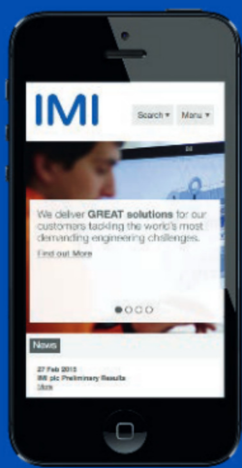
IMI plc
Annual Report & Accounts
2014

IMI

Inside this report

IMI plc, the specialist engineering company, designs, manufactures and services highly engineered products that control the precise movement of fluids. Its innovative technologies, built around valves and actuators, enable vital processes to operate safely, cleanly, efficiently and cost effectively. The Group works with industrial customers across a range of high growth sectors, including energy, transportation and infrastructure, all of which are benefiting from the impact of long-term global trends including climate change, urbanisation, resource scarcity and an ageing population. IMI employs over 12,000 people, has manufacturing facilities in more than 20 countries and operates a global service network. The Company is listed on the London Stock Exchange. Further information is available at www.imiplc.com.

See the report on the IMI plc website: ***www.imiplc.com***



* The Strategic Report on pages 6 to 41 has been approved by the Board of Directors and signed on their behalf by **Mark Selway,** Chief Executive, on 26 February 2015.

IMI plc is registered in England No. 714275

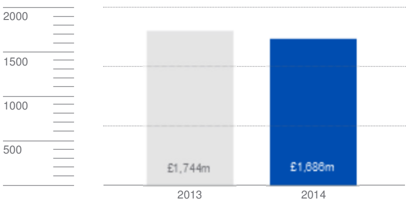
Front cover photo:
Final assembly, setting and testing of an IMI STI actuator on an IMI CCI control valve at our Critical Engineering facility in Brno, Czech Republic

Highlights

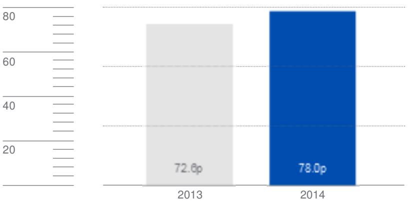
“2014 was a year of good progress for the Group. In particular, in the first half of the year we undertook a detailed strategic review of all our activities and developed a robust growth plan to harness the Group’s full potential and deliver accelerated growth and long-term shareholder value.”

Roberto Quarta
Chairman

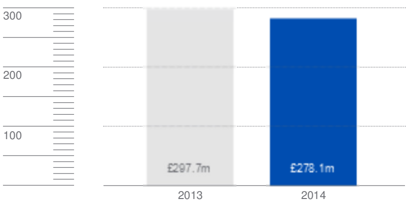
Revenue
£1,686m +2%*



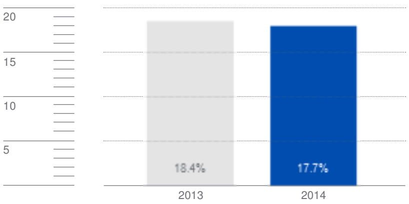
Adjusted basic earnings per share
78.0p +7%



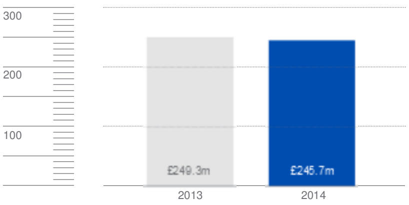
Adjusted profit before tax
£278.1m -7%



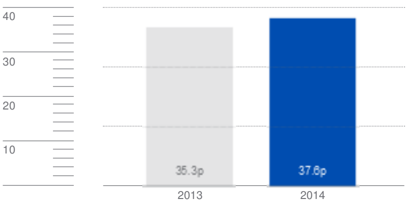
Segmental operating margin
17.7% -70bps



Reported profit before tax
£245.7m -1%



Total dividend for year
37.6p +7%



- Delivered another set of positive results with organic revenue growth of 2% and adjusted EPS growth of 7%
- Recommending a 7% increase in the full year dividend
- New strategic plan embedded across the Group
- Strategic initiatives beginning to deliver
- Acquired the global power generation valve specialist Bopp & Reuther in January 2015, significantly enhancing the Group’s presence in the attractive power sector
- Disposed of two non-core businesses to increase focus on specialist flow control activities
- 14 new products launched by IMI Hydronic Engineering

* On an organic basis, after adjusting for the impact of acquisitions, disposals and movements in exchange rates, see Section 2.1.1 on page 94.

Group overview

Our purpose is to deliver great solutions that tackle the most demanding engineering challenges. We help some of the world's biggest industrial companies operate their processes safely, cleanly, efficiently and cost effectively. We operate through three divisions – IMI Critical Engineering (formerly Severe Service), IMI Precision Engineering (formerly Fluid Power) and IMI Hydronic Engineering (formerly Indoor Climate) – and employ over 12,000 people in over 50 countries around the world.

IMI Critical Engineering

Revenue
£692m

% of Group revenue
41%

Operating profit
£119.8m

Number of employees
4,300

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

Key brands
IMI CCI, IMI Bopp & Reuther, IMI Fluid Kinetics, IMI InterAtiva, IMI NH, IMI Orton, IMI Remosa, IMI STI, IMI SSF, IMI TH Jansen, IMI Truflo Marine, IMI Truflo Rona, IMI Z&J

Main markets
Oil & gas; fossil power; nuclear power; petrochemical, and iron & steel.

Major operational locations
Belgium, Brazil, China, Czech Republic, Germany, India, Italy, Japan, South Korea, Sweden, Switzerland, UK and USA

Find out more about IMI Critical Engineering
Turn to page 36

IMI Precision Engineering

Revenue
£710m

% of Group revenue
42%

Operating profit
£126.4m

Number of employees
6,000

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

Key brands
IMI Norgren, IMI Buschjost, IMI FAS, IMI Herion, IMI Maxseal

Main markets
Commercial vehicle; food and beverage; life sciences; rail; energy and industrial pneumatic applications.

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

Find out more about IMI Precision Engineering
Turn to page 38

IMI Hydronic Engineering

Revenue
£284m

% of Group revenue
17%

Operating profit
£51.9m

Number of employees
2,000

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

Key brands
IMI TA, IMI Flow Design, IMI Heimeier, IMI Pneumatex

Main markets
Water based heating and cooling systems for commercial buildings; and temperature control for residential buildings.

Major operational locations
Germany, Poland, Slovenia, Sweden, Switzerland and USA

Find out more about IMI Hydronic Engineering
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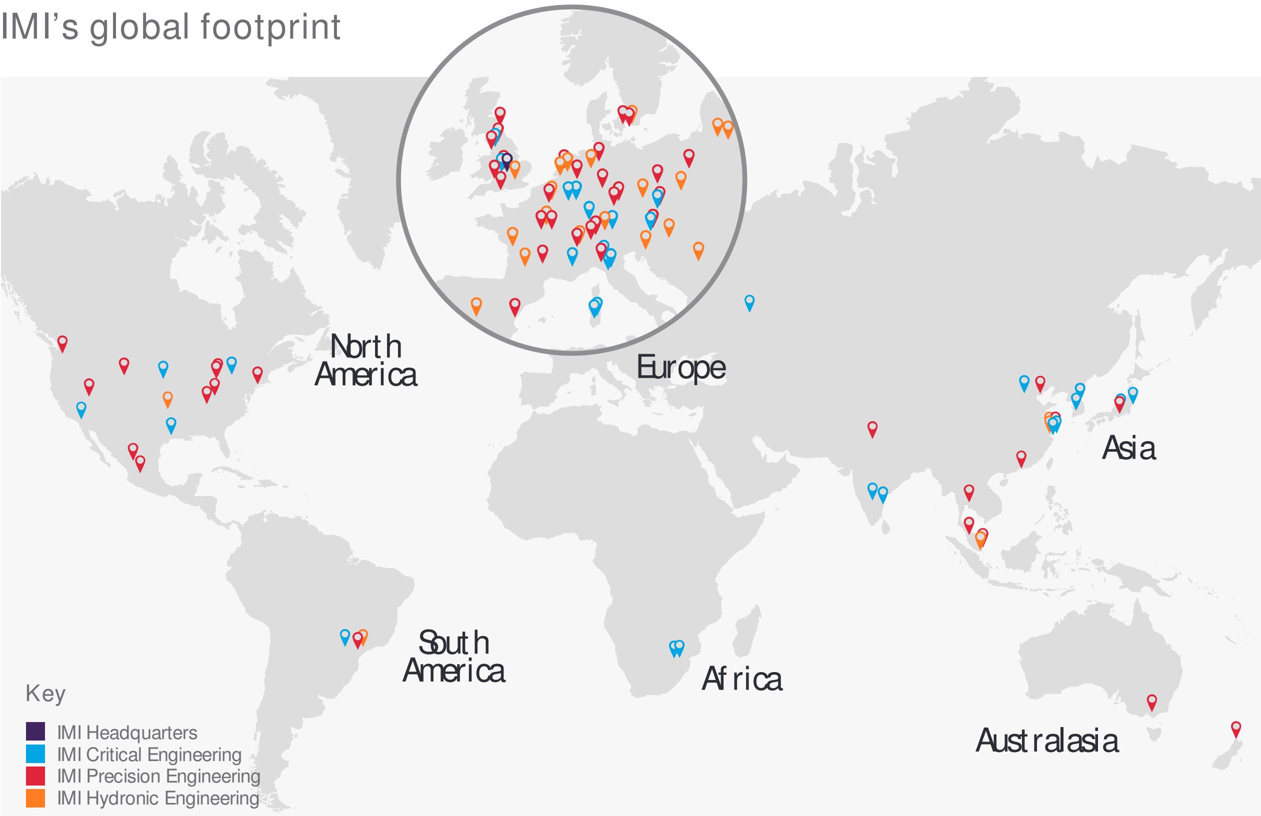
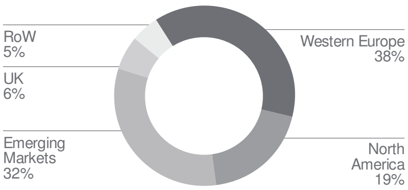
IMI's global footprint

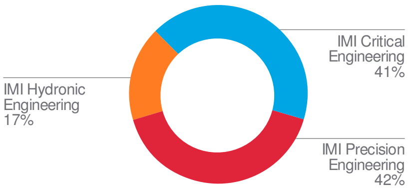


This map illustrates locations with more than ten employees and includes manufacturing sites and sales offices

Group revenue by geography

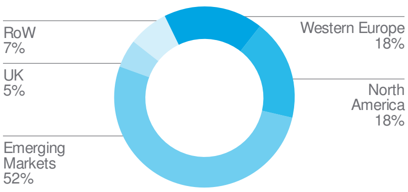


Revenue by division

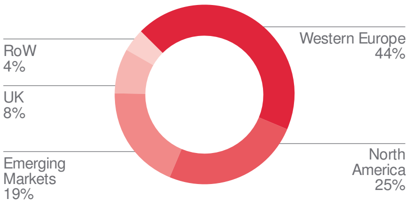


Divisional revenue by geography

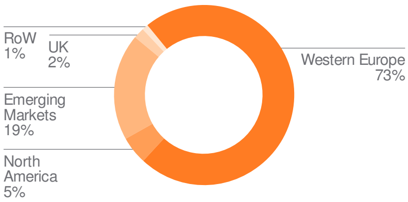
IMI Critical Engineering



IMI Precision Engineering



IMI Hydronic Engineering



Chairman's Statement
A year of good progress

2014 was a year of good progress for the Group. In particular, in the first half of the year we undertook a detailed strategic review of all our activities and developed a robust growth plan to harness the Group's full potential and deliver accelerated growth and long-term shareholder value.

Roberto Quarta
Chairman

Results overview

After adjusting for the impact of adverse exchange rate movements of £96m and for acquisitions and disposals, Group revenues on an organic basis increased by 2%. Group revenues on a reported basis were down 3% to £1,692m (2013: £1,743m). On a like for like basis, after adjusting for the impact of adverse exchange rate movements of £18m, segmental operating profit decreased slightly by 1%. Segmental operating profit on a reported basis was 7% lower at £298m (2013: £322m). The Group's operating margin was 17.7% (2013: 18.4%) reflecting our investment in a range of growth initiatives. Adjusted earnings per share increased by 7% to 78.0p (2013: 72.6p) principally as a result of the share consolidation in the first quarter of the year.

Based on these results, and reflecting continued confidence in the Group's prospects, the Board is recommending that the final dividend be increased by 7% to 24.0p (2013: 22.5p). This makes a total dividend for the year of 37.6p, an increase of 7% over last year's 35.3p.

Strategic developments

During the first half of 2014 Mark Selway, who became Chief Executive in January 2014, initiated a detailed review of all aspects of the Group's business. The findings of this review together with the Group's new strategic plan was announced in August at the time of the interim results. Our new strategic plan, details of which are set out on pages 8 to 23 of this Annual Report, is focused on harnessing IMI's full potential to drive accelerated growth and build long-term shareholder value. The opportunities are significant and that is reflected in our ambition to double the Group's operating profits over the next five years, while retaining our financial discipline.

I am pleased to report that the strategic plan is now embedded in all our businesses and a number of its initiatives are already beginning to deliver real benefits. Mark, in his Chief Executive's review on pages 8 and 9, will cover these positive developments in more detail but by way of example I would like to mention some of the operational improvements I have seen first-hand. Improving both our competitiveness and our efficiency are key elements of our plan and, in particular, ensuring that we have in place the most effective operational processes. In July last year I visited our Hydronic Engineering's Füllinsdorf plant in Switzerland and was delighted to see the team implementing key elements of our new plan including adopting new processes to accelerate new product development, help reduce working capital and enhance competitiveness, all of which were delivering positive results.

During the year we further increased our focus on specialist flow control activities. On 1 January 2014 we completed the sale of the Retail Dispense and Merchandising divisions to the Marmon Group for an enterprise value of $1,100m (£690m) and subsequently returned £620m of cash to shareholders. Additionally, in October, we sold the non-core Eley businesses for £42m and in November 2014 we announced the acquisition of the power generation valve specialist, Bopp & Reuther, for a cash

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consideration of €153m (£118m). This acquisition, which completed at the beginning of 2015, is a significant and important first step in our acquisitive growth plan. It significantly enhances our presence in the growing power market and increases our Critical Engineering division's growth prospects.

Board changes

In September 2014 we announced the retirement of Douglas Hurt as Finance Director. Douglas has been in the role since 2006 and has played a major part in IMI's development over the course of the last eight years. Douglas will be succeeded by Daniel Shook who joined us in January 2015 and who will become Finance Director on 1 March 2015. Daniel was previously Chief Finance Officer at Borealis AG and brings with him over 20 years of financial management experience across a range of industrial sectors and a strong international perspective.

Ross McInnes joined the Board as a non-executive director on 1 October 2014. He took over as Chairman of the Audit Committee on 1 January 2015 after Phil Bentley stepped down from the Board at the end of the year. Anita Frew, our senior independent director, will retire after nine years as a non-executive at the Annual General Meeting (AGM) in May 2015. Bob Stack will succeed Anita as senior independent director immediately following the AGM. On behalf of the Board I would like to thank Anita, Douglas and Phil for the significant contributions they have all made to the Board and IMI.

Finally, following the announcement of my appointment to the Board of WPP plc, I confirmed that I intend to step down as non-executive Chairman. An external search for my successor is well underway, led by Anita Frew, and I will be remaining with IMI until your new Chairman is identified.

Our people

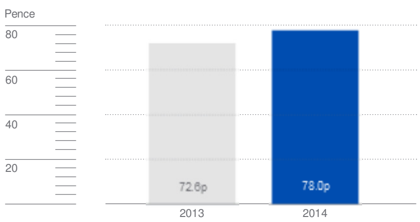
IMI is a very special Company with many strengths – world-class engineering skills, long standing customer relationships and great people. The progress we have made this year has involved a great deal of hard work and I would like to take this opportunity to thank all our employees for their ongoing commitment, passion and support.

Summary

I have been proud to be your Chairman. Since I joined in 2011 much progress has been made preparing the Group for the next phase of its development. The Group has adopted a new strategic growth plan, strengthened the Board with new director appointments and recruited Mark Selway as the new Chief Executive. IMI is now on a positive track to deliver sustainable accelerated top and bottom line growth. I wish Mark, his team and everyone at IMI much success in the future.

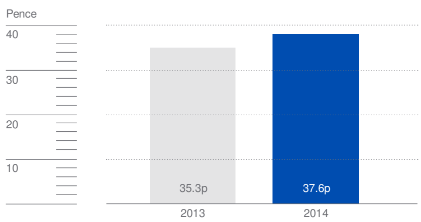
Adjusted EPS

+7%



Dividend per share

+7%



Board details
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Strategic review

In this section our Chief Executive Mark Selway reviews the key events and developments that took place in 2014. We also explain the Group's strategy which was launched in 2014 following a detailed review of all aspects of the business, our strategic priorities and the enablers which will help us deliver our strategic goals. Additionally, there are detailed explanations and case studies on how the strategy is being implemented in the businesses which cover operational improvements, new product development, targeted acquisitions and corporate responsibility.

Main photo: IMI Precision Engineering colleagues in their Birmingham UK headquarters.

Chief Executive's Review
Early signs of strategic progress

Performance in 2014

Despite challenging economic and market conditions in a number of our key sectors, we delivered results in line with expectations while at the same time making significant investment in the Group, which will drive future growth. Our new strategic plan is now being executed across the Group and I am pleased to report that we are already starting to see early signs of tangible benefits.

Mark Selway
Chief Executive

Our new growth strategy

Shortly after I arrived at IMI I initiated a detailed review of all the Group's activities. The review confirmed many of IMI's inherent strengths. The Group is a specialist flow control business focused on industrial end markets with good prospects and market leading expertise. We have a great team of people, strong long-term relationships with world-class customers and a robust balance sheet, which provides headroom and flexibility to support a range of both organic and acquisitive growth opportunities.

The review process did however identify a number of challenges that must be addressed in order to deliver long-term accelerated growth. We need to invest in product development, which will become a critical component of our growth plan, to build sustainable competitive advantage. And because of the historically diverse make-up of the Group, and the autonomous nature of the businesses, there is also a need to invest in Group-wide IT systems and facilities. Furthermore the organisational structure that has evolved over the years is complex and in many places inefficient, and in the Precision Engineering division in particular, we have significant underutilised capacity which has caused top line margins to be absorbed by increasing levels of fixed costs.

Using all the detailed findings that emerged from the review we have developed a strategic plan that builds on the Group's inherent strengths, addresses the challenges we have identified and ultimately harnesses the Group's full potential to deliver sustainable accelerated growth and long-term shareholder value.

Detailed information about our strategic plan including our growth priorities and strategic enablers are set out on pages 10 and 11 and the priorities for each of our divisions are covered on page 12.

Early signs of strategic progress

As the Chairman has highlighted in his report, our new strategic plan is now in the early stages of execution and real progress has been achieved on a number of fronts:

- our operational performance is improving: in August 2014 when we announced our five year strategic plan, each division set a target to improve their lean assessment score on average by 50% within six months and to achieve world-class scores by 2018. The initial target lean scores have largely been achieved with IMI Critical Engineering improving its benchmark results by 54%, IMI Precision Engineering by 44% and IMI Hydronic Engineering by 55%. As a result of these improvements, tangible operational benefits are evident in all divisions. In our Hydronic division, on time delivery has improved from 82% to 90% while inventory has reduced by 10%. In Critical Engineering we have achieved significant reductions in both set up times and work in progress and in Precision Engineering the early initiatives to address the complex supply chain have resulted in improvements in both quality levels and delivery times. By the middle of 2015 each division is targeting to deliver further improvements in their benchmark lean performances;

- more efficient streamlined structures and processes are being put in place across the organisation: beyond our plants, the efficiency and effectiveness of a number of our core processes, including financial forecasting and risk and control, have been enhanced. Plans to introduce a number of new systems, all of which will support IMI's future growth, including new ERP systems in each of our divisions, are well advanced. In addition, with effect from January 2015, the Precision Engineering division's European operations were restructured to provide improved line of sight to customers;
- investment in product development has increased and our product development process is gaining significant momentum: in 2014 our Hydronic Engineering division launched 14 new products compared to five in the previous five years. These world leading new products will underpin our organic growth and help maintain our competitiveness and market leading positions. In Critical Engineering we benchmarked our project management processes and have developed new standard operating procedures, which are focused at reducing lead times and improving the rigour of managing our project costs. In Precision Engineering we embarked on an extensive review of the Industrial Automation sector which will translate into an ambitious product development roadmap;
- Group-wide collaboration is increasing and gaining momentum: in June last year we began the roll out of a Group-wide intranet accessible to all employees with an objective to facilitate collaboration and share best practice. By January 2015 over 9,000 of the Group's employees were able to access the intranet and its content and this will be extended to all IMI employees over the next 12 months. A simple unifying brand programme, centred around the IMI brand, was also developed and has already been implemented across all businesses;
- our concentration on specialist flow control activities has been further enhanced: in October last year we sold the non-core Eley businesses for £42m to further increase IMI's focus on specialist flow control activities. The proceeds from the disposal are being utilised to exploit a number of good growth opportunities; and
- our addressable market and product and geographic reach has been expanded: at the beginning of 2015 we acquired the power generation valve specialist Bopp & Reuther, for a cash consideration of £118m. This acquisition creates a number of growth opportunities and significantly enhances our presence in the growing power sector, while extending our existing product range and current addressable market. It also increases the Group's exposure to faster growing emerging markets and the higher margin aftermarket.

On pages 10 and 11 of this Annual Report you will see our strategic plan mapped out as a time line. Currently we are in the early stages, however, it is pleasing to report that progress is being made and that real benefits are starting to become evident in our operations and responsiveness to the market. The opportunities we have are significant and that is reflected in our ambition to double the Group's 2014 operating profits over the next five years, while retaining our financial discipline.

People

All that has been achieved to date is down to the hard work and dedication of our employees. In a year when much has been achieved in terms of the Group's operational performance and its strategic direction I would like to thank all our employees around the world for their commitment, energy and focus.

I would also like to take the opportunity to thank Roberto Quarta for his significant contribution to IMI. He has overseen a period of much change and as a result, the Group is now well positioned for long-term growth. He has been an excellent Chairman and I have very much enjoyed working with him. On behalf of the Board I would like to wish him all the very best for the future.

Outlook

In 2015, based on current market conditions and excluding the impact of exchange rate movements, we expect the Group to deliver modest organic revenue growth weighted towards the second half with margins slightly lower than in 2014, reflecting the impact of the disposal of Eley and acquisition of Bopp & Reuther by the Critical Engineering division and the ongoing investments we are making in all our businesses as we ready them for accelerated long-term growth.

Strategic growth priorities

Our strategic plan to accelerate growth is focused on the following key growth priorities:

1
Capitalising on significant organic growth opportunities

We already operate in a number of attractive end markets and we intend to focus on those that offer the greatest potential in terms of delivering top and bottom line growth. These end markets include those where we already are, or have the potential to be, in a leading position, markets where we can grow share and markets where there are significant higher margin aftermarket opportunities. Our current market positioning and the growth targets we have set are detailed on pages 14 and 15.

2
Improving operational performance

The benefits of moving towards and achieving best in class operational performance are significant. As we improve how our businesses operate we will better utilise capacity, enhance our competitiveness, reduce working capital and generate cost savings by operating more efficiently. Our ambition is to progressively self-fund our organic growth initiatives using the benefits generated from our operational improvements. Details about how we are improving operational performance are set out on pages 16 to 19.

3
Increased investment in product development

We will increase our investment in product development, a key enabler of our growth plan, which is to build sustainable competitive advantage. Progressively we will increase R&D spend from around 3% of revenues in 2014 to 5% over the next two to three years. To ensure that we maximise to the full the benefits of this increased investment, we are improving our product development processes and systems and further detail is contained on pages 20 and 21.

4
Expand addressable markets through targeted acquisitions

We will supplement our organic growth opportunities with targeted acquisitions capable of producing returns in excess of the Group's weighted average cost of capital within three years. Beyond our existing business portfolio, our review has identified the potential to double the Group's addressable market by making acquisitions in adjacent non-valve product markets. Further details of our acquisition strategy are detailed on page 22.

Strategic timeline

2014

Year 0:
The hard work begins ☑

2015

Year 1:
Increased investment ☐

2016

Year 2:
Benefits starting to show ☐

Organic initiatives

2014:
- Assess our markets and drivers for growth
- Benchmark performance and develop plans for improvement

2015:
- Invest in products and capital for growth
- Foundations established and early benchmark improvements evident
- Sorting the basics in Precision Engineering complexities and structure

2016:
- Accelerated growth evident in results
- Working capital benefits visible in results
- Emerging markets ready for local full technology supply

Supported by value enhancing acquisitions

Strategic enablers

To deliver our strategic growth priorities we have outlined the following key strategic enablers:

Maintain financial discipline

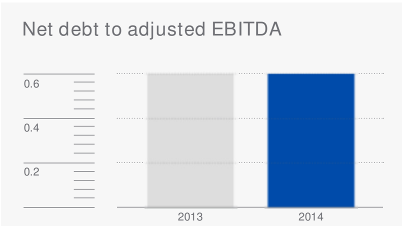
As we execute our strategy to deliver accelerated growth we will continue to maintain financial discipline. Capital will be allocated to drive organic growth, maintain a progressive dividend policy in line with earnings and fund acquisitions. Whilst retaining flexibility to develop IMI's full potential, we will continue to focus on maintaining an efficient balance sheet and, in the event of us having cash in excess of the Group's current needs, we will return this excess capital to shareholders. Through the life of our five year plan we will target net debt to EBITDA of two times through the cycle.

Invest in Group-wide IT and infrastructure

Because of the historically diverse make-up of the Group, and the autonomous nature of the businesses there is a need to invest in Group-wide IT systems and facilities. Each division is now implementing new ERP systems to support their long-term growth ambitions. The implementations are being phased on a site by site basis to minimise risk and to deliver an optimal solution. The Group is also investing in its sites, alongside the lean manufacturing initiatives, to ensure that we have best in class facilities. Overall capital spending is progressively increasing to around two times depreciation where it will remain for the first few years of the plan.

Work together as one simplified IMI

To harness the Group's full potential we are determined to channel and maximise our scale to act as one IMI. The new brand co-ordinates and creates a single focus for everything we do. Our core processes provide a strong platform and underpin a framework for creating consistent Group–wide standards and behaviours. To enable us to operate as one IMI on a day-to-day basis we have put in place a global intranet that all employees, regardless of location, are able to access. Sharing best practice is now an important part of life at IMI and having a single place to manage our processes and record our progress will be essential to improving our overall performance.



Financial discipline will support our strategy for accelerated growth over the life of our five year plan

In October 2014, we launched the IMI Eye, a Group-wide newsletter, written by employees for employees

Our global intranet is available to 9,000 employees

2017

Year 3:
Nearly firing on all cylinders

- Growth outruns peers in every division
- Benchmark performance nearing world-class standards
- Precision supply chain and capacity issues resolved

2018

Year 4:
Up to full speed

- Ambitions for growth fully realised
- Achievement of world-class performance evident in results

2019

Year 5:
Double operating profits

- All divisions in attractive, high growth markets

Business priorities

For each of the divisions we have developed five year plans which are closely aligned to the ambitions of the Group. These plans are now fully embedded within each division and are already beginning to deliver real progress. The key strategic priorities for each division are as follows:

IMI Critical Engineering

Focus and grow

- Capitalise on attractive growth in existing markets
  > Our goal is 6-8% organic compound average growth rate over 5 years
- Invest to support growth markets
  > New larger sites in Houston, Italy and Korea completed
  > Planned refurbishment of IMI Z&J site in Germany
  > Investing in additional service locations to support aftermarket
- Enhance systems and processes
  > New product development
  > Project execution benchmarking
  > Enterprise Resource Planning (ERP) system implementation progressing well at IMI CCI
- Acquisitions to support growth
  > Add strategically aligned bolt-ons such as Bopp & Reuther acquired in January 2015
  > Extend into adjacent markets
  > Expand product portfolio - semi-severe and configured valves

IMI Precision Engineering

Fix, focus and grow

- Fix the basics in the next two years
  > Simplify organisational structure
  > Introduce standard costing
- New ERP implementation underway in Brazil and North America
- Grow emerging market local manufacturing content
  > Address supply chain complexity
  > Manufacture closer to end customers
- Increase plant utilisation
  > Significantly improve operational performance
- Revitalise industrial automation and grow organically
  > New product development
  > Our goal is growth in line with GDP in years 1 and 2 and 6-8% organic CAGR thereafter
- Acquisitions
  > Future opportunity for larger acquisitions to accelerate growth

IMI Hydronic Engineering

Focus and grow

- Capitalise on attractive growth in existing markets
  > Our goal is >5% organic CAGR over 5 years
- Increase new product development
  > 14 new products launched in 2014
  > Double investment in new product development over 5 years
  > 15 new products planned for 2015
- Optimise organisational structure
  > Introduce core processes
  > Project underway to implement new divisional ERP system
- Acquisitions
  > Potential bolt-on acquisitions to target North America

Executive Committee*

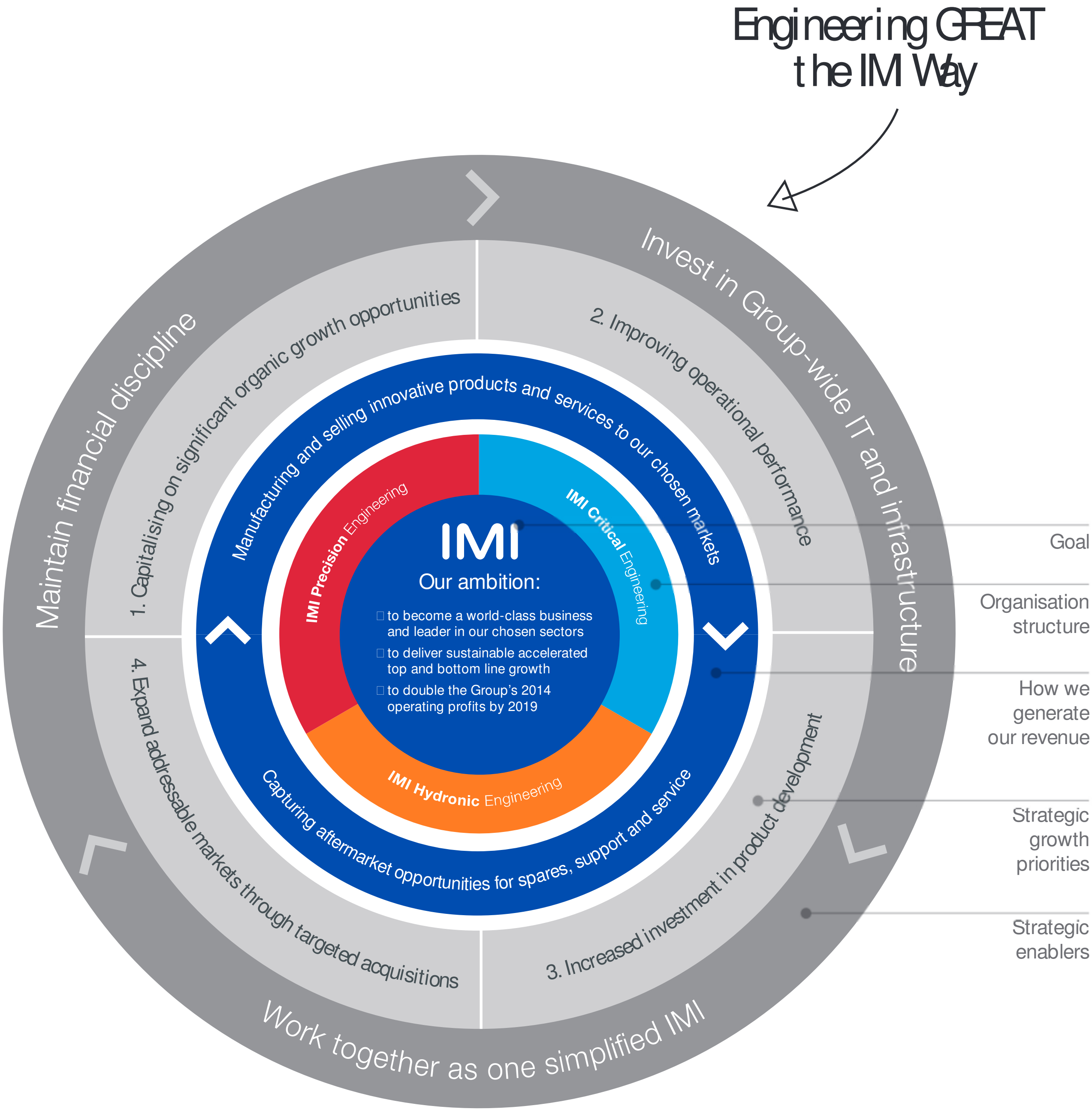
Mark Selway	Daniel Shook	Roy Twite	Peter Spencer	Paul Roberts	Geoff Tranfield	John O'Shea
Chief Executive and Interim Divisional Managing Director, IMI Precision Engineering	Finance Director From 1 March 2015*	Divisional Managing Director, IMI Critical Engineering	Divisional Managing Director, IMI Hydronic Engineering	Group Business Development Director	Group Human Resources Director	Legal & Compliance Director and Company Secretary

*Douglas Hurt was the Finance Director and a member of the Executive Committee until 28 February 2015

Executive biographies
www.imiplc.com/about-imi/leadership-and-governance/executive-committee

IMI business model

Our business model is built around our core strategic priorities of capitalising on growth opportunities, operational excellence, investment in product development and targeted acquisitions. Continuous investment in these areas will deliver improved, more innovative products and services to our customers and help us increase our competitive advantage. By meeting our customers' needs and investing in our leading market positions, we are well placed to grow profitably to the benefit of all stakeholders including our shareholders.



Strategy in action

1. Capitalising on significant organic growth opportunities

The Group currently operates in a number of attractive end markets and to achieve our ambitions we must focus on those that offer the greatest potential in terms of delivering top and bottom line growth. Our priority is to capitalise on those end markets where we already are, or have the potential to be, in a leading position – markets where we can grow share and markets where there are significant higher margin aftermarket opportunities.

Market and positioning

IMI Critical Engineering

- Almost £7bn addressable market
- Attractive growth markets
- Leadership position in power and potential to achieve in other key sectors
- Barriers to entry provide excellent opportunity in high margin aftermarket

Power

We are the world leading supplier of engineered to order turbine bypass valves for critical applications in conventional and nuclear power plants – helping to provide the safest, most reliable and efficient power generation.

2014 Revenue: £248m

Oil & Gas

We supply anti-surge valve and actuator systems to the world's largest LNG compression facilities. Our systems are capable of ultra-fast response to maximise LNG production while protecting the compressor.

2014 Revenue: £200m

Petrochemical & Metals

We design and manufacture integrated flow control systems for critical applications in Fluid Catalytic Cracking. We also supply bespoke valves into the ethylene, polypropylene and delayed coking production processes.

2014 Revenue: £144m

Actuation

We focus on the design and production of complete actuation systems to operate industrial valves for the most demanding applications and processes in terms of forces, speed and accuracy.

2014 Revenue: £36m

In 2014, IMI Critical Engineering had £64m of other revenue.

IMI Precision Engineering

- £14bn addressable market opportunity
- Challenging competitive environment
- Best in class returns but falling market shares
- Significant potential in Industrial Automation
  > leading brand
  > high margins from aftermarket

Industrial Automation

We supply high performance products including valves, valve islands, proportional and pressure monitoring controls and air preparation products, as well as a comprehensive range of pneumatic actuators.

2014 Revenue: £426m

Commercial Vehicle

We design and manufacture a range of cab, chassis and powertrain solutions which deliver fuel efficiency, emissions reduction and faster assembly times for the world's leading commercial vehicle manufacturers.

2014 Revenue: £163m

Oil & Gas

We offer a comprehensive range of products which deliver precision control in even the harshest environments, including stainless steel valves and regulators, nuclear class valves and emergency shutdown controls.

2014 Revenue: £74m

Life Sciences

We supply precision flow control solutions used in medical devices, diagnostic equipment and biotech and analytical instruments. Our products help to reduce the size of equipment, while enhancing accuracy, throughput and fluid control performance.

2014 Revenue: £47m

IMI Hydronic Engineering

- £2bn addressable market opportunity
- Low cyclicality due to resilience of refurbishment markets
- Leadership position in core North European markets
- Best in class returns but falling market shares

Balancing & Control

Our hydronic balancing and control solutions enable buildings to keep comfort at the right level and lift HVAC efficiency by up to 30%. Our expertise covers constant and variable flow and both static and dynamic balancing.

2014 Revenue: £148m

Thermostatic Control

We design and manufacture thermostatic control systems which guarantee direct or automatic control of radiators and underfloor heating systems to perfectly control individual room temperatures.

2014 Revenue: £94m

Pressurisation

Reliable pressurisation is a basic requirement for a trouble-free operation of heating, cooling and solar systems. Our robust range of pressure maintenance systems with compressors or pumps and expansion vessels maintains the right pressure in the system at all times.

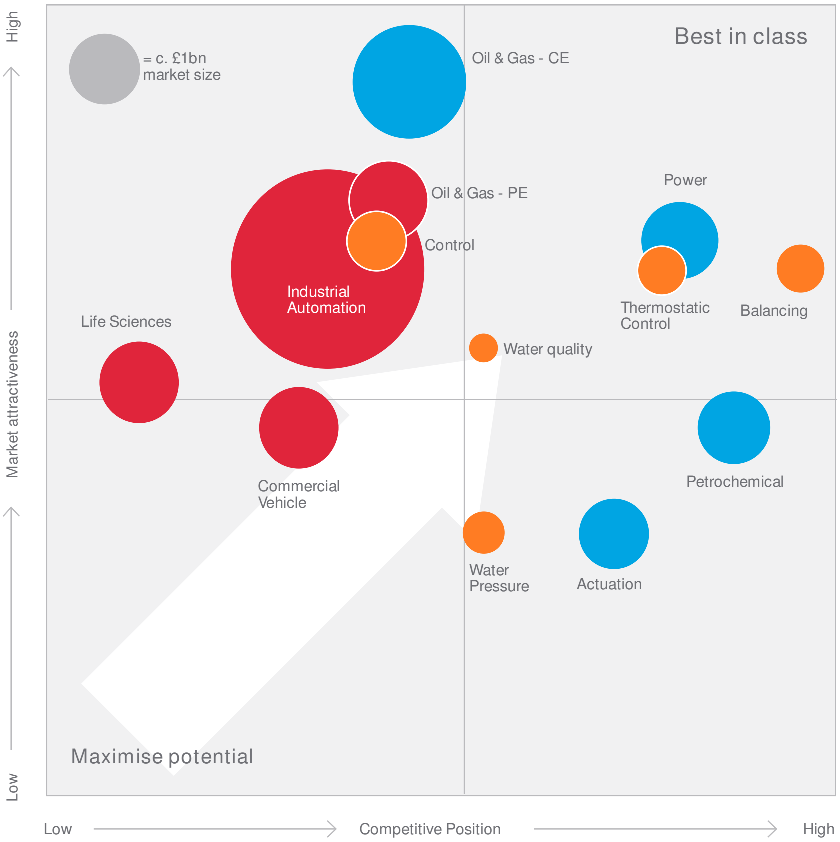
2014 Revenue: £30m

Water Quality

The single most important component in any hydronic system is always water itself. When compromised, the effects can be felt throughout the system. Our dirt and air separators and pressure-step degassers protect the installation by keeping water free of micro-bubbles and sludge.

2014 Revenue: £12m

Organic growth opportunities



We are well positioned in attractive markets

Critical Engineering

Market position

Attractive high growth markets with good competitive position

Goal

Over the life of our five year strategic plan our goal is for an average organic growth rate of around 6 to 8%.

Precision Engineering

Market position

Attractive high growth markets with good competitive position

Goal

Significantly improving operational performance and driving organic growth are our first priorities. As we focus on these priorities, during the first two years of our plan the goal is to grow at a rate in line with GDP. Thereafter the goal is to grow at an organic rate in the range of 6 to 8%.

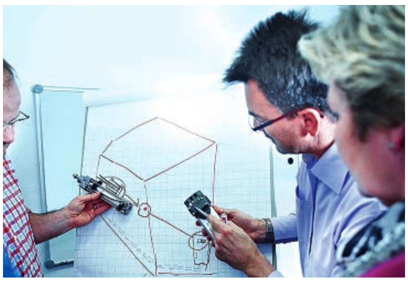
Hydronic Engineering

Market position

Attractive high growth markets with good competitive position

Goal

Our goal is to deliver compound organic growth in excess of 5% over the life of our five year plan.



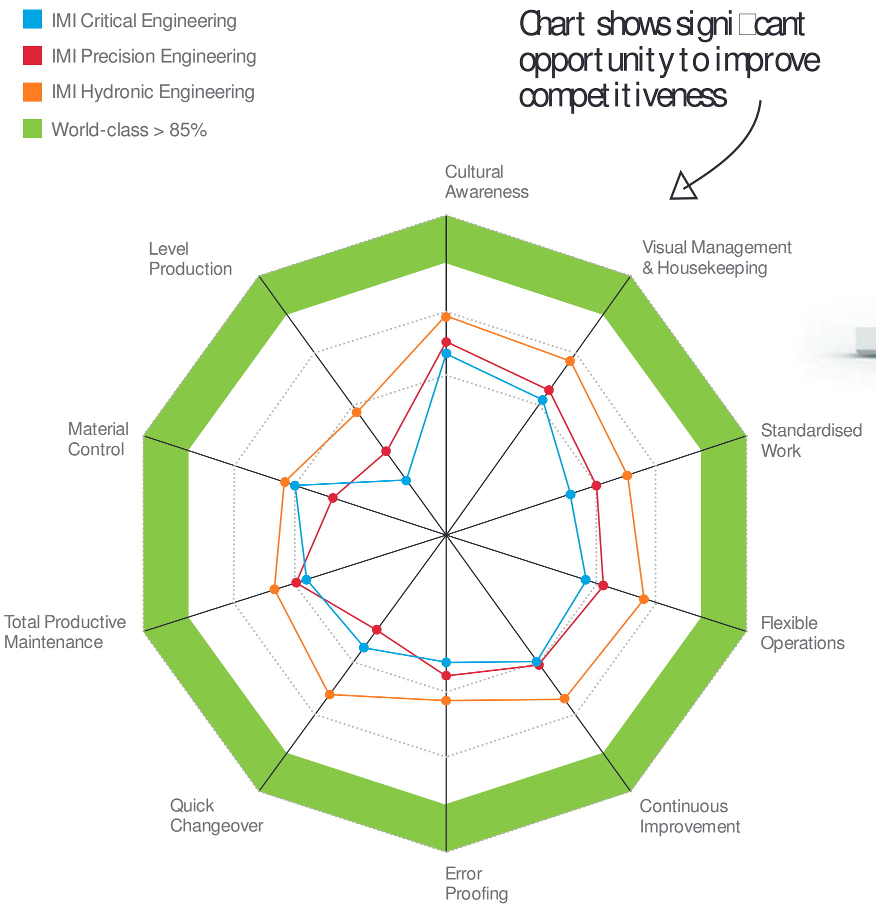
Strategy in action

2. Improving operational performance

The benefits of moving towards and achieving best in class operational performance are very significant. As we improve how our businesses operate we will better utilise capacity, enhance our competitiveness, reduce working capital and generate cost savings by operating more efficiently. By doing this, we will also improve services for our customers. Our ambition is to progressively self-fund our organic growth initiatives using the benefits generated from our operational improvements. We are on a self-help lean journey, underpinned by the engagement of management and employees at all levels as we believe this is the best way to sustain our achievements.

