the recent global economic troubles. This is for two main reasons: the quality of their national balance sheets is extremely strong compared with many western economies and their economic growth is expected to far outstrip that of the developed world in both real and nominal terms for the foreseeable future. Conversely the growing strain on both government and consumer finances in western economies is likely to constrain growth prospects over the next few years.

According to the International Monetary Fund (IMF) China's economy grew by an impressive 8.7% in 2009, despite the sharpest economic downturn in a generation in many western economies. Other emerging economies such as India, which grew by 5.6%, also performed relatively well. The IMF's latest forecasts for 2010 (January 2010) are predicting growth in emerging and developing economies of 6.0% versus 2.1% in advanced economies with China alone forecast to grow at 10%.

HOW WE CONTRIBUTE

Emerging markets in 2009 represented approximately 20% of IMI's total revenue. This percentage has been growing over a number of years as IMI has invested in its sales, marketing and manufacturing capabilities in the key emerging economies including China, India, Brazil and Eastern Europe. This investment has been driven for two reasons. Firstly, as highlighted above, the growth opportunities are considerably higher in many emerging countries compared with the more mature developed economies of Western Europe and North America. Secondly for a number of years, IMI has been restructuring its operations to move manufacturing from high-cost western economies to lower-cost countries such as China, Mexico, the Czech Republic and most recently, India. This has both helped to lower the Group's cost base and also put a greater proportion of our manufacturing closer to these important end markets.

Our platform businesses are at different stages of development within emerging economies. Severe Service is the most advanced with almost 40% of revenue streams coming from emerging markets. China has invested heavily to meet its growing power generation requirements and this, together with other countries such as India and Brazil, are key end markets for Severe Service. Fluid Power and Beverage Dispense both have around 15% of revenues in emerging markets where they have been making steady progress. In both businesses we now have large manufacturing capacity in China which will assist our progress in this key market.

Indoor Climate, whilst having 17% of revenues from emerging markets, has been more focused on Eastern Europe – close to its main European heartland. There are significant opportunities, particularly for its balancing and control valves in Asia, which we will be looking to develop over the coming years. Our Merchandising business, which historically has had little presence in emerging markets, is now also actively exploring opportunities in China with many of the global brand owners.

Viper, our new frozen beverage dispenser is one of our range of products helping our customers to grow sales of branded drinks in key emerging markets.

financial review

With effect from 1 January 2009, the Group has implemented IAS1 (Revised) *'Presentation Statements'*, IAS23 (Revised) *'Borrowing Costs'* and IFRIC13 *'Customer Loyalty Programmes'*. Except for certain presentational changes, including the introduction of a 'Group Statement of Changes in Equity' as a primary financial statement, the adoption of these standards has had no material impact on the financial statements and there has been no requirement to restate prior year comparatives.

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 2008.

In 2009, revenue, segmental operating profit, margin and adjusted earnings per share were all lower reflecting the impact of the global economic downturn. Organic revenues were down 16%, excluding the impact of exchange rates.

In Fluid Controls, the Severe Service business continued to trade well overall with project activity in the aftermarket remaining buoyant. However order intake for new valves weakened in the third quarter and after double digit organic growth in the first half, revenues fell slightly in the second half compared to the second half of 2008. Fluid Power stabilised in the second half of the year after sharp falls in demand in the first half as a result of the downturn.

The Indoor Climate business was relatively resilient throughout the year with only a 4% organic revenue decline. It benefited from a healthy market for thermostatic radiator valves in Germany and a strong performance by Pneumatex, our water conditioning business, which was acquired in 2007.

Douglas Hurt
Finance Director

In Retail Dispense, the Beverage Dispense business experienced a sharp reduction in demand from the major soft drinks bottlers particularly in both North America and Europe. The UK beer market also continued to be challenging. As expected, the Merchandising business was also significantly affected by the downturn. Second half performance was further impacted by lower demand from the automotive sector and the large contract to a US grocery chain in 2008, much of which was shipped in the third quarter of that year.

Despite the difficult trading conditions segmental operating profit margins held up well at 13.1% compared to 14.0% in 2008. In the traditionally stronger second half, the Group delivered an operating margin of 15.3% (2008 H2: 14.8%).

Total revenue for the year decreased to £1,792m (2008: £1,901m), down 6% or £109m, of which £345m or 16% was organic decline, partially offset by a £233m gain on translation reflecting the impact of exchange rate movements.

Segmental operating profit at £234.2m (2008: £266.3m) decreased by 12%. This movement comprised an organic decline of £67.3m offset by positive currency benefits of £35.2m. The Fluid Controls businesses, Severe Service, Fluid Power and Indoor Climate accounted for £194.9m (2008: £217.8m) or 83% of these profits and the Retail Dispense Businesses, Beverage Dispense and Merchandising accounted for £39.3m (2008: £48.5m) or 17% of the total.

Interest costs for the year on net borrowings at £18.5m (2008: £16.1m) were covered 14 times (2008: 17 times) by earnings before interest, tax, depreciation and amortisation of £262.5m (2008: £269.3m).

The net charge from pension fund financing under IAS19 was £4.0m (2008: £3.8m credit) and a gain arose on the revaluation of financial instruments and derivatives under IAS39 of £7.7m (2008: loss of £22.2m) reflecting primarily the movements in exchange rates during the year.

Profit before tax and exceptional items was down 17% at £211.7m (2008: £254.7m).

During the year the Group took immediate and early actions to align capacity to lower levels of demand. This involved widespread redundancies, short time working arrangements and the selective rationalisation and closure of a number of sub-optimal or unprofitable operating units. At the same time we have invested in a further expansion of our low cost manufacturing capabilities in China, the Czech Republic and India. Accordingly, restructuring costs were higher at £34.9m (2008: £19.6m). Of this amount the largest costs were in the Fluid Power business, £21.0m (2008: £10.0m) and the Beverage Dispense business, £7.1m (2008: £4.4m). The majority of these costs were redundancy costs but they also include plant transfer, installation and set up costs incurred in the year.

Acquired intangible amortisation was £7.2m (2008: £7.2m). There was no impairment of goodwill in the year (2008: £6.0m). Profit before tax was £186.2m (2008: £176.0m), an increase of 6% 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			
2008	911	114.2	103.7
Effects of currency translation	**166**	**21.7**	**21.7**
Organic growth	**(187)**	**(44.9)**	**(44.9)**
Net interest cost		**(0.6)**	**(0.6)**
Other financing items		**(4.0)**	**(4.0)**
Financial instruments excluding economic hedge contract gains and losses			**13.2**
Restructuring costs			**(11.9)**
Investigation costs and fines			**2.7**
Acquired intangible amortisation and impairment			**(0.2)**
Reversal of economic hedge contract gains and losses	**10**		
2009	**900**	**86.4**	**79.7**
Second half			
2008	990	140.5	72.3
Effects of currency translation	**67**	**13.5**	**13.5**
Organic growth	**(158)**	**(22.4)**	**(22.4)**
Net interest cost		**(1.8)**	**(1.8)**
Other financing items		**(4.5)**	**(4.5)**
Financial instruments excluding economic hedge contract gains and losses			**23.0**
Restructuring costs			**(3.4)**
Investigation costs and fines			**23.6**
Acquired intangible amortisation and impairment			**6.2**
Reversal of economic hedge contract gains and losses	**(7)**		
2009	**892**	**125.3**	**106.5**
Year	**1,792**	**211.7**	**186.2**

* Profit before tax and exceptional items.

Half year analysis

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

	Change %	2009 £m	2008 £m
Revenue			
First half	**-1**	**900**	911
Second half	**-10**	**892**	990
	-6	**1,792**	1,901
Segmental Operating profit			
First half	**-19**	**97.4**	120.6
Second half	**-6**	**136.8**	145.7
	-12	**234.2**	266.3
PBTE*			
First half	**-24**	**86.4**	114.2
Second half	**-11**	**125.3**	140.5
	-17	**211.7**	254.7
Restructuring costs			
First half		**(17.5)**	(5.6)
Second half		**(17.4)**	(14.0)
		(34.9)	(19.6)
Others: full year			
Severe Service investigation costs and fines		**-**	(26.3)
		-	(26.3)
Acquired intangible amortisation and impairment			
First half		**(3.7)**	(3.5)
Second half		**(3.5)**	(9.7)
		(7.2)	(13.2)
Financial instruments excluding economic hedge contract gains and losses			
First half		**14.5**	1.3
Second half		**2.1**	(20.9)
		16.6	(19.6)
Profit before tax			
First half	**-23**	**79.7**	103.7
Second half	**+47**	**106.5**	72.3
	+6	**186.2**	176.0

* Profit before tax and exceptional items.

Taxation

The effective tax rate for the year on profit before tax and exceptionals was lower at 30% (2008: 31%). After taxation of £53.8m (2008: £60.0m) the profit was £132.4m (2008: £116.0m), an increase of 14%.

Earnings per share

Basic earnings per share (EPS) was up 15% at 40.8p (2008: 35.4p). The Board considers that a more meaningful indication of the underlying performance of the Group is provided by earnings 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 45.8p, a decrease of 15% over last year's 54.1p.

Cash flow

The Group's cash flow statement is shown on page 66. The change in net debt is summarised in the table opposite.

The cash flow from continuing operations was £278m (2008: £241m). This represents a conversion rate of segmental operating profit after restructuring costs into operating cash flow of 139% (2008: 98%). Cash spent on Property, Plant and Equipment in the year was £37m (2008: £48m) which was equivalent to 0.8 times (2008: 1.1 times) depreciation. Expenditure on Research and Development in the year was £39m (2008: £38m). Of this amount development costs capitalised in the year were £5m (2008: £5m).

After payment of interest and tax, the free cash flow generated from operations was £198m (2008: £168m) and, after paying the additional pension contribution and Severe Service fines and costs, free cash flow before corporate activity was £168m (2008: £151m). In January 2009 the Group acquired the remaining 19.1% non-controlling interest in Display Technologies for a cash consideration of approximately £18m. The Group also paid a fine of $18m in August 2009 as part of the settlement reached with the US Department of Justice in respect of the CCI Investigation. The conversion of foreign currency borrowings at the year end resulted in a decrease of £44m in reported net debt.

	2009 £m	2008 £m
EBITDA*	**262.5**	269.3
Working capital requirements	**60.7**	3.6
Capital expenditure	**(42.2)**	(52.7)
Capital sales/other	**(3.0)**	20.5
Operating cash flow	**278.0**	240.7
Tax paid	**(52.6)**	(54.4)
Interest/derivatives	**(27.3)**	(18.3)
	198.1	168.0
Severe Service investigation costs and fine	**(13.5)**	-
Additional pension scheme funding	**(16.8)**	(16.8)
Free cash flow before corporate activity	**167.8**	151.2
Acquisitions	**(19.4)**	-
Dividends paid to equity shareholders	**(66.0)**	(66.2)
Dividends paid to non-controlling interests/other	**(1.6)**	(2.4)
Net issue/(purchase) of shares	**1.4**	(14.8)
Net cash flow	**82.2**	67.8
Opening net debt	**(298.7)**	(233.1)
Foreign exchange translation	**44.1**	(133.4)
Closing net debt	**(172.4)**	(298.7)

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

Balance sheet

Net debt at the year end was £172m compared to £299m at the end of last year. The year end net debt to EBITDA ratio was 0.7 times (2008: 1.1 times).

At the end of 2009 the US loan notes totalled £246m, with a weighted average maturity of 7.8 years and other loans totalled £7m. During the year the Group successfully issued $175m of US loan notes in July 2009 with maturities extending to 2019. The proceeds from these loan note issues were used to refinance $65m of maturing US loan notes with the balance being used to reduce existing bank debt – freeing up additional banking facilities to maintain our considerable headroom. Consequently total loan facilities available to the Group at the year end were £530m of which £253m were drawn.

Intangible assets

The value of the Group's intangible assets fell to £386m at 31 December 2009 (2008: £400m). Additional goodwill was recognised in the year of £24m from the acquisition of a controlling interest in NASS Parts and Service (£1m) and the remaining non-controlling interests in Display Technologies (£17m) and Pneumatex (£6m). Offsetting this increase, the impact of exchange and amortisation were the prime contributors of the net reduction in value.

Property, Plant and Equipment

The net book value of the Group's investment in Property, Plant and Equipment at 31 December 2009 was £233m (2008: £266m). In view of the economic conditions experienced in the year, capital expenditure was limited to 0.8 times depreciation (2008: 1.1 times), although funds were made available to continue the Group's investment in further production facilities in lower cost economies.

Shareholders' equity

Shareholders' equity at the end of December 2009 was £400m, a reduction of £52m since the end of last year, which includes the attributable profit for the year of £130m, less an after-tax actuarial loss on the defined benefit pension plans of £109m and the 2008 final and 2009 interim dividends totalling £66m.

Share buybacks

No shares were repurchased during the year as part of a share buyback programme as the Board determined it was sensible to maintain a strong balance sheet in the context of the global economic downturn.

Dividends

The Board has recommended a final dividend of 13.2p, an increase of 3.9% over last year's level. This makes a total dividend for the year of 21.2p (2008: 20.7p). The total cost of the final dividend is expected to be £42m, giving a total cost of £68m in respect of the year ended 31 December 2009. Dividend cover based on adjusted earnings is 2.2 times.

Pensions

The IMI Pension Fund remains the largest employee benefit obligation within the Group. Like many other UK companies, the Fund is very mature having significantly more pensioners and deferred pensioners than active participating members. The Group and the Trustee entered into consultation with the members on 3 March 2010 concerning a proposal to close the Fund to future accrual with effect from 30 September 2010. If the consultation does result in closure to future accrual it is estimated that there would be a curtailment gain of approximately £10m.

The last triennial actuarial valuation of the UK defined benefit pension plan 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 in this amount was made in July 2009. The next triennial actuarial valuation will be conducted as at March 2011 and should there no longer be a funding deficit, these additional contributions would cease.

The IAS19 deficit at 31 December 2009 for the Group's employee defined benefit pension plans was £258m, up from £137m at the end of 2008. The increase was mainly due to an increase in the UK scheme liabilities resulting from a reduction in the real discount rate assumption partially offset by an increase in the market value of the schemes assets. Together with the proposal to close the fund to future accrual the Group is currently exploring various options with the Trustee to reduce future risk in respect of the UK defined benefit schemes liabilities.

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 show in note 18 to the financial statements. The translation impact on the 2009 segmental operating profit was an improvement of £35.2m. 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	
	2009	2008	**2009**	2008
Euro	**1.12**	1.26	**1.13**	1.03
US Dollar	**1.57**	1.85	**1.61**	1.44

If the exchange rates as at 1 March 2010 of US$1.49 and €1.11 had been applied to our 2009 results, it is estimated that revenue and segmental operating profit would have been 4% and 5% higher respectively.

Economic value added

Economic value added is defined as the net operating profit after tax (NOPAT) on continuing operations before restructuring costs less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital (WACC) to the average invested capital (net assets plus net debt, but net debt excludes the IAS19 pension deficit). For 2009 the net operating profit before restructuring costs was £235.9m and after tax the NOPAT was £165.1m. The Group's invested capital at the beginning of 2009 was £760.4m, comprising £461.7m of net assets and £298.7m of net debt. The equivalent amounts at the end of 2009 were £574.4m, £402.0m of net assets and £172.4m of net debt. The average invested capital was £667.4m. Applying the 2009 WACC of 8% to the invested capital gives a charge of £53.4m. The economic value added in 2009 was £111.7m, representing an increase of 18% over the 2008 economic value added of £94.9m.

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.

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 2010. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain 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 2009 was 518.5p (2008: 271.75p), an increase of 91% over the year. Based on the year end share price, the total dividend of 21.2p represents a yield of 4.1%.

Douglas M Hurt

Finance Director

3 March 2010

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. We 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 engage in 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.

The IMI Way has been translated into over 25 languages and during 2009 face-to-face training was given to all our employees worldwide. Further training sessions combined with on-line training tools are planned which will ensure that The IMI Way underpins everything we do to move the business forward successfully.

To recognise the importance of The IMI Way and the huge efforts made by employees to embrace it during the year, a new annual IMI CEO Award for exceptional commitment to The IMI Way was introduced with the first winners for 2009 announced in January 2010.

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

Presentation of CEO Awards for H&S Excellence and the IMI Way (left to right) Mike Semens-Flanagan for Artform (H&S), Martin Lamb CEO, Sean Toomes for Flow Design Inc. (IMI Way runner up), Svetlana Panchenko, Cornelius (H&S – Individual), Brian Crowe for Norgren Queretaro (H&S runner up), Mike Marshall for Kloehn (IMI Way), Richard Aceves, CCI (IMI Way – Individual).

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 2009, we continued to make good progress on our initiatives in this area. Responsible business activities are managed by a Steering Group chaired by Roy Twite, executive director. 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. Evidence of our responsible business progress is our continued inclusion in both the FTSE4Good and Dow Jones Sustainability indices.

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 health, safety and environment ("HS&E") or quality accreditation in particular facilities.

Legal compliance is very important for all responsible businesses, including IMI. Unlawful activity of any kind is completely unacceptable to us. The breach of the standards identified during the Severe Service investigation in 2007 prompted a review of all aspects of control across the whole of IMI, particularly with regard to anti-corruption. As a result, a comprehensive programme of new processes, procedures and training has been implemented across the Group. This programme is led by the IMI Chief Compliance Officer, a new position created in 2009, with direct sponsorship from the Executive Committee. More routinely, we identify, monitor, and forecast legislative developments in order to maximise opportunities and minimise risks.

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 low 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 financial assurance audits. In 2009, we introduced a web-based data system for the collection and collation of the annual audit 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 2009, we made excellent progress in improving our HS&E record. In spite of the challenging economic conditions we targeted increases in resource with 11 new full-time health, safety and environmental appointments. We also maintained capital expenditure in this critical area. Our overall lost time accident rates, as shown on page 7, fell from 0.47 accidents per 100,000 hours worked in 2008 to 0.27 in 2009, an impressive 43% improvement. This performance demonstrates a clear focus and commitment at all levels across the Group on HS&E matters. We have increased resources, improved the quality of resources, reporting and investigations and in particular seen a positive step change in many of our sites which had previously been underperforming.

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 2009, Group-wide HS&E forums were again held in the UK, USA and Mexico and the first pan-Europe forum took place in March. In addition, we held Group-wide HS&E leadership conference calls with over 200 participants across 20 countries that highlighted some of the best practice initiatives that are being implemented across IMI.

Examples of best practice included:

- In 2009, CCI formally implemented a structured HS&E framework with a balanced scorecard approach to measure how the business was performing in each of the key areas. The biggest challenge was to ensure consistency of communication and implementation across all of CCI's sites worldwide. All CCI locations showed a high level of commitment, resources and participation to deliver a significant cultural change in the organisation.
- Norgren's site in Queretaro, Mexico uses a 12 element HS&E system which is clearly understood and endorsed by all employees. Any incident is fully explained to all employees who are then encouraged to come up with ideas to help prevent similar occurrences. The site even has its own fully trained fire response team which competes in local competitions.
- In Merchandising, Artform UK implemented a significant cultural change with the aim of improving its health and safety record. One of the main initiatives, which has also been carried out across other IMI sites, has been the successful roll out of a new pictorial "near miss" reporting programme. This has created greater awareness of potential risks by all employees, particularly operators of a variety of nationalities. As a result of identifying risks and addressing them before they turn into accidents, Artform has seen a dramatic reduction in all accidents.

As well as the new IMI Way award in 2009, we also introduced a CEO award for health and safety excellence, which considered significant achievements across all of IMI's operations. The first winners of the award came from right across the Group and individuals, sites and companies were recognised for their efforts. In addition, health and safety targets have been used as one of the main benchmarks for determining the responsible business element of annual bonuses for the first time in 2009.

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 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.

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. For instance, our Fluid Power business, Norgren, has designed new proportional valves for its truck customers for more efficient exhaust gas recycling. This is helping these customers with their environmental requirements and in particular helping to make engines compliant with the new European standards.

The fundamental proposition of our Indoor Climate business is to help customers reduce energy usage in both residential and commercial buildings. As companies increasingly seek to measure and reduce their carbon footprints, our TA, Heimeier and Pneumatex products are ideally placed to help them meet their targets. For example, Indoor Climate runs seminars, which trained and educated over 45,000 customers in 2009, on the carbon and energy efficiency benefits of hydronic balancing in heating and ventilation systems.

In our Beverage Dispense business, many of our customers, which include the global soft drinks and beer brands, have adopted extremely stretching responsible business targets particularly on reducing their carbon footprints. Cornelius now has a range of more energy-efficient cooling and dispensing systems for both carbonated soft drinks and beer which use between 40% and 60% less energy than traditional systems. They have also made LED lighting standard on all new systems to reduce

During CCI's global IMI Way shutdown, CCI Sweden employees volunteered in the community and helped to clean up the streets and canals in the town of Säffle.

energy consumption. Similarly, our Merchandising business has utilised LED lighting for a major US retailer which has generated carbon emission savings of, on average, 33 tonnes per store per year – equivalent to planting 9 acres of trees.

Our Severe Service business specialises in providing high efficiency products for demanding applications where even very small improvements can lead to major costs and energy savings. One specific example involved CCI assisting a major global oil company to meet new fugitive emissions standards by developing new technologies that met the customer's requirements.

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 advantages for IMI.

3. Supply chain and manufacturing in low 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 minimising both employment and HS&E risks.

A major supplier conference was again held in China in 2009, 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.

As part of the supplier evaluation process, 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 2009, over 125 supplier audits took place and this process continues to be reviewed and enhanced. Supplier audits typically involve a self assessment questionnaire followed by a visit to verify the answers.

Any areas requiring improvement are identified and an action plan is agreed with the supplier to correct them. As a result of these audits we terminated our relationships with a number of suppliers who were not able to meet our strict responsible business requirements.

4. Energy efficiency and carbon management

IMI has an ongoing commitment to reduce its CO_2 emissions and become more energy efficient in both our products and processes. This has both environmental and cost saving benefits. As shown on page 7 of this annual report IMI measures its CO_2 emissions by looking at tonnes of CO_2 emitted per 1,000 hours worked. As detailed elsewhere in this report, in 2009 IMI saw a sharp fall in its activity levels with many of our sites operating on shortened hours leading to an overall reduction in hours worked of 16%. Consequently, whilst we were pleased to see an 11% fall in total CO_2 emissions to 90,000 tonnes (2008: 101,000 tonnes) our key performance indicator has risen slightly from 3.3 to 3.5 CO_2 tonnes per 1,000 hours worked. Further information will be provided in the 2009 environmental and health and safety performance report that will be posted to the IMI plc website, www.imiplc.com, in due course.

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. Not surprisingly, given the nature of its own products, it is our Indoor Climate business which continues to lead the way across the Group with its approach to energy management. During 2009 a major benchmarking review was carried out which identified that the business is in the top 10% of its sector for emissions. In addition to ongoing initiatives ranging from energy saving light bulbs and automatic light sensors to a new low fuel consumption company car policy, Indoor Climate has also embarked on a new energy efficient compressor programme which will lead to further improvements.

Elsewhere in the Group our businesses have been implementing a range of initiatives aimed at reducing energy consumption and our overall Carbon Footprint. As the global economy recovers and our activity levels increase again we would expect to see the benefits of these varied initiatives improve our key performance indicator. The Group as a whole has now set a target to reduce its normalised CO_2 emissions by 10% over the next three years to no more than 3.2 CO_2 tonnes/1,000 hours worked. Regular updates on our achievement against this target will be given in future Annual Reports and 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 2009, IMI continued to provide support for many charities with its three 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.
- CIDA Foundation, which provides students from underprivileged backgrounds across South Africa with a virtually free higher education specialising in business studies to create a new generation of entrepreneurs to stimulate economic and social development.
- DebRA, a charity working on behalf of people with the genetic skin blistering condition, Epidermolysis Bullosa (EB).

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 CCI employees in Säffle, Sweden spent a day helping to clean up local playgrounds, public areas and nature paths. At Artform in the UK, some of the more musically talented employees formed a band and held a summer concert which raised money for a local diabetes charity.

In early 2009, IMI China sponsored a successful visit by the Birmingham Royal Ballet to China. This represented a mutually beneficial connection between IMI's historic Birmingham base and one of its key growth markets.

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.

In 2009 IMI conducted its first all

employee engagement survey. This was delivered globally and translated into 23 languages. Employees could complete the survey on-line or on paper. The aim was to provide us with useful and practical information about levels of employee satisfaction and engagement and to enable us to prioritise key areas to improve employee satisfaction, to drive organisational change and to support the continuing roll out of The IMI Way. The survey was piloted in June in Indoor Climate and then rolled out across the rest of the businesses in October. The response rate was an encouraging 66%. Overall our employee satisfaction/engagement results were very favourable when compared against external benchmarks. Action planning is taking place in 2010. The survey will be conducted again at the end of 2010.

The significant investment in training and development for The IMI Way, based on the articulation of IMI's core values and a detailed programme of ethics and compliance education and training, has been the major focus of our investment in people during 2009. We have ensured that every employee in every location has a clear understanding of the behaviours we expect from employees, the policies and procedures that apply Group-wide, and the sources of support and guidance that are available to them, including the IMI Hotline – our confidential whistleblowing facility.

At the heart of IMI's professional competence lie two key elements – Key Account Management and Engineering Advantage.
Our investment in developing these core competencies has been maintained in 2009, and will increase even further in 2010. Ensuring that we have people with outstanding customer relationship skills and the ability to turn insight about customers' needs into innovative technical solutions that add value is critical to our continued success.

Each year, IMI actively recruits high calibre graduates of universities across the world from a variety of disciplines and diverse backgrounds for its prestigious graduate programme. The programme consists of a series of six month assignments over a two-year period in different IMI locations around the world. During 2009, we have maintained our level of investment in this programme to ensure that we recruit and develop the best engineering and commercial talent aligned with our growing businesses.

IMI's internal high potential programmes, Aspire and Aspire Plus, are designed to develop the most talented individuals, particularly those willing to take on new challenges in different countries or businesses. This development and career management programme prepares our most talented people for early movement into senior positions. The Executive and platform Presidents devote time and energy to ensuring that we have the right talent in the right place to meet our succession needs.

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.

Employees at our Norgren Queretaro facility in Mexico took time out from their working day to be trained in first aid.

IMI

board of directors

NON-EXECUTIVE DIRECTORS

NORMAN B M ASKEW Chairman
Age 67; 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. His current positions include the chairmanship of both Taylor Wimpey plc and the Board of Governors of Manchester University.

TERRY M GATELEY
Age 56; 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 47; non-executive; joined the IMI Board in 2005.

Kevin Beeston is Chairman of Serco Group plc and also chairs three private businesses which are Partnerships in Care Limited, Infinitas Learning BV and Domestic and General Limited.

ANITA M FREW
Age 52; non-executive; joined the IMI Board in 2006.

Anita Frew is Chairman of Victrex plc and a non-executive director of Aberdeen Asset Management PLC, Northumbrian Water Ltd, Securities Trust of Scotland plc and City of London Investment Trust 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 59; 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.

EXECUTIVE DIRECTORS

ROY M TWITE
Executive Director
Age 42; 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 management positions and has recently been appointed President of the Fluid Power business, having previously had responsibility for IMI's Retail Dispense businesses, which comprise Beverage Dispense and Merchandising.

DOUGLAS M HURT
Finance Director
Age 53; 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.

MARTIN J LAMB
Chief Executive
Age 50; 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 24 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.

IMI directors' report

The directors present their report, together with the audited financial statements for the year ended 31 December 2009.

Business review

Section 417 of 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 in this report and the following sections of this report. All of the information detailed in these sections is incorporated by reference into this report and is deemed to form part of this report:

- Our goals and how we are achieving them on pages 4 and 5;
- Measuring our business performance on pages 6 and 7;
- Group operating review (including Statement from the Chairman and Chief Executive) on pages 8 to 21;
- Financial review on pages 22 to 27; and
- Responsible business on pages 28 to 33.

Principal activities

IMI plc is the holding company of the IMI group of companies (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 118 and 119. The revenue, profit and capital employed attributable to each of these businesses are shown in note 3 on pages 76 to 79.

The year's results

The Group consolidated income statement is shown on page 62. Segmental operating profit amounted to £234.2m (2008: £266.3m) and profit before taxation amounted to £186.2m (2008: £176.0m). Earnings attributable to shareholders of IMI plc amounted to £130.2m (2008: £112.9m).

Dividends

The directors recommend a final dividend of 13.2p per share (2008: 12.7p per share) on the ordinary share capital payable on 24 May 2010 to shareholders on the register at the close of business on 16 April 2010. Together with the interim dividend of 8.0p per share paid on 16 October 2009, this final dividend brings the total distribution for the year to 21.2p per share (2008: 20.7p per share).

Research and development

Expenditure on research and development in the year was £39.1m compared with £38.2m in 2008: of this amount £4.9m (2008: £5.1m) has been capitalised.

Shareholders' funds

Shareholders' funds decreased from £452.4m at the end of 2008 to £399.8m at 31 December 2009.

Share capital

As at 31 December 2009, 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 106 and 107. The ordinary shares are listed on the London Stock Exchange.

As at 31 December 2009, 1,042,588 shares are held in an employee trust for use in relation to certain executive incentive plans representing 0.3% 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, 525,912 new ordinary shares were issued under employee share schemes: 251,968 under the all employee share ownership scheme and save as you earn plans and 273,944 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 annual report and financial statements, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting 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.

None of the ordinary shares carry 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.

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.

Own shares acquired by the Company

At the annual general meeting of the Company held on 8 May 2009 authority was given for the Company to purchase up to 47,975,000 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 annual general meeting to be held on 7 May 2010, shareholders will be asked to give a similar authority, details of which are contained in the accompanying circular to shareholders.

As at 31 December 2009, 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

As at 3 March 2010, the Company has been informed, pursuant to the FSA's Disclosure and Transparency Rules, of the following notifiable voting rights in its issued share capital:

Standard Life Investments Limited	12.21%
AXA Investment Managers UK Limited	4.86%
Newton Investment Management Limited	3.96%
Legal and General Group plc	3.95%

So far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company. Information provided to the Company pursuant to the FSA's Disclosure and Transparency Rules is published on a regulatory information service.

Statement on corporate governance

The required disclosures are contained in the corporate governance report on pages 42 to 45.

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. The Group has a European Works Council which has been in operation since May 2003 and which 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 18 members of the European Works Council comprising 14 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. An all employee engagement survey was conducted in 2009, the details of which are provided on pages 32 and 33. The Annual Report is available to all employees.

The Company operates an all employee share ownership plan covering all UK employees of certain operations, under which an annual bonus worth up to £3,000 can be awarded to employees in shares and employees can invest their own money to acquire additional shares in a tax efficient manner. A savings-related share option scheme, which is available to the majority of UK employees, has operated since 1984. Further details of employee share schemes are set out in the Remuneration Report on pages 46 to 60 and in note 20 to the financial statements on pages 103 to 105.

A number of people development initiatives are co-ordinated across the Group, including the IMI graduate programme and high potential programmes called Aspire and Aspire Plus. These programmes and the Company's approach to employee investment and talent development are explained on pages 32 and 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. As a matter of longstanding policy, where appropriate, employees who become disabled are given suitable training for employment within the Group or elsewhere.

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 pages 6 and 7 and further information is available on our website www.imiplc.com.

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

£233,000 was given during 2009 (2008: £254,000) for community and similar purposes including £224,000 (2008: £245,000) 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 page 32. No political donations were made during the year and the Company intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2010 annual general meeting to make limited political donations or incur limited political expenditure, although it has no intention of using the authority.

Directors

The membership of the Board and biographical details of the directors are given on pages 34 and 35 and are incorporated into this report by reference. David Nicholas retired from the Board on 1 September 2009.

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. In addition, each director stands for re-election at least once every three years. 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.

In accordance with the Company's articles of association, Terry Gateley, Douglas Hurt and Roy Twite retire at the forthcoming annual general meeting and are recommended for re-election. Terry Gateley is a non-executive director with a letter of appointment and does not have a service contract. Douglas Hurt and Roy Twite are executive directors and have service contracts terminable on one year's notice.

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 memorandum and 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 resolutions that the Company is seeking for the allotment, issue and purchase of its ordinary shares will be 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 57 to 59.

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 on a takeover.

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 IAS8 *'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 34 and 35 confirm 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 Company and the Group taken as a whole; 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.

A statement in relation to the adoption of the going concern basis in preparing the financial statements appears on page 27.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm 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.

Risks and uncertainties

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 structure is given on pages 44 and 45. The Group's financial risk management practices are also discussed in note 18 to the financial statements. In addition, the Group's approach to corporate social responsibility and associated risks is described on pages 28 to 33.

The principal risks faced by the Group, as identified by the Board, are summarised below:

External risk

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 revenue, which may result in sharper 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.

Mitigating actions

- The diverse nature of the Group's products, services, customers and markets served, together with the development of aftermarket revenues and appropriate contingency planning, help to mitigate the impact of unfavourable economic conditions.

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 14% of total group revenues.

Mitigating actions

- The Group devotes resources to ensure that these good relationships are maintained and developed while building strong relationships with new accounts to ensure a diverse portfolio across business sectors and geographic regions.
- The Group also monitors the markets that it operates in for advance warning of any negative commercial developments.

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. This could have a material impact on the Group's results.

Mitigating actions

- The Group actively monitors these risks and is continuously developing contingency plans to mitigate the impact of any supplier failure.

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.

Mitigating actions

- The Group's initiatives in research and development are targeted to sustain its competitive advantage and the Group takes appropriate action to ensure that its cost base remains competitive.
- The Group's processes for managing investment in research and development include appropriate stage gates for reviewing progress against clearly defined, often customer driven, technical and commercial objectives.

Legal, regulatory and political risks

The Group's worldwide operations 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.

The Group's worldwide operations also expose it to the effect of political risk which can include sudden changes in regulations, expropriation of assets, imposition of trade barriers and wage controls and limits on the export of currency.

Mitigating actions

- The Group is committed to good governance practices and during the year has increased its resources dedicated to legal and regulatory compliance in order to further enhance its capability to identify and manage the risk of compliance failure.
- Appropriate training is provided to employees on key risk areas such as competition law and anti-corruption and also on The IMI Way which provides a guiding set of values that exemplify how IMI employees should behave.
- The IMI Hotline is available for any concerns to be reported in confidence.

Financial market risks

The Group is exposed to a number of financial market risks including credit risk, liquidity risk and 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.

Internal risk

Talent acquisition

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 in the development of, or increased difficulty in the strategic development of the Group, including in developing and selling its products and services.

Mitigating actions

- Succession plans are in place and are regularly reviewed by the Board.
- A number of people development initiatives are co-ordinated across the Group, including the IMI graduate programme and high potential programmes called Aspire and Aspire Plus.

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.

Mitigating actions

- The IMI Way provides a guiding set of values that exemplify how IMI employees should behave and has been issued with face-to-face training to all employees.
- Further training is being provided to strengthen employee awareness of the Group's values.
- Concerns regarding breaches in compliance matters or internal controls can be reported in confidence via the IMI Hotline. All such reports are followed up and are monitored by the Chief Compliance Officer and reported to the Audit Committee.
- During the year the Group has increased its Group Assurance resources to provide more assurance on the adequacy of the Group's financial control and reporting process.

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.

Mitigating actions

- The Group maintains a continued focus on quality and has processes in place to mitigate the reputational and legal implications of any failure.
- The Group maintains insurance cover for product liability claims where possible and seeks to ensure that it is also protected so far as possible by the contract terms in place.

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.

Mitigating actions

- The Group has established systems in place to ensure that health, safety and environmental matters are appropriately addressed and any such risks are minimised. These procedures were enhanced during 2009 by the introduction of the IMI Corporate Health & Safety requirements.
- The Group maintains insurance for the costs associated with any employers' liability, workers compensation or equivalent claims and also maintains insurance covering 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.

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.

Mitigating actions

- The Group has a rigorous due diligence process and ensures clear financial targets are in place.
- Any potential acquisition is also subject to a formal approval process.
- The Group also puts in place appropriate business integration processes to ensure that the Group's policies, values, ethical code, compliance and control framework are adopted and embedded to ensure a smooth transition.

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.

Mitigating actions

- The Group and the trustees of the schemes continually review these risks with actuarial and investment advice as appropriate and take action to mitigate the risks where possible.

Cautionary statements

The foregoing statements of directors' responsibilities for the financial statements and the confirmations regarding audit information are addressed solely to shareholders and made pursuant to and for the purposes required by UK legislation and regulations, without any other or special assumption of responsibility on the part of the Company or its directors and officers.

The business review and other content of this Annual Report is addressed to the shareholders of IMI plc as a body. 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 above under the heading '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 7 May 2010, commencing at noon. Notice of the meeting will be sent to shareholders as a separate circular.

Auditor

Resolutions for the appointment of Ernst & Young LLP as auditor of the Company and to authorise the directors to determine the auditor's remuneration are to be proposed at the forthcoming annual general meeting.

By order of the Board

John O'Shea

Company Secretary

3 March 2010

IMI plc is registered in England No. 714275

Statement of compliance

The Board is committed to high standards of corporate governance and confirms that throughout the year ended 31 December 2009 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 46 to 60. The Board is able to report compliance with the Combined Code throughout 2009.

A new UK Corporate Governance Code is expected to be issued in 2010 to replace the Combined Code and, in the case of the Company, it will be effective from the start of 2011. Based on the proposed new code circulated by the Financial Reporting Council in December 2009, it is envisaged that the Company will be in a position to comply in all material respects.

The Board

At the end of the year the Board comprised eight directors: the Chairman; Chief Executive; four independent non-executive directors; the Finance Director and one operational executive director. Changes in the composition of the Board during the year are noted 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 34 and 35. Each new appointee to the Board is required to stand for election at the next annual general meeting following their appointment. In addition, each director stands for re-election at least once every three years.

The Board provides leadership, direction and control for the Group and oversees business and management performance. The Board has an established list of matters reserved to it and written delegations of authority for its committees and the executive directors. Board reserved matters include strategy and key areas of policy, major operational and strategic risks, significant investment decisions and material changes in the composition 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. Senior executives from around the Group are invited by the Board to attend certain meetings to make presentations and join in discussion.