The operational performance of every site in the Group is now being benchmarked every six months against the ten areas of lean and significant progress has already been achieved. A world-class operational performance score is 85% or more and at the time of the first benchmark, none of our facilities came close to achieving this, with the highest score being 57%. Each of our businesses now have detailed plans in place to achieve world-class performance by 2018.

Second round assessment average lean scores by division



The lean assessment score for every IMI site is available for all employees to view via the lean benchmarking application on the global intranet. Benchmarking identifies best practice within IMI and provides visibility of where to focus improvements and where to go for assistance to improve performance going forward.

2014 operational snapshot

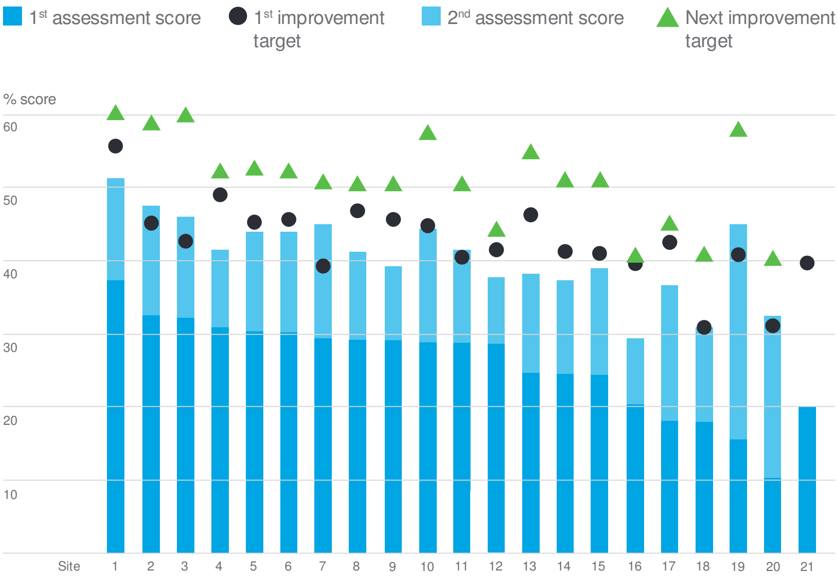
- Significant excess installed capacity
- Increased efficiencies will improve competitiveness
- Supply chain efficiencies will improve working capital utilisation
- Average score increased from 31% to 46% and further ambitious improvement targets in place for 2015

Lean assessments

During 2014, our Critical Engineering sites were benchmarked against the ten areas of lean and the average score of the division's first round of assessments was 26%. Improvement targets were set and plants have now been benchmarked for a second time, this time scoring an average of 40%. Plans are in place to improve this score to an average of 51% in the first half of 2015.

IMI

Critical Engineering



Site	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1st improvement target %	55	45	42	49	45	46	39	46	45	45	40	41	46	41	41	39	42	30	41	31	40
2nd assessment score %	51	47	46	41	44	44	45	41	39	44	41	38	38	37	38	29	36	31	44	32	

Site Key:

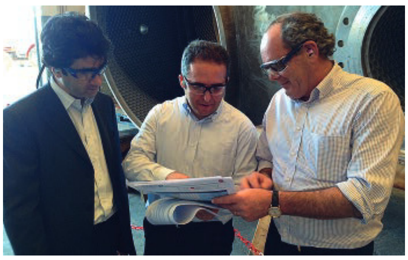
1 IMI CCI Brno
2 IMI CCI Korea
3 IMI CCI RSM
4 IMI CCI Sweden
5 IMI CCI Switzerland
6 IMI Truflo Marine
7 IMI InterAtiva
8 IMI CCI Japan
9 IMI Orton
10 IMI Fluid Kinetics
11 IMI CCI SriCity
12 IMI NH
13 IMI Remosa
14 IMI Z&J Germany
15 IMI Truflo Rona Belgium
16 IMI SSF
17 IMI Z&J Houston
18 IMI CCI SPEC JV
19 IMI STI
20 IMI Z&J China
21 IMI Bopp & Reuther*

The first phase of lean implementation across IMI Critical Engineering has focused on building a stable foundation of key processes. In order to drive improved manufacturing stability and consistency, we are focusing on three lean tools; Total Productive Maintenance (TPM); Single Minute Exchange of Dies – changeover time reduction (SMED), and Daily Management Team Boards.

TPM focuses on proactive and preventative maintenance to maximise the operational efficiency of equipment and places a strong emphasis on providing operators with the tools and organisational support they need to maintain their own machines. Ultimately this will help to improve productivity by increasing up time, reducing cycle times and eliminating defects which in turn will allow us to improve our lead times.

At our first formal TPM shop floor improvement session at IMI CCI in Rancho Santa Margarita, California, the newly trained team completed over 55 machine improvement actions and restored machines to a 'like-new' condition.

Daily Management Team Boards are designed to provide specific key performance data that enables local work teams to manage, control and drive continuous improvement of daily performance. The boards include relevant daily performance data for safety, quality, delivery, cost and people management issues. With all Critical Engineering sites actively adopting this process, we are seeing increased employee engagement aligned with performance goals and predictable team performance.



Mark Selway on a recent visit to IMI Remosa in Italy, with Mauro Natalini (the designated lead for lean at IMI Remosa) and Giuseppe Buscemi, Operations Director

Case study

SMED is a system for reducing the time it takes to complete equipment set-up – by performing change over steps while equipment is running and simplifying and streamlining the remaining steps. SMED benefits make the operator's job safer and easier and also include less equipment down time, more efficient product changes, improved responsiveness to customer demand, reduced throughput time and lower inventory levels. At IMI CCI Brno in the Czech Republic, the first SMED event delivered a reduction of over 50% in set-up times.

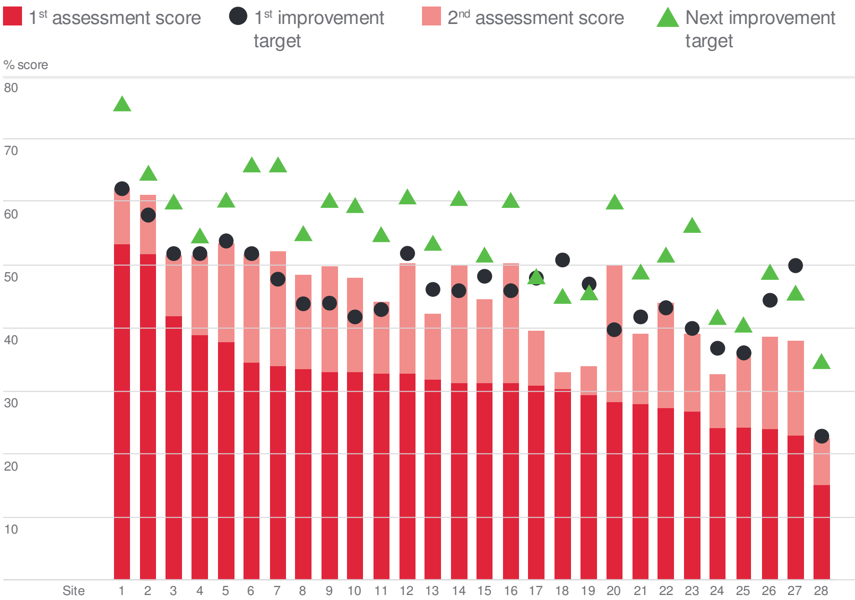
Machine 1	Before	After	Saving
Time (minutes)	139	49	65%
Distance (metres)	565	134	76%

* IMI Bopp & Reuther joined the division in January 2015 and has only had one assessment so far.

Lean assessments

During 2014, our Precision Engineering sites were benchmarked against the ten areas of lean and the average score of the division's first round of assessments was 32%. Improvement targets were set and plants have now been benchmarked for a second time, this time scoring an average of 46%. Plans are in place to improve this score to an average of 54% in the first half of 2015.

Precision Engineering



Site	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
1st improvement target %	62	58	52	52	54	52	48	44	44	42	43	52	46	46	48	46	48	51	47	40	42	43	40	37	36	44	50	23
2nd assessment score %	62	61	52	52	53	53	52	49	50	48	44	50	42	50	45	50	40	33	34	50	39	44	39	33	36	39	38	24

Site Key:

1 IMI Norgren Brno
2 IMI FAS Switzerland
3 IMI Norgren Seattle
4 IMI Webber
5 IMI EDC warehouse Alpen
6 IMI Norgren Queretaro
7 IMI Norgren India
8 IMI Watson Smith
9 IMI Norgren China
10 IMI Norgren Farmington
11 IMI Buschjost
12 IMI Norgren Germany Fellbach
13 IMI Norgren Kloehn
14 IMI Norgren Germany Alpen
15 IMI Norgren Littleton
16 IMI Norgren Singapore
17 IMI Norgren Brazil
18 IMI Norgren Brookville
19 IMI Norgren Switzerland
20 IMI Norgren Australia
21 IMI Herion Systemtechnik
22 IMI Thompson Valves
23 IMI Norgren Detroit
24 IMI IMF
25 IMI Norgren Denmark
26 IMI Norgren Fradley
27 IMI Norgren warehouse Louisville
28 IMI Norgren Belgium

With varying levels of operational performance across sites, the Precision Engineering division set improvement targets focused on culture, visual management and standard work. Collaboration and sharing of best practice were also seen as vital tools to accelerate improvement.

Our Brno facility has already been identified as a show-case site, to be used as a reference point for other locations. In six months, the team improved their assessment score from 53% to 62%, due to a continuous improvement culture, enhanced material flow and the further development of customer relationships.

Our new Precision Engineering facility at Fradley Park, UK has their lean journey – a 150 square foot collage in the employee canteen area – on display for all to see.

Objectives that have been set for 2015 include the integration of quality and lean to reduce scrap, raise quality standards, improve sales and operations planning to better link our customer requirements to our manufacturing footprint, reduce complexity, increase efficiency and productivity and responsiveness to market demand.

Precision Engineering's European Distribution Centre in Germany held an event to look at the end-to-end process from customer quotation and sales order receipt through to customer invoice payment.

The extensive portfolio and variety of products adds significant complexity to Precision Engineering's supply chain and operations. An ambitious plan to rationalise the portfolio using established lean tools will be a priority for completion in 2015.

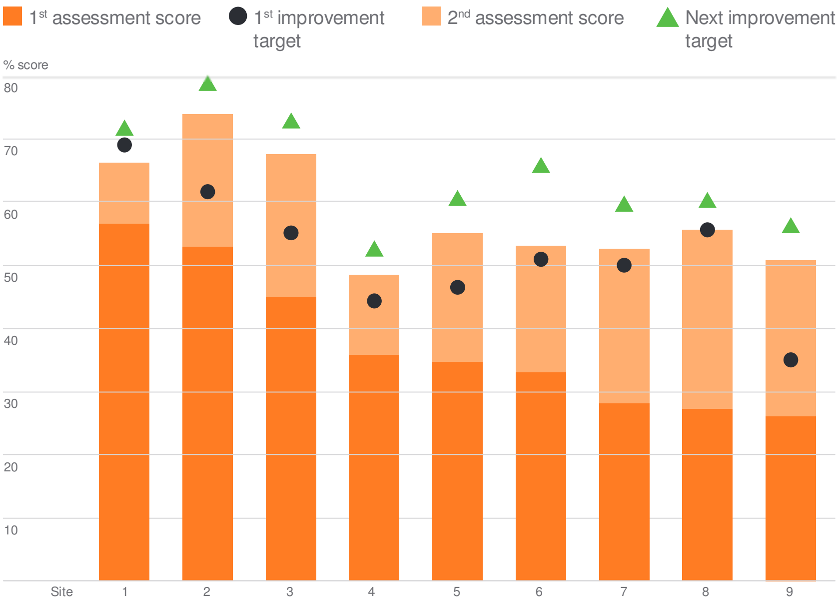
Case study

IMI Precision Engineering in Alpen, Germany used Value Stream Mapping to improve the efficiency of their Quick Response Cell for actuator orders, which has reduced the order lead time for customers by 25%. This improvement initiative was led by a cross business unit team who are now taking the process to other sites.

Summary	Before	After	Saving
Number of non-value adding steps	76	38	50%
Flow time (minutes)	1307	608	53%
Manual time (minutes)	61	48	22%
Hands off	19	11	42%
Distance travelled	398	360	10%

Lean assessments

During 2014, our Hydronic Engineering sites were benchmarked against the ten areas of lean and the average score of the division's first round of assessments was 38%. Improvement targets were set and plants have now been benchmarked for a second time, this time scoring an average of 59%. Plans are in place to improve this score to an average of 63% in the first half of 2015.



Site	1	2	3	4	5	6	7	8	9
1st improvement target %	69	61	55	45	47	51	50	56	36
2nd assessment score %	66	74	68	49	55	54	53	56	51

Site Key:

1 IMI Hydronic Slovenia
2 IMI Hydronic Poland
3 IMI Hydronic Poland - warehouse
4 IMI Hydronic Sweden - warehouse
5 IMI Hydronic Germany - warehouse
6 IMI Hydronic Germany
7 IMI Hydronic Switzerland
8 IMI Hydronic Sweden
9 IMI Hydronic North America

Our teams have received comprehensive training and support in order to secure engagement for the planned lean transformation. Internal benchmarking has taken place and experience across sites has been shared in order to accelerate the pace of improvement. The lean concept at Hydronic Engineering goes beyond manufacturing excellence and embraces the whole supply chain and sales process.

Results have been impressive – our on time delivery rate has moved to over 90% and the reliability of our machines and processes are getting close to world-class targets.

All five factories in Europe demonstrated progress in the implementation of key lean processes and achieved over 50% scoring on their second assessments. Our show-case Poland site achieved particularly impressive results and reached 74%, the highest lean score across the Group.

Another important step has been the integration of the division's factories and warehouses in a connected value stream, reducing inventories and customer lead time.

The objective for 2015 includes the adoption of strategy deployment across all Hydronic Engineering businesses. The process uses the key critical strategic priorities and builds a structured plan to disseminate the actions across every plant and engage every employee through the division.

Team members were pleased to demonstrate their progress in 'One Piece Flow' and on time delivery rates to non-executive director, Carl-Peter Forster, when he visited Hydronic Engineering in Poland.

Case study

Impressive results have been achieved on changeover time reduction and assembly line balancing in our factory in Ljung, Sweden where 'One Piece Flow' has been implemented, meaning that there is only one part or job in each workstation. This reduces work in progress and lead time.

Product line	Before	After	Improvement
STAF	2.1 pieces/ hour	5.3 pieces/ hour	152%
STAP	2.7 pieces/ hour	5.8 pieces/ hour	115%
Mätventil	2.2 pieces/ hour	5.4 pieces/ hour	145%

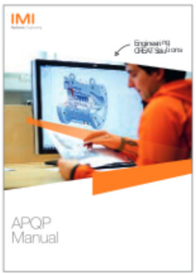
Strategy in action

3. Increasing investment in new product development

To ensure that we maximise to the full the additional investment we are making in new products we are standardising a number of processes and systems across the Group. At the beginning of 2015 we launched a new Group-wide Advance Product Quality Planning process and a more standardised approach to the Computer Assisted Design (CAD) systems and procedures that we use across the Group.

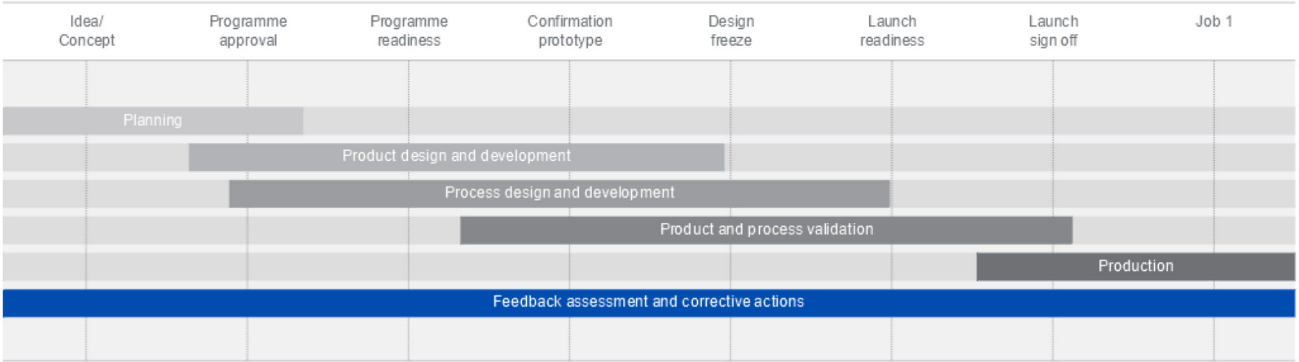
Advanced Product Quality Planning (APQP)

On 1 January 2015, we launched a new Group-wide APQP process which, for the first time, provides a standardised stage gate structure for all new product development projects. The goal of APQP is to deliver projects on time, to the required quality, at the agreed cost and in the most efficient way possible. A crucial element of the process is the creation of a cross-functional team under a project manager involving representatives from all necessary functions including sales, R&D, engineering, procurement, operations and finance.



The APQP manual is a guideline for project teams to ensure that the process of new product development and introduction is efficient and brings added value to the customer.

APQP timing plan

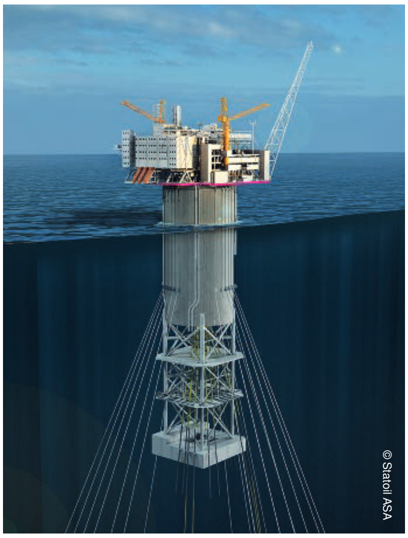


Computer Assisted Design

We are rationalising the number of CAD systems that we use as part of the new product development process. Going forwards we will use two core systems which enable both 3D modelling and detailed two dimensional drawings. By harmonising the systems we will ensure consistency of approach across the product development process and also benefit from economies of scale by purchasing Group-wide solutions.

At IMI Hydronic Engineering, CAD is an integral part of the product development process.

IMI Critical Engineering



IMI CCI Vienna develops one of the largest titanium valves ever built

The benefits of titanium in sea water applications have been widely recognised by the offshore Oil & Gas industry in recent years. Today, principally in the Norwegian sector of the North Sea, the number and variety of applications for titanium and titanium alloys is increasing at an exponential rate.

The development of unique titanium valves is part of the industry's effort to ensure the highest safety levels for the new generation of offshore floating platforms.

The latest IMI CCI titanium valve allows periodical cycling tests of the platform's fire water system, and real time safety testing for the personnel on board.

Titanium is immune to corrosion and reduces the installation weight by half which is an important factor for offshore floating platforms. The extended service life and reduced maintenance needs, in combination with enhanced safety provide further crucial benefits for the client.

Innovation in new product development is firmly embedded within IMI CCI Engineering.

IMI Precision Engineering

New generation air dryer

Maintenance engineers at New York City (NYC) Transit had experienced conditions where moisture in compressed air caused mechanical problems on subway cars.

The engineers found that the standard pressure dryers removed damaging moisture when they were first installed on the subway cars, but performance progressively declined, especially during hot, humid New York City summers.

IMI Precision Engineering's Adsorbent Media Tube (AMT) dryer uses a patented technology radically different from conventional desiccant beads. This design delivers higher moisture uptake and faster purging without degrading the dryer media, improving both performance and longevity.

NYC Transit replaced the conventional pressure dryers with AMT test units, and after 12 months of operation, the test results showed that the air leaving the dryers was as dry as when the system was first installed.

NYC Transit now has a dryer that is projected to last up to 6 years, or 18,000 service hours, significantly exceeding the specified two-year maintenance cycle.

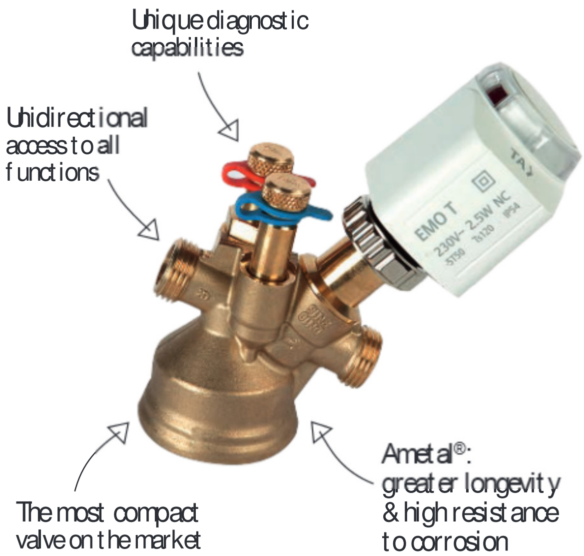
IMI Hydronic Engineering

TA-Compact-P: a great new product developed and introduced in nine months

Kicked off in September 2013 with a cross-functional and cross-site team and a commitment to an accelerated time line, development of the TA-Compact-P was driven by customer requirements and competitor differentiation.

This new range of pressure independent balancing and control valves required a high-flow capacity, allowing universal application in cooling and heating systems.

TA-Compact-P was developed to stringent cost, timing and operational specifications which were all satisfied using the newly developed project disciplines adopted by the division. This new range is promising to be one of Hydronic Engineering's most exciting product developments in years.



Case studies online
www.imiplc.com/media/imi-in-action

Strategy in action

4. Expanding our addressable markets through targeted acquisitions

We will supplement our organic growth initiatives with targeted acquisitions, capable of producing returns in excess of the Group's weighted average cost of capital within three years. Beyond our existing business portfolio, we have identified the potential to double the Group's addressable market by making acquisitions in adjacent non-valve product markets. Criteria for such acquisitions include a focus on North American revenues, strong aftermarket dynamics and critical products that create significant barriers to entry.

Our acquisition strategies for each of the divisions are as follows:

IMI **Critical** Engineering

We will supplement this organic growth by continuing to target bolt-on acquisitions to expand our product range and our geographic footprint within our existing markets and to extend our Oil & Gas presence into adjacent attractive markets including subsea. We will also consider expanding our product range to include semi-severe and configured opportunities in each of our key sectors.

IMI **Precision** Engineering

Our Precision Engineering division offers significant potential for accelerated growth. However, harnessing this potential will take time. In the first phase of our plan we will address the existing infrastructure, including simplifying the organisation, implementing robust systems and improving operational performance. Once the division is operating optimally we will look to supplement growth by targeting larger scale acquisitions.

IMI **Hydronic** Engineering

The growth plan in our Hydronic Engineering division is predominantly organically focused. However, there is potential to grow the division through acquisition. Any addition would need to satisfy stringent criteria including, in particular, building critical mass in the North American market.

Broadening the acquisition universe

- Potential to double addressable market
- Leverage existing positions in attractive end markets i.e. Oil & Gas
- Non-valve related products and businesses

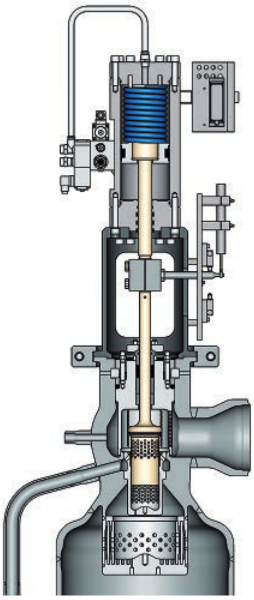
Geographies	Market dynamics	Products
• North America • Europe • Latin America • Asia	• Aftermarket >30% • Growth rate >5% pa • Customer intimacy	• Barriers to entry • Criticality of application • Predictable aftermarket

IMI welcomes Bopp & Reuther

We announced the acquisition of Bopp & Reuther in November 2014, and the acquisition completed on 2 January 2015. With decades of experience, Bopp & Reuther is a global specialist in the design, manufacture and servicing of safety, control and shut off valves for process industries as well as conventional and nuclear power plants world-wide.

Bopp & Reuther was privately owned, with its head office and manufacturing plant located in Mannheim, Germany about 70km from Frankfurt. It includes five service centres with two in Germany, and employs 419 people. Following the acquisition, the current CEO Bernard Engel and the management team, will remain with the business.

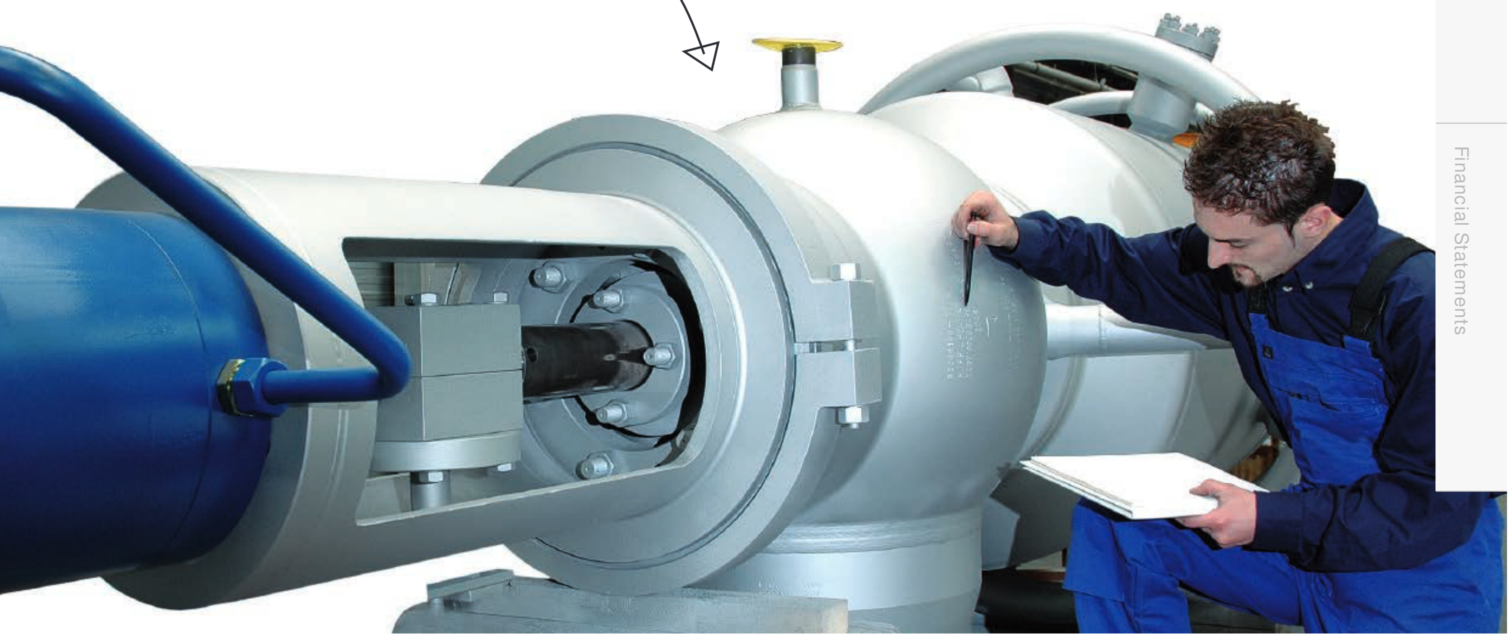
Established over 135 years ago, Bopp & Reuther is a pioneer in the valve industry and launched the first pneumatically operated safety valves in the 1950s – a breakthrough in efficiency and safety for process industries at the time.



The acquisition of Bopp & Reuther offers significant benefits and opportunities, including:

- The acquisition of a well-established business with a strong presence and installed base in Germany.
- An increased product range for fossil and nuclear power which can be offered to IMI CCI's existing customer base.
- Manufacturing capability for medium volume configured valves which will support growth in China and India.
- The opportunity to extend Bopp & Reuther's products to new markets in North and South America.
- The potential to extend IMI's aftermarket capability to service the global installed base of Bopp & Reuther's valves.
- The opportunity to maximise performance of IMI CCI and Bopp & Reuther through purchasing, manufacturing and lean systems collaboration.

Turbine bypass valve with desuperheater



Corporate Responsibility
Our approach

"Our ambition is for IMI to become a world-class business and the leader in its chosen sectors – a truly great company that we can all be proud of both for its business and the way we conduct our business. And by 'great' we mean a company that thinks long-term, delivers profitable sustainable growth, invests in its future, is preferred by all stakeholders including employees, customers and investors and at all times behaves responsibly.

At the heart of our approach to making IMI a great company is The IMI Way which sets out our values - excellence, innovation, integrity and collaboration - and embraces all our activities. It covers the products and services we provide to customers, our innovation and continuous improvement programmes and the ongoing development of our people. It also addresses all aspects of the way we do business and the impact we have on the environment and the communities we operate within."

Mark Selway
Chief Executive

Our vision

Engineering GREAT

"Engineering GREAT means taking what's good at IMI and transforming it into something brilliant, life-changing, long-lasting and world-class."

Our purpose

"We deliver GREAT solutions for our customers tackling the world's most demanding engineering challenges."

Our mindset

"Engineering GREAT together"
Motivating values:

Integrity Excellence Innovation Collaboration

Members of the IMI CCI RSM team with Carol Gamble, Mayor of Rancho Santa Margarita, collecting their award.

Health & Safety

The health and safety of our employees is paramount. We also have a duty to protect other stakeholders, including our customers, visitors and suppliers, who may be affected by what we do and the surroundings in which we operate.

During the year we made excellent progress towards achieving world-class health and safety performance for all operations. In particular the lost time accident rate was further reduced by 15%. Throughout 2014 over 100,000 hours were devoted to HS&E training.

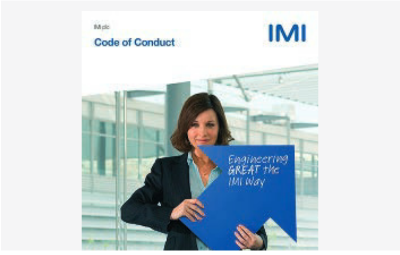
Across the Group, our divisional HS&E teams continued to drive ongoing improvements by focusing on root-cause investigations of near-misses as well as accidents. A key component of this work is the sharing of ideas and experience around the Group. Following every lost time accident, a safety alert is circulated to all HS&E teams so they can learn from it and avoid similar events at their sites.

In 2014, after a rigorous process we were delighted that one of our facilities was recognised for its work in this area. IMI CCI RSM (RSM) in the USA received the California Voluntary Protection Programme Cal/VPP Star designation. RSM is one of only four valve manufacturers in the USA to receive this recognition, which is the highest bestowed by the Occupational Safety and Health Administration (OSHA).

The award recognises both employers and employees for implementing health and safety programmes that go beyond minimal standards and provide the best protection against occupational hazards. RSM is now considered a leader in their industry and is exempt from Cal/OSHA programmed inspections.

IMI is a signatory to the UN Global Compact and we report our climate change data to the Investor CDP programme, including the Supply Chain CDP to encourage action on climate change from our key suppliers. FTSE4Good has again recognised our performance across environmental, social and economic sustainability criteria by continuing to include us in its Index.

IMI Hydronic Engineering has installed its newest and most efficient balancing & control solution into the ALMA Hospital, Eelko in Belgium, which will help the customer to meet their efficiency targets.



Our Code of Conduct is a crucial component of The IMI Way - we must always behave responsibly and ethically.

The Precision Engineering team in France collected 200kg of litter and debris from a National Forest in the vicinity of their manufacturing site.

Environment

Our technologies are helping our customers respond to a number of global environmental challenges, including climate change, resource scarcity and urbanisation. In our own day-to-day business operations, we are committed to minimising the environmental impact of our business operations and becoming more energy efficient.

We operate a Group-wide energy efficiency programme, Project 20:20, that was launched in 2011 and covers 20 of our largest energy using sites, which together account for more than 70% of our overall energy consumption. To date, Project 20:20 has identified over 100 best practice emissions reduction projects, which are now being rolled out across this group. Projects in 2014 included ‘right-sizing’ and modernisation of a ventilation system saving some 18 tonnes of CO_2 at our IMI Precision site in Farmington, USA. We also enhanced the use of local hydro-electric power at IMI Hydronic Engineering in Sweden and this is providing us with 300,000 kWh of electricity per annum. Collectively, the energy efficiency initiatives completed in 2014 will provide savings of around 800 tonnes of CO_2e per annum.

All this work has delivered some tremendous savings. Our 2014 gross CO_2e emissions have reduced by 9% to 62,500 tonnes compared with the previous year (2013: 69,000 tonnes). Of this amount 43,000 tonnes resulted from the purchase of electricity, heat, steam or cooling by IMI (2013: 47,500 tonnes). Our normalised performance has improved from 39.6 to 37.4 tonnes per £million sales from 2013 to 2014, which is a 6% reduction. This is very encouraging as we move into the final year of our three-year target period that is seeking at least 7.5% reduction compared to 2012.

For further information please refer to page 142 of the Directors’ Report.

Business integrity & ethics

Our Code of Conduct (the ‘Code’) sets out the standards we expect everyone in the Group to comply with and covers a number of areas including workplace conduct, anti-bribery and anti-corruption and fair market competition. The Code is reviewed annually and in 2014 amendments have been made to bring the language in line with the current expression of the Group’s purpose and values. All employees are given annual face-to-face refresher training on the Code and the importance of ethical behaviour. The Code is supported by more specific policy and training and implementation programmes on the areas it covers.

Our whistleblowing policy encourages employees to speak up through line management and our HR teams when they see conduct that does not accord with the Code. Where normal channels may not be appropriate we provide a confidential, independently operated reporting hotline in more than 20 languages which enables employees to raise issues anonymously. Our Ethics and Compliance Committee meets monthly to review hotline reports and is chaired by Geoff Tranfield, Group Human Resources Director. During 2014, 103 cases were reported which is down from the previous year (2013: 116 cases).

We also operate a supplier evaluation process which assesses our suppliers to ensure that they comply with the provisions contained within the Code and our Supply Chain Policy. In 2014, 80 supplier audits took place.

Community

We have a significant presence around the world and in addition to benefits from creating jobs and investment we believe we should directly contribute through relevant charitable and educational community programmes. In addition to the Group charitable donations policy, where we support a range of national and international causes, some of our business units have relationships with charities that are local to their operating sites.

In the Czech Republic, colleagues from IMI CCI Brno were nominated for a national award by the Kociánka Center who they have had a relationship with for a number of years. The nomination was in appreciation of the relationship between the Center and employees who have not only given donations, but also their time to help this worthwhile organisation, which helps prepare children and adolescents with physical or learning difficulties for mainstream schools and jobs.

In addition to programmes which run throughout the year, on one dedicated day each year – The IMI Way Day – all of our employees spend time engaged in activities to benefit their local community. These activities included employees collecting donations for food banks, renovating a local play area used by disadvantaged children, painting and clearing out a community centre used by the elderly, volunteering at local hospices, and raising money for a school for blind children.

Code online
www.imiplc.com/corporate-responsibility

Corporate Responsibility
Our people

Our performance and the success of our businesses rely heavily on our employees, who are one of our key assets. To ensure that we harness IMI's full potential we must recruit the best people who have excellent relevant skills and provide them with a working environment within which they can develop and be fully engaged.

During 2014 we further developed and enhanced our core framework of people processes. We have introduced and mandated a consistent global performance management process, which will help bind all our key Human Resources processes; including recruitment, people development, succession planning, induction and reward. This new process, which will enable us to manage more effectively and consistently the performance of our teams and businesses, was introduced in response to feedback provided through the 2013 Employee Survey, which highlighted the need for regular performance reviews and open feedback.

Also in response to employees' requests for clearer and more open reward processes and frameworks, we have established a formal management committee, made-up of representatives from across the Group, to review our management remuneration practices on a regular basis.

Extensive consultation was undertaken by employees across the Group to further enhance the IMI Way and our values. As a result, we have incorporated the fourth value of collaboration as we know this is crucial to the overall success of the Group. We are also evolving our IMI Way behavioural framework which will be embedded into all our key people processes during the course of 2015.

Diversity and inclusion

We aim to recruit the very best people to help us deliver our strategic objectives and to reflect the diverse global footprint of our locations, customers and markets. We are committed to ensuring that employees are treated fairly in an environment which is free from any form of discrimination on the grounds of age, religion, race, sex, disability, gender reassignment, marriage/civil partnership, pregnancy and maternity and sexual orientation.

During 2014 we revised our Diversity and Inclusion policy, further details of which are contained in the Nominations Committee Report on pages 55 and 56. We also continued to track our progress in terms of gender diversity.

In 2014 30% of our graduates were female (a slight decline from 2013 where the number was 36%) and we will continue to focus our efforts to recruit more diverse international business leaders across the Group.

"We aim to create an environment that allows existing employees to give of their best and is attractive to a diverse range of potential employees."

Geoff Tranfield
Group Human Resources Director

Engineering GREAT the IMI Way

We look to recruit the best people with relevant skills

Teams 9 & 12 of the Management Fundamentals Programme Graduating in Shanghai, China

Our employees understand the contribution they make to the performance of the business

Resourcing/Recruitment

Our ability to harness the Group's full potential of course relies on having the right people in the right places at the right times. This means recruiting and developing the best people, who have excellent relevant skills and who are clearly aligned to both our values and our ambitions.

Accountability for recruitment sits with our local management teams who determine their recruitment needs, taking into account their business's strategic plan and the need to reflect both our customer and marketplace footprints.

During the course of 2014 much work has been undertaken to standardise and strengthen our recruitment processes to ensure both excellence and consistency. In particular we have launched a new induction procedure for our managers who are leading IMI's strategy where we identify our expectations and what they can expect as an employee of the Group.

Development

To help us attract and retain the right people and to ensure that we have a strong talent pipeline, we operate development programmes at all levels of the Group.

To ensure that our people development initiatives support our growth agenda and provide our employees with the most relevant training and learning opportunities, during 2014 all development programmes were reviewed. As a result of this review a number of changes have been made and both new and updated programmes will be launched in 2015, including a Group-wide on-line learning portal and an expanded graduate programme to further develop and strengthen our technical capabilities.

In 2015 we will also be focusing on improving senior management succession and enhancing core supervisory and front-line management skills across the Group.

Employee engagement

We aim to create an environment in which our employees are engaged with their work, understand the contribution they make to the performance of the business and have a means of providing constructive feedback.

In June 2014 we launched a new global intranet which facilitates the sharing of knowledge and best practice, as well as encouraging collaboration and team work across the Group's businesses regardless of division or geography. All desk-based employees now have access to this platform, which serves as a very effective communication channel and, by way of example, has been used to share the Chief Executive's regular video updates which have covered the Group's strategy and our progress against plan.

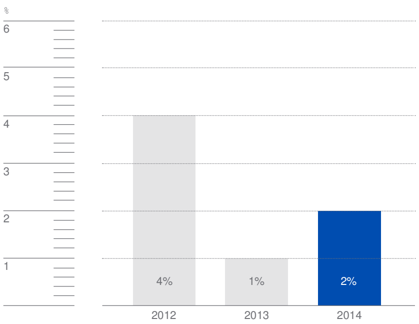
To further enhance the sharing of news and success stories around the Group, we launched the IMI Eye, a newsletter which will be published every six months and is written by and for our employees. The first edition in October 2014 contained a range of stories including updates on lean improvement, new product development and major project wins.

Measurements and targets

Business performance is measured through Group-wide targets and improvement measures.

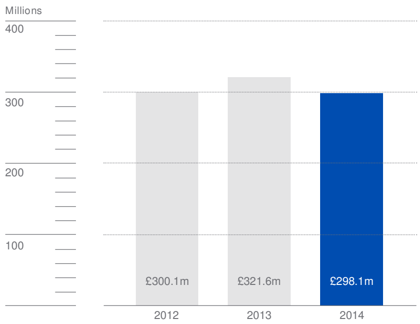
Each IMI business participates in an annual round of planning meetings with the Executive Committee, during which performance and future plans for that business are reviewed and updated. These business plans have all been aligned with the Group's new growth strategy which was announced in August 2014 and details of which are set out on pages 8 to 23 of this Annual Report. The Key Performance Indicators (KPIs) set out below represent the financial and non-financial targets which are integral to the delivery of the new strategy.

Organic revenue growth

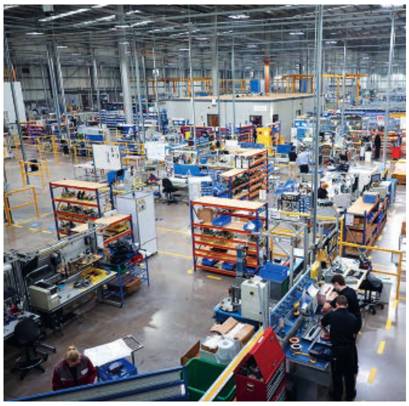


Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2014, the Group's continuing businesses grew by 2% on an organic basis.

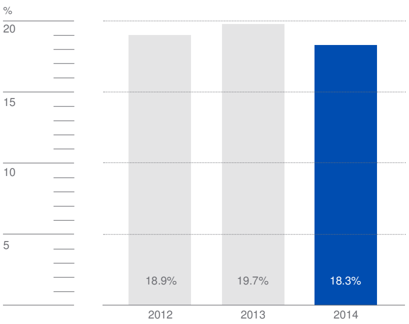
Segmental operating profit



Our strategic ambition is to double the Group's 2014 operating profits over the next five years. In 2014 Group segmental operating profit was £298.1m compared to £321.6m in 2013 representing a decrease of 7% on a reported basis. On an organic basis, after adjusting for the adverse impact of exchange rates and acquisitions and disposals, segmental operating profit was down 1%.

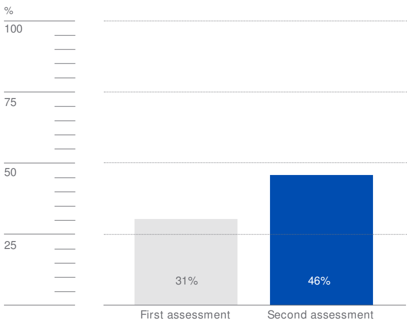


Return on capital employed



Return on capital employed (ROCE) is defined as segmental operating profit divided by segmental operating assets. In 2014 ROCE was 18.3% which compares to 19.7% in 2013.