There is a clear division of responsibility between the Chairman and Chief Executive, which is reflected in a written statement approved by the Board. In summary, the Chairman is responsible for the leadership and running of the Board but does not have any executive powers or responsibilities. The Chief Executive leads the executive management team in running the business and implementing operating and strategic plans under authority delegated by the Board. The executive team until 1 September 2009 comprised: the Chief Executive, Martin Lamb; Finance Director, Douglas Hurt; and two operational executives, David Nicholas and Roy Twite. Changes in executive responsibilities were announced in March 2009 and David Nicholas retired as a director on 1 September 2009. After a period of transition, responsibility for operations was assumed by the Chief Executive to whom all five businesses directly report. Roy Twite became President of Fluid Power and heads the Group supply chain function in addition to his Group level responsibility for health and safety.

Non-executive directors are supported in becoming familiar with the businesses and there is regular contact between management and non-executive directors during site visits and formal meetings. 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 Combined 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 met on nine 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 missed one meeting and Douglas Hurt and Bob Stack each missed one telephone conference meeting.

Pursuant to the Combined Code, and in accordance with best practice, the non-executive directors met as a group with the Chairman on a number of occasions during the year and the senior independent director, Terry Gateley, convened one such meeting in the absence of the Chairman.

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 the Audit Committee, Remuneration Committee and Nominations Committee were updated in December 2008 and appear on the Company website www.imiplc.com.

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 relevant financial experience. The committee conducted a competitive tender process which resulted in it recommending the appointment of Ernst & Young LLP ('Ernst & Young') as auditor. The Board accepted the recommendation and Ernst & Young became auditor in June 2009 replacing KPMG Audit Plc. 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 44, 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 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 was restated during the year. The restated policy requires approval by the Chairman of the committee for any non-audit engagement where fees exceed £150,000 (2008: £100,000) 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 procedure which was enhanced in 2008 by the launch of an independent hotline www.imihotline.com.

The committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor and this was given particular attention in relation to the 2009 audit which was the first conducted by Ernst & Young since its appointment in June 2009. The committee recommended and the Board approved the proposal to 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 except that Anita Frew missed one meeting. The committee regularly calls upon the Chairman, Chief Executive, Finance Director and other personnel, including the Controller and the Group Assurance Director, to attend for parts of its meetings. The committee approved the foregoing report on its work.

Remuneration Committee

The Remuneration Committee is chaired by Bob Stack, who took up the role on 12 June 2009 when Kevin Beeston stepped down. Norman Askew, Kevin Beeston, Anita Frew, Terry Gateley and Bob Stack 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. The committee met on six occasions during the year with all members in attendance except that Anita Frew missed one meeting. External consultants were engaged by the committee to provide advice and the Chief Executive, Finance Director and the Group Human Resources Director attended its meetings when required. The committee approved the foregoing report on its work and more details 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 considered 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 composition of the Remuneration Committee. The committee met on six occasions during the year with all members in attendance except that Anita Frew missed one meeting. During the year the committee spent a substantial part of its time on executive talent development and succession planning. The committee 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 Group Human Resources Director and the Company Secretary. It meets monthly and more often as may be required in order to monitor performance, review business management issues and formulate budgets and proposals on strategy, policy and resource allocation for consideration by the Board. Its minutes are circulated to all members of the Board. It also acts as the Risk Committee reporting to the Board and receives regular reports on health and safety, compliance, business and other risks. Senior executives from around the Group are regularly called upon to attend meetings of the Executive Committee.

Board induction, continuing professional development and evaluation

A formal induction process for new directors has been in operation for several years. It is overseen and kept up to date by the Chairman with support from the Chief Executive, Company Secretary and the Group Human Resources Director. During and after induction directors are encouraged 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.

An internal evaluation of the Board, its committees and individual directors, was commenced in 2009 and the Chairman reported on it to the Board in March 2010. This process included questionnaires and interviews and appropriate follow-up discussions involving the Chairman and Group Human Resources Director. In addition, the directors met with the senior independent director regarding the performance of the Chairman and the Chairman met individually with each of the directors to canvass their views. The Board received the findings of the evaluation in March 2010 and the directors confirmed that the Board is fulfilling its responsibilities appropriately. Actions agreed as a result include the establishment of a new risk committee of the Board including non-executive directors and 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 individual directors standing for election or re-election is commented on in the notice of the annual general meeting issued to shareholders with this annual report.

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 2009 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 2009 annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the directors' report for 2008. A separate resolution for the approval of the Remuneration Report was also put to the meeting. Notice of the 2009 annual general meeting was dispatched 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.

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 has its own website www.imiplc.com which 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 122).

The Board as a whole seeks to maintain a balanced understanding of the issues and concerns of major shareholders. 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 will meet with major shareholders upon request and otherwise if any of them considers it appropriate.

Information about share capital, substantial shareholdings, voting and other rights of shareholders, director's appointments, removal and powers is set out in the Directors' Report on pages 36 to 41.

Financial reporting processes

The use of the Group accounting manual and prescribed reporting requirements by finance teams throughout the Group ensures 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 overall responsibility for 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 by the Financial Reporting Council (the 'Turnbull Committee Guidance').

Consistent with the Turnbull Committee Guidance, the Board has assigned responsibility for the continuous review of risk management and controls to the Executive Committee. 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.

Each operating unit is required to undertake a continuous process of business risk assessment and reporting. This is reviewed by the most senior executive within the relevant business and any major risk issues are considered by the Executive Committee.

The Executive Committee makes regular reports to the Board on major business risks faced by individual operations and by the Group and how those risks are managed. Through this process major business risks are identified, assessed and ranked according to their probability and materiality and the Board considers what measures are appropriate in order to control such risks.

The Board has clearly defined in writing those matters which are reserved to it and the respective delegated authorities of its committees and the executive directors.

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 directors 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 standards. 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 and co-ordinated with external audit. Additionally, visits to operations are carried out by senior Group finance personnel and 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 the Audit Committee, as appropriate, 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 whenever weakness in the internal control system is identified appropriate remedial action is taken. As a result of internal investigations during 2007 it became apparent that improper payments and trade law violations had occurred in IMI's CCI business. IMI had established policies and controls in place to guard against such non-compliance, but these were circumvented through collusion by a group of CCI employees. Significant employee changes have been made in CCI as a result and a major ethics and compliance program, known as The IMI Way, has been adopted by the Group under the leadership of the Chief Executive. The IMI Way is promulgated through a new Group compliance function headed by Jo Morgan, who was formerly a member of the corporate legal team at IMI.

Through the procedures outlined above the Board has considered the effectiveness of all significant aspects of internal control for the year 2009 and up to the date of this Annual Report, including the changes to personnel and compliance procedures within CCI. 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

The Company has a Code of Responsible Business known as The IMI Way, which appears on its website. The Board takes account of the social, environmental and ethical impact of its decisions and the 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 director and key issues of corporate social responsibility are identified, monitored and addressed through the Group's risk assessment processes.

The Company satisfies the FTSE4Good global corporate responsibility criteria and has been awarded membership of the FTSE4Good Index. In addition, in 2009 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 website.

By order of the Board

John O'Shea

Company Secretary

3 March 2010

Overview

During the year the Remuneration Committee reviewed the remuneration policy with particular emphasis on ensuring alignment with the business strategy for the creation of shareholder value and appropriate consistency with current market and best practice guidelines. Some special measures were adopted in 2009 after shareholder consultation and approval at the annual general meeting. These measures were in response to the unusually volatile and uncertain economic conditions. For 2010 the committee has decided to revert for the most part to previous incentive arrangements but to maintain a freeze on executive directors' salaries for a second year in a row.

A summary of the measures taken in 2009 and the changes to be made in 2010 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. No base salary increases for executive directors have been awarded in 2010.
- Annual bonus: in recent years, IMI has used a selection of bonus metrics to support the corporate strategy. This continues and the relevant bonus metrics for 2009 were operating profit before tax and exceptional items, profit drop through percentage (reflecting the priority of minimising the impact on profit of reduced revenues), and cash conversion percentage (to ensure that cash is managed effectively across the Group). Additionally, some non-financial measures (including health and safety and improvements in ethics and compliance processes) are included in the annual incentive plan. The same metrics will be used in 2010 except that return on sales will replace profit drop through. For all executive directors, the level of bonus normally payable for achieving target performance was reduced from 60% of salary to 40% in 2009, and the level of stretch (performance above target) required for maximum bonus was increased. The maximum bonus potential for 2009 was reduced from 150% to 130% of salary for the Chief Executive and from 125% to 115% of salary for the Finance Director. The committee has restored maximum bonus potential for 2010 to 2008 levels in light of the Group's trading performance, but has set the on-target bonus at 50% of salary rather than the previous 60%. Separately, the committee has increased Roy Twite's bonus maximum from 100% to 115% of salary in 2010 in recognition of his current Board and operational responsibilities and individual performance. Finally, the power to seek claw-back of bonuses in certain circumstances was introduced in 2009 and will be retained in 2010.
- Share Matching Plan: changes in relation to this co-investment plan were introduced in 2009 as follows: (i) to allow a higher level of match to be available on voluntary deferral of bonus; (ii) to permit executives to make additional voluntary contributions from their own monies (up to their maximum bonus potential); and (iii) to change the performance metrics to be applied to the matching awards by adopting a mix of alternative targets including three consecutive annual targets based on the primary financial metrics for annual bonus. The plan will continue to operate in this way for the 2009 awards, but it is intended to revert to three year economic value added targets for 2010 matching awards.
- Performance Share Plan: in response to the difficulty in 2009 in setting a robust three year earnings per share target, awards made under this plan in 2009 were solely subject to a relative total shareholder return performance condition (for previous grants 50% of the awards were based on relative total shareholder return 'TSR' performance and 50% on earnings per share performance). For awards to be made in 2010 it is intended to revert to using a combination of earnings per share and TSR but also to adopt a new performance measure, return on operating capital employed, for 25% of performance share awards to incentivise sustained working capital improvement; earnings per share will be the measure for 50% of the total award opportunity, total shareholder return for 25% and return on operating capital employed for the remaining 25%.
- Share ownership guidelines: these were increased in 2009 to 125% of salary for executive directors (previously 100%) to be achieved by 30 June 2011 for the current executive directors and, for new appointments, within five years of joining the Board. All of the executive directors had exceeded their share ownership guideline as at 31 December 2009.
- Share awards under the Share Matching Plan (formerly the Deferred Bonus Plan), Performance Share Plan and the legacy Deferred Share Plan due to be released over the Easter bank holiday period in 2010 were amended to allow for release in the week before Easter.
- Implementation of an executive retirement plan: this is an unregistered defined contribution pension plan for UK senior managers, designed to give more flexibility to senior staff in planning for their retirement. The first contributions will be made in 2010 following the sacrifice of certain cash-based remuneration by executive directors and other participants (see page 54 for more details).
- At the 2010 annual general meeting shareholder approval is sought to amend the Share Matching Plan and the Performance Share Plan so that the awards can, at the Remuneration Committee's discretion, be settled as employer contributions to the executive retirement plan or other pension and employee benefit trust arrangments or in cash. This is subject to the requirements of the share ownership guidelines.

Composition

The members of the Remuneration Committee throughout the year were Bob Stack (Chairman from 12 June 2009), Kevin Beeston (Chairman until 12 June 2009), 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.

Role

The Remuneration Committee determines the remuneration policy and rewards for the Chairman and the executive directors. The committee also reviews the packages of those at the next most senior level of management. A copy of the Remuneration Committee's terms of reference is available from the corporate governance section of the IMI website.

Advice received

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. Fees paid in the year in respect of work for the committee were £230,000. 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.

Non-executive directors' remuneration and terms of appointment

The remuneration of the non-executive directors is determined, after reference to external benchmarks, by the Chairman and the executive directors. The non-executive Chairman's remuneration is determined by the Remuneration Committee in his absence.

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 55 and was last revised in November 2007. Annual remuneration in 2009 was as follows:

Chairman £195,000.

Non-executive directors (including committee membership fees) £45,000.

Additional remuneration for chairing a committee £10,000.

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

No changes in these remuneration levels are proposed for 2010.

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 59).

The normal period for initial appointment and first renewal is three years. The appointment of the Chairman is set to run until May 2011. After six years, renewal is considered on an annual basis and this currently applies to Terry Gateley. Appointments are made under a letter of agreement subject to retirement by rotation and removal under the Company's articles of association. 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. 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 as at 31 December 2009	Date of appointment as a director
N B M Askew	14.05.08	1 year 4 months	14.05.05
K S Beeston	12.06.09	1 year 2 months	08.03.05
A M Frew	29.01.09	2 years 2 months	02.03.06
T M Gateley	12.06.09	10 months	01.11.03
R J Stack	12.06.09	1 year 6 months	13.06.08

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.

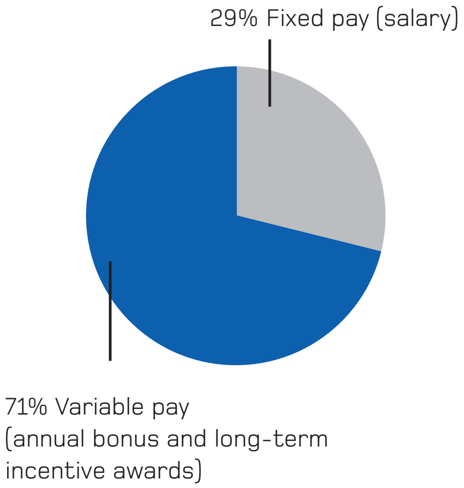
The Remuneration Committee considers it to be important to maintain the flexibility to respond to individual circumstances. However, its normal approach has been to pay salaries within appropriate market competitive ranges, combined with realistic potential for above market total compensation if performance is outstanding. Remuneration comprises basic salaries, annual performance bonuses and benefits in kind, pension arrangements or a cash allowance and participation in a share matching plan and a performance share plan.

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 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.

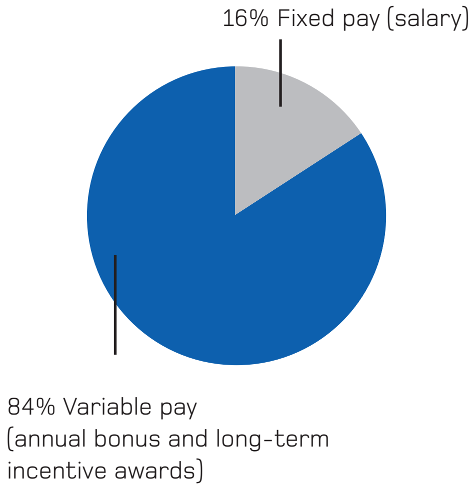
The policy of the committee is to set performance conditions for incentives which are both stretching but also reasonably attainable in the environment in which the Company is then operating.

The charts below show the fixed and performance related elements of the Chief Executive's remuneration at both target and maximum based on the proposed 2010 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.

Chief Executive
Target remuneration



Chief Executive
Maximum remuneration



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 directors is 65. These contracts do not include any specific provision for compensation payable upon early termination. 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 2009
M J Lamb	31.10.86	18.07.96	24.01.08	12 months	15 years 1 month
D M Hurt	01.05.06	01.07.06	01.10.06	12 months	11 years 6 months
D C Nicholas*	08.03.04	08.03.04	01.10.06	12 months	5 years
R M Twite	26.09.88	01.02.07	01.02.07	12 months	22 years 5 months

* D C Nicholas retired as a director on 1 September 2009.

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 external benchmark data (looking at UK listed companies of similar size, complexity and international presence), the executive's role, responsibilities and individual performance and pay conditions elsewhere in the Company. 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 2010 financial year will therefore remain as follows:

M J Lamb - £656,000.

D M Hurt - £360,000.

R M Twite - £340,000.

The committee acknowledges the leadership example shown by the executive directors and certain other senior executives in accepting a salary freeze for two consecutive years.

Annual bonus

Executive directors are awarded annual performance bonuses. Maximum bonus is only payable if the stretching targets set by the Remuneration Committee are met.

Details of the structure and metrics are given on page 46 in the section headed "Overview".

The committee retains power to reduce or withhold annual bonus payments in exceptional circumstances and following best practice in 2009 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 newly introduced executive retirement plan (ERP), directors and senior managers may waive their bonus entitlement. The Remuneration Committee may then choose, at its discretion, to make a contribution into the executive retirement plan on their behalf. The Chief Executive waived his 2009 bonus entitlement and the Company has exercised its discretion to make contributions to the ERP during 2010.

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 defer up to 100% of their maximum annual bonus potential into shares subject to annual approval by the Remuneration Committee. The committee intends to allow such a level of investment in 2010. By investing in the SMP, matching shares may be earned, which vest after three years, subject to the achievement of stretching performance conditions. It is intended that awards made under the share matching arrangements, which are settled in shares, will be satisfied through shares purchased in the market.

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 opportunity will be paid in the form of shares and a matching award will be made under the share matching plan at a lower level. If the individual meets the shareholding guideline, then the taking of bonus in shares will be encouraged through participation in the SMP with matching at a higher level. The Remuneration Committee 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.

For awards made in 2008 and previous years, the maximum level of match was 1:1 for the other executive directors and 1.25:1 for the Chief Executive. From 2009, matching awards allowed for a higher level of match (up to 2:1) for shares that are voluntarily purchased through the investment of deferred bonus or other monies. The lower levels of match apply to up to 50% of annual bonus that is to be compulsorily paid in shares where an executive has not met their share ownership guideline.

With the exception of awards made in 2009, the matching share awards are subject to economic profit, also known as 'economic value added' (EVA), based performance conditions over a three year performance period. Where EVA performance conditions apply to the awards they were tiered (with linear progression within each band). The calculation of EVA is based on segmental operating profit after tax, with appropriate adjustment for restructuring costs, 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 57.

For the matching awards granted in 2009 the EVA performance condition was replaced with a series of performance measures, as summarised in the operating section on page 46 headed "Overview" and the notes to the table on page 58.

The first SMP awards were made in 2006 dependent upon performance over the three year period to 31 December 2008 and vested in 2009 at 100% of maximum. The 2007 SMP awards will vest in 2010 at 63.5% 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 57.

The vesting of awards is subject to the satisfaction of stretching performance conditions over a three year period. Our policy is for PSP awards, which are settled in shares, to be satisfied through shares purchased in the market.

For awards made in and before 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 57.

The first PSP awards were made in 2005 and were based on performance for the period 2005 to 2007. These awards vested in 2008 at 50% of maximum (nil vesting for the TSR element and full vesting for the EPS element). The PSP awards made in 2006 vested in 2009 at 70.1% of maximum (20.1% for TSR and 50% for EPS) and the 2007 awards will vest in 2010 at 44.7% of maximum (25.1% for TSR and 19.6% for EPS).

In response to the difficulty in setting a realistic three year EPS target in 2009, awards granted under the plan in 2009 were only subject to a relative TSR performance condition. It is intended to revert to a mixture of measures for awards to be made in 2010 with EPS accounting for 50% of the award, TSR for 25% and a new measure, return on operating capital employed, for the remaining 25%.

The TSR comparator group for awards made in 2008 and 2009 and for awards to be 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 AB	Sweden
Emerson Electric	United States	Seco Tools B	Sweden
Fanuc	Japan	SKF B	Sweden
Flowserve 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	Tomkins	United Kingdom
Illinois Tool Works	United States	Tyco International	United States
Ingersoll-Rand	United States	Weir Group	United Kingdom
Invensys	United Kingdom	Yaskawa Electric	Japan

* Country is shown as country of primary listing.
Note: Enodis and FKI had been included in the comparator group but were taken out because they had delisted.

The 2010 comparator group will be the same as it was in 2009 subject to any delistings.

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 capital adjustments and changes 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%

Long term incentive arrangements (continued)

Performance Share Plan (continued)

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 its decision.

The performance condition for one half of the intended 2010 PSP awards will be based on the Company's compound annual earnings per share 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 2010, which is the same as for the 2008 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%

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

The vesting of the final 25% of the 2010 PSP awards will depend on IMI's average return on operating capital employed (ROOCE) over the three years from 2010 to 2012, and will be calibrated as follows:

Average ROOCE	Vesting
32%	100%
Between 25% and 32%	Pro-rata between 25% and 100%
25%	25%
Less than 25%	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 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

Executive directors also participate in an All Employee Share Ownership Plan which is open to the majority of the Group's UK employees. In 2010 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 2009. 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 executive directors makes the maximum contribution from their salary towards partnership shares under the plan. Up to two matching shares may be awarded for every one partnership share acquired under the plan, although the policy to date has been not to award any matching shares.

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.

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 2009 were as follows:

Executive director	Level of share ownership (at 31.12.09 using average December share price and 2009 salary)
M J Lamb	314%
D M Hurt	219%
R M Twite	182%

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 2009 was 2.5% and 3.8% respectively.

Pension entitlement

Executive directors except for Douglas Hurt participate in the IMI Pension Fund. Their normal retirement age under the Fund is 65, although Martin Lamb may elect to retire and receive a pension at any time after age 57 without any actuarial discount and Roy Twite may retire at 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 David Nicholas, and 50% of the member's pension for Roy Twite.

Should Martin Lamb or David Nicholas 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.

Pension entitlement (continued)

Martin Lamb 'opted-out' of the IMI Pension Fund in April 2006 and receives a taxable cash allowance equal to 35% of his basic salary instead of accrual for future service from that date, although accrued benefits generally continue to be linked to final salary inflation and Fund benefits were preserved in relation to ill-health retirement, death-in-service and termination after age 50 for redundancy or otherwise at the Company's insistence.

Douglas Hurt and Roy Twite each received a taxable cash allowance equal to 35% of their basic salary instead of pension benefits (Roy Twite having 'opted-out' of the IMI Pension Fund from 31 January 2007, retaining a deferred pension in respect of pensionable service to that date).

David Nicholas retired as an employee on 11 December 2009 (on attainment of age 60) receiving a pension without actuarial discount in accordance with the rules.

The policy regarding pension arrangements for new 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.

The executive retirement plan (ERP) was introduced in 2010 as a tax efficient means for UK senior managers to save for retirement outside of the registered pensions regime, and the associated HMRC limits on pension savings, which apply under the registered regime. Executive directors are entitled to receive a taxable cash allowance instead of pension benefits. They 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. Subject to amendments to the SMP and PSP being authorised at the 2010 annual general meeting, it will be possible for awards to be settled in the form of employer contributions to the ERP. In 2010 Douglas Hurt and Roy Twite sacrificed their cash allowances payable in lieu of pension benefits and the Company has exercised its discretion to make contributions to the ERP. Martin Lamb has similarly sacrificed 43% of his cash allowance payable in lieu of future accrual in the IMI Pension Fund, as well as his 2009 annual bonus entitlement, and the Company has also exercised its discretion to make contributions to the ERP during 2010.

Save as indicated below, the remainder of this report has been audited.

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 2009 of £42,500 (2008: £35,351).

Summary of directors' remuneration

	Salary and fees £000	Non-cash benefits £000	Sums by way of taxable allowances £000	Bonus £000	Total 2009 £000	Total 2008 £000
Non-executive						
N B M Askew	**195**	**–**	**–**	**–**	**195**	195
K S Beeston	**49**	**–**	**–**	**–**	**49**	55
A M Frew	**45**	**–**	**–**	**–**	**45**	45
T M Gateley	**60**	**–**	**–**	**–**	**60**	60
R J Stack	**51**	**–**	**–**	**–**	**51**	25
L Browne[1]	**–**	**–**	**–**	**–**	**–**	55
Executive						
D M Hurt	**360**	**5**	**143**	**379**	**887**	871
M J Lamb[2]	**656**	**5**	**250**	**777**	**1,688**	1,670
R M Twite	**340**	**5**	**136**	**314**	**795**	770
D C Nicholas[3]	**322**	**2**	**17**	**297**	**638**	651
Total	**2,078**	**17**	**546**	**1,767**	**4,408**	4,397

[1] L Browne retired as a director on 31 December 2008.

[2] M J Lamb has waived his bonus entitlement and the Company has made discretionary contributions into the executive retirement plan described on page 54.

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

Remuneration shown above as salaries for non-executive directors includes fees of £205,000 (2008: £240,000).
No compensation for loss of office was paid to or receivable by any director in 2009 and none was payable in respect of the retirement of David Nicholas.

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 instead of company car and pension benefits.

Summary of directors' pension arrangements

Details of the pension benefits earned in the IMI Pension Fund are summarised in the following table:

Director	Age at 31.12.09	Pensionable service to 31.12.09[1]	Accrued pension at 31.12.09[2]	Transfer value of accrued pension at 31.12.09[3]	Transfer value of accrued pension at 31.12.08	Difference between transfer values at 31.12.08 and 31.12.09[3]	Increase in accrued pension over the year[4]	Increase in accrued pension over the year (net of inflation)	Value of increase in accrued pension at 31.12.09 (net of inflation)
		Years	£000 pa	£000	£000	£000	£000 pa	£000 pa	£000
M J Lamb	49	20	282	4,938	3,870	1,068	11	(3)	(53)
D C Nicholas[5]	60	6	49	979	743	236	8	6	130
R M Twite	42	18	58	630	490	140	3	-	-

[1] Pensionable service ceased with effect from 6 April 2006 for M J Lamb and 1 February 2007 for R M Twite.

[2] The accrued pensions at the end of the year (11 December 2009 for D C Nicholas) represent the annual deferred pension to which each executive director would have been entitled had he left the service at the end of the year. This is based on completed pensionable service and pensionable earnings at the relevant date. No allowance is made for the value of benefits that may be derived by the executive directors from payment of additional voluntary contributions.

[3] Or as at earlier date of leaving.

[4] The increase in the accrued pension during the year reflects normal deferred pension increases for R M Twite, and the completion of further pensionable service (if any) and the increase in pensionable earnings for other executive directors.

[5] D C Nicholas retired as an employee on 11 December 2009, receiving an annual (post-commutation) pension of £33,942 and a lump sum (provided by commutation of pension) of £226,280. The 2009 transfer value reflects these benefits.

The accrued pension at the relevant date represents the annual deferred pension to which each executive director would have been entitled had they left service at that time. The deferred pensions increase with inflation so the increase in the accrued pension over the year (net of inflation), represents the additional pension built up.

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 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.

Under the method and assumptions used by the Company to account for the costs associated with its defined benefit pension schemes (see note 19 to the financial statements on pages 98 to 102), the aggregate value of the accrued benefits as at 31 December 2009 for the executive directors was £8.42m (2008: £6.17m).

Directors' share awards

Share awards/options are outstanding under the following schemes:

SAYE - IMI Savings-Related Share Option Scheme
DBP - Deferred Bonus Plan
PSP - Performance Share Plan
SMP - Share Matching Plan (formerly DBP)

Director	Scheme	Performance condition	Date of grant/award	Award price*	As at 01.01.09 (or date of joining if later)	During the year: Granted	During the year: Exercised / vested	During the year: Lapsed/Cancelled	As at 31.12.09 (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 (£)**
M J Lamb	SAYE	a)	08.04.03	201.00p	4,980				4,980	01.08.10	31.01.11			
			06.04.04	289.00p	1,335				1,335	01.08.09	31.01.10			
			04.04.06	494.55p	378				378	01.08.09	31.01.10			
			14.04.08	391.41p	1,383			1,383	Nil					
			09.04.09	201.36p	Nil	4,544			4,544	01.08.12	31.01.13			
	PSP	b)	03.04.06	569.67p	100,500		79,174†	30,049	Nil	03.04.09	03.04.16	03.04.09	314.25p	248,804
		b)	05.04.07	592.00p	104,000				104,000	29.03.10	05.04.17			
		c)	04.04.08	473.58p	138,500				138,500	04.04.11	04.04.18			
		d)	11.03.09	229.50p	Nil	285,800			285,800	11.03.12	11.03.19			
D M Hurt	SAYE	a)	16.04.07	517.18p	1,827			1,827	Nil					
			09.04.09	201.36p	Nil	7,772			7,772	01.08.14	31.01.15			
	PSP	b)	28.09.06	494.92p	62,800		50,423†	18,777	Nil	28.09.09	28.09.16	28.09.09	454.00p	228,920
		b)	05.04.07	592.00p	55,600				55,600	29.03.10	05.04.17			
		c)	04.04.08	473.58p	76,000				76,000	04.04.11	04.04.18			
		d)	11.03.09	229.50p	Nil	156,800			156,800	11.03.12	11.03.19			
D C Nicholas	SAYE	a)	04.04.06	494.55p	3,255				3,255	01.08.11	31.01.12			
	PSP	b)	03.04.06	569.67p	54,500		42,934†	16,295	Nil	03.04.09	03.04.16	03.04.09	314.25p	134,920
		b)	05.04.07	592.00p	55,400				55,400	29.03.10	05.04.17			
		c)	04.04.08	473.58p	71,500				71,500	04.04.11	04.04.18			
R M Twite	SAYE	a)	16.04.07	517.18p	3,166			3,166	Nil					
			09.04.09	201.36p	Nil	4,544			4,544	01.08.12	31.01.13			
	PSP	b)	03.04.06	569.67p	14,200		11,183†	4,246	Nil	03.04.09	03.04.16	03.04.09	314.25p	35,143
		b)	05.04.07	592.00p	50,600				50,600	29.03.10	05.04.17			
		c)	04.04.08	473.58p	71,500				71,500	04.04.11	04.04.18			
		d)	11.03.09	229.50p	Nil	148,100			148,100	11.03.12	11.03.19			

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 and 2006 awards and 15% for 2005 awards. For details of the TSR comparator group used for awards made in 2008 and earlier please refer to the relevant year's Remuneration Report.

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.

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

Notes continued on page 58.

Directors' share awards (continued)

* 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 in above are based on the mid-market price at the date of exercise.

The closing price of the Company's ordinary shares at 31 December 2009 was £5.185 per share and the price range during the year was £2.225 to £5.37.

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

Awards under the Share Matching Plan (SMP) (formerly the Deferred Bonus Plan or DBP)

Director	Bonus year	Percentage of maximum bonus achieved	Percentage of bonus maximum invested in base shares	Date of investment in base shares	Purchase price for base shares per share	Number of base shares purchased	Potential maximum matching award if base shares held for three years after acquisition and subject to performance conditions*	Performance conditions for matching share awards	Vesting date
M J Lamb	2006	88	88	05.04.07	595.1065p	49,644	105,914	a)	29.03.10
	2007	80	40	04.04.08	465.3716p	30,982	66,100	b)	04.04.11
	2008	77	100	03.04.09	315.00p	230,225	690,359	c)	03.04.12
D M Hurt	2006	88	88	05.04.07	595.1065p	18,086	30,869	a)	29.03.10
	2007	80	40	04.04.08	465.3716p	16,581	28,300	b)	04.04.11
	2008	81	65	03.04.09	315.00p	68,525	174,917	c)	03.04.12
D C Nicholas	2006	88	88	05.04.07	595.1065p	26,944	45,988	a)	29.03.10
	2007	80	40	04.04.08	465.3716p	16,502	28,165	b)	04.04.11
	2008	85	Nil	-	-	-	-		
R M Twite	2006	92	92	05.04.07	595.1065p	12,498	21,331	a)	29.03.10
	2007	80	80	04.04.08	465.3716p	29,120	49,702	b)	04.04.11
	2008	85	71	03.04.09	315.00p	56,710	146,645	c)	03.04.12

* Shares acquired via investment of annual bonus (net of tax) under the DBP are eligible for a matching award by reference to the gross bonus amount invested.

a) Performance of the Group in relation to economic value added was measured over the years 2007-2009. 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 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.

b) Performance of the Group in relation to economic value added will be measured 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.

c) Performance measures for 2009 SMP awards were exceptional, and included three consecutive years of annual targets and TSR, and are described in more detail in the section above headed "Overview".

The first DBP awards were made in 2006, and were based on performance for the period 2006 to 2008 and subject to a three-year cumulative economic value added measure. In 2009 these awards vested at 100% of maximum. DBP awards made in 2007 were similarly structured and will vest in 2010 at 63.5% of maximum.

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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	05.04.07	595.1065p	28,206	7,052	29.03.10
	04.04.08	465.3716p	37,225	9,306	04.04.11
D C Nicholas	05.04.07	595.1065p	15,309	3,827	29.03.10
	04.04.08	465.3716p	19,827	4,956	04.04.11
R M Twite	05.04.07	595.1065p	1,458	365	29.03.10
	04.04.08	465.3716p	16,872	4,218	04.04.11

* 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 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 2009	Shares held	Interest as at 31.12.09 or date of retirement if earlier	Interest as at 01.01.09 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+	153,310	53,691
M J Lamb	Ordinary shares+	401,166	216,865
D C Nicholas*	Ordinary shares+	127,128	125,634
R J Stack	Ordinary shares	7,500	7,500
R M Twite	Ordinary shares+	121,072	65,584

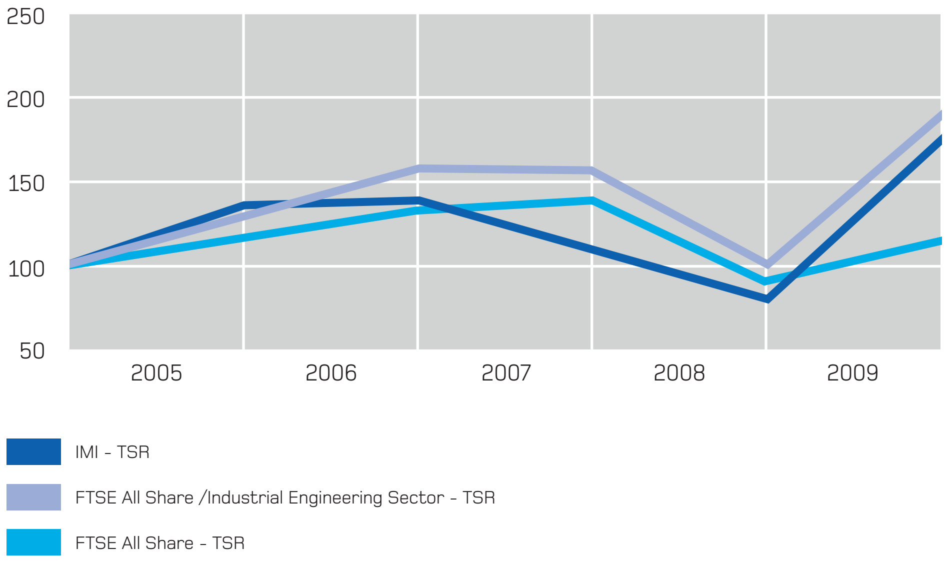
+ Including shares held within company share plans.

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

During the period 31 December 2009 to 3 March 2010 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 12 January 2010 of 22 shares on behalf of each of Martin Lamb, Douglas Hurt and Roy Twite at 562.67p per share and on 9 February 2010 of 23 shares on behalf of each of them at 538.67p per share. In addition, on 3 February 2010 Martin Lamb exercised 1,335 options granted under the terms of the IMI Share Save Option (1994) Scheme on 6 April 2004 at 289p per share and retained the shares and also exercised 378 options granted under the terms of the IMI Sharesave Plan on 4 April 2006 at 494.55p per share and retained the shares.

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 2009 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 total shareholder return has underperformed the FTSE All Share Industrial Engineering Sector Index by 17.7% and outperformed the FTSE All Share Index by 48.0%.



Approved by the Board on 3 March 2010 and signed on its behalf by:

Bob J Stack

Chairman of the Remuneration Committee

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 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 28. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 38 and 39 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 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 (APB'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 2009 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 44 and 45 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 39 in relation to going concern; and
- the part of the Corporate Governance Statement on pages 42 to 45 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Parent Company financial statements of IMI plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ernst & Young LLP.