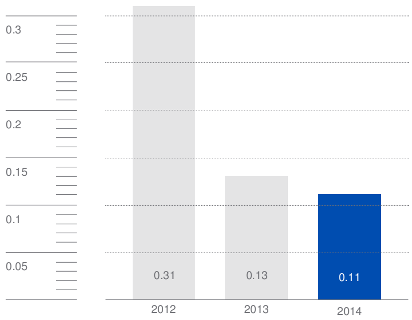
Lean score



During the year we introduced a new benchmarking process to assess the operational performance of every manufacturing and major warehousing site in the Group against the ten key areas of lean. A world-class operational performance score is considered to be 85% or more. None of our facilities scored close to this figure in the first assessment. The highest score was 57% and the average across the Group was 31%. Improvement plans have been put in place and each of the sites will be reviewed every six months. Following the latest review all sites had improved their operational performance and the Group average had improved to 46%. We aim to be world-class by 2018 and will update progress towards this goal in each future Annual Report. For more information about the importance of lean to our strategy, please go to pages 16 to 19.

Health & Safety

Lost time accident rate



The health and safety of all of our employees remains paramount. We measure our progress in this area by tracking our lost time accident rate (LTAs). In 2014 our >1 day rate improved by 15% relative to 2013. In previous years we reported our >3 day LTA performance but, as a result of performance improvements on the number and severity of accidents, the >3 day metric is no longer a key performance indicator and will no longer be reported.

Principal Risks and Uncertainties

The Board has responsibility for determining the nature and extent of the principal risks it is willing to take to achieve the Company's strategic objectives. The Executive Committee is responsible for implementing and monitoring internal controls and other elements of risk management systems and operates in parallel with the Audit Committee, which has primary responsibility for oversight of financial controls, the Nominations Committee, which has primary responsibility for succession risk, and the Remuneration Committee, which has primary responsibility for remuneration and incentive structure risk.

During the year a new business unit based risk management process was introduced within the Group. Each site is required to develop and keep updated a full risk profile identifying the key risks facing the site. Each risk is assessed, rated and appropriate mitigation actions developed. Leading KPIs are tracked for each risk and site management teams review on a monthly basis both the risk profile, progress on mitigation actions and KPIs to ensure appropriate actions are taken. Site level risk profiles will be formally uploaded to the Group intranet every six months and biannually, these will be consolidated into divisional risk registers and a Group risk register. By the end of March 2015 all key sites will have conducted an initial risk profile which will be routinely reviewed and updated. This will supersede the current process where risks were considered primarily at divisional and Group levels.

Each Divisional Managing Director has appointed a risk champion with responsibility for embedding the Group risk assessment process within their business. The businesses' risk reports, including mitigation action plans for significant risks, are reviewed by the most senior executive within the relevant business. These are then reviewed by the Executive Committee, which in turn submits a full half yearly risk assessment to the Board. The Board explicitly considers the risks associated with the Group's strategic objectives. The Executive Committee also reports to the Board on major business and other risks involved in specific investment decisions including acquisitions and divestments.

Through these processes a list of significant risks is identified, assessed and ranked according to their probability and materiality and, following Executive Committee review, the Board considers the measures to be utilised to mitigate, transfer or avoid such risks. Risk appetite across the range of strategic objectives of the Group is also reviewed by the Board.

In addition to strategic and operational risks, we are also exposed to a number of financial market risks including credit risk, liquidity risk, counter party risk and fluctuations in foreign exchange rates, interest rates and commodity prices. A description of these risks and our centralised approach to managing them is set out in section 4.4 to the financial statements.

During 2015 we will be further enhancing our risk management process in line with the recent revisions to the UK Corporate Governance Code and associated best practice guidance.

The key strategic and operational risks facing the Group are shown in the table on pages 31 to 33. This table includes a description of the risk and the potential impact on the Group, a summary of the mitigation actions, the risk movement and the main changes during 2014.

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
REGULATORY BREACH FAILURE TO COMPLY WITH LEGISLATION OR A BREACH OF OUR OWN HIGH STANDARDS OF ETHICAL BEHAVIOUR. RISK MOVEMENT	We have set ourselves very high standards in our approach to ethics and rejection of corruption in business. We need to ensure, as we expand our operations to achieve our desired growth, that we maintain these high standards. We face legislation around anti-bribery, fraud and competition law and need to ensure compliance otherwise we face both financial and reputational damage	• Commitment to good governance practices which are embodied in The IMI Way • Further enhancement of the internal controls declaration process and continued rigorous financial audits by our Group Assurance team • The annual IMI Way Day was held in June across the Group and included face-to-face training for all employees • Policies, manuals, training and guidelines are available to all employees under the legal & compliance and financial sections of the IMI global intranet, which was launched in 2014 • Group, divisional and specific territory resources dedicated to legal and regulatory compliance • Training of employees focusing on how to apply The IMI Way in everyday situations and key risk areas such as competition law, fraud and anti-bribery and corruption • Availability and promotion of the whistle blowing policy and the confidential IMI hotline to report concerns • Group standard operating procedures updated with increased rigour around core legal and compliance processes • We have introduced standard agency agreements and terminated non-compliant agents
CHANGES DURING 2014	Whilst the external regulatory environment is increasingly more onerous, our processes and procedures are now more embedded throughout the business. Access to the procedures is available world-wide on the Group intranet	
MAJOR PROJECT EXECUTION WE FAIL TO DELIVER MAJOR TRANSFORMATIONAL PROJECTS ON TIME AND ON BUDGET. RISK MOVEMENT	We will need to undertake a number of major change projects in line with our strategic objectives including business reorganisations and implementation of IT systems. If we fail to deliver the desired objectives it could have an adverse financial impact on the Group	• Further upgrade of resources and talent in project management, in particular around introduction of new Group-wide core processes • Regular review of project progression by the Executive Committee • Enhanced risk assessment process including full mitigation action plans for all major change projects • Group Assurance reviews of major new projects
CHANGES DURING 2014	The number of major change projects started in 2014 has increased significantly, particularly around IT projects, business organisation and implementation on new Group-wide processes. As a result we have introduced bi-weekly process meetings, overseen by the Executive, to ensure key improvement projects are on track, adequately resourced and monitored so that resources are not overstretched	
HEALTH, SAFETY & ENVIRONMENTAL (HS&E) CONTROLS FAILURE OF OUR HEALTH, SAFETY AND ENVIRONMENTAL (HS&E) CONTROLS RESULTING IN HARM TO EMPLOYEES OR OTHER STAKEHOLDERS RISK MOVEMENT	We recognise that we have a duty of care to our employees. Though we have made great progress in recent years we understand the impact on our employees from the failure of this obligation and therefore still consider this a key risk. Failure of controls could result in injury, death and environmental damage with the consequential impact of reputational damage and risk of regulator action	• Introduction of lean manufacturing as one of IMI's core processes including 5S (housekeeping methodology for manufacturing areas) and Gemba walks (management walks in manufacturing areas) • Enhancement of standard work processes, new lifting and slinging procedures and improved planning around plant layout • Established global process in place to ensure that health, safety and environmental matters are appropriately addressed and any such risks are minimised including monthly reporting to, and review at the Executive Committee • Group and divisional level HS&E resource to proactively manage and audit HS&E performance and to provide guidance and support to site management
CHANGES DURING 2014	We measure our progress in this area by tracking our lost time accidents (LTAs) per 100,000 hours worked. In 2014, the >1 day rate improved by 15% relative to 2013. HS&E best practice sharing has been a source of this improvement and has included a standardised process for near-miss and hazard reporting called SAFER (See and Fix Error Report) as well as the 5-Why Root Cause Analysis, and investment in pressure testing safety systems and machine guarding	
PRODUCT FAILURE PRODUCT FAILURE LEADING TO WARRANTY ISSUES, RECALL, INJURY, DAMAGE OR DISRUPTION TO CUSTOMER'S BUSINESS RISK MOVEMENT	We pride ourselves on the innovative engineering solutions we provide for our customers. The quality and safety of our products is of the highest importance and if we fail to deliver quality and safe products or advanced technical solutions, then we face the financial and reputational impact	• Continued focus on quality and safety, including audits to appropriate quality standards • Processes to mitigate the reputational and legal implications of any failure • Upgrade of talent and focus on functional excellence in quality and product development • Contract management resources for both sales and purchases • Development of Group-wide standard for advanced product quality planning (APQP), which is being launched across the Group in 2015
CHANGES DURING 2014	Customers are increasingly insisting on more onerous contractual terms relating to product quality and performance. We are implementing a new APQP process, standard work instructions and lean manufacturing tools such as poka-yoke (quality system with the goal of achieving zero defects), which will reduce the likelihood of issues arising and have taken increased insurance cover in one higher risk area to reduce possible impact	

Principal Risks and Uncertainties (cont'd)

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
LOSS OF KEY FACILITY INTERRUPTION TO BUSINESS AS A RESULT OF A LOSS OF A KEY FACILITY RISK MOVEMENT	A temporary or permanent loss of a key manufacturing site or warehouse as a result of a natural catastrophe or any other reason would have a material adverse impact on our ability to meet our customers' needs	• Introduction of lean in all key manufacturing sites with focus on 5S, Gemba walks and Total Productive Maintenance (holistic approach to preventative maintenance involving all employees to maximise operational time of equipment) • Site level risk profiling which identifies the key operating risks, tracks key leading KPI's and identifies mitigation actions • Maintenance and regular testing of robust business continuity plans • Risk control surveys undertaken annually at all key sites to ensure compliance with best practice in property risk management
CHANGES DURING 2014	Introduction of lean including 5S, Gemba walks and Total Productive Maintenance at site level has created a cultural change in management's risk behaviour. Enhancement of site level risk profiling, particularly around key operating risks, is leading to a greater focus on those risks that could impact the continuity of the business	
NEW PRODUCT INTRODUCTION FAILURE TO DEVELOP A PIPELINE OF NEW PRODUCTS RISK MOVEMENT	Our strategy of doubling operating profit in the next five years is underpinned by organic growth, which will be achieved in part by delivering a stream of innovative new products for our customers. Failure to maintain new product momentum will impact our ability to grow	• Continued investment in research and development, working with our key account management teams to ensure we meet our customer needs • Centres of design and technological excellence established in a number of locations • Presented 2015 strategy with substantially increased spend in respect of new products and capital equipment
CHANGES DURING 2014	New product introductions have become an increasingly important part of our strategic growth agenda. Best practice within IMI is in our Hydronic Engineering division which has brought 14 new products to the market in 2014 and we are now sharing processes and learnings across the other two divisions	
ACQUISITION RISK FAILURE TO GROW THE BUSINESS BY MAKING THE RIGHT ACQUISITIONS AND INTEGRATING THEM SUCCESSFULLY RISK MOVEMENT	An important part of our growth agenda is to make acquisitions which complement or extend our product portfolio. Failure to make the right acquisitions that deliver synergies would restrict our ability to meet growth targets	• Resourced central M&A function working with our divisions to identify acquisition opportunities • Robust due diligence with Executive stewardship • Standardised integration process • Introduction of bi-weekly business development matrix meetings to monitor and manage acquisitions and disposals
CHANGES DURING 2014	To achieve our strategic objective of doubling operating profit over five years, a number of value enhancing acquisitions will need to be made. To support this we have introduced bi-weekly process meetings attended by the Executive to increase rigour and visibility. A standard integration process has been introduced to acquisitions to ensure efficiency synergies are maximised	
PEOPLE CAPABILITY FAILURE TO ATTRACT AND RETAIN TALENT RISK MOVEMENT	Our success as a business will depend on ensuring we get the right people in key positions in the organisation. If we fail to acquire, retain and develop talent leading to a failure to effectively succession plan, this will result in the loss of knowledge, intellectual property and performance	• Appropriate reward programmes to ensure people are motivated to deliver our Group objectives • Rigorous appraisal and succession plans in place, which are reviewed twice yearly • Group-wide training and development programmes being established for implementation in 2015
CHANGES DURING 2014	During 2014 we introduced a new Group-wide performance management and talent review/succession planning process. A new leadership development programme is being established and the graduate development scheme is planned to double the number of graduates when compared with 2014 intake	
SUPPLY CHAIN FAILURE TO MANAGE THE SUPPLY CHAIN RISK MOVEMENT	We have a significant number of contracts with a broad base of suppliers. If we fail to meet our customers' requirements in respect of quality or delivery, it could have a material impact on the Group's results	• Monitoring of risks and development of contingency plans to mitigate the impact of a supplier failure or increased prices • Review of supply base to reduce over-reliance on key suppliers • Dual supply on all critical components
CHANGES DURING 2014	Introduction of standard processes to obtain intimate knowledge of key suppliers to ensure that all are robust and capable. Increased collaboration across divisions to share knowledge of suppliers and use of standardised scorecards to monitor trends in key supplier performance	

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
IT RESILIENCE A MAJOR DISRUPTION TO IT SYSTEMS RISK MOVEMENT	We utilise a significant number of IT systems to support the Group's production, technology, marketing, sales and financial functions. Failure of any of the systems or corruption or loss of data could have a major impact on operations	• Development and regular testing of business continuity plans • Introduce strategy to upgrade or replace key systems • Detailed and improved plans to implement new ERP platforms in each of three operating divisions
CHANGES DURING 2014	Major Enterprise Resource Planning (ERP) implementation has begun in all three divisions during 2014. Each ERP project has fortnightly Executive overview, including management of risk. The new Group intranet has added substantial capability, which replaces a number of legacy systems	
CYBER SECURITY UNWANTED EXTERNAL ACCESS TO OUR IT SYSTEMS RISK MOVEMENT NEW	Breach of our IT systems by third parties could result in loss of intellectual property, theft of financial assets and a reduction in the integrity of our systems. For customer facing systems there could be business interruption and reputational damage	• Increased monitoring of IT systems • Disaster recovery plans reviewed and tested • New Group IT Director joined the Company in 2014 • New Group IT Security Director joined the Company in 2014 • Increased IT security resources and establishment of an IT security steering group comprising representatives for all divisions and corporate offices • Investment in three-year plan to significantly improve infrastructure and standards
CHANGES DURING 2014	The nature and number of security threats has increased during 2014 but the Group has recruited a number of IT security specialists to better understand the threat landscape and develop appropriate responses to increase resilience	
MACRO-ECONOMIC INSTABILITY GLOBAL ECONOMIC/POLITICAL INSTABILITY IMPACTING UPON OUR ABILITY TO ACHIEVE THE DESIRED ORGANIC GROWTH RISK MOVEMENT NEW	We operate in global markets and demand for our products is dependent on customer and market confidence. A downturn in a regional economy, a change in oil price, movements in exchange rates or a political event could impact end market demand and result in a reduction in both sales and profit	• Our divisional management are close to key customers and quickly pick up and feedback change in customer sentiment • Our new core forecasting process utilises early indications of reduced demand and the operational output can be right sized appropriately • The Group operates in all main regional markets and our strategy is to ensure that we have a balanced portfolio of markets to ensure we are not too dependent on any one region or market
CHANGES DURING 2014	As we have progressed through 2014, European markets have become challenging due to slower growth. Growth in Asia Pacific is strong but increasing at a slower rate than in 2013. The conflicts in areas such as Ukraine and the Levant with associated sanctions are concerning and impact our Critical Engineering business	
COMPETITIVE MARKETS INCREASINGLY COMPETITIVE MARKETS LEADING TO PRICING PRESSURES OR LOSS OF CUSTOMERS RISK MOVEMENT NEW	Increased volatility and slowdown in major economies would result in increased competition. This could lead to loss of customers and/or pricing pressures leading to lost sales and reduced profits	• Review of capacity utilisation at sites as part of the lean benchmarking process and business improvement plans to obtain better utilisation and improved productivity • Review of standard costings to ensure thorough understanding of product cost • Monitoring of market to ensure right balance between cost competitiveness and quality solutions
CHANGES DURING 2014	Heightened macro-economic issues will inevitably increase both competitive and pricing risks and will become a more important factor during 2015. As a result this has been included as a principal risk	

Risk Appetite

The Board has considered the Group's risk appetite and it is considered appropriate to achieve our strategic objectives. Risk appetite is higher for new product introduction, acquisitions and major change projects in keeping with our growth strategy but lower for health, safety and environmental controls, regulatory compliance, cyber security and IT resilience.

Our risk appetite has been communicated to the Executive Management to ensure their decision making behaviour is consistent with the risk appetite set by the board.

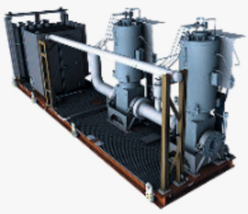
Performance review

In this section we provide a commentary on IMI's performance by division in 2014 including a summary of key achievements, a market review and outlook.

References to organic growth are on a constant currency basis and exclude the results of disposals and acquisitions for the period for which there is no comparator. An analysis by division of organic growth, foreign exchange movements and the impact of acquisitions and disposals is set out in note 2.1.1 on page 94.

IMI Critical Engineering

In early 2015 we were pleased to welcome Bopp & Reuther, the power generation valve specialist, to the division.



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IMI Precision Engineering

The division focused on a number of strategic activities during the second half.

38

IMI Hydronic Engineering

During the year we continued to invest in new product development and successfully launched 14 new products.

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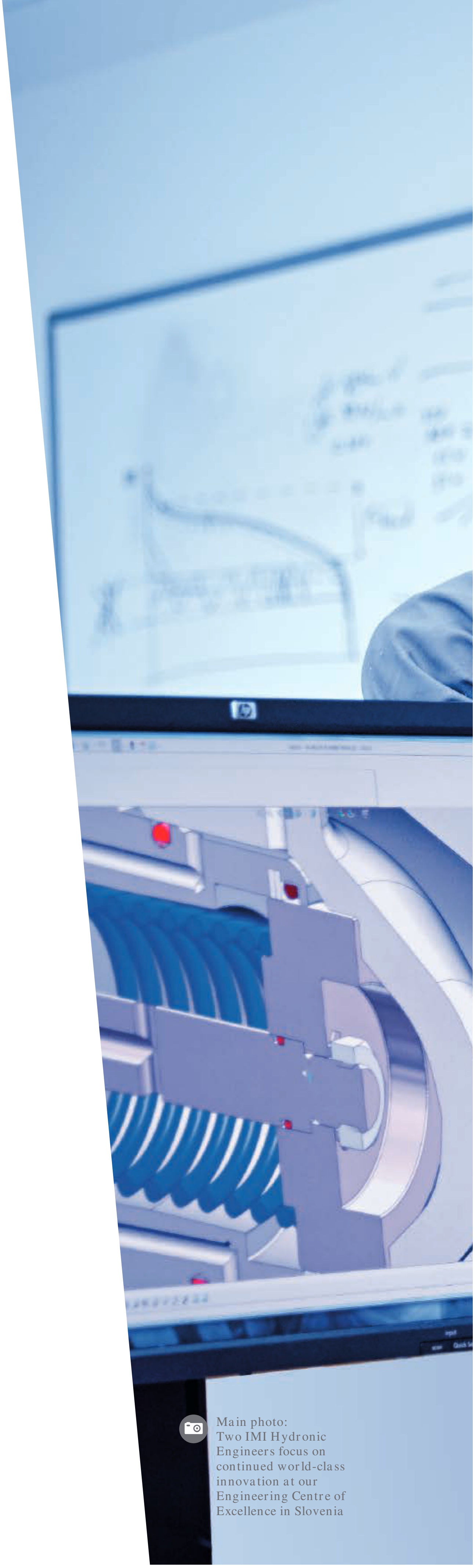


Main photo:
Two IMI Hydronic Engineers focus on continued world-class innovation at our Engineering Centre of Excellence in Slovenia

Engineering GREAT the IMI Way

Operational Review
IMI Critical Engineering

Revenue
£692m Down 3%

Operating profit
£119.8m Up 3%

Engineering GREAT Solutions

- IMI BOPP & REUTHER
- IMI CCI
- IMI CCI
- IMI FLUID KINETICS
- IMI INTERATIVA
- IMI NH
- IMI ORTON
- IMI REMOSA
- IMI SSF
- IMI STI
- IMI TH JANSEN
- IMI TRUFLO MARINE
- IMI TRUFLO RONA
- IMI Z&J

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

We operate a global service network, with manufacturing facilities in 12 countries and employ over 4,300 talented people across a range of disciplines, all committed to providing excellent service to our customers.

We design, manufacture and install customised, highly engineered solutions for new plant builds and also provide complete plant lifecycle service support. This ensures that our customers benefit from efficient maintenance, speedy issue resolution and plant optimisation at all times.

Our products are at the heart of complex energy and production processes. They control the flow of steam, gas and liquids in harsh environments – they are designed to withstand temperature, and pressure extremes, as well as intensely abrasive or corrosive cyclical operations.

Our engineering expertise sets us apart. We combine technical knowledge, engineering design capability, application experience and innovative custom-designed products to deliver safe, reliable and durable solutions.

Performance

Full year order intake at £686m (2013: £742m) was flat on an organic basis (after adjusting for disposals and exchange rate movements). In the second half order intake increased 16% on an organic basis. The Oil & Gas sector, where we have a significant position in the LNG market, continued to be strong with orders up 3% despite order intake in the prior year including a £40m contract for a high integrity pressure protection system (HIPPS). Despite slower new order activity in China, Fossil Power orders were up 4% on the prior year. In the Petrochemical sector, orders were down 12% mainly due to lower project activity in China. As anticipated, Nuclear orders were down 27% reflecting ongoing weakness in the market post-Fukushima. As previously announced, as a result of a material drop in demand in the nuclear fuel enrichment market, we took the decision to close the IMI Components manufacturing site in Birmingham, UK which supplied non-valve components.

Oil & Gas

IMI Critical Engineering is the global market leader in the supply of anti-surge valve and actuator systems to the world's largest LNG compression facilities, including Gorgon in Australia. Our systems operate below -160°C, with ultra-fast response to maximise liquid natural gas production while protecting the compressor.

Petrochemical

IMI Critical Engineering is the global leader in the design and manufacture of integrated flow control systems for critical applications in Fluid Catalytic Cracking (FCC). We also supply bespoke valves into the ethylene and polypropylene production processes, as well as for delayed coking at temperatures up to 1,600°C.

Power – Fossil & Nuclear

IMI Critical Engineering supplies the critical, customised turbine by-pass valves to the world's most efficient power stations. Our valves control high pressure super-heated steam at temperatures up to 650°C, protecting the turbine and optimising power yield. Globally, we have an installed base of over one hundred thousand valves and are a leader in the combined cycle gas sector. We also supply both products for new nuclear reactors and upgrades to existing facilities to improve safety levels. To date we have supplied products to over half the world's reactor fleet.

"Bopp & Reuther represents an important and entirely aligned addition to Critical Engineering's portfolio of operations. Its products, markets and customers are well understood across IMI CCI and the increased geographic sales distribution and productivity benefits we bring will help accelerate Bopp & Reuther's growth ambitions."

Roy Twite
Divisional Managing Director

Aftermarket orders were up 9% compared to 2013 and excluding the nuclear aftermarket were up 16%.

After adjusting for the impact of adverse exchange rate movements of £37m and for disposals, revenues increased 2% on an organic basis. Revenues of £692m (2013: £716m) were down 3% on a reported basis. Segmental operating profit of £120m (2013: £117m) grew 3% on a reported basis and 10% on an organic basis while margins increased to 17.3% from 16.3% in 2013. This growth in profitability and margins reflects the benefits of ongoing improvements in project execution.

During the second half the division made good progress on a number of its growth initiatives including the acquisition of Bopp & Reuther, the division wide adoption of lean manufacturing and the start of a project to introduce a new ERP system across the IMI CCI business.

Key Achievements

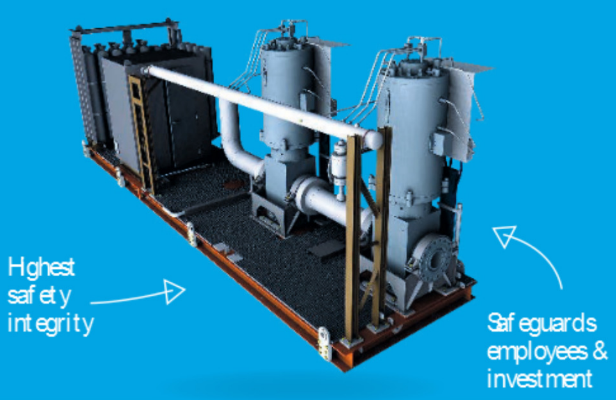
- Delivered the HIPPS solution to the Middle East customer, the largest single order in IMI Critical Engineering's history
- Increased Oil & Gas orders by 3% and Power orders by 4%
- Increased Aftermarket orders by 9%
- Improved the operational effectiveness of our factories through the initial phase of lean implementation
- Relocated IMI Z&J's US business into new expanded facilities in Houston
- Relocated and expanded IMI CCI facility in South Korea
- Relocated the IMI STI actuator business into larger premises in Northern Italy
- Opened two new service centres in Beijing and Shanghai
- Significantly enhanced the division's growth prospects in the power sector through the acquisition in January 2015 of Bopp & Reuther

Market Review

The recent oil price declines are causing uncertainty in the industry and investment is being postponed in the regions where the cost of oil and gas production is high. In the short to medium term, the Nuclear market is expected to continue to be subdued post-Fukushima, but longer term prospects remain good. In the Fossil Power sector new build activity remains concentrated in the emerging markets with the slowdown in China likely to continue.

Outlook

Based on the current order book, on an organic basis, revenues are expected to be broadly flat for the full year 2015 but slightly down in the first half. While the division will continue to improve its project execution capabilities, operating margins are expected to be lower, impacted by the acquisition of the lower margin Bopp & Reuther business, the disposal of the higher margin, but non-core, Eley businesses and the ongoing investment in the division's strategic growth initiatives. First half margins will be impacted further by the mix of product shipments, but this will correct itself in the full year.



Case studies online
www.imiplc.com/media/imi-in-action

CASE STUDY

High Integrity Pressure Protection System (HIPPS)

With growing demand for oil & gas globally and because the costs of exploration and production from new fields is often high, increasing utilisation levels to extract more from existing fields is becoming ever more important. However increasing the yield from older and more difficult fields often involves significant levels of H_2S (sour gas) and creates significant safety issues.

Sour gas is extremely dangerous and it is vital that field owners and operators ensure the safety of the field and the equipment from over pressure that could lead to controlled releasing of sour gas, for example gas to flare. As a result, investment in HIPPS is becoming a key application. Leveraging a long history of experience, IMI CCI in Italy designs control and hardware for the system.

Operational Review
IMI Precision Engineering

IMI Precision Engineering

Revenue
£710m Down 2%

Operating profit
£126.4m Down 10%

Engineering GREAT Solutions

IMI NORGREN
IMI BUSCHJOST
IMI FAS
IMI HERION
IMI MAXSEAL

IMI Precision Engineering is a world leader in motion and fluid control technologies wherever precision, speed and reliability are essential. We deliver integrated solutions which improve the productivity and efficiency of customers' equipment.

We operate sales and service networks in 75 countries and have manufacturing facilities in the US, Germany, China, UK, Switzerland, Czech Republic, Mexico and Brazil. Product support is provided through global centres of technical excellence, and facilities for computational fluid dynamics (CFD) design and research & development testing. We also employ a dedicated team of field engineers, sector specialists and key account managers – all committed to providing excellent service to customers.

Performance

After adjusting for the impact of adverse exchange rate movements of £40m and for acquisitions and disposals, revenues increased 4% on an organic basis. Revenues of £710m (2013: £723m) were down 2% on a reported basis. Industrial automation revenues were up 5% on an organic basis, driven by increased activity levels in North America (up 4%) and the Asia Pacific region (up 22%) but partially offset by weaker second half European markets, most notably in Germany. Commercial vehicles sales increased 4% in the year with 17% growth in Europe and a strong North American market which was impacted to some degree by the conclusion of a large contract during 2013 and lower truck production in Brazil. On an organic basis, Food & Beverage was up 5%, Rail was up 28%, while Oil & Gas reduced 6% and Life Sciences was down 1%.

Segmental operating profit at £126m (2013: £141m) was 10% lower on a reported basis and, after adjusting for the impact of adverse exchange rate movements of £8m, 3% lower on an organic basis. Operating margins improved in the second half (H1 2014: 17.7% v H2 2014: 17.9%) while in the full year operating margins at 17.8% were lower reflecting an adverse sales mix and the increased investment to support long-term growth.

Industrial Automation

Delivering benefits to global customers – including auto in-plant, machine tools and general industry – IMI Precision Engineering's high performance products include valves, valve islands, proportional and pressure monitoring controls and air preparation products, as well as a comprehensive selection of pneumatic actuators – rodless, compact, roundline and rotary. These are quickly and easily selected and ordered via our Norgren Express activities globally and supported with high quality technical advice.

Commercial Vehicle

An extensive range of cab, chassis and powertrain solutions deliver fuel efficiency, emissions reduction and faster assembly times for the world's leading commercial vehicle manufacturers. Acknowledged for their safe and reliable operation, Precision Engineering's products have been proven in the harshest environments and over millions of miles of reliable service. We understand the market trends, environmental challenges, emissions standards and specifications that matter to truck manufacturers and Tier 1 suppliers.

Oil & Gas

IMI Precision Engineering's extensive range of products and expertise is acknowledged widely throughout the Oil & Gas industry. In addition to IMI's customised solutions, Precision Engineering produce a comprehensive range of certified, world-class products which deliver precision control in even the harshest environments, including stainless steel valves and regulators, nuclear class valves and emergency shutdown controls.

Life Sciences

IMI Precision Engineering has a proven track-record of supporting the development of advances in medical devices, diagnostic equipment and biotech and analytical instruments. In particular, the division's products and expertise have helped reduce the size of equipment, while enhancing accuracy, throughput and fluid control performance. The division is recognised for products which manage the precise control, repeatability and safety needs of the industry. Our solutions are found in equipment for anaesthetics and patient therapy through to molecular diagnostics and pathogen detection.

> "During the second half of the year we made good progress on a number of strategic initiatives including simplifying the organisation structure in Europe, improving operational performance through the application of lean, addressing supply chain complexities and implementing a new system of costing world-wide."

Mark Selway
Chief Executive and Interim Divisional Managing Director

The division focused on a number of strategic activities during the second half including simplifying the organisational structure, improving operational performance through the application of lean manufacturing, upgrading IT systems, addressing supply chain complexities, introducing standard costing and increasing investment in new product development.

Our review of the Industrial Automation market confirmed that we have excellent market positions, with a valuable installed base and access to a high margin aftermarket. We are now developing detailed product roadmaps in each of the key geographies which will underpin our plans for growth.

Key Achievements

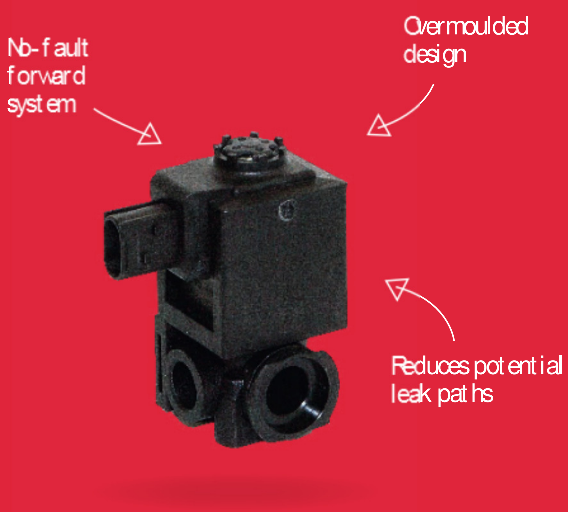
- Good growth in the European truck business following the introduction of new Euro VI engines
- Introduced standard costing and disciplined profit and product analysis tools across all operations to improve competitiveness and profit visibility
- Introduced lean manufacturing techniques and operational excellence initiatives across the global manufacturing footprint
- Restructured and simplified the IMI Norgren European organisation

Market Review

The global economic outlook for 2015 remains mixed with lead market indicators including the Purchasing Managers Index (PMI) weakening in the second half of 2014 most notably in Europe. While the division expects the general industrial markets in the US and Asia Pacific to remain positive, European markets are expected to remain challenging. In the truck sector we expect the European market to remain stable while North America is forecast to deliver further growth which will more than offset continued sluggish market conditions in Brazil.

Outlook

Based on the current market environment and lead indicators, we expect modest organic revenue growth with operating margins at similar levels to 2014. The benefits of stronger market conditions in North America combined with an improved performance in Europe is expected to fund the division's 2015 investments, most notably in Asia, to support the long-term development of the business.



New manifold valve with quick 'twist lock' assembly connection

CASE STUDY

IMI Precision show Engineering GREAT with a cost and space saving solution

Problem: CAMC a manufacturer and supplier of heavy duty trucks in China needed to replace solenoid valves critical to the functions within the vehicle's lift axle and braking systems. The valves being used were leaking and were not energy efficient.

Solution: Precision Engineering supplied a customised valve package that provided enhanced reliability at a lower cost than alternative systems available in the market. The solution reduced potential leak paths and is able to withstand high levels of vibration and extreme environmental conditions. It is also lighter and smaller which reduces costs and increases space savings. CAMC is incorporating this valve package within all their trucks for both their domestic and export market.

Case studies online
www.imiplc.com/media/imi-in-action

Operational Review
IMI Hydronic Engineering

IMI
Hydronic Engineering

Revenue
£284m Down 7%

Operating profit
£51.9m Down 19%

Engineering GREAT Solutions

IMI PNEUMATEX

IMI TA

IMI FLOW DESIGN

IMI HEIMEIER

IMI Hydronic Engineering is the leading global provider and recognised expert in hydronic distribution systems and room temperature control, with experience in more than 100,000 construction projects world-wide.

We help clients optimise their heating, ventilation and air conditioning (HVAC) systems by providing products and knowledge to deliver perfect indoor climate at minimum energy use and at the right energy cost.

Our team of just under 2,000 people operate around the world, and we have design and manufacturing facilities in six countries.

Performance

After adjusting for the impact of adverse exchange rate movements of £19m, revenues were 1% lower on an organic basis. Revenues on a reported basis of £284m (2013: £305m) were down 7%. Second half activity in many of our core European markets was impacted by abnormally high autumn temperatures and weak construction activity. Following our decision in early 2014 to scale back our interests in less profitable countries and focus on those offering the best growth prospects, we delivered good growth in the emerging markets which were up 10%. Our North American business was down 4% reflecting a poor, weather related, first half performance.

Segmental operating profit at £52m (2013: £64m) was 19% lower on a reported basis and, after adjusting for £3m of exchange rate impact, 15% lower on an organic basis. This reflected the additional investment in new product development and the costs associated with the withdrawal from a number of less profitable emerging markets. While operating margins showed their normal second half seasonal improvement to 19.7% (2014 H1: 16.8%), full year margins at 18.3% were lower compared to last year (2013: 21.1%).

Balancing and Control

Hydronic balancing is about controlling water flow, which ensures that a water-based heating or cooling system performs to its full potential. Today unbalanced systems are the cause of two thirds of all indoor climate problems. As the balancing experts IMI Hydronic Engineering enable customers to maintain comfort at the right level and increase HVAC efficiency by up to 30%. Our expertise covers all types of hydronic systems – constant flow and variable flow, static balancing and dynamic balancing.

Thermostatic Control

With an unparalleled history of success owing to our dedication to precision and control, IMI Hydronic Engineering's thermostatic control systems guarantee reliability in room temperature control. All our thermostatic control bodies and housings are made from gunmetal. Resistant to corrosion and dezincification, this tough material is shaped using our own casting process. The result is unmatched temperature control and thermostatic valve quality.

Pressurisation

Changes in temperature result in changing water volume, which have to be dealt with immediately to avoid damage and system breakdown. Our reliable pressure control systems with compressors or pumps, together with our robust range of static expansion vessels and water-make up devices, make sure there is the right amount of water, at the right pressure in the system at all times.

Water quality

Our wide range of separators and degassers protect the installation and maintain system performance by keeping water free of micro-bubbles and sludge in heating, solar and chilled water systems. Our latest cyclonic technology has been proven to be up to 9 times more efficient at removing dirt from HVAC systems ensuring a longer life of the installation, lower maintenance costs as well as lower energy costs.

"2014 represented a year of significant development for the Hydronic division. We put in place a new management structure, launched a number of great new products and introduced operational improvements. All of these initiatives will drive significant future growth."

Peter Spencer
Divisional Managing Director

During the year we continued to invest in new product development and successfully launched 14 new products which delivered annualised revenues of around £13m. A good pipeline of additional launches is scheduled for 2015 and is expected to underpin our growth ambitions for the division. During the second half of the year good progress was also made on a number of other key strategic initiatives including the implementation of lean and the commencement of a project to replace the ERP systems within the division.

Key Achievements

- Launched 14 new products including the TA Compact, a pressure independent balancing and control valve range
- Completed withdrawal from 20 low margin emerging markets to focus on those offering stronger growth prospects
- Good progress on lean implementation resulting in an improved lean assessment score of 59%, a 10% reduction in inventory levels and over 90% on time deliveries.

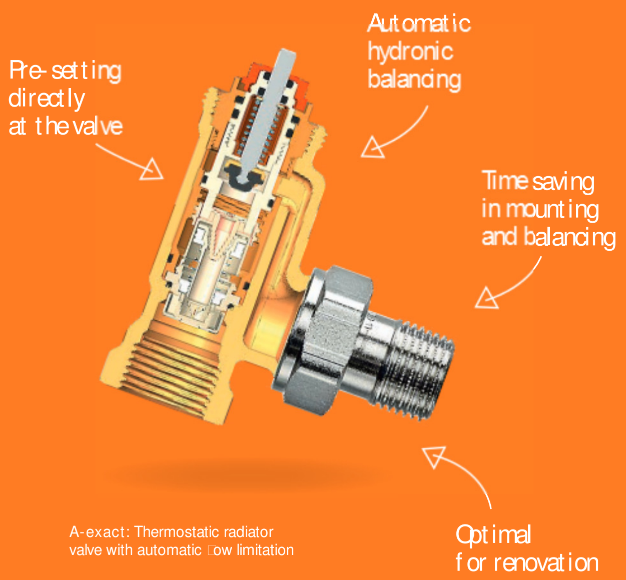
Market Review

Improving energy efficiency in buildings is an on-going global trend and in November 2014, the US and China announced an agreement to reduce greenhouse gas emissions and increase energy efficiency over the next 20 years. This agreement builds on similar international initiatives, such as the Kyoto protocol, and will be a key driver for IMI Hydronic Engineering.

While building construction in our core European markets has remained subdued in 2014, the global ambition to improve energy efficiency will continue to drive demand for the division's new and world leading products.

Outlook

While European construction markets are expected to remain at the subdued levels experienced in the second half of 2014, the new products which were launched in 2014 are expected to compensate and result in organic revenues being broadly flat in the first half on a constant currency basis. In the second half we expect to deliver good organic revenue growth as we benefit from a number of exciting new products which will be launched at the ISH trade show in Germany at the end of March. Operating margins, while expected to show their normal seasonal improvement in the second half, are likely to be slightly below last year reflecting the ongoing investment in additional new products for long-term growth.



A-exact: Thermostatic radiator valve with automatic flow limitation

CASE STUDY

A-exact the latest product with Automatic Flow Control (AFC) technology has been independently tested and proven to save energy.

The challenge: The new A-exact which provides energy savings in heating systems was put to the test on a housing complex in the Netherlands where the homes were heated using geothermal energy. Geothermal energy requires a low return water temperature in order to be efficient.

Solution: The results of the test were two fold. Firstly no complex measurements were required before installing the new valves making the balancing of the installation easier and quicker. Secondly the return water temperature was controlled very effectively and generated up to 50% savings on pump energy.

Case studies online
www.imiplc.com/media/imi-in-action

Corporate Governance

Here we outline information on how the Company is governed and the activities of the Board and its Committees.

Corporate Governance Report

The Company Secretary, John O'Shea, explains the standards of corporate governance that we follow, including the main activities of the Board.

47-51

The Board

44-45

Our business is governed by the Board of directors. Biographical details of the non-executive directors and the executive directors can be found here.

Audit Committee Report

52-54

Chairman of the Committee, Ross McInnes, outlines the structure, composition and activities of the Audit Committee.

Nominations Committee Report

55-56

Roberto Quarta, Chairman of the Committee, outlines the structure, composition and activities of the Nominations Committee.

Remuneration Report

57-79

Bob Stack, Chairman of the Committee, gives a full and transparent picture of remuneration at IMI.

Main photo:
Precise pressure setting ensures proof testing of our valves at IMI CCI Brno to exacting customer specifications in world-class high pressure test enclosures.

Engineering GREAT the IM Way

Board of Directors

Roberto Quarta Chairman (65)	Mark Selway Chief Executive (55)	Douglas Hurt Finance Director (58) to 28 February 2015	Roy Twite Executive Director (47)	Daniel Shook Finance Director (47) from 1 March 2015
				
Nationality				
American Italian	Australian	British	British	American British
Committee membership				
Nominations Committee – Chair Remuneration Committee	Executive Committee	Douglas will be retiring from the Company and the Board on 7 May 2015	Executive Committee	Executive Committee
Date of appointment				
Joined the IMI Board in 2011.	2013	2006	2007	2015
Expertise				
Significant UK and international board experience Extensive knowledge of both engineering and manufacturing Strong track record in private equity, mergers and acquisitions	Experienced and proven Chief Executive Solid track record running international engineering businesses In-depth knowledge of relevant end markets including oil & gas, energy and automotive	Experienced finance leader, having held senior finance roles in global businesses General management experience gained in UK and Europe Specialist in mergers and acquisitions, tax and pensions	Proven operational and engineering expertise Management capability having run all of IMI's divisions Extensive knowledge of end markets and customer base	20 years financial management experience Extensive knowledge of complex process manufacturing across a range of industrial sectors Strong international perspective, having worked in a number of key geographies during his time with two leading global businesses
Key external appointments				
Chairman of Smith & Nephew plc Non-executive director of WPP plc Partner and Chairman Europe of Clayton, Dubilier & Rice Non-executive director of Spie SA		Non-executive director of Tate & Lyle PLC	Non-executive director of Halma plc	

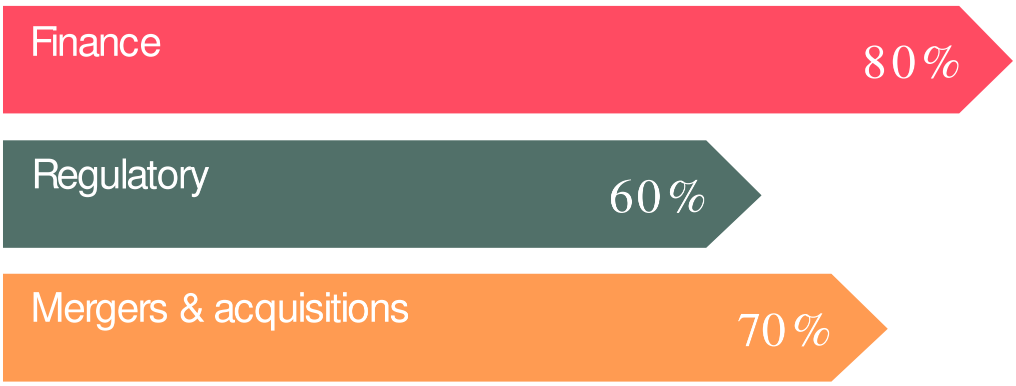
Board experience

International business responsibility 100%

Manufacturing 100%

Public company board 90%

Anita Frew Senior independent non-executive director (57)	Bob Stack Non-executive director (64)	Carl-Peter Forster Non-executive director (60)	Birgit Nørgaard Non-executive director (56)	Ross McInnes Non-executive director (61)
				
Nationality				
British	American	German	Danish	French Australian
Committee membership				
Audit Committee Nominations Committee Remuneration Committee	Nominations Committee Remuneration Committee – Chair	Audit Committee Remuneration Committee	Audit Committee Remuneration Committee	Audit Committee – Chair
Date of appointment				
2006	2008	2012	2012	2014
Expertise				
Experienced non-executive Extensive business experience including 15 years on industrial boards In-depth knowledge of investment and asset management sectors	Experienced non-executive Significant international business experience Specialist capability in human resources, organisation change and corporate affairs	Experienced business leader In-depth knowledge of the automotive sector Expert in operational excellence and lean manufacturing Significant experience in technology management	Experienced non-executive Held senior executive positions in engineering consultancy Wide ranging sectoral experience including energy, water, infrastructure and building industries Extensive experience in strategy as well as finance and accounting	Considerable financial expertise Significant knowledge and experience of working in large international companies that operate in global markets
Key external appointments				
Non-executive director and Deputy Chairman of Lloyds Banking Group plc (LBG)	Non-executive of Earthwatch International Non-executive director of Signet Jewellers Ltd	Chairman of ZMDi AG Non-executive director of Geely Automobile Holdings, Hong Kong Non-executive director of Volvo Cars Corporation, Gothenburg, Sweden Non-executive director of Rexam PLC	Non-executive director of DSV A/S and Kvaerner ASA Non-executive director of WSP Global Inc. and Chairman of the Governance, Ethics and Compliance Committee Non-executive director of Cobham plc	Deputy Chief Executive Officer of Safran SA Non-executive director and Chairman of the Audit Committee at Faurecia SA Non-executive director and Chairman of the Audit Committee at Eutelsat Communications SA



Find out more about the Board online
www.imiplc.com/about-imi/leadership-and-governance/board

Corporate Governance introduction
Chairman's Governance letter

Dear Shareholder

My focus during 2014 has been on embedding the new executive leadership and ensuring good process around the formulation of strategic objectives and business plans for the next phase of IMI's development and growth. I believe the transition to our new Chief Executive, Mark Selway, has been successfully completed and that he has had an excellent first year. We have also developed and started to implement a robust strategic plan to drive growth and build long-term shareholder value. While it is still early days a number of our strategic initiatives are beginning to deliver real benefits.

Looking ahead to 2015, I see the key objectives for the Board to be:

- continuing to develop our Board strategy process with a longer term perspective;
- updating our risk management process and governance in line with the recent revisions to the UK Corporate Governance Code and associated best practice guidance; and
- ensuring continuity and a smooth transition for my successor as Chairman and in relation to the key finance roles as we change Finance Director and Chairman of the Audit Committee early in 2015.

As ever, I am keen to engage with shareholders and during the last year have met with a significant number of IMI's larger institutional investors. I look forward to meeting individual shareholders again at the forthcoming Annual General Meeting.

Following the announcement of my appointment to the board of WPP plc it was announced in December 2014 that I will step down as Chairman of IMI. I have greatly enjoyed my time with IMI since joining in June 2011 and I will continue in my current role until my successor is appointed and there has been a suitable transition period. Anita Frew, our senior independent director, is leading the search for your new chairman.

Yours faithfully

Roberto Quarta
Chairman

26 February 2015

The Board's Corporate Governance Report

Set out below is the Board's formal report on Corporate Governance and separate reports from the Audit, Nominations and Remuneration Committees.

UK Corporate Governance Code - Compliance statement

The Board is committed to maintaining high standards of corporate governance and confirms that throughout the year ending 31 December 2014 the Company has applied the principles of good governance contained in the 2012 UK Corporate Governance Code (the 'Code') and complied with its best practice provisions as set out below, and in the Directors' Report and other cross-referenced sections of this Annual Report.

We welcome the 2014 UK Corporate Governance Code, published by the Financial Reporting Council ('FRC') in September 2014, which is applicable to IMI from January 2015. We have also started to take account of the associated new FRC guidance on risk management, internal control and related financial and business reporting, also published last September. A description of the main features of the Company's internal control system and other regulatory matters can be found on pages 143 and 144 of the Directors' Report. Risk management systems and principal risks and uncertainties are summarised on pages 30 to 33. Information on corporate responsibility can be found on pages 26 to 27.

The Board

Composition

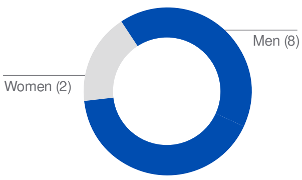
At the end of the year the Board comprised ten directors: the Chairman; the Chief Executive; six independent non-executive directors; the Finance Director and one operational executive director. Currently the Board comprises ten directors: the Chairman; the Chief Executive; five independent non-executive directors; the Finance Director and the Finance Director designate; and one operational executive director.

Ross McInnes joined as a non-executive director on 1 October 2014. Daniel Shook was appointed as an executive director from 1 January 2015 and will become Finance Director on 1 March 2015.

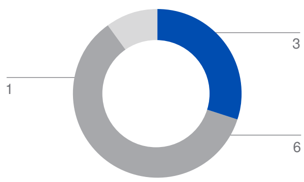
Martin Lamb retired as a director at the 2014 Annual General Meeting. Phil Bentley retired as a non-executive director on 31 December 2014.

In line with the Code, all continuing directors submit themselves for re-election at the Annual General Meetings. Anita Frew and Douglas Hurt will retire at the 2015 Annual General Meeting. Following the retirement of Anita Frew at the forthcoming Annual General Meeting, Bob Stack will become the senior independent director.

Board gender (at the year end)



Board balance (at the year end)



1 Chairman
3 executive directors
6 non-executive directors

Independence of non-executive directors

The five current non-executive directors are all free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All non-executive directors meet the criteria for independence under the Code and are regarded by the Board as independent of executive management. The Chairman, Roberto Quarta, was also regarded as independent at the date of his appointment to the Board. 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 in various parts of the world.

Dates of appointment

Name	Date of appointment	Date of current letter of appointment	Anticipated expiry of current term
Phil Bentley	1 October 2012	16 June 2014	31 December 2014
Carl-Peter Forster	1 October 2012	16 June 2014	30 September 2015
Anita Frew	2 March 2006	26 February 2015	7 May 2015
Ross McInnes	1 October 2014	14 October 2014	30 September 2017
Birgit Nørgaard	6 November 2012	16 June 2014	5 November 2015
Roberto Quarta	1 June 2011	25 June 2014	1 November 2017
Bob Stack	13 June 2008	26 February 2015	12 June 2016

Meetings and use of Board time

The Board met on nine occasions during the year including four quarterly reviews, strategy discussions and meetings convened for special purposes as the need arose.

Corporate Governance Report (cont'd)

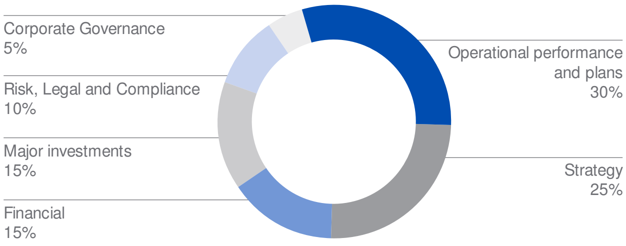
Key Board activities in 2014

As the year opened, IMI became a more focused specialist flow control business with the completion of the $1,100m (£690m) disposal of the Retail Dispense divisions. The Board undertook a thorough process of mapping out the next stage of the Group's development under the new executive leadership team. As a result, the latest strategic thinking was set out in the interim results announcement in August 2014 and is now reflected in this Annual Report.

Highlights of other Board activity in 2014 included:

- Progress with Board succession
  - New Finance Director appointed
  - New non-executive with a strong financial background appointed to take up the chair of the Audit Committee
  - Search for a new Chairman commenced
- Organisation
  - New management and organisation structures established for the three divisions and corporate centre
  - New role and composition for the Executive Committee approved
- Brand exercise
  - Rebranding of the businesses and refresh of the corporate branding
- Growth and process investments
  - Growth investments made in new products and business IT systems
  - New core process disciplines introduced across a broad spectrum including for lean, project management, internal controls, legal & compliance and human resources
  - Announcement of the acquisition of Bopp & Reuther to complement our control valve businesses in our Critical Engineering division

The Board's time



Board and Committee attendance 2014

Director	Board Meetings	Audit Committee Meetings	Nominations Committee Meetings	Remuneration Committee Meetings
	9	4	5	4
Roberto Quarta	9	-	5	4
Phil Bentley	7	4	-	
Carl-Peter Forster	9	4	-	4
Anita Frew	9	4	5	4
Ross McInnes [(i)]	4	1	-	
Birgit Nørgaard [(ii)]	9	3	-	4
Bob Stack	9	-	5	4
Mark Selway	9	-	5	
Douglas Hurt	9	-	-	
Martin Lamb [(iii)]	0			
Roy Twite	9	-	-	

(i) Full attendance from appointment in October 2014

(ii) Full attendance as joined the Audit Committee in March 2014

(iii) Retired as a director in May 2014

Induction and continuing development programme

A formal induction process for new directors has been well established for several years and is the responsibility of the Chairman with support from the Chief Executive and Company Secretary. This process was refreshed in the year to reflect changes in Group businesses and management structure. Business familiarisation is at the core of induction and continuing development for non-executive directors at IMI is based around gaining an understanding of the business and getting to know the wider management team. There is also a committee induction process designed to brief new committee members on the relevant committee's activity and the issues it faces. During and after induction, directors are required to visit business units around the Group and, most importantly, to meet face-to-face with senior operating management and key corporate staff. Non-executive directors continue to become familiar with the businesses during and after induction and there is regular contact between management and non-executive directors during site visits, formal meetings and events.

Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in appropriate updates during the year at Board and committee meetings.

Board evaluation

In line with the Code, the Board has agreed that the Chairman should arrange an externally facilitated evaluation process, normally at least once every three years. In 2013 such a process was postponed due to the Chief Executive transition and a full, externally facilitated Board evaluation exercise was conducted in 2014. The evaluation was facilitated by

Independent Board Evaluation, a specialist consultancy that has no other business relationship with IMI. A comprehensive brief was given to the assessment team by the Chairman, Roberto Quarta, and the Chief Executive, Mark Selway, in September 2014. The evaluation also observed Board and committee meetings in October 2014.

In October and November 2014, detailed interviews were conducted with every director. In addition, representatives of Independent Board Evaluation interviewed members of the senior management team and advisers. All participants were interviewed according to a set agenda, tailored for the IMI Board. Draft conclusions were discussed with the Chairman and subsequently reviewed with the whole Board at its meeting in December 2014 with the lead evaluator present. Following the Board meeting the evaluation team gave feedback to committee chairmen on the performance of each committee. Anita Frew as the senior independent director received the report on the Chairman which she discussed with him, and Roberto Quarta received a report with feedback on individual directors which was discussed with them. The Chairmen of the three non-executive Committees each received a report from the external evaluation exercise and reviewed that with their Committee.

Following a period of considerable change, the appetite among Board members is for selective continuous improvement rather than major change. Board members noted some areas for development over the coming year and the report contained recommendations to address those areas, including monitoring the change-programme within the businesses; increasing the amount of UK plc experience on the Board without diluting its highly-valued international diversity; and strengthening the Nominations Committee-led areas of succession-planning for the Board itself and talent-management throughout the Group. Specific actions were then agreed to address development areas, including:

- introducing governance support/training for all first-time UK plc board members, tailored to the individual's needs;
- reviewing the Board education programme to develop board members' knowledge;
- establishing a Board skills matrix, agreed by the Nominations Committee; and
- considering ways of strengthening Board contact with senior management.

The Board received the findings of the evaluation in December 2014 and after review the directors confirmed that the Board is fulfilling its responsibilities appropriately and that the Board and its committees were effective and that each continuing director demonstrated a valuable contribution.

Standing committees of the Board

The standing committees of the Board are shown below and include the Audit Committee, the Nominations Committee and the Remuneration Committee. Each of these committees operates under written terms of reference which clearly set out their respective delegated responsibilities and authorities. The full terms of reference of these committees were updated in the year and are part of the Corporate Governance Framework which appears on the IMI website. The committees report to the Board on their work, normally through their respective chairman, quarterly or more frequently as appropriate.

Separate reports from the following committees appear as follows: Audit Committee on pages 52 to 54; Nominations Committee on pages 55 and 56 and Remuneration Committee on pages 57 to 79.

Corporate Governance Report (cont'd)

Audit Committee

Ross McInnes
Chairman

Membership:

- Anita Frew
- Birgit Nørgaard
- Carl-Peter Forster

Four meetings

Main responsibilities:

Financial reporting

- Oversight role in relation to financial statements
- Reviewing significant areas of judgment and accounting policies
- Advising the Board on whether the draft Annual Report is fair, balanced and understandable
- Monitoring announcements in respect of financial performance

Financial controls and risk

- Monitoring the effectiveness of internal financial controls
- Reviewing financial risk including fraud risk
- Oversight of internal audit
- Managing the external audit process, its objectivity, effectiveness and cost
- Reviewing the system for confidential whistleblowing and the reports received

Nominations Committee

Roberto Quarta
Chairman

Membership:

- Anita Frew
- Bob Stack

Five meetings

Main responsibilities:

- Board and committee composition
- Succession plans for Board and senior management and corporate roles
- Search for and recommendation of candidates for appointment as non-executive directors, Chief Executive and other executive director positions
- Diversity policy and monitoring of progress
- Review and recommendation of proposals for the assignment of major executive responsibilities and appointment and removal of divisional business leaders

Remuneration Committee

Bob Stack
Chairman

Membership:

- Anita Frew
- Roberto Quarta
- Birgit Nørgaard
- Carl-Peter Forster

Four meetings

Main responsibilities:

- Define and recommend the remuneration policy for approval by shareholders
- Determine the individual remuneration packages for the most senior executives within the policy to be put to shareholders for approval
- Set annual and long-term incentive metrics and awards and determine the outcomes with support from the Company's auditor and Audit Committee
- Report on remuneration matters and constructively engage with shareholders
- Assess risk in respect of remuneration and incentive structures in particular

Executive Committee

The Executive Committee is the primary management Committee.

The Executive Committee is chaired by the Chief Executive and consists of the Finance Director, the Divisional Managing Directors, the Group Business Development Director, Paul Roberts, the Group Human Resources Director, Geoff Tranfield and the Legal & Compliance Director and Company Secretary, John O'Shea. Senior executives and line managers from around the Group are regularly called upon to attend meetings of the Executive Committee. The Committee meets monthly and more often as may be required, and all members attended all but one or two meetings during their tenure in the year.

The Executive Committee is the senior management body and as part of its broad remit set by the Chief Executive it monitors and manages performance, reviews progress against strategic objectives, considers business management issues and formulates budgets and proposals on strategy, policy and resource allocation for consideration by the Board. The Committee is not a committee of the Board.

The Executive Committee plays a key part in the risk assessment, risk management and monitoring processes and receives regular reports on health and safety, compliance and legal and corporate affairs. The main annual risk review meeting of the Committee was attended by Roberto Quarta, the Chairman, and it had further risk updates in the year with detailed follow up reports to the Board.

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 2014 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 2014 Annual General Meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the Directors' Report for 2013. Separate resolutions for the approval of the Directors' Remuneration Report and the Directors' Remuneration Policy were also put to the meeting. Notice of the 2014 Annual General Meeting was issued more than twenty working days in advance and the level of proxy votes lodged for and against each resolution, together with details of abstentions, were disclosed at the meeting and are shown on the IMI website. The Board values its good relations with shareholders and all resolutions proposed at the 2014 Annual General Meeting received strong support with all votes well above 90% in favour in each case.

In addition to the Annual Report, the Company issues preliminary results and interim results announcements, as well as two interim management statements between results announcements. The IMI website includes recordings of certain key presentations made by senior management, recent Annual and Interim Reports, interim management statements, other corporate announcements and links to the websites of the Group's businesses. The Company has arranged a dealing service for the convenience of shareholders with Equiniti (details are shown on page 156). A sponsored Level 1 American Depositary Receipt programme has been established for which Citibank, N.A. acts as depositary (details can be found on page 156).

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

Financial analysts' notes are circulated to the directors and regular feedback reports for the Board from the Company's brokers are supplemented by periodic, independent surveys of major investors' views, the most recent of which was in 2013. The Chairman, senior independent director and other non-executives meet with major shareholders upon request and several meetings of this type took place during the year. There were also consultations with the larger shareholders and institutional shareholder representative bodies in respect of remuneration matters and new incentive plans to be put forward for shareholder approval at the forthcoming Annual General Meeting.

Information about share capital, substantial shareholdings, voting and other rights of shareholders, directors' appointments, removal and powers is set out in the Directors' Report on pages 141 to 144.

By order of the Board

John O'Shea
Company Secretary

26 February 2015

Audit Committee Report

Dear Shareholder

I am pleased to present my first report as Chairman of the Audit Committee and would like to thank Phil Bentley for his excellent stewardship of the Committee and his kind support during our handover period.

Composition of the Audit Committee

I chair the Audit Committee. I am a career Finance Director and have significant recent and relevant financial experience including as chair of the Audit Committee at Faurecia SA and Eutelsat Communications. Anita Frew and Carl-Peter Forster were members of the Audit Committee throughout the year. Birgit Nørgaard joined on 1 March 2014. Phil Bentley was a member and Chairman of the Committee until 31 December 2014, at which time he retired. I joined the Committee on 1 October 2014 and became its Chairman on 1 January 2015. All of the Committee members are regarded by the Board as independent non-executive directors.

The Committee generally asks the Chairman, the Chief Executive, the Finance Director, the Group Financial Controller and the Group Assurance Director to attend its meetings but holds at least part of several meetings each year alone with the external auditor and with the Group Assurance Director. The Committee has the powers to call on any employees to come before it. The Secretary to the Committee is also the Director of Legal and Compliance.

Main areas of activity in 2014

The Audit Committee met four times in 2014. Significant accounting issues reflected in the 2014 financial statements include accounting for several businesses disposed of in 2014, exceptional restructuring costs, impairment of goodwill and intangible assets arising from acquisitions, revenue recognition, provisioning for taxation, pensions accounting and inventory valuation. The matters of judgement involved in these issues are described in more overleaf.

The Committee remit calls upon it to advise the Board in relation to the fair, balanced and understandable requirements in respect of the Annual Report. We continued to improve the Annual Report and, in particular, to ensure a clearer link from our strategy through to KPIs and Principal Risks and Uncertainties. Other work undertaken in connection with this included a benchmarking review of how IMI addressed the new requirements and associated best practice guidance, the advance submission of draft Annual Report content to the Committee in December 2014, followed by a draft submission three weeks before becoming final to allow ample time for comments and improvements.

Financial controls continued to be a key focus area for the Committee and during the year management made further significant progress in strengthening controls and addressing action points raised by the external auditor and internal assurance processes. A new internal control declaration process was introduced, which requires six monthly sign-off on core areas of financial control and compliance by the managers of each business unit. The Committee was pleased to see the new Executive management continuing to drive the improvements in controls across the business. Ernst & Young agreed with management's assessment that the level of control effectiveness across the Group remains high at 95% and has improved compared to 2013. Separately, Ernst & Young reported that a further five businesses achieved 100% effectiveness for a sample of controls tested. Furthermore, Group Assurance validated management's assessment as part of their financial control audits.

A new Chief Risk Officer, reporting to the Chief Executive, joined IMI in February 2015 and will assume functional responsibility for internal audit.

Oversight of financial reporting

The Committee acts in an oversight role in respect of the Annual Report and announcements with financial content that are prepared by executive management. The Committee received reports on the annual and interim financial statements from the external auditor who attended its meetings. The Committee's work included reviewing the financial statements, accounting policies, significant issues of judgement and, as described below under the section headed 'Internal Audit', looking at the effectiveness of internal financial controls and assurances.

Significant judgements related to the financial statements

Accounting for businesses disposed of

As discussed on page 4, the Group disposed of the Retail Dispense businesses on 1 January 2014, the Eley business on 4 October 2014 and AFP on 23 October 2014. Each disposal resulted in a gain, which the Committee reviewed and were comfortable with management's calculation.

Exceptional restructuring costs

Following guidance issued by the Financial Reporting Council, the Committee challenged management on the appropriateness of the classification of certain items as exceptional, notably restructuring costs. The Committee and management agreed that for the 2014 results, only individually significant restructuring projects would be disclosed as exceptional. As a result, only the costs associated with the closure of IMI Components and IMI Norgren UK's factory move are disclosed as exceptional. The Committee also debated the appropriateness of the other items disclosed as exceptional in the 2014 results and agreed with management's assessment.

Impairment of goodwill and intangibles arising from acquisitions

The Committee reviewed the assumptions and calculations used in the assessment of any impairment of goodwill and intangibles assets and was comfortable with them. In particular, the Committee reviewed the carrying value of goodwill and other intangibles relating to IMI Remosa. The Committee agreed with management's assessment that the projected future cash flows for IMI Remosa did not support the carrying value of the goodwill, that the full carrying value would be unlikely to be realised on the open market and therefore an impairment charge of £27m was appropriate.

Revenue recognition

The Committee discussed the timing of revenue recognition on some of the Group's larger contracts. In addition, this is an area of audit focus and accordingly Ernst & Young reported on this matter to the Committee.

Provisioning for taxation

The Group pays taxes in various countries which requires the interpretation of complex tax laws in these jurisdictions. Accordingly, both the amounts expected to be payable and the period in which settlement is likely to be made are reassessed from time to time. The Committee received reports from management outlining the rationale for the provisions held for taxation. In addition, this is an area where Ernst & Young engage their tax experts to review the appropriateness of these provisions, and provides reports to the Committee.

Pensions accounting

As detailed on page 125, during the year the Group split its existing UK Pension Fund into two newly formed pension schemes. The Committee reviewed reports from management to determine the appropriateness of the accounting that arose as a result of this arrangement and confirmation that this arrangement and the appropriateness of the actuarial assumptions used and agreed with management's assessment.

Inventory valuation

The Committee reviewed the judgments applied to standard costing valuations and provisions against excess and obsolete inventory and concurred with management's assessment.

External audit independence and performance review

The Committee approved the proposed external audit approach and its scope based on the size and level of risk of the entities concerned. The Committee also approved the internal audit programme. The Committee takes a risk based approach to audit and other assurance activity.

The Committee considered the independence and objectivity of the external auditor. In assessing auditor independence the Committee had regard to best practice 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 policy on the use of the auditor for non-audit work is established and monitored by the Committee and requires approval by the Chairman of the Committee for any non-audit engagement where fees exceed £150,000. The policy 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. Non-audit fees paid to the auditor were £0.3m (2013: £0.2m), which represents 11% of the audit fee and demonstrated the tight control which is maintained in this area. We are of the view that the level and nature of non-audit work does not compromise the independence of the external auditor.

Benchmarking of the audit fees was conducted to ensure that these are appropriate and competitive and the Committee approved the proposed audit fees payable to Ernst & Young.

We formally reviewed the effectiveness of the external audit process. The Committee adopted a formal framework by way of a questionnaire to review the effectiveness of the external auditor. The framework is completed annually by each member of the Committee and by the Finance Director. Feedback was also received from the Chief Executive, the Group Financial Controller, Group and Divisional Management. The feedback from this process was considered by the Committee and was provided to the external auditor. As a result of this exercise the Committee believes the performance has been satisfactory and the external auditor is considered to be effective. In particular the quality of the audit work continues to improve. Further improvement actions were identified and plans have been put in place to address these, including the continuity of audit team members and continuing to shorten the lines of communication between the auditor's Group team, the component audit teams and the Group's local operations.

Audit Committee Report (cont'd)

Auditor choice, tenure and tendering

The Committee recommended and the Board approved the proposal to re-appoint Ernst & Young as the external auditor at the forthcoming Annual General Meeting. Ernst & Young was first appointed as auditor in 2009 following a competitive tendering process after which it replaced the previous auditor, KPMG. The term of appointment is annual and there are no contractual restrictions on the Committee's choice of auditor. To maintain the objectivity of the audit process, the external audit partner responsible for the Group is rotated within Ernst & Young at least every five years and the current Senior Statutory Auditor has been in place for two years and will change following completion of the 2017 audit. Succession planning includes having a second partner in place on the audit team. New regulations for audit tendering and rotation of audit firms have been introduced which require mandatory tendering after ten years (i.e. by 31 December 2019) and a change of audit firm by 31 December 2029, assuming in each case that Ernst & Young remains in place as auditor until 2019 and 2029 respectively. The Committee reserves the right to run a tender for the audit role at any time but, if not conducted earlier, it will be undertaken in advance of the regulatory deadline at the end of 2019. Currently, the Committee intends to run the audit tender in 2017, to coincide with the current lead audit partner's rotation and in advance of the regulatory deadline at the end of 2019. We will of course keep the matter under regular review.

Internal audit

The Committee also receives reports from and monitors the work of the internal audit function, known as Group Assurance. The appointment of a new Chief Risk Officer, reporting to the Chief Executive, is intended to accelerate the extension of internal audit into compliance and other areas of non-financial audit activity. The separation of internal audit from the finance function is also seen as a positive move and it now reports through the Director of Risk to the Chief Executive instead of to the Finance Director. Group Assurance will retain its reporting line to the Committee. Assurance work is primarily directed towards financial control audits but has broadened into other areas including major business change project planning and implementation. The principal projects reviewed in 2014 were major computer systems implementations in Critical Engineering and Precision Engineering, manufacturing rationalisation exercises in Germany and significant capital projects in the US and Italy. Group Assurance reviewed project management, governance and the ability to achieve the business objectives. These reviews have identified opportunities for process and project management improvements, and will help to facilitate sharing of best practice for future projects.

Compliance hotline

The Committee also reviews the operation of the independent compliance hotline for reporting concerns, oversees the more significant reports received and how these are investigated and followed up. We believe that the hotline process and investigations are effective and proportionate action is taken in response.

Independent Committee evaluation

The Committee reviewed its own performance and terms of reference and received positive feedback from the externally facilitated evaluation exercise carried out in respect of the Board and each of its standing committees.

The Committee approved the foregoing report on its work.

Yours faithfully

Ross McInnes
Chairman of the Audit Committee

26 February 2015

Nominations Committee Report

Dear Shareholder

Main areas of activity in 2014

In 2014, the Committee spent a substantial part of its time on executive talent development and succession planning. A confidential global search process was commissioned by the Committee to find a new Finance Director. Russell Reynolds was engaged to assist with this process and also with the search for a non-executive director as a successor to the outgoing chair of the Audit Committee. Russell Reynolds also provided services in respect of recruitment for certain senior executive positions below Board level. Committee members interviewed a range of candidates for both roles and the Committee made recommendations to the Board for the appointments of Daniel Shook, as Finance Director, and Ross McInnes, as a non-executive director and Chairman designate of the Audit Committee.

The Committee also reviewed the composition of the Board and its committees. It recommended changes in executive responsibilities, endorsed the change in Divisional Managing Director for Precision Engineering and supported the changes to the composition of the Executive Committee. The Board approved all of the recommendations made by the Committee for the appointment of directors.

Following the announcement in December 2014 that I would be stepping down as Chairman, with Board endorsement Anita Frew has been leading the process for the selection of my successor supported by Bob Stack, non-executive director, and Mark Selway. I am not involved in the process for selecting or appointing my successor.

Members

Anita Frew, Bob Stack, Mark Selway and I are members of the Nominations Committee and all of us were members throughout the year. Mark Selway stepped down from the Committee on 26 February 2015 as he felt that it would reflect emerging best practice if he did not continue as a member of the Committee.

Review of time commitments and contributions

Appointments of non-executive directors are made on the basis of a standard form letter of appointment. Each non-executive director and I, as Chairman, were appointed on the basis of a stated minimum time commitment judged appropriate by the Committee. The Committee considers that the time given by each non-executive was sufficient. Anita Frew took the lead in reviewing the governance and other implications for IMI of my proposal to become Chairman of Smith & Nephew plc from April 2014, which was then approved by the Board. I have since stepped down from the boards of Foster Wheeler AG and Rexel SA.

Succession planning

As a Committee we are keen to develop more formal skills mapping and to put in place a structured, medium term plan for Board succession. This activity will be progressed in due course by the Committee under the new Chairman. We reviewed talent development and succession planning for the top 250 roles in the Group with the support of the Group Human Resources Director and we were encouraged to see the progress that has been made given the strong emphasis on good process and cultivating a pipeline of high calibre talent.

Diversity

The Board recognises the benefits a diverse pool of talent can bring to a boardroom and remains committed to increasing diversity in the businesses by voluntary measures. We will continue to review the composition of our management teams and the Board to ensure that we have the right mix of skills and experience while maintaining our effectiveness and execution capabilities. At Board level, there are seven nationalities, two of the non-executive directors are female and there is a broad mix of backgrounds and experience.

In 2014 the Board approved a diversity and inclusion policy which applies to all IMI employees, contractors and agency workers, both direct and indirect via third parties.

Nominations Committee Report (cont'd)

The policy is designed to take a broad approach to diversity and inclusion in order to reflect the UK legislative framework of the Equality Act 2010. IMI is committed to being compliant with the local legal and best practice frameworks in the countries in which it operates and therefore the application of the Diversity and Inclusion Policy will reflect the legal context in the jurisdictions in which it is applied.

We are committed to ensuring that all employees and workers are treated fairly in an environment which is free from any form of discrimination with regard to the nine protected characteristics outlined in the Equality Act 2010, which are age, religion, race, sex, disability, gender reassignment, marriage/civil partnership, pregnancy and maternity and sexual orientation.

Our policy is to recruit the very best people to execute our strategic priorities and to reflect the diverse nature of the global footprint of the business, reflecting the location of our customers and markets. We will continue to seek a diverse pool of the best quality candidates to draw from, both internally and when recruiting externally, to maximise the continuing effectiveness of the Company. In line with our recruitment practices, the Group produces diverse shortlists for internal and external vacancies and specifically requests this of external providers, with the aim of encouraging and promoting diversity.

At the same time, the Committee has agreed to measure progress on diversity metrics including gender and nationality mix although specific targets have not been set. In 2014 the mix of male and female employees across the Group was as follows:

	All Employees	Managers	Senior Managers	Board Directors
Female	3,308	222	99	2
Female %	26	19	16	20
Male	9,221	963	504	8
Male %	74	81	84	80

As part of the Performance Management process in 2015, each Divisional Managing Director will agree objectives aimed at improving diversity in their area and our Executive Committee will undertake a training session on diversity and inclusion.

The Committee reviewed its own performance and terms of reference and received positive feedback from the externally facilitated evaluation exercise carried out in respect of the Board and each of its committees. The Committee approved the foregoing report on its work.

Yours faithfully

Roberto Quarta
Chairman of the Nominations Committee

26 February 2015

Directors' Remuneration Report Annual Statement from the Chairman of the Committee

"It has been a busy year for the Remuneration Committee. In this report we propose changes to IMI's executive remuneration arrangements to align with our new business strategy to drive growth and build long-term shareholder value. We will be seeking your approval for these changes at our upcoming Annual General Meeting."

Dear Shareholder

During 2014 the Committee completed a review of IMI's executive remuneration practices, with the simple objective of ensuring IMI's remuneration arrangements are aligned with our new robust strategic growth plan. Following this review we are proposing a number of changes to the existing executive remuneration arrangements and we will be seeking your approval of a new remuneration policy at the upcoming Annual General Meeting. This review, coupled with Douglas Hurt's retirement and Daniel Shook's appointment, made for a busy year.

What did the Committee focus on during the year?

It was an exciting year in IMI's history with Mark Selway taking over from Martin Lamb following his retirement. With this change came the opportunity to take a fresh perspective on our strategy, and as discussed by Mark and Roberto, significant opportunities have been identified to accelerate growth and build long-term shareholder value. The Committee considered the remuneration arrangements, not just for the executive directors but also for the senior leadership group and broader employee population, all of whom are critical to the successful delivery of our strategic ambitions.

Clearly, it is important for the Committee to take account of feedback from our shareholders when considering any change. Following a formal consultation, which we undertook in autumn 2014, the majority of our shareholders were fully supportive of the changes put forward.

The primary change we are proposing to make to the remuneration arrangements is the removal of the Share Matching Plan (SMP) in favour of a simpler model with a single performance share plan in response to both shareholder feedback and market developments. At the same time we have significantly increased our share ownership guidelines to reinforce shareholder alignment. The changes have been calibrated to ensure consistency of new total remuneration levels against both previous levels and market norms, while reducing overall leverage in our incentive plans.

During the year, Douglas Hurt decided to retire having played a key role in IMI's development over the last eight years. Douglas will be succeeded by Daniel Shook, who joined IMI in January as Finance Director Designate. Daniel will take over as Finance Director on 1 March 2015 and Douglas will step down from the Board at the AGM.

For Douglas, with respect to compensation, the overriding principle was that we should treat him fairly and honour any contractual commitments. I can confirm that we did not use any discretion to pay him more than he was entitled to under his service contract or the share plan rules. We determined that it was critical for Douglas to remain focused on the long-term success of IMI and in ensuring a smooth handover to Daniel, so we used our power under the share plan rules to defer vesting of all share-based awards to the third anniversary of their grant, rather than the earlier date of Douglas' retirement. Awards will be pro-rated to May 2015 and corporate performance will be measured over the full three-year performance period, thus ensuring that Douglas is rewarded according to IMI's performance after he has passed the baton on to Daniel.

How were pay outcomes linked to performance?

2014 was another year of good progress for IMI. Organic revenue increased by 2% to £1,686m and adjusted basic EPS increased by 7%. Shareholders have also benefitted from a 7% increase in the total dividend for the year and the £620m return of cash occurring in the first half of 2014 as a result of the sale of the Retail Dispense divisions.

The 2014 annual bonus will be paid against a pre-set range of targets for profit before tax, adjusted EPS, organic revenue growth, cash conversion and health, safety and environment measures. An overall Group-level bonus score of 37%[1] was recorded.

The 2012 matching share award and performance award vested at 70% and 0% respectively. Further details on the levels of performance are set out on pages 73 to 75.

[1] Assumes maximum achievement of the personal objective component

Directors' Remuneration Report (cont'd)

What did the non-executive directors get paid in 2014?

The Chairman was paid a fee of £300,000. Roberto Quarta has elected to receive 25% of his fee in shares although that is not a Company requirement and may or may not apply to a new Chairman. Each non-executive director received an annualised base fee of £60,000. I received an additional £15,000 for chairing the Remuneration Committee, with Phil Bentley and Anita Frew receiving additional fees of £15,000 and £10,000 respectively for their duties in chairing the Audit Committee and serving as the senior independent director. We welcomed Ross McInnes to the board as a non-executive director in October 2014 and he received a fee of £15,000 for his time in the role during the year. In January 2015, Ross succeeded Phil as Chairman of the Audit Committee when Phil stepped down from the Board at the end of last year to focus on his new executive appointment elsewhere, and I will replace Anita Frew as senior independent director.

What is changing for 2015?

As indicated above, 2015 will see the launch of the IMI Incentive Plan (IIP) awards, subject to shareholder approval. As part of the remuneration review we also updated the 2015 performance measures under our short and long-term incentive schemes. Health and safety will now serve as an underpin in the annual plan reflecting its overall importance, with the removal of EPS to place greater emphasis on Group PBT growth, organic revenue growth, cash conversion and strategic performance. When compared to the previous long-term arrangements, EPS growth and organic revenue growth have been replaced by Group PBT growth and ROCE to better measure sustainable and efficient long-term profitable growth. EVA has been removed entirely as we believe the new measures are more effective in measuring performance while being significantly more transparent to shareholders. We have retained TSR to maintain the direct link with our shareholders' experience, although we have taken the opportunity to refresh the peer group to better reflect our portfolio of businesses following the divestments of our Retail Dispense divisions.

The targets for the long-term plan have been set with a view to them being enduring standards and to that end the Committee is of the view that they are not commercially sensitive. The targets for each measure are as follows:

	ROCE	Relative TSR	PBT Growth	Level of vesting
Threshold	40%	Median	2.5%	25%
Maximum	50%	Upper quartile	7.5%	100%

As part of the annual review, salaries have been increased for Mark Selway and Roy Twite by 2.7% and 3.5% respectively in line with the approach we have taken across the whole Group. In addition, Roy's bonus opportunity has increased slightly to 150% of salary to mitigate the decrease in overall compensation opportunity brought about by the new remuneration structure.

What about staff pay?

In 2014 our average staff salary increase was 3.2%. Approximately one million options vested in 2014 under the Share Option Plan (these were granted in 2011 to our managers) and the gain per share option on vesting was £4.66 each. We continue to offer UK SAYE, UK Share Incentive Plan and Global Employee Share Purchase Plans in USA. We are particularly proud of the level of uptake in our all-employee plans.

Committee review

The Committee reviewed its own performance and terms of reference and received positive feedback from the externally facilitated evaluation exercise carried out in respect of the Board and each of its standing committee.

Looking forward

The Committee has devoted a considerable amount of time in reviewing the executive remuneration framework over the year. Subject to your approval, it is our intention that this policy will operate for at least the next three years, as the Executive team focuses on delivering long-term value. I would like to personally thank those investors that took the time to participate in our consultation exercise and I hope all of our shareholders are able to support our decisions and recommendations at the upcoming Annual General Meeting.

Bob Stack
Chairman of the Remuneration Committee on behalf of the Board.

26 February 2015

Directors' Remuneration Report
Directors' Remuneration Policy

Introduction

The Remuneration Committee presents the Directors' Remuneration Policy Report, which will be put to shareholders for a binding vote at the Annual General Meeting to be held on 7 May 2015. Subject to shareholder approval, the effective date of this policy will be 8 May 2015. The intention of the Committee is that the policy will remain in place for three years.

The remuneration policy comprises a number of sections:

- an illustration of the sensitivity of pay outcomes relative to IMI's performance;
- a future policy table for executive directors, which sets out the components of annual remuneration;
- policies relating to other elements of executive director remuneration, including recruitment, service contracts, appointments and terminations;
- remuneration policies that relate solely to the Chairman and non-executive directors; and
- the contextual information considered by the Committee when making decisions on executive directors' remuneration.

IMI's remuneration philosophy

The Committee aims to ensure that remuneration generally, and incentives in particular, provide strong alignment between individual performance, business performance and shareholder interests. The remuneration policy also recognises that IMI 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 component of the remuneration package to performance.

The Committee believes it is 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.

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.

Changes in the remuneration policy

In submitting a revised policy to shareholders the only substantive changes, are as follows:

- the Share Matching Plan ('SMP') and Performance Share Plan ('PSP') will not be operating again and will be allowed to expire without renewal, which was due in May 2015;
- the introduction of performance share awards under a new plan, the IMI Incentive Plan ('IIP'), subject to approval at the 2015 AGM;
- adopting performance measures designed to align with our strategy; and
- increases to the Share Ownership Guidelines from 125% to 150% - 250% of salary and mandated investment of 50% of net bonus into shares and retention of half of vested share awards until share ownership guidelines have been met.

Details of decisions implemented in line with both the 2014 and 2015 Remuneration Policies, such as salary increases and changes to bonus opportunity and the incentive plan performance measures, are included in the Directors' Remuneration Report.

Directors' Remuneration Report (cont'd)

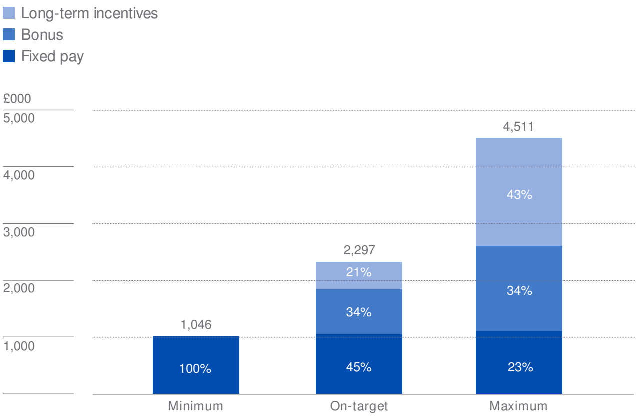
Illustrations of the application of IMI's remuneration policy

To illustrate the opportunity available to our executive directors, and the sensitivity of pay to performance, the adjacent graphs set out pay outcomes for three performance scenarios:

- minimum, where pay is limited to fixed, non-performance related components (based on 2015 salaries and the corresponding pension and benefits as disclosed in 2014);
- 'on-target', where bonus vests at target levels for each executive, and long-term incentives vest at threshold (assuming targets are calibrated such that the lower end of the vesting schedule is representative of 'on-target'); and
- maximum, where all variable pay components vest in full.

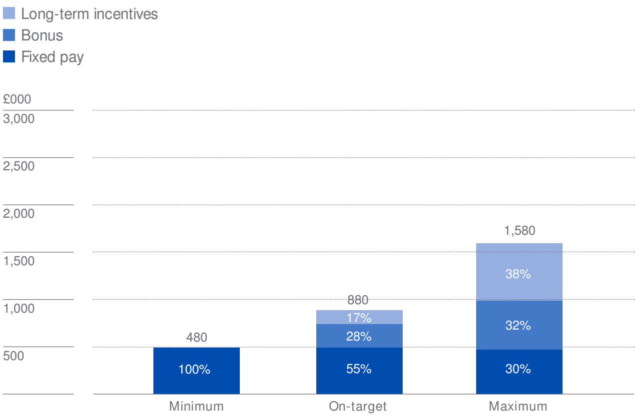
The charts are based on proposed IIP awards for 2015 in accordance with the policy subject to approval. No share price growth or dividend assumptions are made and all-employee share plans are excluded.

M W Selway



Salary	770	770	770
Pension	30%	30%	30%
Benefits	45	45	45
Annual Incentive Bonus	0%	100%	200%
IIP	0%	62.5%	250%

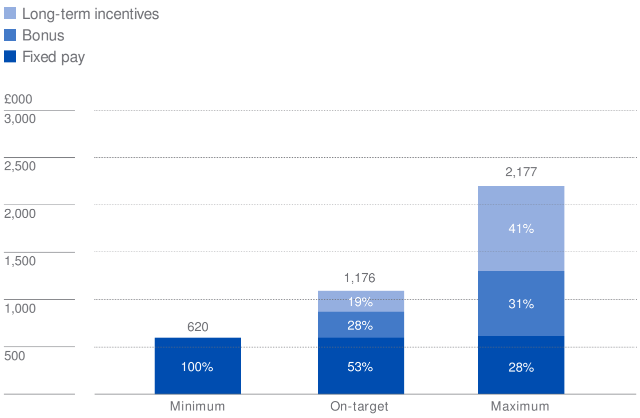
D J Shook



Salary	400	400	400
Pension	20%	20%	20%
Benefits*	-	-	-
Annual Incentive Bonus	0%	62.5%	125%
IIP	0%	37.5%	150%

* D J Shook did not receive any benefits in 2014

R M Twite



Salary	445	445	445
Pension	35%	35%	35%
Benefits	19	19	19
Annual Incentive Bonus	0%	75%	150%
IIP	0%	50%	200%

Percentages in the above tables are percentages of salary.