John C Flaherty (Senior statutory auditor)

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

Birmingham

3 March 2010

IMI consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 Before exceptional items £m	2009 Exceptional items £m	2009 Total £m	2008 Before exceptional items £m	2008 Exceptional items £m	2008 Total £m
Revenue	3,4,5	**1,785**	**7**	**1,792**	1,897	4	1,901
Segmental operating profit	3	**234.2**		**234.2**	266.3		266.3
Restructuring costs			**(34.9)**	**(34.9)**		(19.6)	(19.6)
Severe Service investigation costs and fines			**–**	**–**		(26.3)	(26.3)
Acquired intangible amortisation and impairment			**(7.2)**	**(7.2)**		(13.2)	(13.2)
Reversal of economic hedge contract losses	3		**8.9**	**8.9**		2.6	2.6
Operating profit	3,4,5	**234.2**	**(33.2)**	**201.0**	266.3	(56.5)	209.8
Financial income	6	**64.4**	**37.2**	**101.6**	82.5	3.1	85.6
Financial expense	6	**(86.9)**	**(29.5)**	**(116.4)**	(94.1)	(25.3)	(119.4)
Net financial expense	6	**(22.5)**	**7.7**	**(14.8)**	(11.6)	(22.2)	(33.8)
Profit before tax	7	**211.7**	**(25.5)**	**186.2**	254.7	(78.7)	176.0
Taxation	8	**(63.6)**	**9.8**	**(53.8)**	(79.0)	19.0	(60.0)
Profit for the year		**148.1**	**(15.7)**	**132.4**	175.7	(59.7)	116.0
Attributable to:							
Owners of the parent				**130.2**			112.9
Non-controlling interests				**2.2**			3.1
Profit for the year				**132.4**			116.0
Earnings per share	9						
Basic				**40.8p**			35.4p
Diluted				**40.6p**			35.1p

consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 £m
Profit for the year	**132.4**	116.0
Other comprehensive income		
Effective portion of change in fair value of net investment hedges	**13.3**	(5.3)
Income tax effect	**(3.7)**	1.5
	9.6	(3.8)
Fair value gain on available for sale financial assets	**1.2**	-
Exchange differences on translation of foreign operations	**(28.1)**	73.4
Income tax effect	**3.0**	(2.2)
	(25.1)	71.2
Actuarial loss on defined benefit plans	**(153.3)**	(77.4)
Income tax effect	**44.0**	22.2
	(109.3)	(55.2)
Other comprehensive income for the year, net of tax	**(123.6)**	12.2
Total comprehensive income for the year, net of tax	**8.8**	128.2
Attributable to:		
Owners of the parent	**7.0**	122.9
Non-controlling interests	**1.8**	5.3
Total comprehensive income for the year, net of tax	**8.8**	128.2

IMI consolidated balance sheet

AT 31 DECEMBER 2009

	Notes	2009 £m	2008 £m
Assets			
Intangible assets	11	**386.4**	399.8
Property, plant and equipment	12	**233.0**	266.4
Employee benefit assets	19	**0.6**	2.4
Deferred tax assets	13	**89.6**	54.7
Total non-current assets		**709.6**	723.3
Inventories	14	**249.9**	333.5
Trade and other receivables	15	**311.4**	392.0
Other current financial assets	18	**16.9**	16.5
Current tax		**4.2**	4.7
Investments	18	**17.7**	17.8
Cash and cash equivalents	18	**81.0**	123.9
Total current assets		**681.1**	888.4
Total assets		**1,390.7**	1,611.7
Liabilities			
Bank overdraft	18	**(5.3)**	(4.6)
Interest-bearing loans and borrowings	16, 18	**(1.2)**	(46.5)
Provisions	21	**(22.4)**	(29.4)
Current tax		**(25.8)**	(26.6)
Trade and other payables	17	**(340.6)**	(415.4)
Other current financial liabilities	18	**(4.0)**	(32.8)
Total current liabilities		**(399.3)**	(555.3)
Interest-bearing loans and borrowings	16, 18	**(246.9)**	(371.5)
Employee benefit obligations	19	**(258.1)**	(139.5)
Provisions	21	**(44.5)**	(36.5)
Deferred tax liabilities	13	**(15.0)**	(16.9)
Other payables		**(24.9)**	(30.3)
Total non-current liabilities		**(589.4)**	(594.7)
Total liabilities		**(988.7)**	(1,150.0)
Net assets		**402.0**	461.7
Equity			
Share capital	22	**84.9**	84.7
Share premium		**166.6**	165.1
Other reserves		**56.4**	71.1
Retained earnings		**91.9**	131.5
Equity attributable to owners of the parent		**399.8**	452.4
Non-controlling interests		**2.2**	9.3
Total equity		**402.0**	461.7

Approved by the Board of Directors on 3 March 2010 and signed on its behalf by:

Norman B M Askew Chairman

consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
As at 1 January 2008	84.6	163.3	7.9	1.6	(2.7)	151.8	406.5	6.4	412.9
Profit for the year						112.9	112.9	3.1	116.0
Other comprehensive income				(3.8)	68.1	(54.3)	10.0	2.2	12.2
Total comprehensive income				(3.8)	68.1	58.6	122.9	5.3	128.2
Issue of share capital	0.1	1.8					1.9		1.9
Dividends paid						(66.2)	(66.2)	(2.4)	(68.6)
Share based payments (net of tax)						4.0	4.0		4.0
Shares held in trust for employee share schemes						(1.9)	(1.9)		(1.9)
Acquisition of treasury shares						(14.8)	(14.8)		(14.8)
At 31 December 2008	84.7	165.1	7.9	(2.2)	65.4	131.5	452.4	9.3	461.7
Changes in equity in 2009									
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 held in trust for employee share schemes						**(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**

IMI consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 restated* £m
Cash flows from operating activities		
Profit for the year	**132.4**	116.0
Adjustments for:		
Depreciation	**48.7**	43.1
Amortisation and impairment	**12.8**	16.4
Gain on sale of property, plant and equipment	**–**	(0.2)
Financial income	**(101.6)**	(85.6)
Financial expense	**116.4**	119.4
Equity-settled share-based payment expenses	**4.1**	3.9
Income tax expense	**53.8**	60.0
Decrease in trade and other receivables	**48.0**	20.0
Decrease/(Increase) in inventories	**57.5**	(9.2)
Decrease in trade and other payables	**(44.8)**	(7.2)
Increase in provisions and employee benefits	**(8.4)**	14.4
Cash generated from the operations	**318.9**	291.0
Income taxes paid	**(52.6)**	(54.4)
	266.3	236.6
CCI investigation costs and fine	**(13.5)**	-
Additional pension scheme funding	**(16.8)**	(16.8)
Net cash from operating activities	**236.0**	219.8
Cash flows from investing activities		
Interest received	**3.7**	12.4
Proceeds from sale of property, plant and equipment	**1.8**	3.1
Sale of investments	**0.5**	0.1
Purchase of investments	**(1.0)**	(0.8)
Settlement of derivatives	**(7.5)**	(2.4)
Income from investments	**–**	0.7
Acquisitions of controlling and non-controlling interests	**(19.4)**	-
Acquisition of property, plant and equipment	**(37.3)**	(47.6)
Capitalised development expenditure	**(4.9)**	(5.1)
Net cash from investing activities	**(64.1)**	(39.6)
Cash flows from financing activities		
Interest paid	**(23.5)**	(29.0)
Purchase of own shares	**(0.3)**	(16.7)
Proceeds from the issue of share capital for employee share schemes	**1.7**	1.9
Net repayment of borrowings	**(125.2)**	(45.5)
Dividends paid to non-controlling interest	**(1.6)**	(2.4)
Dividends paid to equity shareholders	**(66.0)**	(66.2)
Net cash from financing activities	**(214.9)**	(157.9)
Net (decrease)/increase in cash and cash equivalents	**(43.0)**	22.3
Cash and cash equivalents at the start of the year	**119.3**	77.4
Effect of exchange rate fluctuations on cash held	**(0.6)**	19.6
Cash and cash equivalents at the end of the year**	**75.7**	119.3

*Restated to show separately cash flow derivatives from operating to investing activities

**Net of bank overdrafts

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 111 to 117. The financial statements were approved by the Board of Directors on 3 March 2010.

The following standards and interpretations were adopted by the Group during 2009.

- IAS23 '*Borrowing Costs*'

  Revised IAS23 *'Borrowing Costs'* removed the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS23 became mandatory for the Group's 2009 consolidated financial statements and constitutes a change in accounting policy for the Group. In accordance with the transitional provisions, the Group has applied the revised IAS23 to qualifying assets for which capitalisation of borrowing costs commenced on or after 1 January 2009. Therefore there is no impact on prior periods in the Group's 2009 consolidated financial statements. The impact of adopting IAS23 in the current year is not material.

- Revised IAS1 '*Presentation of Financial Statements*'

  Revised IAS1 *'Presentation of Financial Statements (2007)'* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The Group has elected to adopt the latter option. The statement of changes in equity has been presented as a primary statement for the first time where previously it was presented in the notes to the financial statements.

- IFRS2 '*Share-based payment*'

  The IASB issued an amendment to IFRS2 which clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The Group adopted this amendment as of 1 January 2009. It did not have a material impact on the financial position or performance of the Group.

- IFRS7 '*Financial Instruments : Disclosures*'

  The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements for all items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments to the standard also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 18.5. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 18.6.

- IFRIC13 *'Customer Loyalty Programmes'* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC13 became mandatory for the Group's 2009 consolidated financial statements, but does not have any impact on the consolidated financial statements.

- IFRIC14 *'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'* clarified when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provided guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC14 became mandatory for the Group's 2009 financial statements, with retrospective application required. The effect of adopting IFRIC14 is not material.

1. Significant accounting policies (continued)

The following relevant standards and interpretations were issued but are not effective for the year ended 31 December 2009:

- Revised IFRS3 *'Business Combinations (2008)'* incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Revised IFRS3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements. The adoption of the standard will increase the volatility of reported profits and it is anticipated that transaction costs, if material, will be reported within exceptional items in future periods.
- Amended IAS27 *'Consolidated and Separate Financial Statements (2008)'* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

The annual improvements project to IFRSs provides a vehicle for making non-urgent but necessary amendments to IFRSs. The 2009 annual improvements project made amendments to a number of standards, these amendments were issued but not effective for the year ended 31 December 2009. These amendments are not expected to have a material impact on the Group financial statements.

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.

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 affect on the amount recognised in the financial statements are described in the notes which follow, on Intangible Assets; Deferred Tax assets and liabilities; Financial risk management; Employee benefits; Share-based payments; Provisions for liabilities and charges; Contingencies and Revenue.

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are those entities which the Company has the power to control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

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.

1. Significant accounting policies (continued)

e) Financial instruments and fair value hedging (continued)

- 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 their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.
- Trade payables are stated at amortised 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.

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) Intangible assets

i) Goodwill

Goodwill arising on acquisitions from 1 January 2004 is recognised as an intangible asset at the date of acquisition. The cost of the asset recognised is measured as the excess of the fair value of the consideration paid over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquired entity and associated costs. On an ongoing basis the goodwill is stated at cost less impairment losses (see accounting policy 'Impairment'). Fair value adjustments are calculated at the earliest opportunity within 12 months of acquisition.

Goodwill is allocated to the cash generating unit acquired, or in the case of an acquisition of multiple cash generating units, goodwill is apportioned to each cash generating unit in proportion to the earnings multiple used for the business valuation at the time of acquisition.

Goodwill on acquisitions prior to 1 January 1998 was deducted from reserves in the year of acquisition. In accordance with IFRS1 *'First time adoption of IFRS'* such goodwill continues as a deduction from reserves and is not recognised in the income statement in the event of disposal of the cash generating unit to which it relates.

Goodwill arising on acquisitions after 1 January 1998 was previously capitalised as an intangible asset and amortised on a straight-line basis over a maximum 20 years. The unamortised goodwill under UK GAAP at 31 December 2003 became the opening goodwill under the Group's transition to IFRS on 1 January 2004.

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at that date.

ii) 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').

iii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy on 'Impairment'). Cost reflects management's judgement of the fair value at the date of acquisition of the individual intangible asset 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.

iv) 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)

h) 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 — Life of related product (maximum 10 years)

1. Significant accounting policies (continued)

i) 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 previous page) 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.

j) 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.

k) 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.

l) 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 intangible assets that have indefinite lives or 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.

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.

m) Dividends

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

n) 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 corporate 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 an Executive Share Option Scheme, a SAYE Share Option Scheme, an All Employee Share Ownership Plan, a Deferred Bonus Plan, a Share Matching Plan and a Performance Share Plan. 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.

1. Significant accounting policies (continued)

o) 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.

p) 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.

q) 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;
- Costs and fines associated with the US Department of Justice's investigation in respect of certain irregular payments within the Severe Service Business;
- The amortisation of acquired intangible fixed assets and impairment of assets;
- Gains and losses (including fair value adjustments) on derivative financial instruments and 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.

r) Financial income and expense

Financial income comprises interest receivable on funds invested, assumed returns on employee benefit plan assets, 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, assumed interest on employee benefit plan liabilities 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.

s) 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.

t) 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.

Classification as a discontinued operation occurs upon disposal when the operation meets the criteria to be classified as held for sale or if directly related to the disposal of a discontinued operation in a prior period.

2. Reclassifications

To assist the user of the accounts, the consolidated income statement has been presented in a columnar format with exceptional items shown on the face of the statement. Items included within exceptional items are described in note 1(q) of these accounts. The 2008 comparative consolidated income statement has been reclassified on a comparable basis. There is no change to total revenue, operating profit, profit before tax, earnings per share or net assets as a result of this reclassification. There is no change in the value or nature of items, reported on the face of the statement other than the amount described as "profit before tax before restructuring, investigation costs and fines, acquired intangible amortisation and impairment, other income and financial instruments excluding economic hedge contract gains and losses" is now described as "profit before tax and exceptional items". The reconciliation of the tax effective tax rate (note 8(c)) has been reclassified to be consistent with the income statement format.

3. 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, process, rail, packaging, print 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 before restructuring, Severe Service investigation costs and fines and acquired intangible amortisation and impairment. Segmental operating profit is also reported to the Chief Executive as if economic currency and metals hedges were effective for financial reporting purposes. 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*	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Fluid Controls	**1,324**	1,390	**194.9**	217.8
Severe Service	**512**	443	**101.4**	81.3
Fluid Power	**520**	666	**32.8**	91.3
Indoor Climate	**292**	281	**60.7**	45.2
Retail Dispense	**461**	507	**39.3**	48.5
Beverage Dispense	**297**	305	**21.1**	27.6
Merchandising	**164**	202	**18.2**	20.9
Total	**1,785**	1,897	**234.2**	266.3

* before exceptional items

Reconciliation of reported segmental revenue and operating profit

	Revenue		Profit	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Segmental result	**1,785**	1,897	**234.2**	266.3
Restructuring costs			**(34.9)**	(19.6)
Severe Service investigation costs and fines			**–**	(26.3)
Acquired intangible amortisation and impairment			**(7.2)**	(13.2)
Reversal of economic hedge contract losses	**7**	4	**8.9**	2.6
Total revenue/operating profit reported	**1,792**	1,901	**201.0**	209.8
Net financial expense			**(14.8)**	(33.8)
Profit before tax			**186.2**	176.0

Balance Sheet

	Segment assets		Segment liabilities	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Fluid Controls	**888.5**	1,067.6	**251.2**	324.6
Severe Service	**328.0**	378.9	**110.0**	140.0
Fluid Power	**420.0**	529.2	**89.4**	121.7
Indoor Climate	**140.5**	159.5	**51.8**	62.9
Retail Dispense	**284.0**	319.0	**71.7**	89.3
Beverage Dispense	**145.9**	175.4	**49.5**	56.0
Merchandising	**138.1**	143.6	**22.2**	33.3
Total	**1,172.5**	1,386.6	**322.9**	413.9

3. Segmental information (continued)

Reconciliation of segment assets and liabilities to Group balance sheet

	Assets		Liabilities	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Segment assets and liabilities	**1,172.5**	1,386.6	**322.9**	413.9
Corporate items	**25.1**	21.6	**96.2**	104.4
Employee benefits	**0.6**	2.4	**258.1**	139.5
Investments	**17.7**	17.8		
Funds/borrowings	**81.0**	123.9	**253.4**	422.6
Net taxation and others	**93.8**	59.4	**58.1**	69.6
Per Group balance sheet	**1,390.7**	1,611.7	**988.7**	1,150.0

Other information

	Restructuring costs		Capital expenditure		Depreciation & amortisation	
	2009	2008	**2009**	2008	**2009**	2008
	£m	£m	**£m**	£m	**£m**	£m
Fluid Controls	**26.8**	12.3	**34.5**	44.5	**47.3**	39.9
Severe Service	**2.7**	0.9	**13.5**	10.6	**10.8**	9.8
Fluid Power	**21.0**	10.0	**15.7**	25.1	**28.4**	22.9
Indoor Climate	**3.1**	1.4	**5.3**	8.8	**8.1**	7.2
Retail Dispense	**8.1**	7.3	**7.7**	9.2	**12.0**	12.9
Beverage Dispense	**7.1**	4.4	**5.8**	6.5	**8.3**	6.8
Merchandising	**1.0**	2.9	**1.9**	2.7	**3.7**	6.1
Subtotal	**34.9**	19.6	**42.2**	53.7	**59.3**	52.8
Corporate	**–**	–	**–**	0.3	**0.7**	0.7
Total	**34.9**	19.6	**42.2**	54.0	**60.0**	53.5

Revenue by geographical destination

	2009 £m	2008 £m
UK	**132**	183
Germany	**234**	266
Rest of Europe	**524**	533
USA	**491**	517
Asia/Pacific	**278**	249
Rest of World	**126**	149
Total segmental revenue	**1,785**	1,897
Reversal of economic hedge contract losses	**7**	4
Total	**1,792**	1,901

No individual customer, or group of customers, represents more than 10% of Group revenue (2008: none).

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

	Non-current assets	
	2009 £m	2008 £m
UK	**108.6**	123.3
Germany	**77.1**	88.9
Rest of Europe	**179.1**	184.8
USA	**210.7**	220.8
Asia/Pacific	**36.3**	40.4
Rest of World	**7.6**	8.0
Total	**619.4**	666.2

4. Acquisitions

4.1 Controlling interests

On 17 December 2009 the Group acquired the assets of NASS Parts and Service for a 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 will be reported within Beverage Dispense, however there was no impact on the 2009 results. Had NASS Parts and Service been acquired at the beginning of the year Group revenue would have been £3m higher and the impact on profit before tax would not have been material. There were no acquisitions in 2008.

4.2 Non-controlling interests

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.

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. It is expected that this acquisition will be finalised in the first half of 2010. The consideration of £12.2m is accrued at 31 December 2009 resulting in goodwill of £6.1m.

5. Operating profit	2009 £m	2008 £m
Revenue (i)	**1,791.8**	1,900.6
Cost of sales (ii)	**(1,058.4)**	(1,144.1)
Gross profit	**733.4**	756.5
Selling and distribution costs (iii)	**(235.7)**	(228.0)
Administrative expenses (iv)	**(296.7)**	(318.7)
Operating profit	**201.0**	209.8

i) includes reversal of £6.9m economic hedge contract net loss (2008: £3.8m)
ii) includes £7.3m restructuring costs (2008: £3.6m) and a reversal of a £2.0m economic hedge contract net gain (2008: £1.2m)
iii) includes £3.8m restructuring costs (2008: £2.2m)
iv) includes £23.8m restructuring costs (2008: £13.8m), £nil Severe Service investigation costs and fines (2008: £26.3m) and £7.2m of acquired intangible amortisation and impairment (2008: £13.2m)

6. Net financial income and expense

Recognised in the income statement	2009 Interest £m	2009 Other £m	2009 Sub total £m	2009 Financial Instru-ments £m	2009 Total £m	2008 Interest £m	2008 Other £m	2008 Sub Total £m	2008 Financial Instru-ments £m	2008 Total £m
Interest income on bank deposits	**3.7**		**3.7**		**3.7**	10.2		10.2		10.2
Financial instruments at fair value through profit or loss:										
Designated hedges				**2.0**	**2.0**				3.1	3.1
Other economic hedges										
- current year trading				**11.6**	**11.6**				-	-
- future year transactions				**23.6**	**23.6**				-	-
Income from investments		**-**	**-**		**-**		0.7	0.7		0.7
Expected return on defined benefit pension plan assets		**60.7**	**60.7**		**60.7**		71.6	71.6		71.6
Financial income	**3.7**	**60.7**	**64.4**	**37.2**	**101.6**	10.2	72.3	82.5	3.1	85.6
Interest expense on financial liabilities measured at amortised cost	**(22.2)**		**(22.2)**		**(22.2)**	(26.3)		(26.3)		(26.3)
Financial instruments at fair value through profit or loss:										
Designated hedges				**(1.9)**	**(1.9)**				(3.2)	(3.2)
Other economic hedges										
- current year trading				**(20.1)**	**(20.1)**				(2.6)	(2.6)
- future year transactions				**(7.5)**	**(7.5)**				(17.2)	(17.2)
Impairment of available for sale financial assets				**-**	**-**				(2.3)	(2.3)
Financial cost of defined benefit pension scheme liabilities		**(64.7)**	**(64.7)**		**(64.7)**		(67.8)	(67.8)		(67.8)
Financial expense	**(22.2)**	**(64.7)**	**(86.9)**	**(29.5)**	**(116.4)**	(26.3)	(67.8)	(94.1)	(25.3)	(119.4)
Net financial (expense)/income	**(18.5)**	**(4.0)**	**(22.5)**	**7.7**	**(14.8)**	(16.1)	4.5	(11.6)	(22.2)	(33.8)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes (see note 3) 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.