Future policy table – executive directors

Component & purpose	Operation	Annual opportunity
Fixed elements of executive remuneration		
Salary Reflects individual performance and personal contribution to delivering the Group strategy. They are set in the context of total pay levels.	Reviewed annually with change normally effective from January. When setting salary, the Committee takes into account the level of increase for a reference group of comparable employees in the leadership group, market data, business performance, external economic factors, the complexity of the business and the role, cost, and the incumbent's experience and performance.	Normally any salary increase for an executive director will be in line with those of the wider workforce. Increases beyond this may be awarded in certain circumstances, such as a change in responsibility after taking into account the factors noted.
Pension Provides for retirement and supports succession planning.	A cash allowance in lieu of pension is paid monthly. To the extent required by law, part of this allowance will be paid into a defined contribution pension arrangement. With the Committee's approval the executive directors may redirect all or part of the balance of this allowance into a defined contribution pension arrangement.	Up to 30% of salary Legacy obligations of 35% of salary for appointments to the Board before October 2013 will continue to be honoured.
Benefits Protects the well-being of executives and to provide fair and reasonable market competitive benefits.	The policy provides a normal range of benefits to executive directors. These include but are not limited to: Non-cash: private healthcare for themselves and their family, life insurance, and other minor ancillary benefits. Cash and taxable allowances: car and fuel allowance, personal tax advice and two annual round trips for the Chief Executive and his spouse between work and home locations. Where it is in IMI's interests to request that executives work in a different country or region then we will pay relocation and provide benefits and allowances in line with IMI's Global Mobility Policy. Expenses that are incurred by an executive director in undertaking their role are reimbursed.	The values of benefits vary significantly year-on-year depending on the age and health of the individual, the cost of providing them and the geography in which the executive is based. However, the range of the benefits is not expected to change from year to year. Should it be appropriate to relocate an executive director or to recruit an executive director from overseas, flexibility is reserved to provide benefits that ensure that the individual and IMI can both achieve this commercial purpose.
All-employee share plans (all-employee share plans do not have an associated performance framework)		
All-Employee Share Plans Encourages share ownership amongst the broader employee population and aligns interests of IMI employees with those of shareholders. In addition provides a tax efficient investment vehicle for employees.	**UK Plans** UK SAYE: an HMRC approved Savings Related Share Option Scheme which is open to all of the Group's UK employees, including the UK-based executive directors. Employee Share Ownership Plan: an HMRC approved Share Incentive Plan which is open to all of the Group's UK employees, including the UK-based executive directors.	In line with the statutorily defined limits with respect to investments, awards and discounts on the price of share options.
	Global Plans: All-employee share purchase plans operate in geographies outside the UK. The vehicle and manner of award varies by geography depending on local market restrictions and the plan operated in the region.	Eligible employees (including executives) can invest subject to the plan limits that apply to all participants, which vary by local market and plan.

Directors' Remuneration Report (cont'd)

Future policy table – executive directors (cont'd)

Component	Purpose	Operation
Variable components of executive remuneration		
Annual Incentive Bonus	Drives and rewards performance against annual financial, strategic and operational goals, which are consistent with the medium to long-term strategic goals of IMI, also taking into account individual behaviours and contributions.	Payment of awards is determined by the Committee based on annual performance relative to set targets which are reviewed at the end of the year. If the executive has not achieved their share ownership guideline, up to half of any bonus is mandated to be invested into IMI shares for at least three years. Otherwise, the executive can elect whether to receive their bonus in cash and/or shares. Dividends (or equivalent value payments) accrue and are payable in cash or shares when shares are released. Malus and clawback are included in the plan rules.
IMI Incentive Plan ('IIP')	Incentivises long-term value creation, aligning the interests of executives and shareholders through the delivery of awards in shares. The selected performance metrics support the long-term strategy of IMI and the plan and time horizon serves as a retention tool for key executives.	The Committee can make annual share-based awards. Dividends (or equivalent value payments) accrue and are payable in cash or shares in respect of vested awards. Malus and clawback are included in the plan rules.

Additional notes to the future policy table

Legacy plans

Awards made under the SMP and PSP prior to the approval of this Remuneration Policy will be permitted to vest in accordance with the terms approved in the prior Remuneration Policy. The final awards under these plans were made in 2014.

Setting of performance measures and targets

The Committee reviews and selects performance measures annually, taking account of the economic conditions and IMI's priorities at the time. In particular, the Committee considers the strategic plan and the key performance indicators associated with it. Details of the performance measures are included in the Annual Report each year. At the time of selecting performance measures, the Committee determines the performance targets that will apply in respect of each measure. Factors that the Committee may consider include the strategic plan, the annual budget, analysts' forecasts, economic conditions, individuals' areas of responsibilities and the Committee's expectations over the relevant period. Depending on the nature of the measure e.g. health and safety, the Committee may exercise judgement in assessing performance and determining the level of vesting.

Principles for the impact of corporate transactions

The Committee has established principles that determine the way in which corporate transactions will impact remuneration. It is clear that any corporate transaction, which is in the best interests of IMI and its shareholders, should not have an adverse impact on remuneration. The principles include the need for management to be treated in a manner consistent with shareholders in respect to the rights to equity, that performance should be measured on a like-for-like basis, that there should be no compensation for adverse or favourable tax consequences and that any changes to performance computations will be reviewed by the Company's auditors.

Recovery provisions

The Committee has the power to operate malus and/or clawback provisions in the event that the Company misstated financial results and if there was an error or miscalculation in determining the size of the award and/or gross misconduct. The provisions enable the Committee to reduce future annual bonus payments, reduce the number of shares under any form of share award, and/or require an individual to make a payment to the Company on terms deemed to be fair and reasonable by the Committee.

Differences in the remuneration policy for executives relative to the broader employee population

The remuneration framework in place for the executive directors is informed by the structure that sits beneath it for the broader employee population. While absolute levels and the provision of certain components, benefits and allowances vary by geography and level, the overarching themes are:

- salaries are reviewed annually with any increases made on a discretionary basis and informed by factors such as those set out in the policy table;
- consistent with executive directors, the leadership group participates in annual bonus plans with measures linked to corporate, divisional and/or local performance depending on their level;
- the leadership group can be considered for awards under the IIP. At lower levels, employees can also be considered for discretionary share awards with a pre-grant performance test. IMI's share plans are intended to encourage share ownership at all levels of the Group. The all-employee plans described in the policy table are offered on consistent terms to all employees in the geographies where the plans operate; and
- eligibility for and provision of benefits and allowances varies by level and local market practice. For senior managers, it is standard to receive a company car allowance. Pension contributions below the Board are set at a lower rate, and can take the form of a cash allowance.

Annual opportunity	Performance
Up to a maximum of 200% of salary. As a percentage of maximum the following amounts are potentially payable for the corresponding levels of performance (straight-line between points): Threshold (minimum): 0% Target: 50% Maximum: 100%	In 2015 the performance measures will be Group PBT (40%), Group organic revenue growth (20%), cash conversion (20%), strategic and personal objectives (20%) and a health and safety underpin. Divisional operating profit and organic revenue growth will replace Group organic revenue for Divisional roles with weightings adjusted accordingly. Payment depends on performance relative to pre-determined measures and targets over the course of a financial year. The Committee determines the measures and targets annually to ensure alignment with strategy. Normally these will be a combination of measures linked to the financial and non-financial performance of IMI.
Normal award: Up to 250% of salary Maximum award: 400% of salary (to be used in exceptional circumstances only e.g. upon recruitment) If an award above the normal maximum is made, full details will be provided in the following year's Annual Remuneration Report. As a percentage of the award the following amounts are payable for the corresponding levels of performance (straight-line between points): Threshold (minimum): 25% Maximum: 100%	In 2015 the performance measures will be Group PBT growth (50%), ROCE (25%) and relative TSR (25%). The release of shares will depend on performance relative to pre-determined measures and targets over three consecutive financial years. The Committee will determine targets and ranges in respect of each award when made.

Directors' Remuneration Report (cont'd)

Other executive director remuneration policies

Share ownership guideline

Executive directors are subject to guidelines which require them to build a shareholding in IMI worth at least 250% of salary for the Chief Executive, 150% of salary for the Finance Director and 200% of salary for Roy Twite. When assessing compliance with this guideline the Committee reviews both the level of beneficial share ownership and vested but unexercised share incentive awards on a post-tax basis.

To the extent an individual does not meet their share ownership guideline, up to half of any annual bonus is automatically payable in shares and 50% of share awards must be retained.

Appointments to the board

Base salary will be set taking into account factors including market levels, experience, internal relativities and cost. The Committee may determine that an initial positioning below market is appropriate and; in those circumstances, realign base salary in the years following appointment, which may result in an exceptional rate of increase in the short-term. Any reliance on this principle will be noted at the time of appointment. The theoretical maximum variable pay opportunity that can be awarded in one year will be 600% of salary: up to 200% in annual bonus and up to 400% in an IIP award.

As part of the appointments policy the Committee may also:

- continue with the provision of existing remuneration components relating to pension, benefits and allowances for internal appointments;
- provide benefits, allowances and/or payments related to relocation; and/or
- make a long-term incentive award on appointment, outside of the annual cycle, under existing shareholder approved share plans and/or an individual award agreement to provide an immediate interest in company performance. The Committee will determine the level of any award, performance conditions and time horizon informed by the business circumstances at the time. The maximum value of such an award will be 400% of salary.

Service contracts will be entered into on terms summarised in the service contract policy (see below). As noted above, the Committee would authorise the payment of a relocation allowance as well as other associated international mobility terms in line with IMI's Global Mobility Policy.

The Committee may consider 'buying–out' incentive awards that an individual forfeits in accepting the appointment up to an equivalent value. To achieve this, the Committee's preference has been to use the existing shareholder approved plans. When making their decision, the Committee will be informed by the time horizons, value and performance targets associated with any forfeited awards.

Service contract policy

From September 2013

Notice period	12 months' notice each way
Payment in lieu of notice	As determined by the Committee, but restricted to salary, benefits and pension. Directors have a duty to mitigate
Change of control	No incremental payments or protection
Entitlements on termination	No entitlement if leaving as a 'bad leaver' as set out in the contract Salary, contractual benefits and pension allowance as per notice period Committee power to make phased payments that would be reduced or stopped if alternative employment is taken up

Prior to September 2013 (Roy Twite)

Notice period	12 months' notice each way
Payment in lieu of notice	At the Committee's discretion
Change of control	Bonus entitlement if a change in control has taken place within the 24 months prior to termination
Entitlements on termination	No entitlement if dismissed for cause or resignation

Termination and loss of office

The primary principle underpinning the determination of any payments on loss of office is that payments for failure will not be made. Service contracts and plan rules have been drafted in such a way that the Committee has the necessary powers to ensure this. On departure, the Committee will take into account factors including the reason for the executive leaving, performance during the time served in the year and contractual obligations when approving any payments. When an executive is terminated for cause there is no entitlement to salary, pension, benefits or an annual bonus and unvested share awards lapse.

The following table provides a summary of the treatment of each component of pay applicable for the current executive directors. It should be noted that the Committee applies judgement in determining whether an individual is classed as a good leaver or otherwise under the share plans and is authorised to reach compromise agreements with departing executives. Agreed departure can include death, ill health, redundancy or retirement.

Payment	Agreed departure	Differences in a change in control situation
Salary, pension and benefits	The Committee may make payment in lieu of notice.	None.
Annual bonus	Individuals can be considered for a bonus; factors such as time served during the performance period and performance can be taken into account. Deferred bonuses vest.	Performance to the date of the event taking place will be considered in determining whether any bonus should be payable, subject to the overall maximum applicable to the relevant individual. For directors appointed prior to September 2013, there remains a bonus entitlement if a change in control has taken place within the 24 months prior to termination. In this scenario, the director is entitled to bonus, or compensation in lieu of bonus, in respect of the relevant calendar year.
IIP performance share awards and legacy PSP	Performance measured at the end of the performance period, or at the date of cessation of employment. Pro-rating for time elapsed at cessation of employment will be considered by the Committee. The Committee can reduce or increase the exercise period for unvested and vested but unexercised awards (legacy PSP only).	Similar to agreed departure. A reduction in the exercise period for vested but unexercised awards. Performance and time elapsed will be taken into account, but the Committee may enable awards to vest in full. In certain situations (as defined in the plan rules) rollover awards of a broadly equivalent nature can be offered.
Legacy Share Matching Plan (no awards from 2015)	Invested shares are transferred back on cessation or at the end of the investment period. Matching shares: Performance measured at the end of the performance period, or at the date of cessation of employment. Pro-rating for time elapsed at cessation of employment will be considered by the Committee. The Committee can reduce or increase the exercise period for unvested and vested but unexercised awards.	Similar to agreed departure. A reduction in the exercise period for vested but unexercised awards. Performance and time elapsed will be taken into account, but the Committee may enable awards to vest in full. In certain situations (as defined in the plan rules) rollover awards can be offered, taking into account performance and time elapsed, although these can be disapplied by the grantor.
Other	The Committee may approve other limited payments which may include legal fees connected to the departure, untaken holiday, out-placement and repatriation.	Similar to agreed departure.

Directors’ Remuneration Report (cont’d)

Considerations taken into account when setting our executive directors’ remuneration policy

Employment conditions at IMI

When setting the salaries for executive directors the Committee takes into account a number of factors (as noted in the future policy table on pages 61 to 63) and these include the broader employment conditions within IMI. More specifically:

- the Committee reviews budgeted salary increases across the Group on a country-by-country basis when assessing the appropriateness of any increases for the Directors; and
- in making decisions the Committee also takes account of the internal relativities against the reference group and within the wider leadership group and general employee population.

Details of these comparison metrics will be included every year in the Annual Remuneration Report.

The Committee did not consult with employees when preparing the Directors’ Remuneration Policy for this Report.

Shareholder views

The Committee has a standard annual agenda item whereby the feedback from shareholders and investor advisory bodies is presented and discussed following the AGM. This feedback is sought and collated by the Company Secretary. The feedback that the Committee receives then informs discussions for the formulation of future policy and subsequent remuneration decisions. A formal shareholder consultation process was undertaken in the Autumn of 2014 to gather investor feedback on the revised remuneration policy, with the majority of shareholders supportive.

Exceptional circumstances

The Committee retains the authority to make payments outside those set out elsewhere in this Policy to the extent they are needed in truly exceptional circumstances and were genuinely unforeseen and thus are of an emergency nature.

This discretion will not be used in any recruitment of an executive director, the policy and limits of which we have described on pages 61 to 63 and if it is used to grant a variable or performance-related award, the terms of that award will be made within the limits of the stated policy on incentive awards. Any such payments will be disclosed on a timely basis.

Chairman and non-executive directors

The table on page 67 summarises the policy with respect to the remuneration of the Chairman and non-executive directors. No component of remuneration is linked to performance, there are no provisions for the recovery of sums paid or the withholding of any payments and there are no provisions for the Company to pay compensation on early termination.

Letters of appointment

The letters of appointment set out key duties, including appropriate time commitments, provisions for induction and familiarisation with the businesses and wider senior management team and require approval for other directorships and potential conflicts of interest.

There are no provisions for the Company to give notice, but the Chairman is required to give three months’ notice to the Company and non-executives one month. Subject to annual election at the AGM, the initial period to first renewal is three years. After six years, renewal is considered on an annual basis.

The letters of appointment are available for inspection at the AGM and the Company’s registered office. Details of the dates of appointments and unexpired terms are included in the Corporate Governance Report on page 47.

Appointments to the Board

Any contractual terms will be consistent with those currently adopted for existing non-executive directors. The Chairman and non-executive directors are not eligible to receive any variable pay. On appointment, fees for non-executive directors will be consistent with the policy in place at the time of appointment. If necessary, to secure the appointment of a new Chairman who is not based in the UK, payments relating to relocation and/or housing may be provided.

Future policy table

Component	Purpose	Operation	Annual opportunity
Base fees	To attract and retain high-calibre individuals by offering market-competitive fees, commensurate to the time commitment and experience that is required.	Fees are reviewed annually (or less frequently where noted) and can be paid in cash and/or shares. Benchmarked against companies of a similar size and complexity. When setting fees, factors considered include the level of increase for employees more generally, market data, business performance, external economic factors, the skills required, time requirements and cost. In respect of the Chairman, IMI also consider the individual's profile and experience.	As of 1 January 2014, the Chairman's fee was fixed at £300,000 and no increase for 2015 is proposed. Roberto Quarta has elected to receive 25% of his fees in IMI shares[1] although that is not a Company requirement and may or may not apply to a new Chairman. At 31 December 2014 base fees for the non-executive directors were £60,000, and no increase for 2015 was awarded in the review at the end of 2014.
Additional fees	To reflect the additional time required when an individual chairs a committee or is appointed as senior independent director.	Fees are reviewed annually and can be paid in cash and/or shares. The Chairman is not eligible to receive additional fees. Fees are benchmarked and set in a manner consistent with base fees (see above).	Fee levels in place at 31 December 2014 and subject to review in 2015: Committee Chairman: £15,000 Senior independent director: £10,000
Benefits	To reimburse reasonable business expenses.	Reimbursement in cash on production of receipts or other proof of payment of business expense.	Expenses incurred by the Chairman and non-executive directors in undertaking their role are reimbursed as a business expense and are not a personal benefit in kind. Typically these might include business travel, meals and entertainment.

[1] 25% of the Chairman's after tax fee was used to purchase shares in the market. These shares were then transferred to the Chairman. All dealing charges were paid for by the Chairman.

Directors' Remuneration Report
Annual Remuneration Report

Introduction

The Committee presents the Annual Remuneration Report, which will be put to shareholders for an advisory (non-binding) vote at the AGM to be held on 7 May 2015. The report includes details of the Committee, the pay received by our executive directors during the year in accordance with our prior remuneration policy (approved on 8 May 2014) and comparative internal and external data.

The Remuneration Committee ('the Committee')

Composition

The members of the Committee during the year were Bob Stack (Chairman), Carl-Peter Forster, Anita Frew, Birgit Nørgaard and Roberto Quarta. In accordance with the UK Corporate Governance Code, all of the non-executive directors were regarded by the Board as independent and Roberto Quarta was considered independent on his appointment as Chairman of the Company.

Responsibility

The Committee determines the remuneration policy and rewards for the executive directors and, in his absence the Chairman. The Committee also reviews the remuneration packages of those at the next most senior level of management and has regard to levels of pay across the Group. A copy of the terms of reference, which are reviewed annually, is included in the IMI Corporate Governance Framework and available in the corporate governance section of the IMI website.

Internal advisors to the Committee

During the year, the Committee consulted the Chief Executive, 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, the Group Human Resources Director, the Head of Group Reward and the Company Secretary, who is also secretary to the Committee. None of these individuals was involved in determining their own remuneration.

External advisers to the Committee

Independent remuneration consultant, Towers Watson, is formally appointed by the Committee and provided advice on directors' remuneration to the Committee in 2014. Towers Watson notified the Committee that the firm are actuaries and administrators for the two IMI Pension Funds[1]. The Committee is comfortable that this does not represent a conflict of interest and that objective and independent advice continues to be received by the Committee from Towers Watson.

During 2014, Towers Watson has also supported management on some broader reward and human resource matters. The fees charged by Towers Watson in respect of advice and services to the Committee totalled £108,000 and for support to management totalled £48,853 in 2014. Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK and the terms of engagement with Towers Watson are available on request from the Company Secretary.

An additional adviser was appointed and retained by the Committee during the year. The Committee was satisfied that all advice was objective and independent based on the terms of engagement. The additional adviser was:

- Kepler Associates completed an incentives review and their fees totalled £145,987 in 2014. Kepler Associates were appointed by management to provide support on aspects of the communication of the new arrangements.

A summary of the Committee activities during 2014

The Committee had four formal meetings during the year and one workshop. The principal agenda items were as follows:

- a review of total compensation packages of the executive directors and the most senior management of the Company to ensure alignment with IMI's new strategic growth plan;
- approval of achievements and outcomes under the incentive plans;
- consideration of the Chairman's fees;
- setting the framework and target levels for the 2014 incentive cycle;
- review of the long-term incentive arrangements for 2015;
- approval of the granting of share awards to other levels of management;
- a review of the UK corporate governance environment relative to remuneration;
- a risk review of the remuneration framework;
- review of the engagement of independent remuneration consultants and other advisers to the Committee;
- a review of the Committee's own performance, constitution and terms of reference; and
- review and approval of the retirement terms for Douglas Hurt and the recruitment terms for Daniel Shook.

[1] During the year the IMI Pension Fund commenced winding up procedures and has been replaced by two new funds, IMI 2014 Deferred Fund and IMI 2014 Pensioner Fund (together 'the Funds').

Voting outcome at the 2014 Annual General Meeting

The following table summarises the details of votes cast in respect of the remuneration resolutions along with the number of votes cast as a percentage of the Issued Share Capital (‘ISC’). The Committee was pleased with the level of support shown by shareholders and will continue to consider the views of, and feedback from, shareholders when setting and reporting on remuneration arrangements.

Directors’ Remuneration Report	Votes for	Votes against	Total votes cast	Votes withheld (abstentions)
Directors’ Remuneration Policy	177,728,610 (95.89%)	7,626,905	185,355,515 (68.30% of ISC)	184,135
Annual Remuneration Policy	168,107,992 (98.90%)	1,864,870	169,972,862 (62.63% of ISC)	15,570,312

Details of the voting on all resolutions at the 2015 AGM will be announced via the RNS and made available on the IMI website following the AGM.

Executive single figure table (audited)

		Fixed pay (£000)			Annual variable pay (£000)	Long-term variable pay (£000)			Other items in the nature of remuneration (£000)		
Director		Base salary	Pension	Taxable benefits	Annual incentive bonus	Share Matching Plan (SMP)	Performance Share Plan (PSP)	Subtotal long-term variable pay	All-Employee Share Plans	Dividend equivalent Payments	Total (£000)
See Page		Page 71	Pages 71 to 72	Page 72	Pages 72 to 73	Pages 73 to 74	Pages 74 to 75		Page 75	Page 76	
M W Selway[1]	2014	750	225	45	545	-	-	-	2	-	1,567
	2013	188	56	109	237	-	-	-	-	-	590
D M Hurt	2014	430	151	21	191	1,214	-	1,214	4	148	2,159
	2013	417	146	20	323	1,543	540	2,083	3	180	3,172
R M Twite	2014	430	151	19	197	1,117	-	1,117	3	46	1,963
	2013	417	146	19	299	1,341	510	1,851	3	55	2,790
M J Lamb[2]	2014	271	95	11	140	2,656	-	2,656	3	-	3,176
	2013	765	386	27	711	3,374	985	4,359	5	329	6,582

D M Hurt and R M Twite served on the Boards of Tate & Lyle PLC and Halma plc respectively during the year. Fees of £62,512.50 and £20,923.08 were received in respect of these appointments.

These figures have been calculated as follows:

Base salary:	the actual salary receivable for the year.
Pension:	the cash allowance paid in lieu of pension.
Taxable benefits:	the gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.
Annual incentive bonus:	the value of the annual incentive payable for performance in respect of the relevant financial year (half of this is automatically delivered in shares when the executive does not meet the share ownership requirement).
Share Matching Plan:	the value on vesting of the matching shares that were subject to performance over the three-year period ending on 31 December in the relevant financial year. (See share price assumptions below).
Performance Share Plan:	the value on vesting of shares that were subject to performance over the three-year period ending on 31 December in the relevant financial year. (See share price assumptions below).
Share price assumptions:	For shares vesting in 2015, that related to performance in the three years to 31 December 2014, the average share price over the final three months of 2014 (1,204.86 pence) is used to estimate the value of shares on vesting. For shares vested in 2014, relating to performance in the three years to 31 December 2013, previously reported figures[3] are updated to reflect the actual share price on the date of vesting (1,453.00 pence for the Share Matching Plan and 1,450.00 pence for the Performance Share Plan).
All-employee share plans:	the value of free shares and dividends (SIP) at award made in the relevant financial year and the intrinsic value of share options on the date of grant (SAYE) in the relevant financial year (applying a 10% discount).
Dividend equivalent payments:	the value of dividend equivalent shares on vested but unexercised awards under the share plans, valued at the price on the dividend payment date.

1 Mark Selway was appointed on 1 October 2013 and the table reflects payments from this date.

2 Martin Lamb retired from the Board on 8 May 2014 and the table reflects payments to this date.

3 The average share price over the final three months of 2013 (1,487.41 pence) was used.

Directors' Remuneration Report (cont'd)

Comparative data

The following information is intended to provide additional context regarding the total remuneration for executive directors.

Relative importance of pay spend

	2014 £m	2013 £m	Change
Acquisitions	-	7.8	-100%
Dividends	97.3	106.2	-8%
Return of Cash	620.3	-	-
Purchase of own shares	40.0	195.7	-80%
Total employment costs for Group* (see Section 2.1.3 on page 97)	535.5	630.1	-15%

In 2014, the total dividend for the year of 37.6 pence represented an increase of 7% over last year's 35.3 pence. As a result of the sale of the Retail Dispense divisions an additional special return of £620m was made to shareholders in 2014 and there was a consolidation of the Group's equity with the issue of seven new shares for every eight held. During the same period the total pay spend decreased by 15% reflecting the sale of the Retail Dispense divisions.

Relative percentage change in remuneration for Chief Executive

Mark Selway was appointed Chief Executive designate in October 2013 and was not considered for an increase in base salary for 2014. As such, his appointment as Chief Executive during the year under review means that it is not possible to provide a comparison this year. We will revert to normal practice next year when comparable data is available.

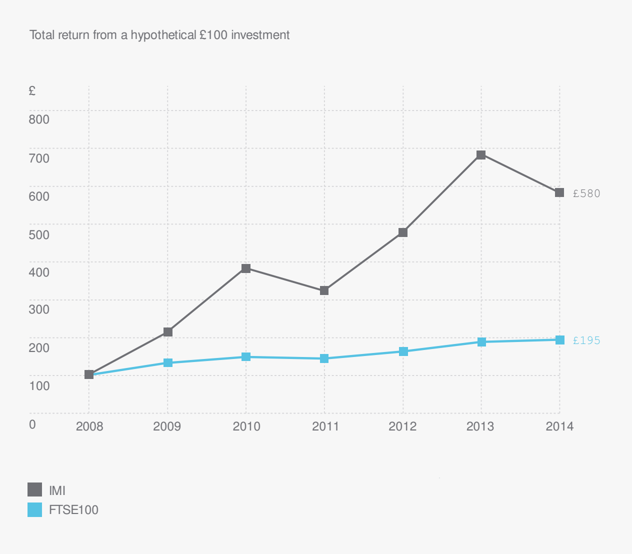
The Committee actively considers any increases in base pay for the Chief Executive relative to the broader employee population. However, benefits and bonus payments are not typically compared given they are driven by a far broader range of factors, such as local practices, eligibility, individual circumstances and role.

Historical performance and remuneration

In addition to considering executive remuneration in the context of internal comparisons, the Committee reviews annually historical outcomes under the variable pay plans.

The following graph compares IMI's TSR to the FTSE100 over the last six years. We compare performance to the FTSE100 as it represents the broad market index within which IMI shares are traded. TSR measures the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends (source: DataStream), with data averaged over the final 30 days of each financial year.

As the graph below illustrates, IMI's absolute and relative TSR performance has been strong over the last six years. This is reflected in the outcomes under our variable pay plans, which are largely driven by the financial performance of the Group and IMI's share price.



* As per Companies Act requirements, the total employment costs for the Group reported in 2013 included the Retail Dispense divisions. The total employment cost in 2013 excluding Retail Dispense was £505.2m.

The following table summarises the total remuneration for the Chief Executive over the last six years, and the outcomes of short and long-term incentive plans as a % of maximum.

Financial Year ended 31 December	2009[1]	2010[1]	2011[1]	2012[1]	2013[1]	2014[2]
Total remuneration (single figure, £000)	2,547	4,439	12,289	7,954	6,688	1,567
Annual variable pay (% of maximum)	91%	95%	85%	47%	62%	36%
Long-term variable pay (% of maximum) - Share Matching Plan	64%	97%	95%	100%	100%	-
Long-term variable pay (% of maximum) - Performance Share Plan	45%	100%	100%	100%	82.6%	-
Three-year increase in share price (Based on the relevant date)	2%	140%	180%	112%	61%	68%

1 Represents remuneration for Martin Lamb.

2 Represents remuneration for Mark Selway who was appointed Chief Executive on 1 January 2014. No payments under long-term incentive plans will be made until 2016.

Executive remuneration received in respect of 2014

Base salary

Salaries effective from January 2014 were agreed taking into account a range of factors, including the performance of the Group, comparative market data and salary increases for other employees. The average increase for employees of the Group was 3.2%, compared to 3.1% for the executive directors. Mark Selway's and Martin Lamb's salaries were not subject to review in 2014; the salaries for Douglas Hurt and Roy Twite increased by 3.1% to £430,000.

Pension

Executive directors are entitled to receive a taxable cash allowance instead of pension benefits. With the Committee's approval the executive directors may, at their discretion, redirect part or all of their allowance into any defined contribution pension arrangement in the country in which they are contracted. Mark Selway receives a cash allowance of 30% of salary and the other executive directors were eligible for a cash allowance of 35% of salary.

Pension benefits for past service

Martin Lamb and Roy Twite were previously active members of the defined benefit IMI Pension Fund ('the Fund'). Martin Lamb opted out with effect from 6 April 2006 and Roy Twite with effect from 1 February 2007. As a result they retain past pensionable service up to these dates. With the consent of the Company, Martin Lamb became a pensioner in the Fund upon his retirement on 27 September 2014.

The key elements of the benefits in the Fund are summarised below:

- the normal retirement age under the Fund is 62 for Roy Twite. Roy Twite may retire from employment with IMI any time after age 60 without actuarial discount.
- on death after retirement, a dependant's pension is provided equal to two-thirds of the member's pension for Martin Lamb and 50% of the member's pension for Roy Twite.
- should Martin Lamb die within the first five years of retirement, a lump sum is also paid equal to the balance of five years' pension payments. For Roy Twite the dependant's pension is increased to 100% of the member's pension for the remainder of the five year period.
- pensions in payment, in excess of any guaranteed minimum pension, are increased each year in line with price inflation up to a maximum of 5% in respect of pension built up before 1 January 2006, and 2.5% in respect of pension built up after 1 January 2006.

Until Martin Lamb retired on 27 September 2014 his past pension benefits continued to be linked to final salary inflation (averaged over the past three years) and equivalent benefits to those provided for under the Fund rules immediately prior to closure were preserved in relation to ill-health retirement, death in service and early retirement at the Company's instance.

Directors' Remuneration Report (cont'd)

The difference between those benefits and those automatically provided under the Fund, the enhanced protection member (EPM) benefits, is assessed as at 31 December each year to determine if it was necessary to make a payment to the Fund (to augment Fund benefits) or to make a payment in lieu of that to Martin Lamb. EPM benefits were payable as at 31 December 2013 and Martin Lamb received an additional Fund pension of £2,694 per annum in respect of these benefits. No EPM benefits were payable as at 31 December 2012 or 31 December 2011.

EPM benefits were also payable at the date Martin Lamb retired on 27 September 2014 and he received an additional Fund pension of £3,558 per annum in respect of these benefits.

The Company and the Trustee of the Fund agreed to defer Martin Lamb's pension in the Fund so that payment commences on 7 January 2015 (the date he attains age 55) rather than on 27 September 2014.

	Accrued pension in the Fund as at 31 December 2014	Accrued pension in the Fund as at 31 December 2013
	£000pa	£000pa
M J Lamb	334	331
R M Twite	67	65

Benefits

During the year the executive directors received a number of benefits. These are summarised below. Amounts less than £10,000 pa are combined.

	M W Selway		D M Hurt		R M Twite		M J Lamb[1]	
	2014	2013	2014	2013	2014	2013	2014	2013
Non-cash benefits (£000)								
Total	1	-	1	1	2	2	1	3
Cash benefits and taxable allowances (£000)								
Company car and fuel allowance	19	2	17	17	17	17	7	20
Relocation	-	100	-	-	-	-	-	-
Other	25	7	3	2	-	-	3	4
Total	45	109	21	20	19	19	11	27

[1] Benefits pro-rated to retirement from the Board on 8 May 2014.

In addition to the above benefits and allowances that are included in the single figure (refer to table on page 69), the executive directors are also beneficiaries of company policies that have no taxable value, including directors' insurance, death in service cover, travel insurance, the use of a company driver and personal accident cover.

Annual incentive bonus

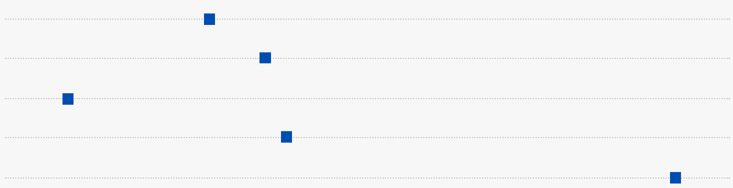
The 2014 bonus plan focused on the financial performance of IMI during the year considering Group profit before tax and exceptional items ('Group PBT') (35%); Group adjusted earnings per share ('EPS') (15%); organic revenue growth (15%); cash conversion (15%); health, safety and environment (5%); and personal non-financial objectives (15%).

Progress was made on a number of fronts and we continued to deliver positive results for our shareholders. In particular:

- the total dividend for the year increased by 6.5% compared to 2013;
- Group adjusted basic earnings per share increased by 7% compared to 2013;
- organic revenue growth was 2% in 2014, an improvement on the 1% delivered in 2013; and
- very strong performance again for Health and Safety.

It is the opinion of the Committee that detailed disclosure, either on a forward looking or retrospective basis of financial and operational bonus targets is commercially sensitive. This position will be kept under review. However, to give shareholders a sense of delivered performance in the context of the ranges set at the start of the financial year, the following graph illustrates actual outcomes relative to the ranges set:

	Weighting[1]	Below Threshold	Threshold	Target	Maximum	Above Maximum	Bonus Earned (% of bonus opportunity)
Profit before tax	35%						4.7%
Earnings per share	15%						5.7%
Organic revenue growth	15%						0.0%
Cash conversion	15%						6.2%
Health & Safety	5%						5.0%



[1] Total is out of 100%. Note that personal objectives account for 15%.

In addition to these quantifiable financial and non-financial measures, each executive director has a number of personal objectives, some of which are linked to The IMI Way. Objectives are agreed and communicated to the individual during the first quarter of the financial year, and pertain to areas directly within their remit. These personal objectives and the Committee's assessment of individuals' performance against them is described below, to the extent the Committee does not believe the information to be commercially sensitive.

	Measures and Committee's assessment of performance	Level of award (% of salary)
M W Selway	The performance measures fell into six key areas, which included strategy, leadership development and IMI Way. The key achievements identified by the Committee included assessing our markets and drivers for growth; benchmarking performance and agreeing a plan for improvement.	30%
D M Hurt	The performance measures fell into eight key areas including strategy, financial controls, major projects, pensions and tax. The key achievements identified by the Committee included successful management of the £620 million return of cash to shareholders in conjunction with the share consolidation and supporting the Chief Executive.	17%
R M Twite	The performance measures fell into eight key areas, which included people development, major projects and strategy. The key achievements identified by the Committee included delivering improved bookings and margins.	19%
M J Lamb	In light of Martin Lamb's short time on the Board during 2014, the Committee determined that Martin's personal contribution to the business over the period would be an assessment by the Committee and the Chairman. The Committee reviewed his last few months and agreed that their expectations had been met in full.	23%

In aggregate this resulted in the following short-term incentive outcomes:

	2014 Maximum bonus opportunity (% of salary)	Total bonus awarded (£000)	Total bonus awarded (% of salary)	Achievement of share ownership guidelines at 31 Dec 2014	Bonus delivered in form of cash (£000)	Bonus delivered in form of shares (£000)
M W Selway[1]	200%	545	72.7%	11%	273	272
D M Hurt	125%	191	44.4%	929%	191	-
R M Twite	125%	197	45.8%	421%	197	-
M J Lamb[1]	150%	140	51.7%	n/a	140	-

[1] Bonus pro-rated to retirement from the Board on 8 May 2014.

Awards vesting under the Share Matching Plan

In May 2012, awards were made to the executive directors under the Share Matching Plan ('SMP'). At the date of awards, all executives exceeded their individual share ownership requirement and as such were invited to invest up to the maximum permitted. The 2012 SMP award will vest at 70%.

Vesting was subject to the achievement of an Economic Value Added ('EVA') performance condition (see page 89 for definition), measured over the three years ending 31 December 2014. The calculation of EVA is based on segmental operating profit after tax with appropriate adjustments, less a capital charge on the invested capital in the business reflecting IMI's cost of capital.

The performance measure considered compound annual growth in EVA over the three financial years from 2012 to 2014 compared to EVA in the preceding three financial years. Awards lapse for negative compound growth. However for positive growth between 0% and 6%, 10% to 25% of matching shares vested; and for growth between 6% and 17%, 25% to 100% of matching shares vested. Within each range, vesting is calculated on a straight-line basis.

Directors' Remuneration Report (cont'd)

Over the period IMI delivered compound annual EVA growth of 12.6% based on three-year EVA from 2012 to 2014 of £593.6m compared to three-year EVA from 2009 to 2011 of £415.8m. The total awards vesting in March 2015 will be:

	Shares invested by the executive[4]	Initial matching award	Value on date of award[1] (£000)	Number of matching shares vesting	Additional dividend equivalent shares	Total matching shares vesting	Value of matching shares on vesting[2] (£000)
D M Hurt	27,827	132,512	1,222	92,758	8,022	100,780	1,214
R M Twite	25,600	121,908	1,124	85,335	7,380	92,715	1,117
M J Lamb[3]	60,868	289,850	2,672	202,895	17,548	220,443	2,656

1 The mid-market price on the date of award was 922.00 pence.

2 Awards will vest on 10 May 2015. The value of shares on vesting is estimated using the average price over the last quarter of 2014 (1,204.86 pence). Awards take the form of nil-cost options and can be exercised over a period of up to seven years following vesting, unless reduced under the terms of an individual's departure.

3 Under the terms of Martin Lamb's retirement his 2012 award of 289,850 shares was not time pro-rated.

4 Adjusted for the February 2014 share consolidation.

Awards vesting under the Performance Share Plan

In May 2012, awards were also made to executive directors under the Performance Share Plan ('PSP'). The vesting of the awards was subject to the achievement of three independent performance conditions, measured over the three-years ending 31 December 2014. The 2012 PSP award will vest at 0%.

- EPS growth

  Half of each award was subject to the achievement of an EPS growth performance measure. Under the PSP, EPS is defined as adjusted basic earnings per share before the post-tax impact of any reported exceptional items, which may include impairment losses, profit/ loss on disposal of a subsidiary, rationalisation costs, acquired intangible amortisation and IAS39 charges or credits for changes in the fair value of financial instruments. EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings and because the Committee believed it worked well in combination with TSR which is an external, relative measure of performance.

Growth of 6% per annum would trigger the minimum level of vesting (25% of the EPS element), increasing on a straight-line basis such that awards were eligible to vest in full for EPS growth of 15% per annum. Over the period IMI delivered EPS growth of 2.7% per annum, increasing EPS from 64.5 pence in 2011 to a comparable 69.8 pence at the end of 2014.

- Relative TSR

  25% of each award was subject to the achievement of a relative TSR performance measure. TSR is defined as the movement in share price during the performance period, measured in local currency, with adjustments to take account of changes in capital structure and dividends, which are assumed to be reinvested in shares on the ex-dividend date. TSR was chosen as a measure as it is an external, relative benchmark for performance that aligns executives' rewards with the creation of shareholder value.

The 2012 peer group comprised the following companies, adjusted to take account of merger and acquisition activity during the performance period in line with the Committee's established guidelines:

UK	USA
BBA Aviation	Borgwarner
Bodycote	Eaton
Cobham	Emerson Electric
GKN	Flowserve Corp
Halma	Honeywell
Johnson Matthey	IDEX
Meggitt	Illinois Tool Works
Rotork	Ingersoll-Rand
Spectris	Manitowoc
Spirax-Sarco Engineering	Parker-Hannifin
Vesuvius	Pentair
Weir Group	Tyco International

Japan	Continental Europe
Amada	Atlas Copco
Fanuc	Heidelberg Druckmaschinen
NSK	Metso Corporation
SMC	Sandvik
THK	SKF B
Yaskawa Electric	Sulzer AG

At the end of the three-year performance period, the Company ranked 21 in the peer group. The Committee was in agreement that the outcome under the TSR measure was reflective of the general underlying financial performance of the Company.

- Organic revenue growth

  25% of each award was subject to the achievement of an organic revenue growth measure, calculated as an average annual growth rate, to encourage continued focus on organic growth. Revenue is defined as segmental revenues before exceptional items adjusted, at the Committee's discretion, to exclude the impact of material acquisitions and disposals by the Company completed during the performance period and to remove the impact of exchange rate movements.

  Organic revenue growth of 2.7% per annum would trigger the minimum level of vesting (25% of the organic revenue element) increasing on a straight-line basis such that awards were eligible to vest in full for growth of 8% per annum. Over the period IMI delivered growth of 2.2%.

In aggregate, none of the initial number of shares awarded were released to the executives and other participants.

	Initial award	Value on date of award[1] (£000)	Number of initial shares vesting	Additional dividend equivalent shares	Total shares vesting	Value of shares on vesting (£000)
D M Hurt	41,250	392	-	-	-	-
R M Twite	41,250	392	-	-	-	-
M J Lamb[2]	75,450	716	-	-	-	-

[1] The mid-market price on the date of award was 949.50 pence.

[2] Under the terms of Martin Lamb's retirement, his 2012 award of 75,450 shares was not time pro-rated.

All-employee share plans

Executive directors are entitled to participate in the all-employee share plans on the same terms as other eligible employees at IMI. In 2014, Mark Selway, Douglas Hurt, Roy Twite and Martin Lamb all received free share awards under the Employee Share Ownership Plan. Mark Selway and Douglas Hurt received SAYE awards in 2014 of 650 shares each.

		Share Incentive Plan		SAYE			
		Number of shares awarded	Value of free share award[1] (£000)	Number of options awarded	Value of SAYE options[2] (£000)	Dividends (£000)	Total value under the all-employee share plans (£000)
M W Selway	2014	73	1	650	1	-	2
	2013	-	-	-	-	-	-
D M Hurt	2014	196	3	650	1	-	4
	2013	240	3	-	-	-	3
R M Twite	2014	196	3	-	-	-	3
	2013	240	3	-	-	-	3
M J Lamb	2014	196	3	-	-	-	3
	2013	240	3	-	-	2	5

[1] In 2014 free shares were awarded at a share price of 1,526.00 pence (1,249.33 pence in 2013).

[2] In 2014 SAYE awards were made at a 10% discount and the value shown is the intrinsic gain at the date of grant, calculated in accordance with the single figure requirements (on page 69).

Directors' Remuneration Report (cont'd)

Dividend payments

Under the SMP and PSP, dividend equivalent payments are made on vested but unexercised share awards, which take the form of nil-cost options. Dividend equivalents, while notionally tracked by IMI from grant to exercise, are not paid or transferred to the participant until the point of exercise. These have been included in the single figure (the table on page 69) based on the number of dividend equivalents notionally accrued in the financial year, valued at the price on the dividend payment date. Any residual cash is rolled over and applied to the subsequent dividend equivalent purchase.

Martin Lamb's Retirement Arrangements

During 2013 Martin Lamb announced his retirement as a director of IMI. Martin stepped down as the Chief Executive at the end of the 2013 financial year, and retired as a director from the Board at the AGM on 8 May 2014. His employment formally ceased at the end of his 12 month notice period in September 2014.

Payments made in accordance with Martin Lamb's retirement relate to the payment of salary, contractual benefits and pension allowance from 8 May 2014 to the end of his notice period in September 2014. Under the terms of the plan rules, the Committee has pro-rated the outstanding 2013 share awards under both the SMP and PSP on a financial year basis to 31 December 2014. Performance will be measured and applied in the normal manner to determine vesting, with the shares released on the normal vesting date for each award. The pension payable from the IMI Pension Funds ('the Funds') is reduced for early payment, in accordance with the Fund rules, as Martin Lamb is retiring prior to age 55. However, the Company asked the Trustee to defer pension payments until Martin Lamb reaches age 55 in January 2015 and to increase the pension that would otherwise have been payable from that date to reflect this period of deferral. The net effect of this deferral is cost neutral.

Payments to past directors (audited)

It is the Committee's intention to disclose any payments to past directors, including the vesting of share-based awards post departure on a basis consistent with the executive directors.

In particular, the Committee can confirm that under the terms of his departure, Sean Toomes' 2011 PSP and SMP awards were pro-rated to the date of his departure (30 June 2013) and vested, subject to the performance conditions, on 10 March 2014 and 28 March 2014 respectively. A total of 14,282 shares vested under the PSP (13,071 award shares and 1,211 dividend shares) which equated to a value on the vesting date of £207,089 and a total of 28,772 shares vested under the SMP (26,332 award shares and 2,440 dividend shares) which equated to a value on the vesting date of £418,057. Payments made to Martin Lamb during his period as a past director were consistent with the disclosures contained on page 79 of the 2013 Remuneration Report. Dividend equivalent payments for vested but unexercised nil-cost option awards will continue to be made to past directors under the terms of the original grant.

Share interests granted to executive directors during 2014 (audited)

Grants made under the Share Matching Plan

Grants under the SMP were made on 1 April 2014 in the form of nil-cost options. The Committee invited those eligible to participate at the maximum level permitted in respect of 2014 and the size of the award reflects an individual's bonus opportunity and the extent to which they had achieved the share ownership guideline.

	Achievement of Share Ownership Guideline as at 31 Dec 2013	Initial matching award	Value on date of award[1] (£000)	Award as a percentage of salary
M W Selway	No	26,146	383	51%
D M Hurt	Yes	71,188	1,043	243%
R M Twite	Yes	65,494	959	223%

[1] The price used to purchase shares on the date of award was 1,464.87p.

Awards will vest subject to the achievement of an EVA performance condition over the three financial years ending 31 December 2016. The definition of EVA is unchanged from that used in previous years.

Grants made under the Performance Share Plan

Grants under the PSP were made on 11 March 2014 in the form of nil-cost options. Awards will vest subject to the achievement of EPS growth, relative TSR and organic revenue growth over the three financial years ending 31 December 2016. The measures are defined consistently with previous years.

All of the performance measures are defined in such a manner to allow the Committee discretion to make further adjustments to the definitions as it determines is fair and reasonable. The performance targets that apply to the 2014 PSP awards are as follows:

	EPS growth	Relative TSR	Organic revenue growth	Level of vesting
Threshold	6% p.a.	Median	2.7%	25%
Maximum	15% p.a.	Upper quartile	8%	100%
Weighting	50%	25%	25%	-

The following grants were approved and made in 2014:

	PSP shares awarded	Value on date of award[1] (£000)	Award as a percentage of salary
M W Selway[2]	75,950	1,114	149%
D M Hurt	29,300	430	100%
R M Twite	29,300	430	100%

1 The three day average mid-market price on the date of award was 1,467.00 pence.

2 As part of Mark Selway's appointment the Committee agreed to make an aggregate long-term incentive award in 2014 worth 200% of salary. As such, he received a PSP award worth 149% of salary and an SMP award worth 51% of salary.

Chairman's and non-executive directors' single figure table (audited)

The following table summarises the total fees and benefits paid to the Chairman and non-executive directors in respect of the financial years ending 31 December 2014 and 31 December 2013.

Director	2014 (£000)			2013 (£000)		
	Base Fees	Additional Fees	Total	Base Fees	Additional Fees	Total
R Quarta	300	-	300	250	-	250
P Bentley[1]	60	15	75	55	10	65
C P Forster	60	-	60	55	-	55
A M Frew[2]	60	10	70	55	3	58
B Nørgaard	60	-	60	55	-	55
R J Stack	60	15	75	55	15	70
R McInnes[3]	15	-	15	-	-	-

1 Appointed Audit Committee Chairman May 2013 (stood down 31 December 2014)

2 Appointed senior independent director May 2013 (standing down at conclusion of 2015 AGM)

3 Appointed 1 October 2014 and became Audit Committee Chair on 1 January 2015

Directors' Remuneration Report (cont'd)

Directors' shareholdings and achievement of share ownership guidelines (audited)

The following table summarises the share interests of any director who served during the year as at 31 December 2014 or at the date of retirement from the Board.

Director	Total interests	Beneficial interests	Scheme interests			
			With performance conditions	Nil-cost options		All-employee share plans[2]
				With performance conditions		
				Unvested	Vested but unexercised	
M W Selway	214,831	8,739	205,927	205,927	-	165
D M Hurt	1,021,393	184,421	832,410	413,879	418,531	4,562
R M Twite	637,357	111,410	520,070	389,398	130,672	5,877
M J Lamb[1]	1,487,537	103,973	1,377,965	636,762	741,203	5,599
R Quarta	6,195	6,195	-	-	-	-
P Bentley	7,000	7,000	-	-	-	-
C-P Forster	2,625	2,625	-	-	-	-
A M Frew	6,562	6,562	-	-	-	-
B Nørgaard	2,625	2,625	-	-	-	-
R J Stack	13,125	13,125	-	-	-	-
R McInnes	-	-	-	-	-	-

[1] Share interests as at 8 May 2014.

[2] During the period 31 December 2014 to 26 February 2015 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 13 January 2015 of 10 shares on behalf of M W Selway, and 11 shares on behalf of each of R M Twite and D M Hurt at 1210p per share and 10 February 2015 of 9 shares on behalf of each of M W Selway, D M Hurt and R M Twite at 1377p per share.

From 2015, the Committee requires Mark Selway to build up a shareholding of at least 250% of salary, 200% of salary in the case of Roy Twite and 150% of salary for Daniel Shook, to mirror the IMI Incentive Plan Award. At the end of the year Douglas Hurt and Roy Twite significantly exceeded the share ownership guideline and Mark Selway, who was appointed on 1 October 2013, made progress towards his guideline through direct market purchase of shares and the full deferral of his 2013 annual bonus.

Application of the Directors' Remuneration Policy in 2014

Daniel Shook's appointment as Finance Director

The details of Daniel Shook's remuneration were agreed by the Committee in accordance with the remuneration policy approved on 8 May 2014. In summary Daniel has been appointed on a salary of £400,000 from 1 January 2015. His pension allowance is worth 20% of salary and he will participate in the standard benefits offered to executives. His bonus opportunity will be 125% of salary and he will be eligible for an annual award under the IMI Incentive Plan worth 150% of salary. In accordance with his relocation to the UK, the Committee has agreed to reimburse expenses up to £75,000. No other payments or awards were made or promised.

Douglas Hurt's retirement arrangements

As previously announced, Douglas Hurt notified the Board in September 2014 of his intention to retire. It was agreed that Douglas would remain as a director until the 2015 AGM, at which point he will step down as a director and retire.

In line with his contractual rights, the Committee has approved and agreed the following terms and payments which will be fully disclosed in next year's single figure table:

- Payment of salary (frozen at £430,000), contractual benefits and pension allowance until cessation of employment;
- Eligible for pro-rata annual bonus in respect of the time served as a director in 2015, payable at the usual time around March 2016;
- Under the terms of the plan rules, the Committee has pro-rated the outstanding 2013 and 2014 share awards under both the Share Matching Plan and Performance Share Plan to 7 May 2015. Performance will be measured and applied in the normal manner to determine vesting, with the shares released on the normal vesting date for each award;
- No participation in the IMI Incentive Scheme ('IIP') for 2015; and
- Pension benefits are being provided as described elsewhere in this Report, on the basis of service up to the date of retirement. The exact sums will be disclosed in an appropriate manner when they are known.

Executive director fixed pay

Salaries effective January 2015 were agreed taking into account a range of factors including the prevailing economic conditions, the financial performance of the Group and salary increases for other employees.

The average increase for employees was 2.9%, compared to 2.2% for the executive directors. Mark Selway's and Roy Twite's salaries increased by 2.7% and 3.5% to £770,000 and £445,000 respectively. Douglas Hurt was not considered for an increase in light of his retirement from the Board at the 2015 AGM.

Other elements of fixed pay (benefits and pension) will be unchanged.

Incentive pay

As set out in the Annual Statement from the Chairman of the Committee, changes are proposed to the incentive plans for 2015. Shareholders are being asked to approve the IMI Incentive Plan which will facilitate awards under these arrangements, as well as a revised Directors' Remuneration Policy. Additional information can be found in the Annual Statement from the Chairman of the Committee on pages 57 to 58 and the Directors' Remuneration Policy on pages 59 to 67.

Annual bonus

In accordance with the changes to the remuneration policy, the annual bonus plan will be operated as follows in 2015:

- 2015 bonus opportunity is set at 200% of salary for the Chief Executive, 150% for Roy Twite and 125% for Daniel Shook.
- Bonus will be paid subject to performance in Group PBT (40%), organic revenue growth (20%), cash conversion (20%) and strategic and personal objectives (20%). Health and safety will serve as an underpin to ensure bonuses are only paid out when minimum standards are achieved.
- The Committee has determined that the targets associated with the performance measures are commercially sensitive and therefore is not disclosing them on a prospective basis. This position will be reviewed at the end of the financial year to determine whether any information will be disclosed at that time.

IMI Incentive Plan ('IIP')

In accordance with the changes to the remuneration policy, the IIP will be operated as follows in 2015:

- 2015 awards are set at 250% of salary for the Chief Executive, 200% for Roy Twite and 150% for Daniel Shook. Douglas Hurt will not participate in the IMI Incentive Plan.
- Awards will vest subject to performance in three core areas aligned to our longer-term strategic priorities: return on capital employed (25%), relative Total Shareholder Return (25%) and Group Profit Before Tax growth (50%). This means that EVA, EPS growth and organic revenue growth will no longer be directly reflected in our basket of measures.

Fees for the Chairman and non-executive directors

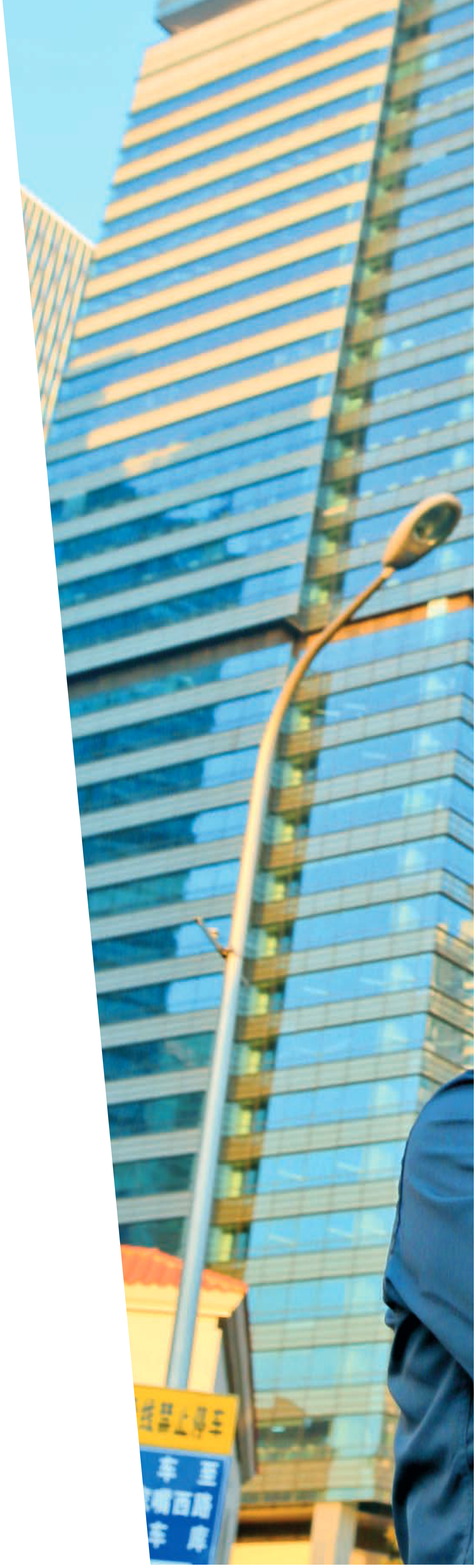
The Chairman and non-executive directors' remuneration is unchanged for 2015. A review of the non-executive directors' base fees, Committee Chairman and senior independent director fees will be carried out in 2015.

Share ownership for the Chairman and non-executive directors

The Chairman and non-executive directors are expected to hold some shares in IMI within a reasonable period after their appointment.

Financial Statements

In this section we set out our financial statements for the year ended 31 December 2014 in compliance with International Financial Reporting Standards.



Engineering GREAT the IMI Way

Main photo:
Edward Qiao and Caroline Zhu, from our IMI Hydronic Engineering China team stand in front of the Shanghai Tower – a recently realised project with STAF balancing valves and KTM pressure independent control valves

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FINANCE DIRECTOR'S INTRODUCTION

Introduction from Douglas Hurt

Dear Shareholder

Welcome to the financial statements section of our Annual Report, which will be my last as Finance Director of IMI plc ahead of my retirement and following the announcement of Daniel Shook as my successor. I have thoroughly enjoyed my nine years with the Group and I am proud of the progress that the Group has made over this time. I wish Daniel every success in the future.

My financial review commentary is set out in this section alongside the primary statements. These financial statements are presented with the primary statements first, followed by five sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'.

As previously reported, the Retail Dispense businesses were disposed of on 1 January 2014 and consequently their comparative results are shown as discontinued operations in the income statement, while their comparative assets and liabilities are presented as held for sale in the balance sheet.

Following our Strategic Review the Eley Group and AFP were both disposed of in the year. In addition, the Group acquired Bopp & Reuther for an enterprise value of €153m (£118m) on 2 January 2015.

Douglas Hurt
Finance Director

Introduction from Daniel Shook

Dear Shareholder

I am extremely pleased to be joining IMI.

Since joining it has been great to see how committed and passionate people are about the Group and its future. I have visited as much of the organisation as possible during my first two months.

It is clear that we really have a great foundation with which to grow and I look forward to working with everyone to achieve the longer term strategy that the Board, Mark and the Executive team have set out.

I would personally like to thank Douglas both for his support during the initial months and for handing me such a strong and dedicated organisation, a good set of results and strong balance sheet to build from.

I look forward to meeting many of you at the AGM in May 2015.

Daniel Shook
Finance Director Designate

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Notes to the financial statements provide additional information required by statute, accounting standards or the Listing Rules to explain a particular feature of the financial statements. The notes that follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the Annual Report and the financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014

	Notes	2014 Before exceptional items £m	2014 Exceptional items £m	2014 Total £m	2013 Before exceptional items £m	2013 Exceptional items £m	2013 Total £m
Revenue	2.1.1	1,686	6	1,692	1,744	(1)	1,743
Segmental operating profit	2.1	298.1		298.1	321.6		321.6
Reversal of net economic hedge contract losses/(gains)	2.2.1		3.9	3.9		(5.1)	(5.1)
Restructuring costs	2.2.2	(2.6)	(8.6)	(11.2)		(14.2)	(14.2)
Gains on special pension events	2.2.3		7.0	7.0		-	-
Impairment losses	2.2.4		(40.8)	(40.8)		-	-
Acquired intangible amortisation	2.2.4		(19.6)	(19.6)		(21.9)	(21.9)
Gains on disposal of subsidiaries	2.2.5		34.2	34.2		-	-
Acquisition and disposal costs	2.2.6		(1.8)	(1.8)		(9.9)	(9.9)
Operating profit		295.5	(25.7)	269.8	321.6	(51.1)	270.5
Financial income	4.3	1.1	15.1	16.2	4.2	20.2	24.4
Financial expense	4.3	(15.4)	(21.8)	(37.2)	(20.2)	(17.5)	(37.7)
Net finance charge relating to defined benefit pension schemes	4.5.3.3	(3.1)		(3.1)	(7.9)		(7.9)
Net financial (expense)/income		(17.4)	(6.7)	(24.1)	(23.9)	2.7	(21.2)
Profit before tax		278.1	(32.4)	245.7	297.7	(48.4)	249.3
Taxation	2.4.5	(61.2)	8.3	(52.9)	(65.5)	9.8	(55.7)
Profit from continuing operations after tax		216.9	(24.1)	192.8	232.2	(38.6)	193.6
Profit from discontinued operations after tax	2.5		478.5	478.5		33.4	33.4
Total profit for the year		216.9	454.4	671.3	232.2	(5.2)	227.0
Attributable to:							
Owners of the parent				668.5			223.9
Non-controlling interests	4.8			2.8			3.1
Profit for the year				671.3			227.0
Earnings per share	2.3						
Basic - from profit for the year				243.4p			71.0p
Diluted - from profit for the year				241.3p			70.1p
Basic - from continuing operations				69.2p			60.4p
Diluted - from continuing operations				68.6p			59.6p
Basic - from adjusted profit for the year				78.0p			72.6p
Diluted - from adjusted profit for the year				77.3p			71.7p

COMMENTARY ON THE CONSOLIDATED INCOME STATEMENT

Results summary (on continuing operations and before exceptional items)

Revenue decreased by 3% to £1,686m (2013: £1,744m). After adjusting for an adverse exchange rate impact of £96m and the contribution from acquisitions and disposals, the organic revenue increase was 2% despite more difficult market conditions.

Segmental operating profit was £298m, compared to £322m in 2013. At constant exchange rates and excluding acquisitions and disposals, segmental operating profit fell by 1%. The segmental operating margin was 17.7% (2013: 18.4%). Restructuring costs of £3m that arose from normal recurring cost reduction exercises have not been treated as exceptional.

Continuing net interest costs on net borrowings were £14m (2013: £16m). These were covered 27 times (2013: 21 times) by continuing earnings before interest, tax, depreciation and amortisation of £371m (2013: £332m), see the cash flow commentary on page 91 for further details of the EBITDA calculation. The net pension financing charge under IAS19 was £3m (2013: £8m).

Profit before taxation and exceptional items was £278m (2013: £298m) a decrease on the previous year of 7%. This measure will be used as a metric for the 2015 IMI Incentive Plan as discussed on page 63 of the Remuneration Report.

The effective tax rate for the Group before exceptional items remained at 22% (2013: 22%). The total tax charge for the year on continuing operations was £61m (2013: £66m) and continuing profit after tax was £217m (2013: £232m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with The IMI Way, which is explained further in section 2.4 on page 100.

Exceptional items

Operating profit was £270m (2013: £271m) after the deduction of exceptional items which are discussed below:

Reversal of net economic hedge contract losses/(gains)

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlements, are included in the segmental revenues and operating profit of the relevant business segment. The exceptional item at the operating level reverses this treatment and the loss of £4m (2013: gain of £5m).

Restructuring costs

Exceptional restructuring costs in the year were £9m (2013: £14m). The 2014 costs comprises £4m for the closure of IMI Components, announced in August 2014 and £5m on completion of IMI Norgren UK's factory move.

Pensions

During the year the UK Fund was split into two newly formed schemes, one for pensioners and one for deferred members resulting in a one-off settlement gain of £4m. In addition, the insurance buy-out of one of our Swedish schemes resulted in a further settlement gain of £3m.

Impairment and acquired intangible amortisation

The Group recorded exceptional impairment charges of £41m of which £27m is against Remosa and £1m is against IMI Components in Critical Engineering, £11m is against Analytical Flow Products ('AFP') in Precision Engineering, and £2m is for the impairment of legacy IT software as our Hydronic Engineering division implements a fully integrated ERP system. Acquired intangible amortisation decreased to £20m (2013: £22m).

Disposal of non-core businesses

During the year, the Group disposed of a number of subsidiaries which were considered to be non-core to the Group's strategy. On 4 October 2014 the Group disposed of Eley Limited, Eley Americas Inc and Accles & Shelvoke Limited (together 'Eley') for a cash consideration of £42m, resulting in a gain on disposal of £33m. The Group also disposed of its investment in AFP resulting in a gain on disposal of £1m. Neither of these businesses were considered to be a major class of business and therefore their results for the year and gains on disposal have been classified within continuing operations.

Acquisitions

On 2 January 2015 the Group announced the acquisition of Bopp & Reuther for €153m (£118m). Bopp & Reuther is a good strategic fit and it will significantly enhance IMI's presence in the growing power sector. Bopp & Reuther is very closely aligned with IMI Critical Engineering's existing large control valve business ('CCI') and therefore we expect to deliver strong synergies from the combination of the companies. Acquisition and disposal costs were £2m (2013: £10m) and primarily comprise £2m of fees associated with this acquisition.

Financing costs

A net charge arose on the revaluation of financial instruments and derivatives under IAS39 of £7m (2013: credit of £3m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Taxation

An exceptional tax credit of £8m (2013: £10m) arose in connection with business restructuring and other exceptional costs.

Profit from continuing operations after tax and exceptionals

Profit after taxation and exceptional items was £193m (2013: £194m).

Disposal of Retail Dispense businesses and discontinued operations

As previously reported, on 1 January 2014 our Retail Dispense businesses were sold to the Marmon Group, a Berkshire Hathaway company, for cash consideration of £691m resulting in a gain on disposal of £478m. Detail of discontinued operations is given in section 2.5 on page 103. The disposal proceeds were used to return £620m of cash to shareholders and invest £70m into the UK Pension Fund.

Earnings per share ('EPS')

Basic EPS was up 243% to 243.4p (2013: 71.0p) and diluted EPS was 241.3p (2013: 70.1p), both increasing as a result of the profit on disposal of the Retail Dispense businesses of £478m. The Board considers that a more meaningful indication of the underlying performance of the Group is provided by earnings before exceptional items after tax. Details of this calculation are given in section 2.3 to the Group financial statements on page 99. On this basis the adjusted EPS from continuing operations was 78.0p, an increase of 7% over last year's 72.6p. The increase is as a result of the 7 for 8 share consolidation, which occurred on 17 February 2014.

Corporate costs

In 2014 and prior years corporate costs have been allocated to each of the divisions to arrive at segmental operating profit. For our 2015 reporting and onwards we intend to separately disclose our corporate costs in our segmental information. This change will give greater transparency of the underlying segmental operating profits for each division. In section 2.1.1 we have included an analysis to show how the Group's 2014 segmental information would be presented on this new basis.

Exchange rates

The most important foreign currencies for the Group remain the Euro and the US Dollar and the relevant average rates of exchange for the consolidated income statement were:

	2014	2013
Euro	1.24	1.18
US dollar	1.65	1.56

The movement in average exchange rates between 2013 and 2014 resulted in our reported 2014 segmental revenue and segmental operating profit each being 6% lower as the average Euro and US Dollar rates against Sterling were 5% and 6% weaker, respectively.

If the exchange rates as at 16 February 2015 of US$1.54 and €1.35 were projected for the full year and applied to our 2014 results, it is estimated that segmental revenue and segmental operating profit would have been 3% lower and 1% lower respectively. In addition, we estimate that the recent strengthening of the Swiss Franc against the Euro if sustained would result in a further transactional foreign exchange headwind on operating profits in 2015 of around £6m, meaning that the total impact on operating profits is currently estimated to be around 3%.

Dividend

The Board has recommended a final dividend in respect of 2014 of 24.0p (2013: 22.5p) per share, an increase of 6.7% over the 2013 final dividend. This makes the total dividend for 2014 37.6p (2013: 35.3p). The cost of the final dividend is expected to be £65m (2013: £61m), leading to a total dividend cost of £102m (2013: £101m) in respect of the year ended 31 December 2014. Dividend cover based on adjusted earnings for the continuing businesses is 2.1 times (2013: 2.1 times).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014		2013	
	£m	£m	£m	£m
Profit for the year		671.3		227.0
Items reclassified to profit and loss in the year				
Foreign exchange gain reclassified to income statement on disposal of operations	(3.9)		-	
Realised gain on settlement of deal-contingent forward relating to disposal proceeds reclassified to income statement	(11.2)		-	
Related tax effect on items reclassified to profit and loss	2.4		-	
		(12.7)		-
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	3.6		3.4	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	(14.7)		(16.9)	
Change in fair value on deal-contingent forward relating to disposal proceeds	(3.0)		14.2	
Fair value gain/(loss) on available for sale financial assets	1.1		(0.5)	
Related tax effect on items that may subsequently be reclassified to profit and loss	1.0		(2.5)	
		(12.0)		(2.3)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement gain on defined benefit plans	16.6		41.4	
Related taxation effect in current year	(2.2)		(11.4)	
Taxation in relation to restructure of UK Pension Fund	(6.6)		-	
Effect of taxation rate change on previously recognised items	-		(9.9)	
		7.8		20.1
Other comprehensive (expense)/income for the year, net of taxation		(16.9)		17.8
Total comprehensive income for the year, net of taxation		654.4		244.8
Attributable to:				
Owners of the parent		651.6		241.7
Non-controlling interests		2.8		3.1
Total comprehensive income for the year, net of taxation		654.4		244.8

COMMENTARY ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Movements in shareholders' equity

Shareholders' equity at the end of 2014 was £509m (2013: £601m). Movements in shareholders' equity can be split into three categories:

- the profit for the year attributable to the equity shareholders of £669m (2013: £224m). This is discussed on the page opposite the income statement.
- other comprehensive income movements in the year reduced shareholders' equity by £17m (2013: increased £18m). These are discussed below.
- movements taken directly to equity in the year reduced shareholders' equity by £743m (2013: reduced £227m). These are discussed overleaf.

Other comprehensive income

When the Group makes unrealised gains or losses on assets and liabilities, upon disposal of the Retail Dispense businesses £4m of foreign exchange gains were recycled to the income statement.

The deal-contingent forward used to hedge the proceeds of the Retail Dispense disposal was revalued on 1 January 2014 which resulted in a reduction in the fair value of the derivative by £3m. Following the receipt of the proceeds a gain of £11m was realised in the income statement. The tax effect on items reclassified to profit and loss amounted to £2m.

When the Group makes unrealised gains or losses on assets and liabilities, instead of being recorded in the income statement, they are credited or charged to reserves and recorded in the statement of comprehensive income. In accordance with the amendment to IAS1, these items are allocated between those items that have been recycled to the income statement, those that may be recycled to the income statement and those items that may not be recycled to the income statement.

Any net investment hedge derivatives which have not settled by the year-end are marked to market on the balance sheet at the year-end and the movements are recorded in the hedging reserve. This movement is also included in other comprehensive income and in 2014, amounted to income of £4m (2013: £3m) including the related taxation effect.

The Group's foreign denominated net assets are translated into sterling using exchange rates prevailing at the year-end. To the extent that these differ from the rates used at the previous year-end to translate net assets at that date and from the average exchange rate used to translate foreign denominated income during the year, a difference on reserves arises. This is included in other comprehensive income, along with the settlement of net investment hedge derivatives and revaluations of foreign debt, which are used to protect the Group from this exposure. These items (including the related taxation effect) amounted to a loss of £13m in 2014 (2013: loss of £16m).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	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 2013	85.2	170.3	7.9	5.1	32.6	334.4	635.5	48.0	683.5
Profit for the year						223.9	223.9	3.1	227.0
Other comprehensive income/(expense)				13.9	(15.9)	19.8	17.8		17.8
Total comprehensive income/(expense)				13.9	(15.9)	243.7	241.7	3.1	244.8
Issue of share capital	0.1	1.5					1.6		1.6
Dividends paid						(106.2)	(106.2)	(0.1)	(106.3)
Share-based payments (net of tax)						16.8	16.8		16.8
Shares acquired for:									
employee share scheme trust						(24.2)	(24.2)		(24.2)
share buyback programme						(164.3)	(164.3)		(164.3)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2013	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5
Changes in equity in 2014									
Profit for the year						668.5	668.5	2.8	671.3
Other comprehensive income/(expense)				(8.3)	(17.1)	8.5	(16.9)		(16.9)
Total comprehensive income/(expense)				(8.3)	(17.1)	677.0	651.6	2.8	654.4
Issue of share capital	0.1	1.8					1.9		1.9
Issue of 'B' shares - capital option	151.9	(151.9)					-		-
Issue of 'C' shares - income option	10.9	(10.9)					-		-
Redemption of 'B' and 'C' shares	(162.8)		162.8			(162.8)	(162.8)		(162.8)
Cancellation of treasury shares	(3.7)		3.7				-		-
Dividends paid on 'C' shares						(457.5)	(457.5)		(457.5)
Dividends paid						(97.3)	(97.3)	(0.2)	(97.5)
Share-based payments (net of tax)						3.2	3.2		3.2
Shares acquired for:									
employee share scheme trust						(30.7)	(30.7)		(30.7)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2014	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1

Movements in available-for-sale assets, which are principally used to fund defined benefit obligations in the US, are also recorded in other comprehensive income and amounted to a gain of £1m (2013: nil) including the related taxation effect.

Actuarial movements in the Group's defined benefit pension obligations are also recorded in other comprehensive income. These movements are explained in detail in section 4.5 on page 123. Together with the taxation effect, the gain in the year was £14m (2013: gain of £20m). A deferred taxation asset of £7m was reversed in relation to the Group's restructure of the UK Pension Fund.

Items recognised directly in equity

Movements in reserves which represent transactions with the shareholders of the Group are recognised directly in equity rather than in the income statement or through other comprehensive income.

0.4m (2013: 0.3m) shares were issued during the year, realising £2m (2013: £2m) in the share capital and share premium account.

The 2013 final dividend of 22.5p (2013: 20.7p) per share and the 2014 interim dividend of 13.6p (2013: 12.8p) per share were paid during the year, which reduced equity by £97m (2013: £106m).

Effect of the return of cash on shareholders' equity

The B and C Share Scheme was accompanied by a share consolidation, which is a commonly used arrangement to ensure that the Group's share price after the return of capital is broadly equivalent to the share price prior to the return of capital, which ensures that targets and prices in the Group's various share-based remuneration schemes remain appropriate. The costs of the interim dividend, final dividend and dividend cover have therefore been calculated on the number of shares held on the record date, on a post-consolidation basis. The return of cash resulted in a reduction in retained earnings of £620m.

The credit for share-based payments, which reverses the amount charged through the income statement in the year, thereby deferring the reduction in reserves until such time as the options are exercised, is also recognised here, which together with its tax credit, amounted to £3m (2013: £17m).

The charge to reserves relating to the purchase of shares by the employee trust to satisfy share options, net of amounts received from employees representing the price on exercise for those options was £31m (2013: £24m), refer to section 4.6 for more information.

CONSOLIDATED BALANCE SHEET
At 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Intangible assets	3.2	367.7	430.3
Property, plant and equipment	3.3	226.5	222.8
Employee benefit assets	4.5	60.2	0.3
Deferred tax assets	2.4.7	21.3	43.9
Other receivables		6.0	6.3
Other financial assets	4.4.6	-	0.2
Total non-current assets		681.7	703.8
Inventories	3.1.2	226.3	245.5
Trade and other receivables	3.1.1	368.9	345.3
Other current financial assets	4.4.6	10.5	22.2
Current tax		14.9	3.4
Investments	4.4.6	26.9	20.2
Cash and cash equivalents	4.1	43.8	71.7
Total current assets		691.3	708.3
Assets in disposal group held for sale		-	289.4
Total assets		1,373.0	1,701.5
Liabilities			
Bank overdraft	4.1	(23.0)	(7.9)
Interest-bearing loans and borrowings	4.2	(2.0)	(80.8)
Provisions	3.6	(22.7)	(20.1)
Current tax		(42.6)	(52.9)
Trade and other payables	3.1.3	(333.9)	(355.6)
Other current financial liabilities	4.4.6	(9.2)	(3.1)
Total current liabilities		(433.4)	(520.4)
Liabilities associated with disposal group held for sale		-	(77.3)
Interest-bearing loans and borrowings	4.2	(218.8)	(208.9)
Employee benefit obligations	4.5	(94.9)	(158.2)
Provisions	3.6	(16.4)	(18.8)
Deferred tax liabilities	2.4.7	(27.2)	(34.3)
Other payables		(28.2)	(36.1)
Total non-current liabilities		(385.5)	(456.3)
Total liabilities		(818.9)	(1,054.0)
Net assets		554.1	647.5
Equity			
Share capital	4.6.1	81.7	85.3
Share premium		10.8	171.8
Other reserves		184.7	43.6
Retained earnings		232.1	300.2
Equity attributable to owners of the parent		509.3	600.9
Non-controlling interests	4.8	44.8	46.6
Total equity		554.1	647.5

Approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

Roberto Quarta
Chairman

COMMENTARY ON THE CONSOLIDATED BALANCE SHEET

Net debt

Net debt at the year-end was £200m compared to £199m at the end of the previous year (including net cash of £27m shown as held for sale in 2013). The net debt is composed of a cash balance of £44m (2013: £100m), a bank overdraft of £23m (2013: £9m) and interest-bearing loans and borrowings of £221m (2013: £290m). The year-end net debt to EBITDA ratio was 0.5 times (2013: 0.5 times) based on continuing net debt and EBITDA and was 0.6 times excluding disposal gains and one-off pension gains from the continuing EBITDA. Following the repayment of US$30m during the year, at the end of 2014 the US loan notes totalled £218m (2013: £225m), with a weighted average maturity of 3.4 years (2013: 4.1 years) and other loans including bank overdrafts totalled £26m (2013: £74m). Total committed bank loan facilities available to the Group at the year-end were £272m (2013: £275m), of which £nil (2013: £60m) was drawn.

Intangible assets

The value of the Group's intangible assets decreased to £368m at 31 December 2014 (2013: £430m). Additions to intangible assets were £18m (2013: £8m), including £10m of IT related capital expenditure which partly offset the continuing amortisation charge, foreign exchange movements and disposals. The impairment charge for the year was £43m.

Property, plant and equipment ('PPE')

The net book value of the Group's PPE at 31 December 2014 was £227m (2013: £223m). Capital expenditure on PPE amounted to £53m (2013: £42m), with significant capital expenditure on our new sites in Korea and Houston in the Critical Engineering division. Including capitalised intangible assets, total capital expenditure was £71m (2013: £53m) and was 1.9 times (2013: 1.2 times) the depreciation and amortisation charge (excluding acquired intangible amortisation) for the year of £38m (2013: £44m).

Working capital

The working capital movements during the year are discussed in the narrative opposite the consolidated cash flow statement, where the cash movements in these balances are shown, including movements on the components of working capital included in assets and liabilities held for sale.

Pensions

The Group has 64 (2013: 74) defined benefit obligations in existence as at 31 December 2014. The main cause of the movement in the year is the ten schemes divested with the Retail Dispense businesses on 1 January 2014. The Group recognises there is a funding and investment risk inherent within defined benefit arrangements and seeks to continue its programme of closing overseas defined benefit plans where they are neither mandatory nor an operational necessity and providing in their place appropriate defined contribution arrangements.

The net liability for defined benefit obligations at 31 December 2014 was £35m (2013: £158m). The UK surplus was £60m as at 31 December 2014 (2013: deficit of £63m) and constituted 84% (2013: 83%) of the total defined benefit liabilities and 90% (2013: 89%) of the total defined benefit assets. The improvement in the UK Funds in 2014 principally arose from additional cash contributions of £70m, actuarial gains of £50m and a one-off reduction in the defined benefit obligation as a result of splitting the scheme.

The deficit in the overseas funds as at 31 December 2014 was unchanged at £95m (2013: £95m).

Details of movements in actuarial assumptions are discussed in section 4.5.

Foreign exchange and interest rate risk

Further information on how the Group manages its exposure to these financial risks is shown in section 4.4 of the financial statements on page 114. The most important foreign currencies for the Group remain the euro and the US dollar and the relevant closing rates of exchange for the balance sheet were:

	As at 31 December	
	2014	2013
Euro	1.29	1.20
US dollar	1.56	1.65

Economic value added

Economic value added ('EVA') is defined as segmental operating profit (before exceptional items) after tax less a capital charge. The capital charge is arrived at by applying the after-tax weighted average cost of capital to the average invested capital. Invested capital is defined as net assets plus net debt, accumulated acquired intangible amortisation previously written off, the IAS19 pension deficit (net of deferred tax) and exceptional items in the balance sheet (being restructuring provisions and net derivative liabilities).

For 2014 the segmental operating profit was £298m (2013: £322m), and after applying the effective tax rate on pre-exceptional profits of 22% (2013: 22%) the net operating profit after tax ('NOPAT') was therefore £233m (2013: £251m).

The Group's invested capital at the end of 2014 was £1,268m (2013: £1,271m) comprising £577m (2013: £574m) of adjusted net assets, £491m (2013: £471m) of acquired intangible amortisation and goodwill previously written off to reserves and £200m (2013: £226m) net debt. The average invested capital was £1,269m (2013: £1,276m). Applying the 2014 WACC of 9.0% (2013: 8.0%) to the average invested capital gives a charge of £114m (2013: £102m). The economic value added in 2014 was therefore £118m (2013: £149m) a reduction of 21%.

Return on invested capital

Post tax return on invested capital ('ROIC') from continuing operations was 18.3% compared to 19.7% in 2013.

Share price and shareholder return

The share price at 31 December 2014 was £12.63 (2013: £15.25) and the average for the year was £14.02 (2013: £13.47) representing a decrease of 17% and an increase of 4% respectively. Based on the 2014 average share price, the proposed total dividend of 37.6p represents a yield of 2.7%.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	2014 £m	2013 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	269.8	270.5
Operating profit for the year from discontinued operations	1.0	73.0
Adjustments for:		
Depreciation and amortisation	57.6	66.3
Impairment of property, plant and equipment and intangible assets	43.5	1.3
Gain on disposal of subsidiaries	(34.2)	-
Gain on special pension events	(7.0)	-
Loss on sale of property, plant and equipment	1.2	0.8
Equity-settled share-based payment expense	4.4	11.2
Decrease in inventories	5.8	1.4
Increase in trade and other receivables	(37.7)	(10.0)
Decrease in trade and other payables	(18.9)	(17.0)
Decrease in provisions and employee benefits	(13.7)	(1.2)
Cash generated from the operations	271.8	396.3
Income taxes paid	(67.2)	(41.7)
Cash generated from the operations after tax	204.6	354.6
Additional pension scheme funding - UK and overseas	(87.0)	(35.3)
Net cash from operating activities	117.6	319.3
Cash flows from investing activities		
Interest received	1.1	4.4
Proceeds from sale of property, plant and equipment	1.1	2.3
Purchase of investments	(3.6)	(0.3)
Settlement of transactional derivatives	(0.2)	3.8
Settlement of currency derivatives hedging balance sheet	36.7	(6.0)
Acquisitions of controlling interests	-	(7.8)
Acquisition of property, plant and equipment and non-acquired intangibles	(70.8)	(53.4)
Proceeds from disposal of subsidiaries net of cash	696.3	-
Net cash from investing activities	660.6	(57.0)
Cash flows from financing activities		
Interest paid	(15.4)	(20.4)
Payment to non-controlling interest	(4.4)	(4.4)
Shares acquired for employee share scheme trust	(30.7)	(24.2)
Share buyback programme including acquisition expenses	-	(164.3)
Proceeds from the issue of share capital for employee share schemes	1.9	1.6
Net (repayment)/drawdown of borrowings	(80.7)	51.0
Dividends paid to equity shareholders and non-controlling interest	(97.5)	(106.3)
Return of cash to equity shareholders	(620.3)	-
Net cash from financing activities	(847.1)	(267.0)
Net decrease in cash and cash equivalents	(68.9)	(4.7)
Cash and cash equivalents at the start of the year	90.3	96.5
Effect of exchange rate fluctuations on cash held	(0.6)	(1.5)
Cash and cash equivalents at the end of the year*	20.8	90.3

* Net of bank overdrafts of £23.0m (2013: £9.6m). Cash and cash equivalents at 31 December 2013 includes £28.7m of cash and £1.7m of overdrafts in respect of assets and liabilities held for sale.

Notes to the cash flow appear in section 4.1.

COMMENTARY ON THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of EBITDA to movement in net debt

The Group's consolidated statement of cash flows is shown on the opposite page, which reconciles the operating profit for the year to the change in cash and overdrafts in the balance sheet as required for financial reporting purposes.

However, because the Group's debt financing also includes other interest-bearing liabilities, it is more insightful to consider the effect of the transactions in the year on the net debt in the balance sheet. Accordingly, a reconciliation between EBITDA and net debt is shown in the column opposite, upon which this section provides commentary.

Operating cash flow

The operating cash flow for continuing operations was £205m (2013: £283m). This represents a conversion rate of total Group segmental operating profit after restructuring costs of £287m into operating cash flow of 71% (2013: 92%).

Net working capital balances increased by £51m (2013: £26m) during the year. Payables decreased by £19m (2013: £17m) due to the timing of payments to suppliers, receivables increased by £38m (2013: £10m) and inventories decreased by £6m (2013: £1m) as the benefits of lean activities start to accrue in the business.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £71m (2013: £53m) which was equivalent to 1.9 times (2013: 1.2 times) depreciation and amortisation thereon.

Continuing research and development spend including capitalised intangible development costs of £6m (2013: £3m) totalled £52m (2013: £53m).

In 2014 the Group paid tax of £67m (2013: £42m) which was 109% (2013: 64%) of the underlying tax charge for the year. This reflects the timing of estimated tax payments on account. In addition, there was a £37m cash inflow (2013: outflow £6m) following the settlement of currency derivatives hedging the balance sheet.

After payment of interest and tax, the free cash flow generated from operations was £154m (2013: £285m).

Free cash flow before corporate activity

As noted in the balance sheet commentary, £70m of pension contributions were made into the UK Pension Funds and a further £17m payment was also made in Sweden. Free cash flow before corporate activity was £67m (2013: £250m).

Net cash outflow (excluding debt movements)

Dividends paid to shareholders totalled £98m (2013: £106m) and there was a cash outflow of £29m (2013: £23m) for net share purchases to satisfy employee share options. Disposal of subsidiaries resulted in cash inflows of £725m which were primarily used to fund the return of cash of £620m and the £70m UK pension contribution.

The total net cash inflow (excluding debt movements) was £41m (2013: outflow of £56m).