6. Net financial income and expense (continued)

Recognised in other comprehensive income	2009 £m	2008 £m
Foreign currency translation differences	(28.1)	73.4
Change in fair value of other financial assets	1.2	-
Change in fair value of effective portion of net investment hedges	13.3	(5.3)
Income tax on financial income/(expense) recognised directly in equity	(0.7)	(0.7)
Financial (expense)/income recognised directly in equity (net of tax)	**(14.3)**	67.4

	2009 £m	2008 £m
Recognised in:		
Hedging reserve	9.6	(3.8)
Translation reserve	(24.3)	68.1
Retained earnings	1.2	-
Non-controlling interests	(0.8)	3.1
	(14.3)	67.4

7. The following have been charged/(credited) in arriving at profit before tax

	2009 £m	2008 £m
Depreciation of property, plant and equipment	48.7	43.1
Amortisation and impairment of intangible fixed assets	12.8	16.4
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
- KPMG	-	0.3
- Ernst & Young	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		
- KPMG	-	3.5
- Ernst & Young	2.3	-
Other services pursuant to legislation		
- KPMG	-	0.3
- Ernst & Young	0.1	-
Tax services		
- KPMG	-	1.6
- Ernst & Young	0.4	-
Other services		
- KPMG	-	-
- Ernst & Young	0.3	-
Rentals under operating leases:		
Property rents	21.2	16.7
Hire of plant and machinery	7.7	6.9
Research and development *	34.2	33.1
Net exchange losses/(gains)	2.3	(11.3)

* In addition to the above, £4.9m (2008: £5.1m) has been capitalised. See note 11.

8. Taxation

	2009 £m	2009 £m	2008 £m	2008 £m
a) Recognised in the income statement:				
Current tax expense				
UK corporation tax:				
Current tax on income for the year	**5.0**		6.4	
Adjustments in respect of prior years	**(0.2)**		(2.4)	
		4.8		4.0
Overseas tax:				
Current tax on income for the year	**45.4**		50.8	
Adjustments in respect of prior years	**(2.2)**		0.7	
		43.2		51.5
Total current tax		**48.0**		55.5
Deferred tax				
Origination and reversal of temporary differences		**5.8**		4.5
Total income tax expense		**53.8**		60.0

	2009 £m	2008 £m
b) Total current and deferred tax recognised directly in equity:		
On equity-settled transactions	**(0.7)**	(0.1)
On gains and losses of financial instruments	**3.7**	(1.5)
On actuarial gains and losses	**(44.0)**	(22.2)
On foreign currency translation differences	**(3.0)**	2.2
	(44.0)	(21.6)

c) Reconciliation of effective tax rate

	2009 Before exceptionals £m	2009 Exceptional items £m	2009 Total £m	2008 Before exceptionals £m	2008 Exceptional Items £m	2008 Total £m
Profit before tax	**211.7**	**(25.5)**	**186.2**	254.7	(78.7)	176.0
Income tax using the Company's domestic rate of tax of 28.0% (2008: 28.5%)	**59.3**	**(7.1)**	**52.2**	72.6	(22.4)	50.2
Effects of:						
(Non-taxable)/non-deductible items	**1.2**	**(2.2)**	**(1.0)**	4.2	6.9	11.1
Utilisation of tax losses	**(0.1)**		**(0.1)**	(0.2)		(0.2)
Current year losses for which no deferred tax asset has been recognised	**1.0**		**1.0**	1.9		1.9
Differing tax rates in different jurisdictions	**2.7**	**(0.5)**	**2.2**	2.7	(3.5)	(0.8)
Over provided in prior years	**(0.5)**		**(0.5)**	(2.2)		(2.2)
Total tax in income statement	**63.6**	**(9.8)**	**53.8**	79.0	(19.0)	60.0

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. The effective tax rate before exceptional items is 30% (2008: 31%). The effective tax rate on profit before tax is 28.9% after taking account of exceptional items (2008: 34.1%). 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.

9. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares purchased by the Company and held as treasury shares or to satisfy share option vesting, was 318.8m, 321.0m diluted for the effect of outstanding share options (2008: 319.3m, 321.6m diluted). Basic and diluted earnings per share have been calculated on earnings of £130.2m (2008: £112.9m).

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.

	2009 £m	2008 £m
Profit for the year	**132.4**	116.0
Non-controlling interests	**(2.2)**	(3.1)
	130.2	112.9
Charges/(credits) included in profit for the year:		
Restructuring costs	**34.9**	19.6
Severe Service investigation costs and fines	**–**	26.3
Acquired intangible amortisation and impairment	**7.2**	13.2
Financial instruments excluding economic hedge contract gains and losses	**(16.6)**	19.6
	155.7	191.6
Taxation on charges/(credits) included in profit before tax	**(9.8)**	(19.0)
Earnings for adjusted EPS	**145.9**	172.6
Weighted average number of shares	**318.8m**	319.3m
Adjusted EPS	**45.8p**	54.1p
Diluted adjusted EPS	**45.5p**	53.7p

10. Employee information

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

	2009	2008
Fluid Controls	**10,413**	11,372
Retail Dispense	**3,093**	3,821
Corporate	**183**	189
Total	**13,689**	15,382

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

	£m	£m
Wages and salaries	**436.7**	455.3
Share-based payments (see note 20)	**4.1**	3.9
Social security costs	**67.2**	67.9
Pension costs	**10.5**	17.5
Total	**518.5**	544.6

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

11. Intangible assets

	Goodwill	Capitalised development cost			Other acquired intangibles			Total
	Carrying amount £m	Cost £m	Amort-isation £m	Carrying amount £m	Cost £m	Amort-isation £m	Carrying amount £m	Carrying amount £m
At 1 January 2008	261.3	26.0	13.2	12.8	74.1	33.5	40.6	314.7
Exchange adjustments	88.0	7.8	4.2	3.6	15.1	10.3	4.8	96.4
Transfers	(0.5)				0.5		0.5	–
Additions		5.1		5.1	–		–	5.1
Impairment	(6.0)		–	–		–	–	(6.0)
Amortisation for year			3.2	(3.2)		7.2	(7.2)	(10.4)
At 31 December 2008	342.8	38.9	20.6	18.3	89.7	51.0	38.7	399.8
Exchange adjustments	**(25.5)**	**(2.8)**	**(1.5)**	**(1.3)**	**(6.8)**	**(4.1)**	**(2.7)**	**(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)**		**7.2**	**(7.2)**	**(11.3)**
At 31 December 2009	**341.3**	**41.0**	**24.7**	**16.3**	**82.9**	**54.1**	**28.8**	**386.4**

Cumulative impairment recognised in relation to goodwill is £6.0m (2008: £6.0m). Management believe that the key assumptions on which the carrying value of goodwill is based are appropriate and any reasonable change in these assumptions would not lead to a materially different conclusion. Each cash generating unit reviewed for impairments is assessed to identify appropriate assumptions to use when carrying out any impairment test. Following this review the key assumptions to be used in the year are the forecast year three cash flows and the pre-tax discount rates.

For goodwill impairment reviews the recoverable amount is based on value in use. Forecast year three cash flows are extrapolated into perpetuity at a 2.25% growth rate which is considered to be consistent with the long term average growth rate for the industry because the Group has a three year planning cycle which assumes each individual business continues in operation for the foreseeable future. For the reviews undertaken in the year the recoverable amount was assessed on the basis of discounted forecast cash flows. 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, which is calculated after consideration of market information and are risk adjusted for individual unit's circumstances. The Group has approximately 30 cash generating units to which goodwill is attached and no single cash generating unit represents a significant proportion of the total goodwill.

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.

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	Depreciation £m	Net book value £m	Gross book value £m	Depreciation £m	Net book value £m	Net book value £m	Net book value £m
At 1 January 2008	154.8	72.0	82.8	560.8	451.7	109.1	16.0	207.9
Exchange adjustments	47.2	22.4	24.8	143.6	115.5	28.1	2.7	55.6
Additions	3.5		3.5	31.1		31.1	14.3	48.9
Disposals	(6.8)	(5.8)	(1.0)	(42.7)	(40.8)	(1.9)	-	(2.9)
Transfers	0.7		0.7	17.5		17.5	(18.2)	-
Depreciation for year		3.9	(3.9)		39.2	(39.2)		(43.1)
At 31 December 2008	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**

Included in the total net book value of plant and machinery is £1.2m (2008: £1.1m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.6m (2008: £0.3m).

13. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Non-current assets	**10.1**	12.7	**(38.1)**	(36.4)	**(28.0)**	(23.7)
Inventories	**6.7**	9.3	**(5.4)**	(8.0)	**1.3**	1.3
Revaluation of derivatives	**0.6**	5.8	**(1.6)**	(1.2)	**(1.0)**	4.6
Employee benefits and provisions	**97.5**	53.1	**(2.7)**	(4.5)	**94.8**	48.6
Tax assets	**7.5**	7.0	**-**	-	**7.5**	7.0
	122.4	87.9	**(47.8)**	(50.1)	**74.6**	37.8
Set off of tax	**(32.8)**	(33.2)	**32.8**	33.2	**-**	-
	89.6	54.7	**(15.0)**	(16.9)	**74.6**	37.8

Unrecognised deferred tax assets and liabilities

Deferred tax assets of £26.2m (2008: £26.1m) have not been recognised in respect of tax losses of £95.2m (2008: £94.4m). The majority of the tax losses have no expiry date, and the assets have not been recognised due to uncertainty over their recoverability.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £198.3m (2008: £192.3m). It is likely that the majority of the overseas earnings would qualify for the UK dividend exemption and therefore the tax liability that would arise is not expected to exceed £3.0m (2008: £3.5m).

Movement in deferred tax assets and liabilities during the year

	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 and provisions	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**

	Balance at 1 Jan 08 £m	Recognised in income £m	Recognised directly in equity £m	Exchange £m	Acquisitions/ disposals £m	Balance at 31 Dec 08 £m
Non-current assets	(17.5)	(3.2)	-	(3.0)	-	(23.7)
Inventories	2.3	0.6	-	(1.6)	-	1.3
Revaluation of derivatives	0.6	3.7	-	0.3	-	4.6
Employee benefits	29.4	(7.2)	22.1	4.3	-	48.6
Tax assets	3.6	1.6	-	1.8	-	7.0
	18.4	(4.5)	22.1	1.8	-	37.8

All exchange movements are taken through the translation reserve.

14. Inventories

	2009 £m	2008 £m
Raw materials and consumables	**85.7**	115.0
Work in progress	**72.8**	105.8
Finished goods	**91.4**	112.7
	249.9	333.5

In 2009 the cost of inventories recognised as an expense within cost of sales amounted to £1,042.2m (2008: £1,134.3m). In 2009 the write-down of inventories to net realisable value amounted to £9.4m (2008: £7.1m). The reversal of write-downs amounted to £0.5m (2008: £0.9m). 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. The carrying value of inventories carried at net realisable value was £2.2m (2008: £5.3m).

15. Trade and other receivables

Falling due for payment within one year	2009 £m	2008 £m
Trade receivables	**276.1**	347.3
Other receivables	**18.0**	21.9
Prepayments and accrued income	**11.9**	17.1
	306.0	386.3
Falling due for payment after more than one year		
Other receivable	**5.4**	5.7
Total trade and other receivables	**311.4**	392.0
Receivables are stated after:		
Allowance for impairment	**17.8**	12.9

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's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 18.

	2009 £m	2008 £m
Current liabilities		
Unsecured bank loans	**0.7**	-
Unsecured loan notes and other loans	**–**	46.4
Secured other loans	**0.2**	-
Current portion of finance lease obligations	**0.3**	0.1
	1.2	46.5
Non-current liabilities		
Unsecured bank loans	**–**	216.1
Unsecured loan notes and other loans	**246.3**	155.0
Finance lease liabilities	**0.6**	0.4
	246.9	371.5

17. Trade and other payables

Current

	2009 £m	2008 £m
Trade payables	**157.6**	223.6
Bills of exchange payable	**2.9**	3.5
Other taxation	**12.6**	14.7
Social security	**5.5**	6.8
Other payables	**0.5**	1.4
Accruals and deferred income	**161.5**	165.4
	340.6	415.4

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 pages 44 and 45, 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
- Liquidity risk
- Market 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 risk, 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 2009 these totalled £391.7m (2008: £505.5m).

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, has less of an influence on credit risk. Approximately 3% (2008: 4%) 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 potential credit risks are reviewed. Credit risk is minimised through 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 2009 credit exposure including cash deposited did not exceed £8m with any single institution (2008: £20m).

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 formally 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 level taking into account market conditions and corporate activity. At the end of 2009 the Group had undrawn committed facilities totalling £277m (2008: £154m) and was holding cash and cash equivalents of £81.0m (2008: £123.9m). As described in the Financial Review the Group was successful during 2009 in raising additional medium and long term funding to maintain its funding headroom.

18. Financial risk management (continued)

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 Executive Committee.

Currency risk

The Group publishes consolidated accounts in 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.

The Group's net transactional exposure varies from time to time, but at the end of 2009 its forecast exposure for 2010, net of existing hedging derivative instruments, was short Continental European currencies, Mexican Pesos and Chinese Yuan, but long US Dollar and other non-Sterling currencies.

Profit translation

The Group is exposed to the translation of profits denominated in foreign currencies into the 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 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 18.1.

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 18.2 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 accounts.

The fair value of these interest rate swaps is included in the balance sheet at £4.0m (2008: £5.9m). The hedged item is included in the value of the debt as an increase in liability of £4.0m (2008: increase £6.0m).

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 £20m (2008: £30m). It manages this exposure through a centralised process hedging copper, zinc, aluminium and nickel 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.

Balance sheet 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. The Board monitors both the demographic spread of its shareholders and employees are encouraged to hold shares in the Company.

The Board also monitors economic profit created and seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages of security afforded by a sound capital position.

The primary financial covenants in the Group's banking arrangements relate to Net Debt to EBITDA and Net Interest to EBITDA ratios. The Group comfortably complied with these covenants during 2009.

There were no changes in the Group's approach to balance sheet management during the year.

18.1 Currency profile of assets and liabilities

	Assets excluding cash and debt 2009 £m	**Cash 2009 £m**	**Debt 2009 £m**	**Exchange contracts 2009 £m**	**Net assets 2009 £m**	Net assets 2008 £m
Sterling	**(4)**	**3**	**(2)**	**306**	**303**	265
US Dollar	**247**	**7**	**(249)**	**(12)**	**(7)**	36
Euro	**170**	**17**	**(1)**	**(187)**	**(1)**	23
Other	**161**	**54**	**(1)**	**(107)**	**107**	138
Total	**574**	**81**	**(253)**	**–**	**402**	462

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

18. Financial risk management (continued)

18.2 Interest rate risk profile

	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)**		

	Debt and exchange contracts 2008 £m	Cash and exchange contracts 2008 £m	Floating rate 2008 £m	Fixed rate 2008 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(5)	218	213	-		
US Dollar	(275)	18	(128)	(129)	6.2	9.0
Euro	(217)	27	(129)	(61)	5.7	0.5
Other	(139)	74	(65)	-		
Total	(636)	337	(109)	(190)		

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 rate.

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.

18.3 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:

	2009 £m	2008 £m
Expiring within one year	**50**	115
Expiring between one and two years	**125**	3
Expiring after more than two years	**102**	36
	277	154

The weighted average life of these facilities is 1.5 years (2008: 1.0 years).

18.4 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
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)**

	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
2008									
Cash and cash equivalents	Floating	123.9	124.0	124.0	-	-	-	-	-
US loan notes 2009-2022	6.83%-7.17%	(59.0)	(75.2)	(38.6)	(1.7)	(1.7)	(15.5)	(0.7)	(17.0)
US loan notes 2009-2014 floating	Floating	(37.3)	(42.2)	(12.0)	(0.8)	(0.8)	(0.8)	(0.8)	(27.0)
US loan notes 2018	5.98%	(104.2)	(161.0)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)	(130.0)
Finance leases	Various	(0.5)	(0.5)	(0.1)	(0.2)	(0.1)	(0.1)	-	-
Bank overdrafts	Floating	(4.6)	(4.6)	(4.6)	-	-	-	-	-
Unsecured bank loans	Floating	(216.1)	(238.2)	(8.6)	(55.4)	(112.8)	(61.4)	-	-
Other unsecured loans	Floating	(0.9)	(0.9)	(0.9)	-	-	-	-	-
Total		(298.7)	(398.6)	53.0	(64.3)	(121.6)	(84.0)	(7.7)	(174.0)

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.

18. Financial risk management (continued)

18.5. 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 2009 and 31 December 2008.

	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.

	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
2008						
Cash and cash equivalents	-	-	123.9	-	123.9	123.9
Bank overdrafts	-	-	-	(4.6)	(4.6)	(4.6)
Borrowings due within one year	(10.8)	-	-	(35.7)	(46.5)	(47.3)
Borrowings due after one year	(26.5)	-	-	(345.0)	(371.5)	(355.9)
Trade payables	-	-	-	(223.6)	(223.6)	(223.6)
Trade receivables	-	-	-	347.3	347.3	347.3
Investments	-	-	17.8	-	17.8	17.8
Other current financial assets/(liabilities)						
Derivative assets*	5.9	6.4	4.2	-	16.5	16.5
Derivative liabilities	(8.9)	(23.9)		-	(32.8)	(32.8)
Total	(40.3)	(17.5)	145.9	(261.6)	(173.5)	(158.7)

* Includes £4.3m falling due after more than one year.

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.

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 evaluated by the Group based on parameters such as interest rates and relevant credit spreads. Based on this analysis these liabilities are carried at amortised cost as the fair values are not materially different.

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.

All long term borrowings which are subject to hedging arrangements and derivative assets and liabilities are valued by Level 2 techniques.

Investments are valued by Level 1 techniques.

18.6 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £115.6m (2008: £158.2m).

	Carrying amount	
	2009 £m	2008 £m
Cash and cash equivalents	**81.0**	123.9
Investments	**17.7**	17.8
Other available for sale financial assets	**4.2**	4.2
Interest rate swaps	**4.0**	6.8
Forward exchange contracts	**8.4**	5.5
Metal contracts	**0.3**	-
	115.6	158.2

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

	Carrying amount	
	2009 £m	2008 £m
UK	**23.0**	30.5
Germany	**19.5**	24.9
Rest of Europe	**99.1**	129.1
USA	**68.2**	75.8
Asia/Pacific	**48.8**	63.4
Rest of World	**17.5**	23.6
	276.1	347.3

18. Financial risk management (continued)

18.6 Exposure to credit risk (continued)

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

	Carrying amount	
	2009 £m	2008 £m
Severe Service	**92.3**	112.1
Fluid Power	**83.9**	117.6
Indoor Climate	**38.0**	45.7
Beverage Dispense	**42.0**	44.0
Merchandising	**19.9**	27.9
	276.1	347.3

The Group's most significant customer, a food and beverage company, accounts for 2.5% of trade receivables carrying amount at 31 December 2009 (2008: 1.2%).

Impairments
The ageing of trade receivables at the reporting date was:

	2009		2008	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m
Not past due	**232.8**	**(1.4)**	267.3	(2.0)
Past due 1-30 days	**26.0**	**(0.8)**	51.9	(0.1)
Past due 31-90 days	**14.5**	**(1.4)**	22.1	(1.3)
Past due over 91 days	**20.6**	**(14.2)**	18.9	(9.5)
Total	**293.9**	**(17.8)**	360.2	(12.9)

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

	2009 £m	2008 £m
Balance at 1 January	**12.9**	8.4
Impairment loss recognised	**5.9**	1.7
Exchange	**(1.0)**	2.8
Balance at 31 December	**17.8**	12.9

The impairment loss recognised of £5.9m (2008: £1.7m) 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.

18.7 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.

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.

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.

Sensitivity analysis table

	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 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**	**–**	**–**
At 31 December 2008						
Impact on income statement: gain/(loss)	0.3	(0.3)	(0.5)	0.5	0.7	(0.7)
Impact on equity: (loss)/gain	-	-	(49.4)	49.4	-	-

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

Post retirement benefits

Reconciliation to the balance sheet as at 31 December

	2009				2008			
Funded schemes in surplus:	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Fair value of assets	–	36.9	–	36.9	–	21.4	–	21.4
Present value of defined benefit obligation	–	(35.2)	–	(35.2)	–	(17.4)	–	(17.4)
	–	1.7	–	1.7	–	4.0	–	4.0
Restriction due to asset ceiling	–	(1.1)	–	(1.1)	–	(1.6)	–	(1.6)
Recognised assets for defined benefit funded schemes	–	0.6	–	0.6	–	2.4	–	2.4
Funded schemes in deficit:								
Fair value of assets	926.6	81.3	–	1,007.9	837.8	99.0	–	936.8
Present value of defined benefit obligation	(1,101.4)	(97.3)	–	(1,198.7)	(881.4)	(124.4)	–	(1,005.8)
Recognised liabilities for defined benefit funded schemes	(174.8)	(16.0)	–	(190.8)	(43.6)	(25.4)	–	(69.0)
Present value of obligation for unfunded schemes	–	(53.8)	(13.5)	(67.3)	–	(55.2)	(15.3)	(70.5)
Recognised liabilities for defined benefit obligations	(174.8)	(69.8)	(13.5)	(258.1)	(43.6)	(80.6)	(15.3)	(139.5)
Recognised net liability for defined benefit obligations	(174.8)	(69.2)	(13.5)	(257.5)	(43.6)	(78.2)	(15.3)	(137.1)
Total fair value of assets	926.6	118.2	–	1,044.8	837.8	120.4	–	958.2
Total present value of defined benefit obligation	(1,101.4)	(186.3)	(13.5)	(1,301.2)	(881.4)	(197.0)	(15.3)	(1,093.7)
Asset ceiling	–	(1.1)	–	(1.1)	–	(1.6)	–	(1.6)
Recognised net liability for defined benefit obligations	(174.8)	(69.2)	(13.5)	(257.5)	(43.6)	(78.2)	(15.3)	(137.1)

a) Summary of assumptions

Weighted averages

	31 Dec 2009		31 Dec 2008		31 Dec 2007	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation rate	3.7	2.0	2.8	2.2	3.3	2.2
Discount rate	5.7	4.4	6.5	4.9	5.9	4.9
Expected rate of salary increases [1]	4.9	2.8	4.0	2.8	5.0	2.9
Rate of pension increases [2]	3.7	0.5	2.8	0.5	3.3	0.5
Rate of increase for deferred pensions [2]	3.7	0.5	2.8	0.5	3.3	0.5
Medical cost trend rate [3]	n/a	5.0	n/a	5.0	n/a	5.0
Expected return on equities	8.1	7.6	7.9	7.0	7.8	6.9
Expected return on bonds	5.3	3.5	5.8	3.9	4.9	4.0
Expected return on property	7.0	5.6	7.0	4.9	6.6	4.9
Expected return on other assets	4.4	2.5	3.8	2.5	4.5	3.3
Overall expected return on assets [4]	6.9	4.6	6.9	4.7	6.6	4.8

[1] 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 8.0% pa (8.5% pa in 2008, 9.0% pa in 2007) 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] Based on the distribution of assets set out in Note 19(e).

The IMI Pension Fund constitutes 85% of the total liabilities and 89% of the total assets for the Group's long term employee benefit arrangements as at 31 December 2009. The mortality assumptions used for the 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 2009 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 2009**		31 Dec 2008		31 Dec 2007	
	Males	**Females**	Males	Females	Males	Females
Current pensioners	**20.6**	**22.3**	20.5	22.2	20.2	22.2
Future pensioners	**22.6**	**24.2**	22.5	24.1	21.6	23.4

The sensitivity of the balance sheet liability in respect of the IMI Pension Fund to changes in the key assumptions is shown below.

b) Components of the pension expense recognised in the income statement for the year ended 31 December

	2009				2008			
	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
From defined benefit schemes								
Current service cost	**4.4**	**4.7**	**0.9**	**10.0**	7.8	4.9	1.4	14.1
Interest cost (in financial expense)	**55.7**	**8.2**	**0.8**	**64.7**	59.9	7.1	0.8	67.8
Expected return on assets (in financial income)	**(56.1)**	**(4.6)**	**–**	**(60.7)**	(66.6)	(5.0)	-	(71.6)
Past service cost	**–**	**–**	**0.6**	**0.6**	-	0.3	0.5	0.8
Recognition of (gains)/losses	**–**	**–**	**(0.3)**	**(0.3)**	-	-	(1.0)	(1.0)
Settlement/curtailment	**(3.0)**	**(3.3)**	**–**	**(6.3)**	-	(0.1)	(1.9)	(2.0)
Total defined benefit pension expense	**1.0**	**5.0**	**2.0**	**8.0**	1.1	7.2	(0.2)	8.1
Pension expense from defined contribution schemes	**1.0**	**5.5**	**–**	**6.5**	0.8	4.8	-	5.6
Total pension expense	**2.0**	**10.5**	**2.0**	**14.5**	1.9	12.0	(0.2)	13.7

Pension expenses have been recognised within operating costs except where shown.

19. Employee benefits (continued)

c) Income and expense recognised through equity for the year ended 31 December

	2009 UK £m	2009 Overseas post employment £m	2009 Overseas non-post employment £m	2009 Total £m	2008 UK £m	2008 Overseas post employment £m	2008 Overseas non-post employment £m	2008 Total £m
Actuarial losses during the year	(151.6)	(2.1)	–	(153.7)	(61.6)	(17.5)	(0.9)	(80.0)
Change in the effect of the asset ceiling	–	0.4	–	0.4	-	2.6	-	2.6
Exchange gain/(loss)	–	6.2	1.4	7.6	-	(17.2)	(4.0)	(21.2)
Total (losses) /gains recognised during the year	(151.6)	4.5	1.4	(145.7)	(61.6)	(32.1)	(4.9)	(98.6)
Cumulative amount of actuarial (losses)/gains at the beginning of the year	(45.8)	(30.2)	(7.1)	(83.1)	15.8	1.9	(2.2)	15.5
Cumulative amount of actuarial losses at the end of the year	(197.4)	(25.7)	(5.7)	(228.8)	(45.8)	(30.2)	(7.1)	(83.1)

d) Reconciliation of present value of Defined Benefit Obligation (DBO) for the year ended 31 December

	2009 UK £m	2009 Overseas post employment £m	2009 Overseas non-post employment £m	2009 Total £m	2008 UK £m	2008 Overseas post employment £m	2008 Overseas non-post employment £m	2008 Total £m
Present value of DBO at the beginning of the year	881.4	197.0	15.3	1,093.7	1,034.6	136.9	12.6	1,184.1
Company service cost	4.4	4.7	0.9	10.0	7.8	4.9	1.4	14.1
Interest cost	55.7	8.2	0.8	64.7	59.9	7.1	0.8	67.8
Employee contributions	1.5	2.4	–	3.9	2.0	2.0	-	4.0
Past service cost	–	–	0.6	0.6	-	0.3	0.5	0.8
Actuarial (gain)/loss:								
from experience	(21.1)	(1.8)	(0.2)	(23.1)	(11.2)	(2.1)	0.3	(13.0)
from changes in assumptions	242.7	7.9	(0.1)	250.5	(156.2)	3.0	(0.4)	(153.6)
Actual benefit payments	(60.2)	(12.1)	(2.4)	(74.7)	(55.5)	(9.7)	(2.0)	(67.2)
Curtailment	(3.0)	(3.3)	–	(6.3)	-	(0.1)	(1.9)	(2.0)
Exchange	–	(16.7)	(1.4)	(18.1)	-	54.7	4.0	58.7
Present value of DBO at the end of the year	1,101.4	186.3	13.5	1,301.2	881.4	197.0	15.3	1,093.7

e) Market value by category of assets as at 31 December

	2009				2008			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Equities	521.0	33.6	–	554.6	413.1	36.6	-	449.7
Bonds	365.1	62.3	–	427.4	352.1	61.6	-	413.7
Property	34.8	5.6	–	40.4	49.6	2.6	-	52.2
Other	5.7	16.7	–	22.4	23.0	19.6	-	42.6
Total	926.6	118.2	–	1,044.8	837.8	120.4	-	958.2

f) Reconciliation of the fair value of assets for the year ended 31 December

	2009				2008			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Fair value of assets at the beginning of the year	837.8	120.4	-	958.2	1,031.2	92.8	-	1,124.0
Expected return on assets	56.1	4.6	–	60.7	66.6	5.0	-	71.6
Actuarial gain/(loss) on assets	70.0	4.0	–	74.0	(229.0)	(16.6)	-	(245.6)
Actual company contributions:								
normal	4.6	5.3	–	9.9	5.7	4.5	-	10.2
additional	16.8	–	–	16.8	16.8	-	-	16.8
Employee contributions	1.5	2.4	–	3.9	2.0	2.0	-	4.0
Actual benefit payments	(60.2)	(7.9)	–	(68.1)	(55.5)	(5.5)	-	(61.0)
Exchange	–	(10.6)	–	(10.6)	-	38.2	-	38.2
Fair value of assets at the end of the year	926.6	118.2	–	1,044.8	837.8	120.4	-	958.2

g) Reconciliation of actual return on assets for the year ended 31 December

	2009				2008			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Expected return on assets	56.1	4.6	–	60.7	66.6	5.0	-	71.6
Actuarial gain/(loss) on assets	70.0	4.0	–	74.0	(229.0)	(16.6)	-	(245.6)
Actual return on assets	126.1	8.6	–	134.7	(162.4)	(11.6)	-	(174.0)

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 2010			
normal	3.9	5.9	9.8
additional	16.8	-	16.8
Expected employee contributions to defined benefit schemes for the year ending 31 December 2010	1.3	2.5	3.8
Expected benefits paid by the Company for the year ending 31 December 2010	-	5.6	5.6

i) Historical information

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of the defined benefit obligation	**(1,301.2)**	(1,093.7)	(1,184.1)	(1,176.6)	(1,157.4)
Fair value of assets	**1,044.8**	958.2	1,124.0	1,056.0	984.6
Deficit	**(256.4)**	(135.5)	(60.1)	(120.6)	(172.8)
Impact of the asset ceiling	**(1.1)**	(1.6)	(3.5)	-	-
Recognised liability for defined benefit obligations	**(257.5)**	(137.1)	(63.6)	(120.6)	(172.8)
Experience (gain)/loss arising on plan liabilities	**(23.1)**	(13.0)	0.8	10.3	3.0
Experience (gain)/loss arising on plan assets	**(74.0)**	245.6	11.3	(20.2)	(91.3)

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 real discount rate and implied life expectancy, and to changes in the assets, in particular to equity market movements. As set out in (a) above the IMI Pension Fund constitutes 85% of the total liabilities and 89% of the total assets for the Group's long-term employee benefit arrangements as at 31 December 2009. It is therefore appropriate to consider the sensitivity to changes in key assumptions in respect of the Fund and these are illustrated below.

Increase in defined benefit liability as at 31 December 2009	**£m**
Real discount rate 0.1% pa lower*	17
Increase of one year in life expectancy from age 65*	30
10% fall in equity markets*	50

* in each case all other assumptions are unchanged.

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.

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 of one additional share for every four with no further performance conditions.

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. Hence, for purposes of IFRS2, the fair value of the shares does not include any performance related discount. The plan uses TSR (total shareholder return) as a performance condition for the other 50% of shares granted. As TSR is a market based performance condition, the accounting treatment differs from that for shares subject to internal performance conditions. This means that the TSR performance condition must be incorporated into the calculation of the fair value, that is, there is a TSR related discount in calculating the fair value.

For awards granted in 2009, 100% of the shares granted vest subject to TSR as the performance condition. The accounting treatment is in line with that outlined above, but for 100% of the award.

Deferred Bonus Plan (DBP)

Under the DBP, for executive directors and selected senior managers, 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. 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.

Share Matching Plan (SMP)

In 2009, the DBP was amended and renamed, to become the SMP. Under this plan, executive director's and selected senior manager's 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 at the entry share price level) if stretching performance conditions are met by the Company over the three year deferral period.

Share Option Plan (SOP)

Share Option awards were made in 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.

20. Share-based payments (continued)

Analysis of options granted

	Employee SAYE options			Executive options			Long Term Incentive Plan 1		Performance Share Plan 1		Deferred Bonus Plan 1	
	Number of options thousand	Weighted average option price	Normal exercisable date	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	Normal exercisable date
2003	976	201p	2007-2010	2,258	257p	2007-2013	-	-	-	-	-	-
2004	801	289p	2007-2009	2,199	358p	2007-2014	-	-	-	-	-	-
2005	464	380p	2008-2010	484	421p	2008-2015	53	2008	706	2008	-	-
2006	251	495p	2009-2011	-	-	-	44	2009	716	2009	117	2009
2007	204	517p	2010-2012	-	-	-	61	2010	734	2010	184	2010
2008	342	391p	2011-2013	-	-	-	82	2011	995	2011	183	2011
2009	**832**	**201p**	**2012-2014**	-	-	-	-	-	**673**	**2012**	-	-

	Share matching plan 1		Share option plan		
	Number of awards thousand	Normal exercisable date	Number of awards thousand	Weighted average price	Normal exercisable date
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	-	-	-	-	-
2008	-	-	-	-	-
2009	**1,783**	**2,012**	**2,532**	**441p**	**2,012**

1 These options were granted at an option price of £nil.

The number and weighted average exercise prices of share options 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 2008	2,619,691	201-517.18p	356p	2,427,224
Exercisable at 1 January 2008	1,162,066	201-358p	313p	-
Granted	342,250	391.41p	391.41p	1,260,608
Exercised	482,291	201-517.18p	284p	302,306
Lapsed	725,850	201-517.18p	388p	551,349
Outstanding at 31 December 2008	1,753,800	201-517.18p	375p	2,834,177
Exercisable at 31 December 2008	935,267	201-517.18p	352p	17,700
Granted	**3,363,078**	**201.36-440.93p**	**382p**	**2,456,289**
Exercised	**324,469**	**201-494.55p**	**313p**	**507,251**
Lapsed	**419,881**	**201-517.18p**	**390p**	**403,567**
Outstanding at 31 December 2009	**4,372,528**	**201-517.18p**	**383p**	**4,379,648**
Exercisable at 31 December 2009	**715,618**	**201-517.18p**	**361p**	**15,389**

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 2009 is 7.46 years (2008: 6.35 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 2008: 326,534

31 December 2008 and 1 January 2009: 258,131

31 December 2009: 78,772

The weighted average share price at the date of exercise of share options exercised during the period was £3.94 (2008: £4.72).

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 2009 included a dividend yield of 7.6% (2008: 5.1%), expected share price volatility of 30% (2008: 30%), a weighted average expected life of 3.7 years (2008: 3.7 years) and a weighted average interest rate of 4.0% (2008: 4.5%). 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 expenses recognised for the period arising from share-based payments are as follows:

	2009 **£m**	2008 £m
Equity settled share-based payment expense in employee cost in the income statement (including £2.5m (2008: £2.0m) in respect of directors)	**4.1**	3.9

21. Provisions for liabilities and charges

	Due inside one year			Due outside one year			
	Restructuring £m	Investigation costs & fines £m	Total £m	Trade warranties £m	Investigation costs & fines £m	Other £m	Total £m
At 1 January 2009	7.9	21.5	29.4	25.5	-	11.0	36.5
Exchange adjustment	(0.7)	(1.0)	(1.7)	(1.3)	–	–	(1.3)
Utilised during the year	(24.2)	(13.5)	(37.7)	(7.8)	–	–	(7.8)
Released in the year	–	(4.8)	(4.8)	–	–	–	–
Charge to income statement	34.9	2.3	37.2	11.2	3.5	2.4	17.1
At 31 December 2009	**17.9**	**4.5**	**22.4**	**27.6**	**3.5**	**13.4**	**44.5**

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.

On 3 August 2009 the Group announced its agreement to a settlement with the US Department of Justice in respect of certain irregular payments by a US subsidiary Control Components Inc (CCI). As part of a plea agreement CCI has paid a fine of $18.2m, which has been utilised against the provision for investigation costs and fines. CCI is also subject to oversight by an independent compliance monitor. Provision has been made for the costs associated with the monitor over the three year monitor appointment period. 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. Also related to the activities of the former management team of CCI, an investigation has been completed into possible incidental breaches of US trade law by CCI. The likelihood of further penalties in this matter is now considered remote and accordingly this element of the provision made at 31 December 2008 has been released.

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			
	2009 m	2008 m	**2009 £m**	2008 £m
Authorised	**480.0**	480.0	**120.0**	120.0
Issued and fully paid:				
In issue at the start of the year	**338.9**	338.3	**84.7**	84.6
Issued to satisfy employee share schemes	**0.6**	0.6	**0.2**	0.1
In issue at the end of the year	**339.5**	338.9	**84.9**	84.7
Of which held within retained earnings	**20.2**	20.6		

During the year 0.6m shares were issued under employee share schemes realising £1.7m.

The Company made market purchases of a total of 0.1m (2008: 3.7m) of its own shares with an aggregate market value of £0.3m (2008: £16.7m) and a nominal value of £nil (2008: £0.9m) including dealing costs of £nil (2008: £0.1m). Of the 20.2m (2008: 20.6m) shares held within retained earnings, 1.1m (2008: 1.5m) shares with an aggregate market value of £5.4m (2008: £4.1m) 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.