Closing net debt

The opening net debt was £199m (2013: £144m). There were exchange rate losses of £12m (2013: £3m gains), principally on US dollar-denominated borrowings. After the net cash inflow in the year of £41m (2013: £56m outflow) and cash disposed of £29m closing net debt was £200m (2013: £199m).

Movement in Net Debt	2014 £m	2013 £m
EBITDA* from continuing operations	370.9	331.5
Working capital movements	(50.8)	(16.5)
Capital and development expenditure	(70.8)	(45.0)
Gain on disposal of subsidiaries	(34.2)	-
Gain on special pension events	(7.0)	-
Other	(3.0)	13.0
Operating cash flow from continuing operations	205.1	283.0
EBITDA from discontinued operations	1.0	79.6
Working capital movements	-	(9.1)
Capital and development expenditure	-	(8.4)
Other	(7.6)	(0.2)
Operating cash flow from discontinued operations	(6.6)	61.9
Operating cash flow**	198.5	344.9
Tax paid	(67.2)	(41.7)
Interest/derivatives	22.2	(18.2)
Operating cash flow after interest and tax	153.5	285.0
Additional pension scheme funding - UK	(70.0)	(33.6)
Additional pension scheme funding - overseas	(17.0)	(1.7)
Free cash flow before corporate activity	66.5	249.7
Acquisitions	-	(7.8)
Dividends paid to equity shareholders and non-controlling interest	(97.5)	(106.3)
Return of cash	(620.3)	-
Disposal of subsidiaries	725.3	-
Payment to non-controlling interest	(4.4)	(4.4)
Share buyback programme	-	(164.3)
Net purchase of own shares	(28.8)	(22.6)
Net cash flow (excluding debt movements)	40.8	(55.7)
Opening net debt	(199.4)	(143.8)
Net cash disposed	(29.0)	-
Debt acquired	-	(2.5)
Foreign exchange translation	(12.4)	2.6
Closing net debt	(200.0)	(199.4)

* Earnings before interest (£24m), tax (£53m), depreciation (£33m), amortisation (£25m) and impairment (£44m).

** Operating cash flow is the cash generated from the operations shown in the consolidated statement of cash flows less cash spent acquiring property, plant and equipment, other non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments.

SECTION 1 – BASIS OF PREPARATION

1.1 Introduction

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 and these are presented on pages 149 to 152. The financial statements were approved by the Board of Directors on 26 February 2015.

1.2 Restatements and changes in accounting estimates

Restatement in respect of other payables

The Group pays taxes in various countries which requires the interpretation of complex tax laws in these jurisdictions. Accordingly, both the amounts expected to be payable and the period in which settlement is likely to be made are reassessed from time to time. During the current year, the Group performed a review of its disclosure of the related tax liabilities, including when payment was due, and has determined that amounts previously classified within other payables - non-current liabilities of £35m at 31 December 2013 would be more appropriately included in current tax. Comparatives have been reclassified to reflect this change in presentation.

1.3 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; financial assets and liabilities identified as hedged items; and assets and liabilities acquired through business combinations.

Non-current assets and liabilities held for sale are stated at the lower of their carrying amounts and their fair values less costs to sell.

The policies described in this section and in the accompanying sections have been applied consistently throughout the Group for the purposes of these consolidated financial statements except as discussed below. Refer to section 5.4 for the Group's significant accounting policies.

i) New or amended EU Endorsed Accounting Standards adopted by the Group during 2014

The following amended standards were adopted in these financial statements during 2014, none of which had any impact:

- IAS36 'Impairment of Assets'
- IAS32 'Financial Instruments: Presentation'
- IAS39 'Financial Instruments: Recognition and Measurement'
- IFRIC21 'Levies'

ii) Issued Accounting Standards which are not effective for the year ended 31 December 2014 and are not yet endorsed by the EU

The IASB and IFRIC have issued a number of new accounting standards and amendments with an effective date after the date of these financial statements. The following new standards in particular are expected to have an impact on the Group although the Group is yet to assess the full impact.

- IFRS9 'Financial Instruments' (2014)

A finalised version of IFRS9 was issued in July 2014, incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition. The Group is yet to assess the full impact of IFRS9. The standard will be adopted from 1 January 2018.

- IFRS15 'Revenue from Contracts with Customers' (2017)

IFRS15 provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The Group is yet to assess IFRS15's full impact. The standard will be adopted from 1 January 2017.

SECTION 2 – RESULTS FOR THE YEAR

What you will find in this section

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, including segmental information, exceptional items, taxation and earnings per share.

2.1 Segmental operating profit

Organic revenue growth and operating profit are the two short-term key performance indicators or measures that reflect the way the performance of the Group is managed and monitored by the Executive Committee. In this section the key constituents of these two KPI's, being the Group's revenues and segmental operating profits, are analysed by reference to the performance and activities of the Group's segments and their operating costs.

Organic revenue growth is the growth in segmental revenues on a like-for-like basis excluding the effects of acquisitions, disposals and exchange rate movements.

2.1.1 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 and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. Inter-segment revenue is insignificant. The Group did comprise the following five operating segments and activities, but as discussed earlier in these financial statements, the Retail Dispense businesses were disposed of on 1 January 2014 and consequently their comparative results are shown as discontinued operations in the income statement, while their comparative assets and liabilities are presented as held for sale in the balance sheet.

Continuing operations

IMI Critical Engineering
IMI Critical Engineering provides flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently. Our products control the flow of steam, gas and liquids in harsh environments and are designed to withstand temperature, and pressure extremes, as well as intensely abrasive or corrosive cyclical operations.

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

IMI Hydronic Engineering
IMI Hydronic Engineering is a leading provider of technologies that deliver operational and energy efficient water-based heating and cooling systems for the residential and commercial building sectors.

Retail Dispense – discontinued operations

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 permanent point of purchase display systems for brand owners and retailers.

Performance is measured based on segmental operating profit which is the profit reported by the business, stated before exceptional items and other restructuring costs (see section 2.2).

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 revenue and profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Corporate costs
In 2014 and prior years corporate costs have been allocated to each of the divisions to arrive at segmental operating profit. Whilst our corporate costs do not meet the definition of an operating segment under IFRS8 'Operating Segments', for 2015 reporting and onwards we will separately disclose corporate costs before arriving at segmental operating profit so that reporting is consistent with the format that will be used for review by the chief operating decision-maker from 1 January 2015. A table to illustrate how the Group's 2014 segmental operating profit would have been presented on the new basis has been included on the next page.

SECTION 2 – RESULTS FOR THE YEAR
Continued

The following table illustrates how the results for the segments reconcile to the overall results reported in the income statement.

	Revenue		Operating profit		Operating margin	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 %	2013 %
Continuing operations						
IMI Critical Engineering	692	716	119.8	116.8	17.3%	16.3%
IMI Precision Engineering	710	723	126.4	140.5	17.8%	19.4%
IMI Hydronic Engineering	284	305	51.9	64.3	18.3%	21.1%
Total continuing segmental revenue/operating profit/operating margin	1,686	1,744	298.1	321.6	17.7%	18.4%
Restructuring costs (non-exceptional)			(2.6)	-		
Total segmental revenue/operating profit/operating margin after non-exceptional restructuring	1,686	1,744	295.5	321.6	17.5%	18.4%
Reversal of net economic hedge contract losses/(gains)	6	(1)	3.9	(5.1)		
Restructuring costs (exceptional)			(8.6)	(14.2)		
Gains on special pension events			7.0	-		
Impairment losses			(40.8)	-		
Acquired intangible amortisation			(19.6)	(21.9)		
Gains on disposal of subsidiaries			34.2	-		
Acquisition and disposal costs			(1.8)	(9.9)		
Total revenue/operating profit reported	1,692	1,743	269.8	270.5		
Net financial expense			(24.1)	(21.2)		
Profit before tax from continuing operations			245.7	249.3		
Retail Dispense - discontinued operations						
Beverage Dispense	-	337	-	51.2	-	15.2%
Merchandising	-	174	-	29.8	-	17.1%
Discontinued segmental revenue/operating profit	-	511	-	81.0	-	15.9%
Total Group revenue/operating profit	1,686	2,255	298.1	402.6	17.7%	17.9%

As explained on the previous page, the following table illustrates how the Group's 2014 segmental reporting would be presented on the new basis to be used for our 2015 reporting.

	Revenue 2014			Operating profit 2014			Operating margin 2014		
	First half £m	Second half £m	Total £m	First half £m	Second half £m	Total £m	First half %	Second half %	Total %
Continuing operations									
IMI Critical Engineering	315	377	692	56.1	75.3	131.4	17.8%	20.0%	19.0%
IMI Precision Engineering	355	355	710	69.4	69.1	138.5	19.5%	19.5%	19.5%
IMI Hydronic Engineering	139	145	284	25.8	31.0	56.8	18.6%	21.4%	20.0%
Corporate Costs				(14.1)	(14.5)	(28.6)			
Total continuing segmental revenue/ operating profit/ operating margin	809	877	1,686	137.2	160.9	298.1	17.0%	18.3%	17.7%

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

	Revenue				Operating profit			
	IMI Critical Engineering £m	IMI Precision Engineering £m	IMI Hydronic Engineering £m	Total £m	IMI Critical Engineering £m	IMI Precision Engineering £m	IMI Hydronic Engineering £m	Total £m
31 December 2013	716	723	305	1,744	116.8	140.5	64.3	321.6
Organic growth	16	25	(2)	39	10.6	(3.8)	(9.1)	(2.3)
Movement in foreign exchange	(37)	(40)	(19)	(96)	(6.9)	(7.6)	(3.3)	(17.8)
Impact of acquisitions and disposals	(3)	2	-	(1)	(0.7)	(2.7)	-	(3.4)
31 December 2014	692	710	284	1,686	119.8	126.4	51.9	298.1
Organic growth %	2%	4%	-1%	2%	10%	-3%	-15%	-1%

The following table illustrates how the segmental assets and liabilities reconcile to the overall total assets and liabilities reported in the balance sheet.

	Assets		Liabilities	
	2014 £m	2013 £m	2014 £m	2013 £m
Continuing operations	1,170.5	1,239.4	321.3	342.7
IMI Critical Engineering	590.2	642.4	183.6	187.3
IMI Precision Engineering	430.6	434.6	91.9	102.9
IMI Hydronic Engineering	149.7	162.4	45.8	52.5
Retail Dispense (Classified as held for sale in 2013)	-	257.1	-	61.6
Beverage Dispense	-	158.4	-	37.3
Merchandising	-	98.7	-	24.3
Total segmental assets/liabilities	1,170.5	1,496.5	321.3	404.3
Corporate items	17.4	32.4	71.4	79.8
Employee benefits	60.2	0.3	94.9	159.0
Investments	26.9	20.3	-	-
Net debt items	43.8	99.9	243.8	299.3
Net taxation and others	54.2	52.1	87.5	111.6
Total assets and liabilities in Group balance sheet	1,373.0	1,701.5	818.9	1,054.0

The table above includes the following assets and liabilities classified as held for sale:

	Assets		Liabilities	
	2014 £m	2013 £m	2014 £m	2013 £m
Total segmental assets/liabilities held for sale	-	257.1	-	61.6
Employee benefits	-	-	-	0.8
Investments	-	0.1	-	-
Net taxation and others	-	32.2	-	14.9
Total assets/liabilities held for sale (section 2.5)	-	289.4	-	77.3

The following table includes other information to show how certain elements of cost reported in the income statement are allocated between the segments of the Group. The comparative restructuring costs, depreciation and amortisation for the Retail Dispense businesses were reported in discontinued operations and the capital expenditure for these businesses was included in assets held for sale at 31 December 2013.

	Restructuring costs*		Capital Expenditure		Amortisation**		Depreciation	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Continuing operations	11.2	14.2	65.3	44.8	24.6	27.1	32.5	33.5
IMI Critical Engineering	5.1	2.1	27.0	14.9	18.8	20.4	10.6	10.8
IMI Precision Engineering	5.8	8.8	25.6	22.9	4.3	5.2	15.3	15.8
IMI Hydronic Engineering	0.3	3.3	12.7	7.0	1.5	1.5	6.6	6.9
Retail Dispense - discontinued operations	-	3.0	-	8.4	-	1.3	-	3.9
Beverage Dispense	-	1.7	-	6.7	-	1.3	-	3.4
Merchandising	-	1.3	-	1.7	-	-	-	0.5
Subtotal	11.2	17.2	65.3	53.2	24.6	28.4	32.5	37.4
Corporate	-	-	5.5	0.2	-	-	0.5	0.5
Total	11.2	17.2	70.8	53.4	24.6	28.4	33.0	37.9

* Restructuring costs in 2014 include both exceptional and non-exceptional.

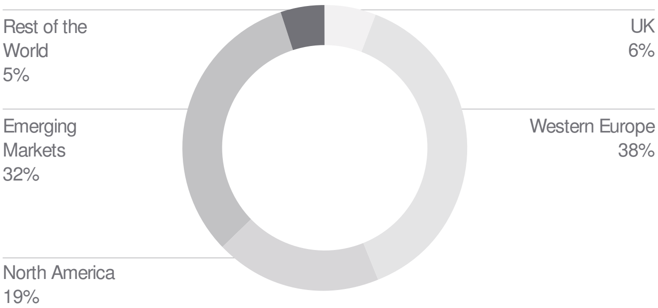
** The amortisation figures above include the amortisation of acquired intangibles. £17.2m (2013: £18.9m) is included in respect of Critical Engineering, £2.1m (2013: £2.7m) is included in respect of Precision Engineering and £0.3m (2013: £0.3m) is included in respect of Hydronic Engineering.

SECTION 2 – RESULTS FOR THE YEAR
Continued

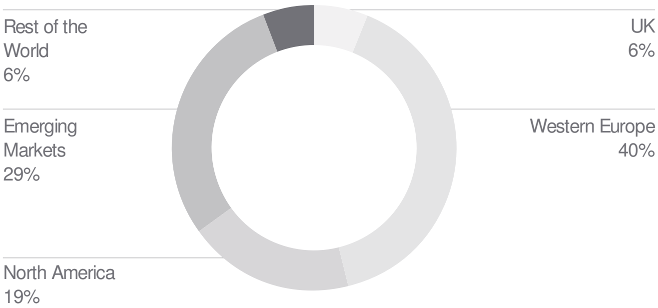
The following table shows a geographical analysis of how the Group's revenue is derived by destination.

	Continuing Segmental Revenue 2014 £m	Continuing Segmental Revenue 2013 £m	Discontinued Operations 2013 £m	Total 2013 £m
UK	98	104	38	142
Germany	235	247	23	270
Other Western Europe	409	439	30	469
Western Europe	644	686	53	739
USA	300	314	346	660
Canada	18	24	7	31
North America	318	338	353	691
Emerging Markets	544	504	60	564
Rest of World	82	112	7	119
Total segmental revenue	1,686	1,744	511	2,255
Reversal of economic hedge contract losses/(gains)	6	(1)	-	(1)
Total	1,692	1,743	511	2,254

Continuing revenue by destination (2014)



Continuing revenue by destination (2013)



The following table shows a geographical analysis of the location of the Group's property, plant and equipment and intangible assets ('PPE&IA') and assets held for sale ('AHFS').

	Total 2014 £m	PPE&IA 2013 £m	AHFS 2013 £m	Total 2013 £m
UK	77.0	69.7	41.9	111.6
Germany	130.9	147.0	3.3	150.3
Rest of Europe	208.2	254.1	1.0	255.1
USA	123.6	114.2	89.3	203.5
Asia Pacific	35.4	32.4	3.2	35.6
Rest of World	19.1	35.9	0.5	36.4
Total	594.2	653.3	139.2	792.5

2.1.2
Operating costs by function

The following table is included to show how much of the operating costs deducted from revenue to arrive at the Group's post-exceptional operating profit, relate to cost of sales, selling and distribution costs, administrative expenses and exceptional items.

	2014 £m	2013 £m
Segmental revenue	1,686.0	1,744.0
Cost of sales	(919.6)	(948.8)
Segmental gross profit	766.4	795.2
Selling and distribution costs	(211.5)	(220.0)
Administrative expenses	(256.8)	(253.6)
Restructuring costs	(2.6)	-
Operating profit before exceptional items	295.5	321.6
Exceptional items*	(25.7)	(51.1)
Operating profit	269.8	270.5

* The exceptional costs are analysed in detail in section 2.2.

2.1.3
Specific elements of operating costs

Certain specific items of operating expenses are disclosed to provide the reader of financial statements with more information regarding these costs. This section provides this analysis.

2.1.3.1 Employee information

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

	2014	2013
IMI Critical Engineering	3,971	3,845
IMI Precision Engineering	5,748	5,760
IMI Hydronic Engineering	1,878	1,926
Corporate	151	176
Total continuing	11,748	11,707
Retail Dispense	-	2,759
Total Group	11,748	14,466

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

	2014 £m	2013 £m
Wages and salaries*	436.7	514.8
Share based payments	4.4	11.2
Social security costs	84.3	88.0
Pension costs**	10.1	16.1
Total	535.5	630.1

* Wages and salaries include £nil (2013: £1.0m) for contingent consideration payments to the vendors of AFP and NPSL.

** In 2014, pension costs above include the £3.5m gain on settlement of one of our Swedish pension schemes but exclude the gain of £3.5m arising from the split of the UK Pension Fund as this amount is in respect of former employees. Both items were disclosed as exceptional items, see section 2.2.3.

The aggregate gains made by directors on the exercise of share options was £10.6m (2013: £13.4m). The remuneration, as defined in the Companies Act 2006 Schedule 5, for the executive directors' comprises fixed and annual variable pay as set out in the table on page 69 of the Remuneration Report. For details of the non-executive directors' remuneration please refer to page 77 of the Remuneration Report.

2.1.3.2 Operating lease charges and operating lease commitments

The Group enters into leases for property, plant and equipment assets when doing so represents a more cost-effective or lower risk option than purchasing them. This leads to an income statement charge for the year and future commitments for the Group in respect of these leases.

Continuing operating costs include a charge of £14.4m (2013: £14.3m) relating to the lease of properties and a charge of £7.8m (2013: £7.1m) relating to the lease of plant and machinery. The continuing commitments in respect of non-cancellable operating leases in place are shown in the following table by time period:

	2014		2013	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	13.4	7.5	14.3	6.7
In the second to fifth year	41.3	10.8	41.6	11.1
After five years	35.0	1.5	34.0	2.0
	89.7	19.8	89.9	19.8

The comparative disclosures above exclude commitments for the Retail Dispense businesses, which the Group disposed of on 1 January 2014.

2.1.3.3 Research and development expenditure

The continuing cost of research and development expenditure charged directly to the income statement was £45.4m (2013: £50.0m). In addition, amortisation of capitalised intangible development costs amounted to £2.3m (2013: £2.1m) and across the Group a further £6.4m (2013: £3.3m) was capitalised.

2.1.3.4 Exchange gains on operating activities net of hedging arrangements

The transactional foreign exchange losses in the Group were £1.8m (2013: gains of £0.6m).

SECTION 2 – RESULTS FOR THE YEAR
Continued

2.1.3.5 Audit Fees

The Group engages its auditor, EY, to perform assignments in addition to their statutory audit duties where their expertise, experience and knowledge of the Group should enable them to perform these assignments more efficiently than other similar service providers.

The Group's policy on such assignments is set out in the Audit Committee Report on page 53. Fees earned by EY and its associates during the year are set out below:

	2014	2013		
	Continuing Business £m	Continuing Business £m	Discontinued Business £m	Total £m
Fees earned by the Company's auditor for the audit of the Company's annual accounts	0.2	0.2	-	0.2
The audit of the Company's subsidiaries, pursuant to legislation	2.5	2.6	0.5	3.1
Tax compliance services	0.3	0.1	-	0.1
Other assurance services	-	0.1	-	0.1
Total	3.0	3.0	0.5	3.5

2.2 Exceptional items

The Group uses the exceptional items category in the income statement to classify separately items of both income and expense which are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to gain a better understanding of the underlying performance of the Group.

The following items are considered to be exceptional in these financial statements.

2.2.1 Reversal of net economic hedge contract losses/gains

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlement, are included in the segmental revenues and operating profit of the relevant business segment. The exceptional items at the operating level reverse this treatment. The financing exceptional items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted. The former comprised a reversal of a loss of £3.9m (2013: reversal of gain of £5.1m) and the latter amounted to a loss of £6.7m (2013: gain of £2.7m).

2.2.2 Restructuring costs

The restructuring costs treated as exceptional of £8.6m (2013: £14.2m) include £4.2m costs for the closure of IMI Components, announced in August 2014 and £4.4m on the completion of the IMI Norgren UK factory move. Other restructuring costs of £2.6m have been charged below segmental operating profit and included in the underlying operating profit as, based on their quantum, they do not meet our definition of exceptional items.

2.2.3 Gains on special pension events

As described on page 125, the UK Fund was split into two newly formed schemes one for pensioners and one for deferred members resulting in a one-off settlement gain of £3.5m. In addition, the insurance buy-out of one of our Swedish schemes resulted in a further settlement gain of £3.5m. Both of these gains have been treated as exceptional items.

2.2.4 Impairment losses and acquired intangible amortisation

As reported at the half-year and prior to its disposal in October 2014 (see 3.5), due to reduced expectations for the future performance of AFP, the Group carried out a review of the recoverable amount of the business. Alongside this, we also reassessed the amounts to be paid based on the business's performance in the three to five years following the acquisition. This review led to the recognition of an exceptional net impairment loss of £10.8m, partially offset by a deferred tax credit of £3.8m.

As reported on page 106, following completion of the Group's annual impairment review an exceptional impairment loss has been recorded for £26.9m reflecting a deterioration in the current trading base of Remosa.

Additional exceptional impairment losses were recognised of £1.1m on announcement of the proposed closure of IMI Components and £2.0m for the impairment of legacy IT software as Hydronic Engineering implements a new ERP system.

An analysis by segment of acquired intangible amortisation is included in section 2.1.1.

2.2.5 Gain on disposal of subsidiaries

Gains on the disposals of Eley and AFP are discussed in section 3.5.

2.2.6 Acquisition and disposal costs

Acquisition and disposal costs comprise £2.2m of fees associated with the acquisition of Bopp & Reuther which were incurred in the year and a net release of £0.4m relating to deferred remuneration included within the post-employment contracts of the vendors for the AFP and NPSL acquisitions (2013: charge of £1.9m).

Preparatory costs for the sale of the Retail Dispense businesses in the prior year amounted to £8.0m and principally represented costs payable to the legal and financial advisors assisting with the origination and completion of the transaction, in addition to the advisory costs borne in 2013 relating to the return of cash.

2.2.7 Taxation

The tax effects of the above items are included in the exceptional column of the income statement. In addition, during the year the Group incurred a one-off charge of £2.8m in respect of a prior year tax audit. In 2013, exceptional tax charges of £14.7m were incurred in association with the pre-sale restructuring of certain of the Retail Dispense businesses and were included in discontinued operations.

2.3 Earnings per ordinary share

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company). Basic EPS measures are calculated as the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation.

Both of these measures are also presented on an adjusted basis, to remove the effects of exceptional items, being items of both income and expense which are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group. The note below demonstrates how this calculation has been performed.

	Key	2014 million	2013 million
Weighted average number of shares for the purpose of basic earnings per share	A	274.6	315.5
Dilutive effect of employee share options		2.4	4.0
Weighted average number of shares for the purpose of diluted earnings per share	B	277.0	319.5

	Key	£m	£m
Profit for the year		671.3	227.0
Non-controlling interests		(2.8)	(3.1)
Profit for the year attributable to owners of the parent	C	668.5	223.9
Profits from discontinued operations, net of tax		(478.5)	(33.4)
Continuing profit for the year attributable to owners of the parent	D	190.0	190.5
Total exceptional charges included in profit before tax		32.4	48.4
Total exceptional credits included in taxation		(8.3)	(9.8)
Earnings for adjusted EPS	E	214.1	229.1

	Key	2014	2013
EPS measures			
Basic EPS	C/A	243.4p	71.0p
Diluted EPS	C/B	241.3p	70.1p
Basic continuing EPS	D/A	69.2p	60.4p
Diluted continuing EPS	D/B	68.6p	59.6p
Adjusted EPS measures			
Adjusted basic continuing EPS	E/A	78.0p	72.6p
Adjusted diluted continuing EPS	E/B	77.3p	71.7p

The reduction in the weighted average number of shares is primarily as a result of the 7 for 8 share consolidation on 17 February 2014. For more detail refer to section 4.6.1 on page 129.

Discontinued earnings per share

Basic discontinued earnings per share were 174.2p (2013: 10.6p). Diluted discontinued earnings per share were 172.7p (2013: 10.5p).

SECTION 2 – RESULTS FOR THE YEAR
Continued

2.4
Taxation

IMI operates through subsidiary companies all around the world that pay many different taxes such as corporate income taxes, VAT, payroll withholdings, social security contributions, customs import and excise duties. This note aggregates only those corporate income taxes that are or will be levied on the individual profits of IMI plc and its subsidiary companies for periods leading up to and including the accounting date. The profits of each company are subject to certain tax adjustments as specified by applicable tax laws in each country to arrive at the tax liability that is expected to result on their tax returns. Where these tax adjustments cause future tax differences then deferred taxes may also be recorded.

2.4.1
Governance and strategy

IMI seeks to effectively manage its taxation obligations worldwide in compliance with all applicable tax laws and regulations. Therefore, the Group monitors the tax contribution by the individual businesses to ensure it meets local tax requirements, that available global tax incentives and allowances are recognised, and any material tax risks are properly and promptly addressed, as well as appropriately provided and disclosed in the Group's accounts and tax returns.

IMI aims to build positive working relationships with tax authorities around the world by fully co-operating in an open, constructive and timely manner. As tax laws are often complex and sometimes ambiguous, tax outcomes are inherently uncertain. Accordingly, it is recognised that there will be areas of differing legal interpretation with tax authorities and where this occurs IMI will engage in proactive discussion to obtain early resolution and seek to remove uncertainty and controversy.

IMI Tax Policy requires compliance, fairness, value and transparency in the management of the Company's tax affairs, in accordance with the principles of The IMI Way. This approach has been approved by the Board, fully communicated to subsidiary businesses and is regularly reviewed to ensure responsible business practices across the Group are maintained.

2.4.2
UK corporation tax

The average weighted rate of corporation tax in the UK for the 2014 calendar year was 21.5% (2013: 23.25%). Changes enacted in previous Finance Acts revise the main rate of UK corporation tax to 20% from 1 April 2015. UK deferred tax assets and liabilities have therefore been calculated using a rate of 20% (2013: 20%). The current tax charge for UK companies was £2.0m (2013: £7.1m). During the year the Company made significant additional payments to its UK defined benefit pension schemes, which has had the effect of reducing the Group's UK corporation tax liability for the year.

2.4.3
Tax payments

During the year, the Group made payments of corporate income tax of £67.2m (2013: £41.7m), principally arising in the USA, UK, Italy, Switzerland, Sweden, Japan and Germany. There is normally an element of volatility in the annual payments of corporate income taxes due to the timing of assessments, acquisitions and disposals, exceptional items and payments on account in the many countries in which the Group operates. In addition, the Group makes substantial other tax payments relating to employment, consumption, procurement and investment to local authorities around the world.

2.4.4
Recognised in the income statement

This section sets out the current and deferred tax charges, which together comprise the total tax charge in the income statement.

	2014 £m	2013 £m
Current tax charge		
Current tax charge	46.3	98.4
Adjustments in respect of prior years	(3.4)	(1.4)
	42.9	97.0
Deferred taxation		
Origination and reversal of temporary differences	12.5	(2.3)
Total income tax charge	55.4	94.7

The above income tax charge is apportioned between continuing and discontinued operations in the income statement as follows:

	2014 £m	2013 £m
Current tax charge		
Continuing operations	39.9	59.6
Discontinued operations	3.0	37.4
	42.9	97.0
Deferred tax charge/(credit)		
Continuing operations	13.0	(3.9)
Discontinued operations	(0.5)	1.6
	12.5	(2.3)

	2014 £m	2013 £m
Total income tax charge		
Continuing operations	52.9	55.7
Discontinued operations	2.5	39.0
	55.4	94.7

2.4.5 Reconciliation of effective tax rate

As IMI's head office and parent company is domiciled in the UK, the Group references its effective tax rate to the UK corporation tax rate, despite only a small proportion of the Group's business being in the UK. Therefore, the following tax reconciliation applies the UK corporation tax rate for the year to profit before tax, both before and after exceptional items. This resulting tax charge is reconciled to the actual tax charge for the Group, by taking account of specific tax adjustments as follows:

	2014			2013		
	Before exceptionals £m	Exceptional items £m	Total £m	Before exceptionals £m	Exceptional items £m	Total £m
Profit before tax from continuing operations	278.1	(32.4)	245.7	297.7	(48.4)	249.3
Profit before tax from discontinued operations (section 2.5)	-	481.0	481.0	80.4	(8.0)	72.4
Profit before tax	278.1	448.6	726.7	378.1	(56.4)	321.7
Income tax using the Company's domestic rate of tax of 21.5% (2013: 23.25%)	59.8	96.4	156.2	87.9	(13.1)	74.8
Effects of:						
Non-deductible items	2.9	4.7	7.6	4.3	2.1	6.4
Exceptional tax charge on restructuring	-	-	-	-	17.1	17.1
Non-taxable profit on disposal of businesses	-	(108.0)	(108.0)	-	-	-
Utilisation of tax losses	-	-	-	(1.4)	-	(1.4)
Current year losses for which no deferred tax asset has been recognised	1.3	-	1.3	1.3	-	1.3
Differing tax rates	0.8	(1.7)	(0.9)	(0.1)	(2.1)	(2.2)
Over/(under) provided in prior years	(3.6)	2.8	(0.8)	(1.3)	-	(1.3)
Total tax in income statement (section 2.4)	61.2	(5.8)	55.4	90.7	4.0	94.7
Income tax expense reported in the consolidated income statement	61.2	(8.3)	52.9	65.5	(9.8)	55.7
Effective rate of tax:	22.0%		21.5%	22.0%		22.3%
Income tax attributable to discontinued operations (section 2.5)	-	2.5	2.5	25.2	13.8	39.0
Effective rate of tax:	0.5%		31.3%			53.9%
Total tax in income statement (section 2.4)	61.2	(5.8)	55.4	90.7	4.0	94.7
Effective rate of tax:	22.0%		7.6%	24.0%		29.4%

2.4.6 Recognised outside of the income statement

In addition to amounts charged to the income statement, some current tax and deferred tax is charged/(credited) directly to equity or through other comprehensive income, which can be analysed as follows:

	2014 £m	2013 £m
Deferred tax:		
On equity-settled transactions	5.2	(0.3)
On change in value of effective net investment hedge derivatives	0.7	0.7
On available for sale financial assets	0.4	(0.2)
On fair value gain on deal-contingent forward relating to disposal proceeds	(3.0)	3.0
On re-measurement gains and on defined benefit plans	2.2	21.3
On pension restructuring	(3.0)	-
On foreign currency translation differences	-	(1.0)
	2.5	23.5
Current tax:		
On pension restructuring	9.6	-
On foreign currency translation differences	(1.5)	-
On equity-settled transactions	(4.0)	(5.3)
	6.6	18.2
Of which the following amounts are charged/(credited):		
to the statement of comprehensive income	5.4	23.8
to the statement of changes in equity	1.2	(5.6)
	6.6	18.2

SECTION 2 – RESULTS FOR THE YEAR
Continued

2.4.7 Recognised deferred tax assets and liabilities

Deferred taxes record the tax consequences of temporary differences between the accounting and taxation recognition of certain items, as explained below:

	Assets		Liabilities		Net	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Non-current assets	3.7	6.1	(40.8)	(59.6)	(37.1)	(53.5)
Inventories	3.5	5.6	(4.1)	(5.5)	(0.6)	0.1
On revaluation of derivatives	1.9	0.5	(2.4)	(2.3)	(0.5)	(1.8)
Employee benefits and provisions	35.2	58.9	(5.4)	(4.3)	29.8	54.6
Other tax assets	2.5	4.0	-	-	2.5	4.0
	46.8	75.1	(52.7)	(71.7)	(5.9)	3.4
Set off of tax	(25.5)	(27.4)	25.5	27.4	-	-
Total deferred tax assets and liabilities	21.3	47.7	(27.2)	(44.3)	(5.9)	3.4
Reflected in the balance sheet as follows:						
Deferred taxation asset/(liability)	21.3	43.9	(27.2)	(34.3)	(5.9)	9.6
Asset/(liability) held for sale (Section 2.5)	-	3.8	-	(10.0)	-	(6.2)
Total deferred tax assets and liabilities	21.3	47.7	(27.2)	(44.3)	(5.9)	3.4

The movement in the net deferred tax balances has been recognised in the financial statements as analysed below:

	Balance at 1 Jan 14 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions £m	Balance at 31 Dec 14 £m
Non-current assets	(53.5)	7.1	-	(0.2)	9.5	(37.1)
Inventories	0.1	(2.4)	-	(0.2)	1.9	(0.6)
On revaluation of derivatives	(1.8)	(0.9)	2.3	(0.1)	-	(0.5)
Employee benefits and provisions	54.6	(15.8)	(4.8)	-	(4.2)	29.8
Other tax assets	4.0	(0.5)	-	(0.3)	(0.7)	2.5
Net deferred tax asset/(liability)	3.4	(12.5)	(2.5)	(0.8)	6.5	(5.9)

	Balance at 1 Jan 13 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitiions £m	Balance at 31 Dec 13 £m
Non-current assets	(55.4)	6.3	-	1.0	(5.4)	(53.5)
Inventories	(0.8)	1.0	-	(0.1)	-	0.1
On revaluation of derivatives	0.2	0.8	(2.7)	(0.1)	-	(1.8)
Employee benefits and provisions	80.5	(5.3)	(20.8)	0.2	-	54.6
Other tax assets	4.4	(0.5)	-	0.1	-	4.0
Net deferred tax asset	28.9	2.3	(23.5)	1.1	(5.4)	3.4

All exchange movements are taken through the translation reserve.

2.4.8 Unrecognised deferred tax assets and liabilities

Deferred tax assets of £39.8m (2013: £29.0m) have not been recognised in respect of tax losses of £16.1m (2013: £12.4m), interest of £40.4m (2013: £30.6m) and capital losses of £113.3m (2013: £83.2m). The majority of the tax losses have no expiry date. No deferred tax asset has been recognised for these temporary differences due to uncertainty over their offset against future taxable profits and therefore their recoverability.

It is likely that the majority of unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption. However £81.7m (2013: £78.0m) of those earnings may still result in a tax liability principally as a result of withholding taxes levied by the overseas jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £8.1m (2013: £7.9m), of which only £2.0m (2013: £1.5m) has been provided as the Group is able to control the timing of the dividends. It is not expected that further amounts will crystallise in the foreseeable future.

2.5 Discontinued operations and non-current assets and liabilities held for sale

When the Group has assets and liabilities that are likely to be sold rather than being held for continuing use and when accounting standards require, these assets and liabilities are included in current assets and liabilities and denoted ‘held for sale’ rather than in their usual categories.

If they represent a significant enough proportion of the Group, they are also treated as discontinued operations. This means that their trading performance, i.e. their revenues, costs and other items of income and expense, are no longer reported within the headline figures in the income statement and are instead reported in a separate line, net of tax, called ‘discontinued operations’. These amounts no longer form part of continuing earnings per share. Comparative figures are restated to be shown on the same basis.

This enables the income statement for the current and prior year to be presented on a consistent basis and to convey a more forward-looking version of the results for the year.

On 15 October 2013, the Board approved the sale of the Retail Dispense businesses, which subsequently completed on 1 January 2014. The disposal group represented a major class of business as defined by IFRS5 ‘Non-current assets held for sale and discontinued operations’ and it was determined that this disposal group met the criteria to be disclosed as a discontinued operation in the income statement. The Retail Dispense businesses were therefore classified as held for sale following the agreement for the sale of these businesses to the Marmon Group, a Berkshire Hathaway Company.

The disposal proceeds were used to return £620.3m of cash to shareholders and invest £70.0m into the UK Pension Fund.

	2014 £m	2013 £m
Revenue	-	511
Depreciation	-	(3.9)
Amortisation	-	(1.3)
Other operating expenses	-	(424.8)
Segmental operating profit	-	81.0
Restructuring costs	-	(3.0)
Gain on disposal of operations (see Section 3.5)	480.0	-
Operating profit	480.0	78.0
Financial income	-	0.2
Financial expense	-	(0.4)
Net finance expense related to pension schemes	-	(0.4)
Profit before tax	480.0	77.4
Taxation	(2.5)	(39.0)
Profit after tax	477.5	38.4

The results of the Retail Dispense businesses and the associated profit on disposal are presented above, in addition to which, a pre-tax and post-tax gain of £1.0m (2013: loss of £5.0m) relating to other discontinued operations have also been included in this line in the income statement.

The major classes of assets and liabilities of the Retail Dispense businesses classified as held for sale were as follows:

	2014 £m	2013 £m
Segmental assets		
Intangible assets	-	114.1
Property, plant and equipment	-	25.1
Inventories	-	50.8
Trade and other receivables	-	67.1
Total segmental assets	-	257.1
Non-segmental assets		
Current tax	-	0.2
Deferred tax	-	3.8
Cash and cash equivalents	-	28.2
Investments	-	0.1
Total assets classified as held for sale	-	289.4
Segmental liabilities		
Trade and other payables	-	(56.2)
Provisions	-	(5.4)
Total segmental liabilities	-	(61.6)
Non-segmental liabilities		
Current tax	-	(3.2)
Deferred tax	-	(10.0)
Bank overdraft	-	(1.7)
Employee benefit obligations	-	(0.8)
Total liabilities associated with assets classified as held for sale	-	(77.3)
Net assets directly associated with disposal group	-	212.1

Net cash flows from discontinued operations

	2014 £m	2013 £m
Operating	(6.6)	53.8
Investing	661.6	(8.1)
Financing	-	(0.4)
Net cash inflow	655.0	45.3

The prior year discontinued cash flows relating to financing activities reported above exclude any allocation of items relating to the entire Group such as external dividends paid, share buybacks and drawdown of borrowings, which has the net effect of significantly reducing the outflows reported for the discontinued activities in comparison to the Group as a whole.

The disposals of Eley and AFP are not considered to be a major class of business for the Group. As a result they are not classified as discontinued operations under IFRS5. Details of all disposals are included within Section 3.5.

SECTION 3 – OPERATING ASSETS AND LIABILITIES

What you will find in this section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in Section 2.4.7. On the following pages there are sections covering working capital, non-current assets, acquisitions, other payables due after more than one year, provisions and pensions.

3.1 Working capital

Working capital represents the assets and liabilities the Group generates through its trading activities. The Group therefore defines working capital as trade and other receivables, inventory and trade and other payables. Working capital is managed very carefully to ensure that the Group can meet its trading and financing obligations within its ordinary operating cycle.

To provide the Executive Committee with insight into the management of working capital, an important measure monitored is cash conversion. Cash conversion is defined as the operating cash flow (as defined in the commentary on the cash flow statement) divided by the segmental operating profit which therefore represents the proportion of segmental operating profit generated during the year that has been converted into cash.

3.1.1 Trade and other receivables

	2014 £m	2013 £m
Current		
Trade receivables	318.0	293.5
Other receivables	34.8	33.0
Prepayments and accrued income	16.1	18.8
	368.9	345.3
Receivables are stated after:		
Allowance for impairment	7.1	8.1

The Group's exposure to credit and market risks related to trade and other receivables is disclosed in section 4.4.

3.1.2 Inventories

	2014 £m	2013 £m
Raw materials and consumables	87.0	85.3
Work in progress	71.9	86.4
Finished goods	67.4	73.8
	226.3	245.5

In 2014 the cost of inventories recognised as an expense within segmental cost of sales amounted to £919.9m (2013: £948.8m). In 2014 the write-down of inventories to net realisable value amounted to £7.9m (2013: £7.1m). The reversal of write-downs amounted to £3.9m (2013: £2.1m). Write-downs and reversals in both years relate to on-going assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

3.1.3 Trade and other payables

	2014 £m	2013 £m
Current		
Trade payables	164.4	187.5
Social security and other taxation	26.1	23.1
Other payables	7.5	7.9
Accruals and deferred income	135.9	137.1
	333.9	355.6

3.2 Intangible assets

The following section shows the non-physical assets used by the Group to generate revenues and profits. These assets include goodwill, customer relationships, order books, patents, development costs and software development costs. The cost of these assets is the amount that the Group has paid for them or, when they have arisen due to a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights.

In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets net of the liabilities acquired. The value of the goodwill can arise from a number of sources, but in relation to our more recent acquisitions, it has been represented by post-acquisition synergies and the skills and knowledge of the workforce. The value of the Group's intangible assets, with the exception of goodwill, reduces over the number of years over which the Group expects to use the asset, the useful life, via an annual amortisation charge to the income statement.

The Group splits its intangible assets between those arising on acquisitions and those which do not arise on acquisitions, because the amortisation of acquired intangibles meets the definition of an exceptional item as described in section 2.2.

Where there are indications that the value of intangible assets is no longer representative of their value to the Group, for example where there is a customer relationship recognised but revenues from that customer are reducing, or where goodwill was recognised on an acquisition but the performance of the business acquired is below expectations, the Directors review the value of the assets to ensure they have not fallen below their amortised values. If this has happened, a one-off impairment charge is made against profit. This section explains the overall carrying values of the intangible assets within the Group and the specific judgements and estimates made by the Directors in arriving at these values.

3.2.1 Analysis of intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Total acquired intangibles £m	Other non-acquired intangibles £m	Non-Acquired intangibles under construction* £m	Total £m
Cost							
As at 1 January 2013	440.4	136.8	65.2	642.4	65.2	-	707.6
Exchange adjustments	0.3	0.4	(1.1)	(0.4)	-	-	(0.4)
Acquisitions	2.9	-	21.3	24.2	-	-	24.2
Transfers to assets held for sale	(113.6)	-	-	(113.6)	(23.9)	-	(137.5)
Additions	-	-	-	-	8.0	-	8.0
Disposals	-	-	-	-	(1.1)	-	(1.1)
As at 31 December 2013	330.0	137.2	85.4	552.6	48.2	-	600.8
Exchange adjustments	(9.3)	(6.0)	(3.3)	(18.6)	(2.5)	-	(21.1)
Additions	-	-	-	-	7.3	10.9	18.2
Transfers from assets in the course of construction	-	-	-	-	0.2	(0.2)	-
Disposals	-	-	-	-	(0.6)	-	(0.6)
As at 31 December 2014	320.7	131.2	82.1	534.0	52.6	10.7	597.3
Amortisation							
As at 1 January 2013	-	59.8	60.8	120.6	42.5	-	163.1
Exchange adjustments	-	(0.4)	(0.1)	(0.5)	-	-	(0.5)
Transfers to assets held for sale	-	-	-	-	(20.0)	-	(20.0)
Disposals	-	-	-	-	(0.9)	-	(0.9)
Impairment	-	-	-	-	0.4	-	0.4
Amortisation for year	-	19.8	2.1	21.9	6.5	-	28.4
As at 31 December 2013	-	79.2	62.8	142.0	28.5	-	170.5
Exchange adjustments	-	(3.2)	(2.8)	(6.0)	(1.8)	-	(7.8)
Disposals	-	-	-	-	(0.5)	-	(0.5)
Impairment	27.8	-	12.9	40.7	2.1	-	42.8
Amortisation for year	-	16.9	2.7	19.6	5.0	-	24.6
As at 31 December 2014	27.8	92.9	75.6	196.3	33.3	-	229.6
Net book value at 31 December 2013	330.0	58.0	22.6	410.6	19.7	-	430.3
Net book value at 31 December 2014	292.9	38.3	6.5	337.7	19.3	10.7	367.7

* During the year the Group has made significant investment in IT software and new product development, which are currently in construction and not being amortised. These assets have been separately disclosed in the table above. In the prior year these assets were not material and were included within other non-acquired intangibles.