	2009 £m	2008 £m
13.2p per qualifying ordinary share (2008: 12.7p)	**42.1**	40.4

The following dividends were declared and paid by the Group during the year:

	2009 £m	2008 £m
12.7p per qualifying ordinary share (2008: 12.7p)	**40.5**	40.7
8.0p per qualifying ordinary share (2008: 8.0p)	**25.5**	25.5
	66.0	66.2

Share options

The majority of UK employees may participate in the IMI SAYE Share Option (1994) Scheme and selected senior executives within the Group participate in the IMI Executive Share Option (1995) Scheme and the IMI Performance Share Plan. At 31 December 2009, 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 SAYE Share Option (1994) Scheme	08.04.02	4,420	244p	01.08.09
	08.04.03	20,306	201p	01.08.10
	06.04.04	29,947	289p	01.08.09
	05.04.05	57,764	380p	01.08.10
	04.04.06	104,975	494.55p	01.08.09 or 01.08.11
	16.04.07	84,705	517.18p	01.08.10 or 01.08.12
	14.04.08	162,889	391.41p	01.08.11 or 01.08.13
	09.04.09	802,710	201.36p	01.08.12 or 01.08.14
IMI Executive Share Option (1995) Scheme	03.04.01	6,330	248.4p	03.04.04 to 03.04.11
	03.04.02	68,022	309.1p	03.04.05 to 03.04.12
	02.04.03	126,500	256.9p	02.04.06 to 02.04.13
	24.03.04	133,000	358.0p	24.03.07 to 24.03.14
	23.03.05	256,960	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	12,339	-	03.04.09 to 03.04.16
	05.04.07	502,972	-	29.03.10 to 05.04.17
	11.10.07	27,800	-	11.10.10 to 11.10.17
	04.04.08	799,528	-	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
IMI Share Option Plan (2009)	03.09.09	2,514,000	440.93p	03.09.12 to 03.09.19

SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

23. Cash flow notes

a) Reconciliation of cash and cash equivalents

	2009 £m	2008 £m
Cash and cash equivalents in current assets	**81.0**	123.9
Bank overdraft in current liabilities	**(5.3)**	(4.6)
Cash and cash equivalents	**75.7**	119.3

b) Reconciliation of net cash to movement in net borrowings

	2009 £m	2008 £m
Net (decrease)/increase in cash and cash equivalents	**(43.0)**	22.3
Net repayment of borrowings*	**125.2**	45.5
Cash inflow	**82.2**	67.8
Currency translation differences	**44.1**	(133.4)
Movement in net borrowings in the year	**126.3**	(65.6)
Net borrowings at the start of the year	**(298.7)**	(233.1)
Net borrowings at the end of the year	**(172.4)**	(298.7)

c) Analysis of net debt

	Cash and cash equivalent £m	Borrowings and finance leases due within one year £m	Borrowings and finance leases due after more than one year £m	Total net debt £m
At 1 January 2009	119.3	(46.5)	(371.5)	(298.7)
Cash flow	**(43.0)**	**39.9**	**85.3**	**82.2**
Currency translation differences	**(0.6)**	**5.4**	**39.3**	**44.1**
At 31 December 2009	**75.7**	**(1.2)**	**(246.9)**	**(172.4)**

* This includes receipts for settlement of exchange on net investment hedge derivatives of £4.6m (2008: drawings of £48.7m).

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2009 Land and buildings £m	2009 Others £m	2008 Land and buildings £m	2008 Others £m
Within one year	**13.0**	**5.8**	11.9	5.9
In the second to fifth year	**35.6**	**9.5**	36.1	12.6
After five years	**18.9**	**0.4**	18.9	0.1
	67.5	**15.7**	66.9	18.6

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 £13.9m (2008: £9.2m).

26. Contingencies

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

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £76m (2008: £80m).

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 and detailed information concerning directors emoluments, shareholding, options and retirement benefits are shown in the audited section of the Remuneration Report. There are no other related party transactions.

28. Post balance sheet events

On 3 March 2010 the Group and the Trustee of the IMI Pension Fund (which constitutes around 85% of the total liabilities of the Group's long term employee benefit arrangements as at 31 December 2009) entered into consultation with the active members of the fund concerning a proposal to close the fund to future accrual with effect from 30 September 2010. If the consultation does result in closure to future accrual it is estimated that there would be a curtailment gain of approximately £10m. The overall impact on the income statement, cash flows and balance sheet will be dependent on the outcome of the consultation.

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 2009 which comprise the Company Balance Sheet, Company Reconciliation of Movements in Shareholders' Funds 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 pages 38 and 39 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 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 (APB'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 2009;
- 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 requires 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 2009.

Ernst & Young LLP

John C Flaherty (Senior statutory auditor)

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

Birmingham

3 March 2010

company balance sheet

AT 31 DECEMBER 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investments	C6	**574.0**	574.0
Current assets			
Debtors	C7	**15.5**	12.1
Cash at bank and in hand		**1.0**	0.9
		16.5	13.0
Creditors: amounts falling due within one year			
Borrowings	C8	**(0.5)**	(12.5)
Other creditors	C9	**(137.3)**	(44.1)
		(137.8)	(56.6)
Net current liabilities		**(121.3)**	(43.6)
Total assets less current liabilities		**452.7**	530.4
Creditors: amounts falling due after more than one year			
Borrowings	C8	**(22.7)**	(26.5)
Net assets		**430.0**	503.9
Capital and reserves			
Called up share capital	C10	**84.9**	84.7
Share premium account	C10	**166.6**	165.1
Capital redemption reserve	C10	**7.9**	7.9
Profit and loss account	C10	**170.6**	246.2
Equity shareholders' funds		**430.0**	503.9

Approved by the Board of Directors on 3 March 2010 and signed on its behalf by:

Norman B M Askew Chairman

company reconciliation of movements in shareholders' funds

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 £m
Equity shareholders' funds at the start of the year	503.9	515.9
(Loss)/profit for the year	**(13.6)**	65.1
Dividends paid	**(66.0)**	(66.2)
Cancellation of unclaimed dividends	**0.2**	-
Share-based payments	**4.1**	3.9
Issue of ordinary shares net of costs	**1.7**	1.9
Shares held in trust for employee share schemes	**(0.3)**	(1.9)
Purchase of own shares	**–**	(14.8)
Equity shareholders' funds at the end of the year	**430.0**	503.9

company notes to the financial statements

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. The transactions with non-controlling interests are disclosed in note 4.2. Related party transactions with the Company's key management personnel are disclosed in note 27 to the Group financial statements. 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 an Executive Share Option Scheme, a SAYE Share Option Scheme and a Performance Share Plan. 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'* states 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 46 to 60.

C3. Remuneration of auditors

The detailed information concerning auditor's remuneration is shown on page 82.

C4. Staff numbers and costs

With the exception of the directors, the number of people employed by the Company during the year was nil (2008: 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 schemes 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 in the Group financial statements provides further details regarding the defined benefit scheme.

C5. Dividends

The aggregate amount of dividends comprises:

	2009 £m	2008 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**40.5**	40.7
Interim dividends paid in respect of the current year	**25.5**	25.5
Aggregate amount of dividends paid in the financial year	**66.0**	66.2

Dividends paid in the year of £66.0m represent 20.7p per share (2008: 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.

	2009 £m	2008 £m
13.2p per qualifying ordinary share (2008: 12.7p)	**42.1**	40.4

C6. Fixed assets – investments

	Subsidiary undertakings		
	Shares £m	**Loans £m**	**Total £m**
At 1 January 2009 at cost and net book value	170.1	403.9	574.0
Movements during the year	–	–	–
At 31 December 2009 at cost and net book value	**170.1**	**403.9**	**574.0**

Details of subsidiary undertakings at 31 December 2009 are shown on pages 118 and 119.

C7. Debtors

	2009 £m	2008 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	**4.1**	3.9
Prepayments and accrued income	**0.4**	1.1
UK corporation tax	**6.8**	-
Deferred tax	**0.2**	0.2
Other financial assets	**4.0**	6.9
	15.5	12.1

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.

	2009 £m	2008 £m
Due within one year:		
Unsecured US loan notes 2009	**–**	10.8
Unsecured US overdrafts	**0.5**	1.7
	0.5	12.5
Due after more than one year:		
Unsecured US loan notes 2014	**22.7**	26.5
	22.7	26.5

Terms and debt repayment schedule

	2009 £m	2008 £m
Debt can be analysed as falling due:		
In one year or less, or on demand	**0.5**	12.5
Between one and two years	**–**	-
Between two and three years	**–**	-
Between three and four years	**–**	-
Between four and five years	**22.7**	-
In five years or more	**–**	26.5
	23.2	39.0

C9. Other creditors falling due within one year

	2009 £m	2008 £m
Amounts owed to other subsidiary undertakings	**135.6**	39.6
Corporation tax	**–**	2.3
Other payables	**0.7**	0.9
Accruals and deferred income	**1.0**	1.3
	137.3	44.1

C10. Share capital and reserves

	Share capital £m	Premium account £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2008	84.6	163.3	7.9	260.1	515.9
Retained profit for the year				65.1	65.1
Issued in the year	0.1	1.8			1.9
Dividends paid				(66.2)	(66.2)
Share-based payments*				3.9	3.9
Acquisition of treasury shares*				(14.8)	(14.8)
Shares held in trust for employee share schemes*				(1.9)	(1.9)
At 31 December 2008	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 31 December 2009	**84.9**	**166.6**	**7.9**	**170.6**	**430.0**

Share capital

	2009 £m	2008 £m
Authorised		
480m (2008: 480m) ordinary shares of 25p each	**120.0**	120.0
Issued and fully paid		
339.5m (2008: 338.9m) ordinary shares of 25p each	**84.9**	84.7

During the year 525,912 shares were issued under employee share schemes realising £1.7m.

* Details of treasury and employee trust share scheme movements are contained in note 22 to the Group accounts 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 £56.9m (2008: £64.6m).

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.

IMI 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 2010. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only. The principal country in which each subsidiary operates is the country of incorporation. The Company'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 the Company.

Fluid Controls

Aero Dynamiek BV *Holland*
Asterm SAS *France*
Buschjost GmbH *Germany*
CCI AG *Switzerland*
CCI Czech Republic sro *Czech Republic*
CCI Italy srl *Italy*
CCI KK *Japan*
CCI Ltd *Korea*
CCI Valve Technology AB *Sweden*
CCI Valve Technology GmbH *Austria*
Commtech Ltd
Control Components Inc *USA*
Control Components India Pty Ltd *India*
Eley Ltd
Engineering Appliances Ltd*
Flow Design Inc *USA*
Fluid Automation Systems GmbH *Germany*
Fluid Automation Systems SA *Switzerland*
Fluid Automation Systems Technologies SA *Switzerland*
GT Development Corporation Inc *USA*
Herion Systemtechnik GmbH *Germany*
Hochdruck-Reduziertechnik GmbH *Germany*
IMI Components Inc *USA*
IMI Components Ltd
IMI Indoor Climate Trading (Shanghai) Co Ltd *China*
IMI International Kft *Hungary*
IMI International sro *Czech Republic*
IMI International sp zoo *Poland*
IMI Norgren Herion Pvt Ltd *India*
IMI Norgren Oy *Finland*
IMI Norgren Pneumatics (Shanghai) Co Ltd *China*
IMI Norgren SA *Spain*
IMI Scott Ltd
IMI Tijuana Manufacturing de Mexico SA de CV *Mexico*
IMI Webber Ltd
Industrie Mecanique Pour Les Fluides SAS *France*
Kloehn Inc *USA*
Newman Hattersley Ltd *Canada*
Norgren A/S *Denmark*
Norgren AG *Switzerland*
Norgren AS *Norway*
Norgren Automotive GmbH *Germany*
Norgren Automotive Inc *USA*
Norgren BV *Holland*
Norgren Co Ltd *China*
Norgren European Logistics Company Ltd
Norgren GesmbH *Austria*
Norgren GmbH *Germany*
Norgren Inc *USA*
Norgren Ltd
Norgren Ltd *Hong Kong*
Norgren Ltd *New Zealand*
Norgren Ltda *Brazil*
Norgren Manufacturing Co Ltd *China*
Norgren Manufacturing de Mexico SA de CV *Mexico*
Norgren NV *Belgium*
Norgren Pte Ltd *Singapore*
Norgren Pty Ltd *Australia*
Norgren SAS *France*
Norgren SpA *Italy*
Norgren Sweden AB *Sweden*
Orton srl *Italy*
Pneumatex & CIE NV *Belgium**
Pneumatex AG *Switzerland**
Pneumatex BV *Netherlands**
Pneumatex GmbH *Germany**
Pneumatex Manufacture SA *France**
Pneumatex SARL *France**
Shanghai CCI Power Control Equipment Co Ltd *China (70%)*
Stainless Steel Fasteners Ltd
STI srl *Italy*
Syron Engineering & Manufacturing LLC *USA*
TA Regulator d.o.o *Slovenia*
Theodor Heimeier Metallwerk GmbH *Germany*
Thompson Valves Ltd
Tour & Andersson A/S *Denmark*
Tour & Andersson AB *Sweden*
Tour & Andersson AS *Norway*
Tour & Andersson BV *Holland*
Tour & Andersson GesmbH *Austria*
Tour & Andersson Ltd
Tour & Andersson NV/SA *Belgium*
Tour & Andersson Oy *Finland*
Tour & Andersson SA *France*
Tour & Andersson SA *Spain*
Truflo Marine Ltd
Truflo Rona SA *Belgium*

* In December 2009, the Group exercised its option to purchase the remaining 30% of Pneumatex Holding AG and assumed an effective interest of 100% in that company and its subsidiary undertakings. It is expected that this acquisition will be finalised in the first half of 2010.

Retail Dispense

3Wire Group Inc *USA*
Artform International Inc *USA*
Artform International Ltd
Cannon Equipment Co *USA*
DCI Marketing Inc *USA*
Display Technologies LLC *USA*
Display Technology (Europe) Ltd
IMI Cornelius España SA *Spain*
IMI Cornelius Europe SA *Belgium*
IMI Cornelius (Pacific) Ltd *Hong Kong*
IMI Cornelius (Tianjin) Co Ltd *China*
IMI Cornelius (UK) Ltd
IMI Cornelius Australia Pty Ltd *Australia*
IMI Cornelius de Mexico SA de CV *Mexico*
IMI Cornelius Deutschland GmbH *Germany*
IMI Cornelius Hellas SA *Greece*
IMI Cornelius Inc *USA*
IMI Cornelius Italia srl *Italy*
IMI Cornelius Österreich GesmbH *Austria*
IMI Cornelius (Singapore) Pte Ltd *Singapore*
IMI Cornelius Ukraine LLC *Ukraine*
IMI Manufacturing de Mexico SA de CV *Mexico*

Corporate

IMI Group Ltd
IMI Kynoch Ltd
IMI Overseas Investments Ltd
IMI Property Investments Ltd
IMI Americas Inc *USA*
IMI Holdings GmbH *Germany*
Brookvale International Insurance Ltd *Bermuda*

geographic distribution of employees

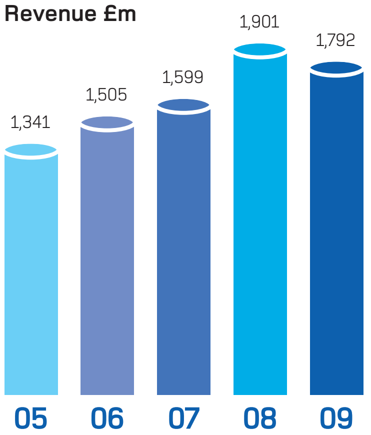
The following table shows the geographic distribution of employees at 31 December 2009 and is not required to be audited.

United Kingdom	2,085
Continental Europe	5,515
Americas	4,014
Asia Pacific	996
Others	233
Total	12,843

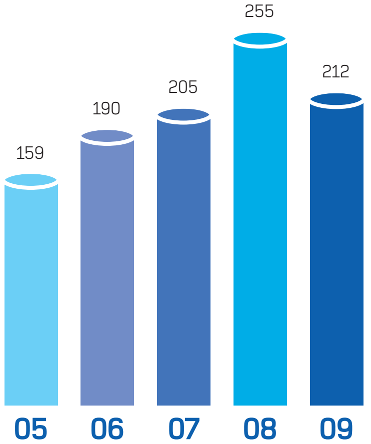
IMI five year summary

Continuing operations

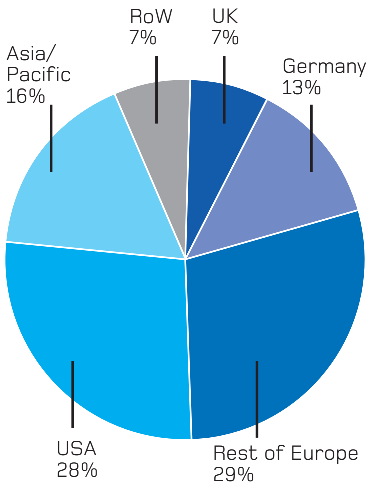
Revenue £m



Profit before tax* £m



2009 Sales by geographical destination**



** before economic hedge contract gains and losses.

	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Income statement					
Revenue	1,341	1,505	1,599	1,901	**1,792**
Segmental revenue*	1,341	1,505	1,599	1,897	**1,785**
Segmental operating profit*	161.4	189.4	207.8	266.3	**234.2**
Adjusted profit before tax*	159.2	190.2	205.5	254.7	**211.7**
Restructuring costs	(4.2)	(19.7)	(22.0)	(19.6)	**(34.9)**
Investigation costs and fines	-	-	(4.9)	(26.3)	**-**
Acquired intangible amortisation and impairment	(3.3)	(14.6)	(10.9)	(13.2)	**(7.2)**
Other income	-	-	1.7	-	**-**
Financial instruments and economic hedge contracts	(0.6)	2.3	1.6	(19.6)	**16.6**
Profit before tax	151.1	158.2	171.0	176.0	**186.2**
EBITDA†	198	211	220	269	**262**

* before exceptional items.

† earnings before interest, tax, depreciation, amortisation and impairment and other income.

Group sales by destination

	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
UK	164	173	188	183	**132**
Germany	179	194	209	266	**234**
Rest of Europe	324	376	423	533	**524**
USA	466	490	460	517	**491**
Asia/Pacific	141	183	202	249	**278**
Rest of World	67	89	117	149	**126**
	1,341	1,505	1,599	1,897	**1,785**
Reversal of economic hedge contract losses	-	-	-	4	**7**
	1,341	1,505	1,599	1,901	**1,792**

Earnings and dividends

	2005	2006	2007	2008	**2009**
Adjusted earnings per share (pre-restructuring)		37.8p	41.9p	54.1p	45.8p
Adjusted earnings per share (post-restructuring)	33.4p				
Earnings per share	3.9p	21.4p	35.4p	35.4p	40.8p
Ordinary dividend per share	17.5p	18.7p	20.2p	20.7p	21.2p

Balance sheet

	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Segmental net assets	578	690	771	973	**850**
Other non-operating liabilities (excluding borrowings)	(146)	(193)	(125)	(212)	**(276)**
Net borrowings	(11)	(80)	(233)	(299)	**(172)**
Net assets	421	417	413	462	**402**

Statistics

	2005	2006	2007	2008	**2009**
Segmental operating profit as a percentage of segmental revenue	12.0%	12.6%	13.0%	14.0%	**13.1%**
Segmental operating profit as a percentage of segmental net assets	28.0%	27.4%	27.0%	27.4%	**27.6%**
Net assets per share (excluding treasury shares)	123.3p	123.7p	128.1p	144.4p	**126.1p**
Net borrowings as a percentage of shareholders' funds	2.5%	19.5%	57.3%	66.0%	**43.0%**
Net debt: EBITDA	-	0.4	1.1	1.1	**0.7**
EBITDA: Interest	24	28	17	17	**14**

IMI shareholder information

Announcement of trading results

The trading results for the Group for the first half of 2009 will be announced on 26 August 2010.

The trading results for the full year ending 31 December 2010 will be announced in March 2011.

Interim management statements will be issued at the AGM on 7 May 2010 and November 2010.

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 2009 was 518.50p (2008: 271.75p).

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.

Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

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.

Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

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 2009	%
1-500 shares	5,929	33.25	1,617,273	0.50
501-1,000 shares	4,933	27.66	3,635,709	1.13
1,001-10,000 shares	6,300	35.33	14,664,341	4.58
10,001-100,000 shares	399	2.24	13,698,465	4.28
100,001-Highest	272	1.52	286,736,639	89.51
Total	17,833	100.00	320,352,427	100.00

19,124,700 Treasury shares are excluded from the above totals.

general information

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IMI plc is registered in England
No.714275

IMI index

applying our market insight to develop products and services to the advantage of our customers

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