SECTION 3 – OPERATING ASSETS AND LIABILITIES
Continued

3.2.2 Goodwill impairment testing

Goodwill is not subject to an annual amortisation charge, instead, its carrying value is assessed annually by comparison to the future cash flows of the business to which it relates (the cash generating unit, or CGU). These cash flows are discounted to reflect the time value of money and this discount rate, together with the growth rates assumed in the cash flow forecasts, are the key assumptions in this impairment testing process.

Goodwill is allocated to cash generating units ('CGUs') based on the synergies expected to be derived from the acquisition upon which the goodwill arose. The Group has 24 cash generating units to which goodwill is allocated. Where our businesses operate closely with each other we will continue to review whether they should be treated as a single or combined CGU.

Goodwill is tested annually for impairment as part of the overall assessment of assets against their recoverable amounts. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. Value in use is determined using cash flow projections from financial budgets, forecasts and plans approved by the Board covering a five-year period. The projected cash flows reflect the latest expectation of demand for products and services.

The key assumptions in these calculations are the long-term growth rates and the discount rates applied to forecast cash flows in addition to the achievement of the forecasts themselves. Long-term growth rates are based on long-term economic forecasts for growth in the manufacturing sector in the geographical regions in which the cash generating unit operates. Pre-tax discount rates specific to each cash generating unit are calculated by adjusting the Group post-tax weighted average cost of capital ('WACC') of 9% for the tax rate relevant to the jurisdiction before adding risk premia for the size of the unit, the characteristics of the segment in which it resides, and the geographical regions from which the cash flows are derived.

This exercise resulted in the use of the following ranges of values for the key assumptions:

	2014 %	2013 %
Pre-tax discount rate	9.8 - 16.4	10.6 - 14.6
Long-term growth rate	1.0 - 3.8	1.6 - 3.6

Following our impairment review, the goodwill associated with the Remosa CGU, within the IMI Critical Engineering division was considered to be impaired. This impairment has arisen due to a deterioration in the current trading base of Remosa. A value in use calculation was used to determine the £48.4m recoverable amount of the Remosa CGU, which used a discount rate of 13.8%. As a result the Group has recognised an exceptional impairment loss of £26.9m.

As reported at the half-year and prior to disposal in October 2014, the Group carried out a review of the recoverable amount of the AFP business due to reduced expectations. This included a reassessment of the business's performance in the three to five years following the acquisition. This review led to the recognition of an exceptional impairment loss of £10.8m, of which £0.9m was against goodwill, partially offset by a deferred tax credit of £3.8m.

No amounts of goodwill that are significant in the context of the Group's total goodwill balance used the same key assumptions for the purposes of impairment testing in either this year or the last. For the purpose of assessing the significance in this context, the Group uses a threshold of 20% of the total goodwill balance.

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. The cumulative impairment recognised in relation to goodwill is £34m (2013: £6m).

The cumulative acquired intangible amortisation is £149.6m (2013: £136.0m).

3.3 Property, plant and equipment

The following section concerns the physical assets used by the Group to generate revenues and profits. These assets include manufacturing, distribution and office sites, as well as equipment used in the manufacture of the Group's products. The cost of these assets represents the amount initially paid for them.

With the exception of the Group's land and assets under construction which have not yet been brought into use, a depreciation expense is charged to the income statement to reflect the annual wear and tear and the reduction in the value of the asset over time. Depreciation is calculated by reference to the assets' useful lives, by estimating the number of years over which the Group expects the asset to be used. As we do for our intangible assets (see Section 3.2), if there has been a technological change or decline in business performance the directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value a one-off impairment charge is made against profit.

	Land & buildings	Plant & equipment	Assets in the course of construction	Total
Cost				
As at 1 January 2013	197.2	662.1	12.0	871.3
Exchange adjustments	(1.0)	(1.7)	(0.3)	(3.0)
Acquisitions	0.2	0.2	-	0.4
Additions	2.1	20.2	19.7	42.0
Transfers to assets held for sale	(22.0)	(99.4)	(3.2)	(124.6)
Transfers from assets in the course of construction	0.5	10.4	(10.9)	-
Disposals	(3.4)	(22.9)	(0.1)	(26.4)
As at 31 December 2013	173.6	568.9	17.2	759.7
Exchange adjustments	(8.7)	(25.2)	(0.6)	(34.5)
Disposals of subsidiaries	(2.9)	(6.1)	(0.3)	(9.3)
Additions	1.0	26.9	24.7	52.6
Transfers from assets in the course of construction	1.2	19.8	(21.0)	-
Disposals	(0.8)	(50.5)	-	(51.3)
As at 31 December 2014	163.4	533.8	20.0	717.2
Depreciation				
As at 1 January 2013	93.1	532.9	-	626.0
Exchange adjustments	(0.2)	(0.5)	-	(0.7)
Disposals	(2.1)	(22.6)	-	(24.7)
Transfers to assets held for sale	(14.4)	(86.7)	-	(101.1)
Impairment reversal	-	(0.5)	-	(0.5)
Depreciation	4.3	33.6	-	37.9
As at 31 December 2013	80.7	456.2	-	536.9
Exchange adjustments	(4.3)	(20.2)	-	(24.5)
Disposals of subsidiaries	(1.6)	(4.7)	-	(6.3)
Disposals	(0.6)	(48.5)	-	(49.1)
Impairment charge	-	0.7	-	0.7
Depreciation	3.5	29.5	-	33.0
As at 31 December 2014	77.7	413.0	-	490.7
NBV at 31 December 2013	92.9	112.7	17.2	222.8
NBV at 31 December 2014	85.7	120.8	20.0	226.5

A net impairment charge of £0.7m relating to continuing operations occurred during the year (2013: £0.5m reversal).

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date relating to the continuing business amounted to £7.6m (2013: £3.3m).

Included in the total net book value of plant and equipment is £1.0m (2013: £1.2m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.3m (2013: £0.3m).

SECTION 3 – OPERATING ASSETS AND LIABILITIES
Continued

3.4
Acquisitions

The following section discusses businesses acquired by the Group, which have given rise to the additions to the acquired intangible assets (including goodwill) reported in section 3.2 and which contributed to the Group's profits, working capital and other balance sheet asset and liabilities. This section also discusses acquisitions in the prior year and subsequent to the year-end.

3.4.1
Acquisitions subsequent to year-end

On 2 January 2015, the Group acquired the entire share capital of B&R Holding GmbH ('Bopp & Reuther') for an enterprise value of approximately £118m (€153m) including the assumption of debt of approximately £15m.

Bopp & Reuther is a leading manufacturer of safety, control and shut-off valve technology for process industries as well as conventional fossil and nuclear power plants worldwide. Its head office and manufacturing plant is located in Mannheim, Germany and it has service centres in Germany, Austria, Romania and China. The senior management and all of its 419 employees transferred upon completion of the acquisition by the Group.

Bopp & Reuther joins the IMI Critical Engineering division and is very closely aligned with IMI Critical Engineering's existing large control valve business ('CCI'). For more information on Bopp & Reuther, see page 23.

Given the close proximity of this acquisition to the date of approval of these financial statements, the initial acquisition accounting is not yet complete. The completion accounts process and conversion of amounts from German GAAP to IFRS has not yet been finalised. Consequently, disclosures regarding the revenue and profits of Bopp & Reuther for 2014, the fair value of the assets and liabilities acquired, the fair value of the consideration and amounts allocated to goodwill and intangible assets have not been given and will be included in the Group's 2015 Interim announcement.

3.4.2
Acquisitions in the previous period

Analytical Flow Products ('AFP')

Following the acquisition of AFP on 21 August 2013, at 31 December 2013 the contingent consideration, identifiable net assets and resulting goodwill were considered provisional. At 30 June 2014 these acquisition balances were considered to be final. As discussed in section 3.5, the Group disposed of AFP on 23 October 2014.

Nano-Porous Solutions Limited ('NPSL')

On 29 October 2013 the Group acquired NPSL for a total purchase consideration of £6.1m. Total identifiable net assets were £4.2m, resulting in goodwill of £1.9m. These amounts were deemed provisional at 31 December 2013. As of 30 June 2014, these provisional amounts were finalised with no adjustment to the fair values of the assets and liabilities acquired.

3.5
Disposals

The Group disposed of the Retail Dispense businesses on 1 January 2014, Eley Limited, Accles and Shelvoke Limited and Eley Americas Inc (together 'Eley') on 4 October 2014 and Mecanique Analytique Inc (trade name 'AFP') on 23 October 2014.

Retail Dispense

The disposal of the Retail Dispense businesses are discussed further in the section 2.5.

Eley

The Group disposed of Eley on 4 October 2014 for proceeds of £41.6m resulting in an exceptional profit on disposal for the Group of £33.1m after disposing of £6.5m of net assets and incurring £2.0m of associated disposal costs. As discussed on page 37, the business was considered to be non-core to IMI Critical Engineering's operations.

The gain on disposal is presented in the income statement as an exceptional item but it is not disclosed as a discontinued item because it did not represent a separate major line of business.

AFP

Following the impairment loss of £10.8m recorded in the first half of the year, the results of AFP continued to be disappointing. As a result, on 23 October 2014 the Group disposed of AFP. A payment was agreed of CAD$4.5m (£2.5m) with the previous vendors to compensate them for the waiver of their earn-out arrangement, which resulted in settlement of the estimated contingent consideration owed. The resulting gain on disposal was £1.1m.

The gain on disposal is presented in the income statement as an exceptional item but it is not disclosed as a discontinued item because it did not represent a separate major line of business.

Details of the disposals are as follows:

	Retail Dispense 1 January 2014 £m	Eley 4 October 2014 £m	AFP 23 October 2014 £m	Total 2014 £m
Sale consideration*	691.2	41.6	3.4	736.2
Net assets disposed	(205.0)	(6.5)	(1.3)	(212.8)
Intercompany loans settled following completion	3.8	-	-	3.8
Costs of disposal	(13.9)	(2.0)	(1.0)	(16.9)
Foreign exchange gain transferred on disposal of operations	3.9	-	-	3.9
Taxation	(2.5)	-	-	(2.5)
Gain on disposal	477.5	33.1	1.1	511.7
Segmental assets				
Intangible assets	114.1	-	0.1	114.2
Property, plant and equipment	25.1	2.8	0.2	28.1
Inventories	50.8	2.1	0.5	53.4
Trade and other receivables	67.1	1.6	0.4	69.1
Total segmental assets	257.1	6.5	1.2	264.8
Non-segmental assets				
Current tax	0.2	-	0.3	0.5
Deferred tax	3.8	-	-	3.8
Cash and cash equivalents	28.2	2.3	0.2	30.7
Investments	0.1	-	-	0.1
Total assets	289.4	8.8	1.7	299.9
Segmental liabilities				
Trade and other payables	(56.2)	(2.0)	(0.4)	(58.6)
Provisions	(5.4)	-	-	(5.4)
Total segmental liabilities	(61.6)	(2.0)	(0.4)	(64.0)
Non-segmental liabilities				
Current tax	(3.2)	(0.3)	-	(3.5)
Deferred tax	(10.0)	-	-	(10.0)
Bank overdraft	(1.7)	-	-	(1.7)
Employee benefit obligations	(7.9)	-	-	(7.9)
Total liabilities	(84.4)	(2.3)	(0.4)	(87.1)
Net assets disposed	205.0	6.5	1.3	212.8

Movements between the net assets held for sale at 31 December 2013 for the Retail Dispense businesses and the eventual assets disposed principally represent a minor change in the completion mechanism relating to the disposal of the employee benefit obligations, which increased by £7.1m to £7.9m. This resulted in a gain of £2.8m, which is included within the gain on disposal.

* Sale consideration for AFP consists of a cash payment of £2.5m to the vendors offset by the settlement of a £5.9m contingent consideration creditor.

	£m	£m	£m	£m
Net cash flow arising on disposal				
Cash consideration/(settlement) at spot rate	680.0	41.6	(2.5)	719.1
Settlement of deal-contingent forward**	11.2	-	-	11.2
Sale consideration	691.2	41.6	(2.5)	730.3
Cost of deal-contingent forward**	(3.0)	-	-	(3.0)
Cash costs of disposal	(3.9)	(1.5)	(0.4)	(5.8)
Intercompany loans settled following completion	3.8	-	-	3.8
Net cash flow arising on disposal of operations	688.1	40.1	(2.9)	725.3
Net cash disposed on disposal of operations	(26.5)	(2.3)	(0.2)	(29.0)

** As at 31 December 2013 the deal-contingent forward used to manage the sterling-US dollar exposure on the consideration was valued at £11.2m. The net gain on settlement of this contract was £8.2m which is net of the £3.0m option premium.

SECTION 3 – OPERATING ASSETS AND LIABILITIES
Continued

3.6 Provisions

A provision is recorded instead of a payable (see Section 3.1.3) when there is less certainty over how much cash will be paid and when the payment might be made. When the Group has an obligation relating to previous events and when it is probable that cash will be paid to settle it, a provision rather than a payable is recorded. In this situation, an estimate is required.

The principal estimates made in respect of the Group's provisions concern the timing and amount of payments required to:

- cover the costs of known restructuring projects;
- reimburse customers for potential product warranty claims;
- ensure that current and former manufacturing sites meet relevant environmental standards;
- reflect the estimated outcome of ongoing legal disputes; and
- provide against indemnities following the disposal of subsidiaries.

Analysis of the Group's provisions:

	Restructuring £m	Trade warranties £m	Environmental, legal & indemnity £m	Total £m
Current	8.3	8.7	3.1	20.1
Non-current	-	7.2	11.6	18.8
At 1 January 2014	8.3	15.9	14.7	38.9
Arising during the year	12.6	0.7	8.8	22.1
Utilised during the year	(15.1)	(1.7)	(5.1)	(21.9)
Exchange adjustment	(0.2)	(0.6)	0.8	-
At 31 December 2014	5.6	14.3	19.2	39.1
Current	4.4	6.9	11.4	22.7
Non-current	1.2	7.4	7.8	16.4
	5.6	14.3	19.2	39.1

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects.

Trade warranties are given in the normal course of business and cover a range of periods, typically one to two years, with the expected amounts falling due in less than and greater than one year separately analysed above. Amounts set aside represent the directors' best estimate regarding the amount of the settlements and the timing of resolution with customers.

Environmental and legal provisions recognise the Group's obligation to remediate contaminated land at a number of current and former sites, together with current legal cases for which a settlement is considered probable. Because of the long-term nature of the liabilities, the timescales are uncertain and the provisions represent the directors' best estimates of these costs.

Provisions for indemnities included in the agreed terms of disposals of subsidiaries are provided for based on the expected probability of indemnified losses that may be suffered by the purchaser.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

What you will find in this section

This section outlines how the Group manages its capital and related financing costs. The directors determine the appropriate capital structure for the Group, specifically, how much cash is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future. The directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan.

The Board is mindful that equity capital cannot be easily flexed and in particular raising new equity would normally be likely only in the context of an acquisition. Debt can be issued and repurchased more easily but frequent adjustments lead to high transaction costs and debt holders are under no obligation to accept repurchase offers.

4.1 Net debt

Net cash/(debt) is the Group's key measure used to evaluate total outstanding debt, net of the current cash resources. Some of the Group's borrowings (and cash) is held in foreign currencies. Movements in foreign exchange rates affect the sterling value of the net debt.

a) Reconciliation of cash and cash equivalents

	2014 £m	2013 £m
Cash and cash equivalents in current assets	43.8	71.7
Bank overdraft in current liabilities	(23.0)	(7.9)
Cash and cash equivalents in assets held for sale	-	28.2
Bank overdraft in liabilities held for sale	-	(1.7)
Cash and cash equivalents	20.8	90.3

b) Reconciliation of net cash to movement in net borrowings

	2014 £m	2013 £m
Net decrease in cash and cash equivalents excluding foreign exchange and net cash disposed/debt acquired	(39.9)	(4.7)
Net repayment/(drawdown) of borrowings	80.7	(51.0)
Increase in net debt before acquisitions and foreign exchange	40.8	(55.7)
Net cash disposed	(29.0)	-
Debt acquired	-	(2.5)
Currency translation differences	(12.4)	2.6
Movement in net borrowings in the year	(0.6)	(55.6)
Net borrowings at the start of the year	(199.4)	(143.8)
Net borrowings at the end of the year	(200.0)	(199.4)

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

c) Analysis of net debt

	Cash and cash equivalents £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 2014	90.3	(80.8)	(208.9)	(199.4)
Net cash and cash equivalents disposed of	(29.0)			(29.0)
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash disposed of	(76.6)	78.7	2.0	4.1
Settlement of currency derivatives hedging balance sheet	36.7			36.7
Currency translation differences	(0.6)	0.1	(11.9)	(12.4)
At 31 December 2014	20.8	(2.0)	(218.8)	(200.0)

4.2 Interest-bearing loans and borrowings

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term or are drawn from committed borrowing facilities that generally have floating interest rates.

This section provides information about the 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 section 4.4.3.

	2014 £m	2013 £m
Current liabilities		
Unsecured loan notes and other loans	1.3	80.0
Current portion of finance lease liabilities	0.7	0.8
	2.0	80.8
Non-current liabilities		
Unsecured loan notes and other loans	218.2	208.1
Finance lease liabilities	0.6	0.8
	218.8	208.9

The reduction in unsecured notes and other loans is primarily due to the settlement of £79.0m of loans in the year.

4.3 Net financing costs

This section details the income generated on the Group's financial assets and the expense incurred on borrowings and other financial assets and liabilities. The finance income and expense taken into account in arriving at adjusted earnings only includes the income and expense arising on cash balances, borrowings and retirement benefit obligations. The finance income or expense on mark-to-market movements on interest and foreign exchange derivatives and other financing costs are excluded from adjusted earnings per share.

Recognised in the income statement

	2014			2013		
	Interest £m	Financial instruments £m	Total £m	Interest £m	Financial instruments £m	Total £m
Interest income on bank deposits	1.1		1.1	4.2		4.2
Financial instruments at fair value through profit or loss:						
Designated hedges		0.8	0.8		1.3	1.3
Other economic hedges						
- current year trading		7.1	7.1		12.9	12.9
- future year transactions		7.2	7.2		6.0	6.0
Financial income	1.1	15.1	16.2	4.2	20.2	24.4
Interest expense on interest-bearing loans and borrowings	(15.4)		(15.4)	(20.2)		(20.2)
Financial instruments at fair value through profit or loss:						
Designated hedges		(0.8)	(0.8)		(1.3)	(1.3)
Other economic hedges						
- current year trading		(7.2)	(7.2)		(9.4)	(9.4)
- future year transactions		(13.8)	(13.8)		(6.8)	(6.8)
Financial expense	(15.4)	(21.8)	(37.2)	(20.2)	(17.5)	(37.7)
Net finance charge relating to defined benefit pension schemes	(3.1)		(3.1)	(7.9)		(7.9)
Net financial (expense)/income	(17.4)	(6.7)	(24.1)	(23.9)	2.7	(21.2)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in segmental revenue and operating profit (see section 2.1). 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.

Recognised in other comprehensive income

	2014 £m	2013 £m
Change in fair value of effective portion of net investment hedges	3.6	3.4
Foreign currency translation differences	(14.7)	(16.9)
Settlement of/change in fair value of deal contingent forward	(14.2)	14.2
Change in fair value of other financial assets	1.1	(0.5)
Income tax on items recognised in other comprehensive income	3.4	(2.5)
Total items recognised in other comprehensive income (net of tax)	(20.8)	(2.3)
Recognised in:		
Hedging reserve	(8.3)	13.9
Translation reserve	(13.2)	(15.9)
Retained earnings	0.7	(0.3)
	(20.8)	(2.3)

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.4
Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate; foreign exchange and; base metal price movements in addition to funding and liquidity risks. The financial instruments used to manage the underlying risks themselves introduce exposure to credit risk, market risk and, liquidity risk.

This section presents information about the Group's exposure to each of these risks; the Group's objectives, policies and processes for measuring and managing risks, including each of the above risks; and the Group's management of capital.

4.4.1
Overview

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance Report on page 47 the Executive Committee monitors risk and internal controls and the Audit Committee monitors financial risk, while the other Board committees also play a part in contributing to the oversight of risk.

The Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the financial risks faced by the Group. The 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 following sections discuss the management of specific financial risk factors in detail, including credit risk, foreign exchange risk, interest rate risk, commodity risk and liquidity risk.

4.4.2
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 2014 these totalled £423.2m (2013: £496.5m).

4.4.2.1
Managing credit risk arising from customers

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. Our largest single customer accounted for 3% of our 2014 revenues (2013: 4%).

Geographically there is no unusual concentration of credit risk. The Group's contract approval procedure ensures that large contracts are signed off at executive director level at which time the risk profile of the contract, including potential credit and foreign exchange risks, is reviewed. Credit risk is minimised through due diligence on potential customers, appropriate credit limits, cash flow management and the use of documentary credits where appropriate.

4.4.2.2
Exposure to credit risk in respect of financial assets

The maximum exposure to credit risk for financial assets is represented by their carrying value and is analysed below:

	Carrying amount	
	2014 £m	2013 £m
Cash and cash equivalents*	43.8	99.9
Investments	26.9	20.2
Interest rate swaps	-	0.8
Forward exchange contracts	10.5	21.6
	81.2	142.5

* Including £28.2m classified as held for sale in 2013.

4.4.2.3
Exposure to credit risk in respect of trade receivables

	Carrying amount	
	2014 £m	2013 £m
UK	23.7	18.8
Germany	23.5	26.2
Rest of Europe	89.3	105.2
USA	51.2	44.5
Asia Pacific	90.9	65.5
Rest of World	39.4	33.3
	318.0	293.5

In 2013 there were a further £60.5m trade receivables, predominantly relating to US customers, included in assets held for sale.

The maximum exposure to credit risk for trade receivables at the reporting date by segment was as follows:

	Carrying amount	
	2014 £m	2013 £m
IMI Critical Engineering	170.7	151.2
IMI Precision Engineering	111.2	103.0
IMI Hydronic Engineering	36.1	39.3
	318.0	293.5

In 2013 there were a further £60.5m trade receivables, relating to the Retail Dispense businesses, included in assets held for sale.

4.4.2.4
Impairment provisions for trade receivables

The ageing of trade receivables at the reporting date was:

	2014		2013	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	273.1	(0.5)	251.4	(0.2)
Past due 1-30 days	26.8	(0.6)	24.5	(0.1)
Past due 31-90 days	13.8	(0.6)	12.6	(0.1)
Past due over 90 days	11.4	(5.4)	13.1	(7.7)
Total	325.1	(7.1)	301.6	(8.1)

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

	2014 £m	2013 £m
Net balance at 1 January	8.1	11.4
Utilised during the year	(1.5)	(1.5)
Charged to the income statement	2.3	2.4
Released	(1.1)	(3.3)
Transfer to assets held for sale	-	(1.1)
Exchange	(0.7)	0.2
Net balance at 31 December	7.1	8.1

The net impairment charge recognised of £1.2m (2013: gain of £0.9m) relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers across all of its businesses.

4.4.2.5
Managing credit risk arising from counterparties

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 2014 credit exposure including cash deposited did not exceed £7.5m with any single institution (2013: £13.0m).

4.4.3
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 and cash flows or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

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

4.4.3.1
Foreign exchange 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 ('transactional risk'), translation of foreign profits ('profit translation risk') and translation of the underlying net assets of foreign operations ('asset translation risk').

a) Management of transactional risk

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

As discussed in the commentary on the consolidated statement of comprehensive income the Group used a deal-contingent forward to hedge the foreign exchange exposure on the US denominated proceeds for the Retail Dispense businesses resulting in a net pre-tax gain of £8.2m.

b) Management of profit translation risk

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 represent the most significant translation exposures for the Group.

c) Management of asset translation risk

The Group hedges its net investments in its major overseas operations by way of external currency loans and forward currency 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. Any ineffective portion is recognised immediately in the income statement.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

d) Currency profile of assets and liabilities

	Net assets/ excluding cash & debt 2014 £m	Cash* 2014 £m	Debt 2014 £m	Exchange contracts 2014 £m	Net assets 2014 £m	Net assets 2013 £m
Sterling	83	(23)	-	366	426	474
US Dollar	138	-	(218)	106	26	11
Euro	287	6	(1)	(302)	(10)	10
Other	246	38	(2)	(170)	112	153
Total	754	21	(221)	-	554	648

* Cash is stated net of overdrafts.

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

4.4.3.2 Interest rate risk

The Group is exposed to a number of global interest rates through assets and liabilities denominated in jurisdictions to which these rates are applied, most notably US, Eurozone and UK rates. The Group is exposed to these because market movements in these rates will increase or decrease the interest charge recognised in the Group income statement.

a) Management of interest rate risk

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.

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

The Group has raised US Dollar debt through the issuance of medium to long-term fixed rate loan notes. In 1999 US$30m of this fixed rate exposure was hedged back to floating rates through the use of interest rate swaps covering loan notes which matured and were repaid in 2014. The interest component of the fair value of this portion of the loan notes was designated as a hedged item and was revalued accordingly in the accounts. The fair value of these interest rate swaps, which were settled in the year, was included in the 2013 balance sheet at £0.8m with a corresponding uplift in the value of the debt (the hedged item).

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

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

b) Interest rate risk profile

The following table shows how much of our cash, interest-bearing liabilities and exchange contracts attract both fixed and floating rate interest charges, and how this is analysed between currencies:

	Debt and exchange contracts 2014 £m	Cash and exchange contracts 2014 £m	Floating rate 2014 £m	Fixed rate 2014 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	343	343	-		
US Dollar	(218)	106	106	(218)	6.8	3.4
Euro	(303)	6	(297)	-		
Other	(172)	38	(134)	-		
Total	(693)	493	18	(218)		

	Debt and exchange contracts 2013 £m	Cash and exchange contracts 2013 £m	Floating rate 2013 £m	Fixed rate 2013 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(60)	515	455	-		
US Dollar	(243)	3	(34)	(206)	6.8	4.4
Euro	(327)	16	(311)	-		
Other	(164)	61	(103)	-		
Total	(794)	595	7	(206)		

4.4.3.3 Commodity risk

The commodity inputs to the Group's production process typically consist of base metals. Commodity risk for the Group is the risk that the prices of these inputs could rise, thus reducing Group profits.

a) Overview

Including the discontinued businesses, the Group's operating companies purchase metal and metal components with an annual base metal material value of approximately £31m (2013: £35m).

b) Management of commodity risk

The Group manages this exposure through a centralised process hedging copper, zinc and aluminium using a combination of financial contracts and local supply agreements designed to minimise the volatility of short-term margins.

4.4.3.4 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

a) Management of liquidity risk

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 they fall due, with sufficient headroom to cope with abnormal market conditions. This position is reviewed on a quarterly basis.

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US loan note issues. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12 month view by an appropriate amount taking into account market conditions and corporate activity, including acquisitions, organic growth plans and share buybacks. In addition, we undertake rigorous and regular covenant compliance reviews to ensure that we remain fully within those covenant limits. At the end of 2014 the Group had undrawn committed facilities totalling £272m (2013: £215m) and was holding cash and cash equivalents of £44m (2013: £100m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

4.4.4 Capital management

Capital management concerns the decision as to how the Group's activities are financed and specifically, how much of the Group capital is provided by borrowings (or debt) and how much of it is financed with equity raised from the issue of share capital.

The Board's policy is to maintain a balance sheet with a broad capital base and the strength to sustain the future development of the business including acquisitions. This section discusses how the Board views the capital base of the Group and the impact on leverage, distribution policy and investment policy.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.4.4.1 Overview

The Board monitors the geographical spread of its shareholders and employees are encouraged to hold shares in the Company. The underlying capital base of the Group includes total equity and reserves and net debt. Employee benefit obligations net of deferred tax form part of the extended capital base. Management of this element of the capital base is discussed further in section 4.5 of the financial statements. Undrawn committed funding facilities are maintained as described in section 4.4.5.1 to provide additional capital for growth (including acquisitions and organic investments) and liquidity requirements as discussed above.

4.4.4.2 Capital base

	2014 £m	2013 £m
Total equity	554	648
Gross debt including overdrafts	244	299
Gross cash	(44)	(100)
Capital base	754	847
Employee benefits and deferred tax assets	13	131
Extended capital base	767	978
Undrawn funding facilities	272	215
Available capital base	1,039	1,193

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

4.4.4.3 Debt or equity

The balance between debt and equity in the capital base of the Company is considered regularly by the Board in the light of market conditions, business forecasts, growth opportunities and the ratio of net debt to EBITDA. Funding covenants currently limit net debt to a maximum of three times EBITDA. The net debt to EBITDA ratio at the end of 2014 was 0.5 times (2013: 0.5 times) and was 0.6 times excluding disposal gains and one-off pension gains from the continuing EBITDA. Through the life of our five year plan, the Board would consider appropriate acquisitions which might take net debt to EBITDA to an internal limit of up to two and half times EBITDA on acquisition, with an expectation to fall to no more than two times EBITDA within two years of the acquisition, as long as prevailing market conditions and the outlook for our existing businesses supported such a move. It is expected that at these levels our debt would still be perceived as investment grade. The potential benefits to equity shareholders of greater leverage are offset by higher risk and the cost and availability of funding. The Board will consider raising additional equity in the event that it is required to support the capital base of the Group.

4.4.4.4 Dividend policy and share buybacks

As part of the capital management process, the Group ensures that adequate reserves are available in IMI plc in order to meet proposed shareholder dividends, the purchase of shares for employee share scheme incentives and any on-market share buyback programme.

The Board supports a progressive dividend policy with an aim that the dividend should be covered by at least two times underlying earnings. In the event that the Board cannot identify sufficient investment opportunities through capital expenditure, organic growth initiatives and acquisitions, the return of funds to shareholders through share buybacks or special dividends will be considered. It should be noted that a number of shares are regularly bought in the market by an employee benefit trust in order to hedge the exposure under certain management incentive plans. Details of these purchases are shown in section 4.6.2 to the financial statements.

4.4.4.5 Weighted average cost of capital

The Group currently uses a post-tax Weighted Average Cost of Capital ('WACC') of 9% (2013: 8%) as a benchmark for investment returns. This is reviewed regularly in the light of changes in market rates. The Board tracks the Group's return on invested capital and seeks to ensure that it consistently delivers returns in excess of the WACC. Consistent with this objective the growth in Economic Value Added (EVA) was used as a metric in the Group's long-term incentive programmes.

4.4.5 Debt and credit facilities

This section provides details regarding the specific borrowings that the Group has in place to satisfy the debt elements of the capital management policy discussed above.

4.4.5.1 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:

	2014 £m	2013 £m
Expiring within one year	48	140
Expiring between one and two years	24	50
Expiring after more than two years	200	25
	272	215

The weighted average life of these facilities is 2.9 years (2013: 1.1 years).

4.4.5.2 Terms and debt repayment 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
2014									
Cash and cash equivalents	Floating	43.8	43.8	43.8					
US loan notes 2022	7.17%	(9.6)	(15.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(11.6)
US loan notes 2016	7.26%	(48.1)	(53.6)	(3.5)	(50.1)				
US loan notes 2018	5.98%	(96.2)	(114.4)	(5.8)	(5.8)	(5.8)	(97.0)		
US loan notes 2019	7.61%	(64.1)	(86.5)	(4.9)	(4.9)	(4.9)	(4.9)	(66.9)	
Finance leases	Various	(1.3)	(1.3)	(0.6)	(0.4)	(0.2)	(0.1)		
Bank overdrafts	Floating	(23.0)	(23.0)	(23.0)					
Unsecured bank loans	Floating	(1.5)	(1.8)	(1.4)	(0.2)	(0.1)	(0.1)		
Total		(200.0)	(251.9)	3.9	(62.1)	(11.7)	(102.8)	(67.6)	(11.6)
2013									
Cash and cash equivalents	Floating	99.9	99.9	99.9					
US loan notes 2022	7.17%	(9.1)	(14.9)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(11.4)
US loan notes 2014	Floating	(19.0)	(19.1)	(19.1)					
US loan notes 2016	7.26%	(45.5)	(54.0)	(3.3)	(3.3)	(47.4)			
US loan notes 2018	5.98%	(90.9)	(113.4)	(5.4)	(5.4)	(5.4)	(5.4)	(91.8)	
US loan notes 2019	7.61%	(60.6)	(86.3)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(63.3)
Finance leases	Various	(1.6)	(1.9)	(0.8)	(0.6)	(0.3)	(0.2)		
Bank overdrafts	Floating	(9.6)	(9.6)	(9.6)					
Unsecured bank loans	Floating	(63.0)	(63.2)	(61.0)	(1.0)	(0.3)	(0.3)	(0.3)	(0.3)
Total		(199.4)	(262.5)	(4.6)	(15.6)	(58.7)	(11.2)	(97.4)	(75.0)

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.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.4.6 Fair value

Financial instruments included in financial statements are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. The Group generally calculates its own fair values using comparable observed market prices and a valuation model using the respective and relevant market data for the instrument being valued.

4.4.6.1 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 2014 and 31 December 2013. 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.

	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets at fair value £m	At amortised cost £m	Total carrying value £m	Fair value if different £m
2014						
Cash and cash equivalents			43.8		43.8	
Bank overdrafts				(23.0)	(23.0)	
Borrowings due within one year				(2.0)	(2.0)	
Borrowings due after one year				(218.8)	(218.8)	(248.7)
Trade and other payables*				(361.4)	(361.4)	
Trade receivables				318.0	318.0	
Investments			19.0	7.9	26.9	
Other current financial assets/(liabilities)						
Derivative assets**	8.1	2.4			10.5	
Derivative liabilities***		(9.2)			(9.2)	
Total	8.1	(6.8)	62.8	(279.3)	(215.2)	
2013						
Cash and cash equivalents			99.9		99.9	
Bank overdrafts				(9.6)	(9.6)	
Borrowings due within one year	(19.0)			(61.8)	(80.8)	(80.4)
Borrowings due after one year				(208.9)	(208.9)	(238.3)
Trade and other payables*				(353.6)	(353.6)	
Trade receivables				293.6	293.6	
Investments			20.2		20.2	
Other current financial assets/(liabilities)						
Derivative assets**	16.5	5.9			22.4	
Derivative liabilities***		(3.1)			(3.1)	
Total	(2.5)	2.8	120.1	(340.3)	(219.9)	

* Trade and other payables exclude corporation tax and other tax liabilities and include liabilities of £15.4m (2013: £24.2m) falling due after more than one year; £10.2m in 1-2 years, £2.0m in 2-3 years, £2.0m in 3-4 years, £1.2m in 4-5 years (2013: £10.1m in 1-2 years, £2.8m in 2-3 years, £2.0m in 3-4 years, £9.3m in 4-5 years)

** Includes £nil (2013: £0.2m) falling due after more than one year.

*** Derivative liabilities include liabilities of £0.4m (2013: £0.3m) falling due after more than one year: £nil in 1-2 years and £nil in 2-3 years (2013: £nil in 1-2 yrs and £0.3m in 2-3 yrs). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The increase in value of net investment hedge derivatives in the year of £3.6m (2013: £3.4m) is shown in the consolidated statement of comprehensive income.

There are no other financial liabilities included within payables disclosed above and finance leases disclosed in section 4.4.5.2.

The following table shows the Group's financial instruments held at fair value.

	Quoted prices in active markets for identical assets and liabilities Level 1 £m	Significant other observable inputs Level 2 £m	Unobservable inputs Level 3 £m	Total £m
As at 31 December 2014				
Financial assets measured at fair value				
Equity instruments*	19.0			19.0
Cash and cash equivalents	43.8			43.8
Foreign currency forward contracts		10.5		10.5
	62.8	10.5	-	73.3
Financial liabilities measured at fair value				
Foreign currency forward contracts		(9.2)		(9.2)
	-	(9.2)	-	(9.2)
As at 31 December 2013				
Financial assets measured at fair value				
Equity instruments*	17.8			17.8
Cash and cash equivalents	99.9			99.9
Interest rate swaps		0.8		0.8
Foreign currency forward contracts		21.6		21.6
	117.7	22.4	-	140.1
Financial liabilities measured at fair value				
Debt instruments		(19.0)		(19.0)
Foreign currency forward contracts		(3.1)		(3.1)
Deferred consideration			(9.6)	(9.6)
	-	(22.1)	(9.6)	(31.7)

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

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £10.5m and £9.2m respectively are valued by level 2 techniques. The valuations are derived from discounted contractual cash flows using observable, and directly relevant, market interest rates and foreign exchange rates from market data providers.

Valuation techniques for level 3 inputs

Deferred consideration, being contingent consideration of £nil (2013: £8.7m) and amounts payable to employees of £nil (2013: £0.9m) were previously measured at fair value using significant unobservable (level 3) inputs.

Deferred consideration reconciliation

	£m
As at 1 January 2014	9.6
Arising in the year	(9.3)
Exchange adjustment	(0.3)
As at 31 December 2014	-

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.4.6.2 Valuation methodology

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

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

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

Derivative assets and liabilities, including foreign exchange forward contracts, interest rate swaps and metal 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 pension liabilities. The fair value is based on the price quotation at the reporting date.

4.4.6.3 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.

4.4.7 Market risk sensitivity analysis on financial instruments

This section shows how the fair value of financial instruments presented can change for a given change in market rates.

The values shown in the table below are estimates of the impact on financial instruments only. The underlying risks that these financial instruments have been acquired to hedge will move in an opposite direction.

4.4.7.1 Overview

In estimating the sensitivity of the financial instruments all other variables are held constant to determine the impact on profit before tax and equity. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

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

4.4.7.2 Financial derivatives sensitivity table

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

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in Sterling £m	10% strengthening in Sterling £m	10% decrease in base metal costs £m	10% increase in base metal costs £m
At 31 December 2014						
Impact on income statement (loss)/gain	-	-	(1.4)	1.4	(0.1)	0.1
Impact on equity (loss)/gain	-	-	(52.1)	52.1	-	-
At 31 December 2013						
Impact on income statement (loss)/gain	-	-	(2.8)	2.8	(0.1)	0.1
Impact on equity (loss)/gain	-	-	(63.5)	63.5	-	-

4.5 Retirement benefits

IMI offers a number of defined benefit arrangements to employees that will not be paid until more than a year after the period in which they are earned, for example pension benefits, jubilee plans, post-employment and other long-term employee benefit arrangements.

There is a significant degree of estimation involved in predicting the ultimate benefits payable under these defined benefit arrangements in respect of which the Group holds net liabilities on its balance sheet. This section explains how the value of these benefits payable and any assets funding the arrangements are accounted for in the Group financial statements and gives details of the key assumptions upon which the estimations are based.

Assets and liabilities for defined contribution arrangements are minimal as they relate solely to short-term timing differences between the period during which benefits have accrued and when contributions are paid into schemes.

Defined Contribution ('DC'): Arrangements where the employer pays fixed contributions into an external fund on behalf of the employee (who is responsible for making the investment decision and therefore assumes the risks and rewards of fund performance). Contributions to these arrangements are recognised in the consolidated income statement as incurred.

Defined Benefit: A defined benefit pension plan is a pension arrangement in which the employer promises a specified annual benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. In some cases, this benefit is paid as a lump sum on leaving the Company or while in the service of the Company rather than as a pension. The Group underwrites one or more risks in meeting these obligations and therefore any net liability or surplus in these arrangements in shown on the Group balance sheet.

4.5.1 Summary information

Net pension deficit: £34.7m (2013: £157.9m)

The net pension deficit or 'net liability for defined benefit obligations' ('DBO') at 31 December 2014 was £34.7m (2013: £157.9m). A further £nil (2013: £0.8m) was recognised in liabilities held for sale. The assets and liabilities of the schemes are aggregated, recognised in the consolidated balance sheet and shown within non-current liabilities or in non-current assets if a scheme is in surplus and it is recoverable.

Number of Defined Benefit arrangements: 64 (2013: 74)

Ten schemes were divested on 1 January 2014, as part of the disposal of the Retail Dispense businesses. A further scheme in Sweden had its liabilities bought-out on 1 September 2014 via an insurance contract. In the UK, the IMI Pension Fund commenced winding-up procedures and has been replaced by two new Schemes ('the UK Funds').

The Group provides pension benefits through a mixture of funded and unfunded defined benefit and defined contribution ('DC') arrangements, although its strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible to minimise the liability of the Group. Assessments of the obligations of the defined benefit plans are carried out by independent actuaries, based on the projected unit credit method. An historical split of the types of defined benefit schemes in operation is as follows:

Type of scheme	Qty No.	Assets £m	% of total assets	Defined benefit obligation £m	% of total liabilities
2014					
Final salary*	23	1,369.8	93%	(1,362.7)	90%
Cash balance**	12	101.0	7%	(127.4)	9%
Jubilee***	11	-	0%	(2.0)	0%
Other	18	5.0	0%	(18.3)	1%
Total	64	1,475.8	100%	(1,510.4)	100%
Asset ceiling		(0.1)			
Revised assets		1,475.7			
2013					
Final salary*	28	1,189.1	92%	(1,321.2)	91%
Cash balance**	13	99.4	8%	(112.1)	8%
Jubilee***	13	-	0%	(2.1)	0%
Other	20	5.1	0%	(16.6)	1%
Total	74	1,293.6	100%	(1,452.0)	100%
Asset Ceiling		(0.3)			
Revised assets		1,293.3			

* Final Salary scheme: The pension available to a member in a final salary arrangement will be a proportion of the member's salary at or around their retirement date. This proportion will be determined by the member's length of pensionable service, their accrual rate and any particular circumstances under which the member retires (for example early ill-health retirement).

** Cash Balance: A cash balance scheme is a form of defined benefit pension under which the member has the right to a defined lump sum on retirement rather than a defined amount of pension receivable. For example a cash balance plan may have minimum or guaranteed rates of return on pension contributions. The amount of pension to which that lump sum may be converted is determined by the annuity rates prevailing at the time of conversion.

*** Jubilee: Jubilee plans provide for cash award payments which are based on completed lengths of service. These payments are often made on cessation of service with the Company, subject to a minimum period of service.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

The table below reconciles the movement in the UK and overseas defined benefit obligation between 1 January 2014 and 31 December 2014.

	UK £m	Overseas £m	Total £m
Net Defined Benefit Obligation at 1 January 2014	(63.1)	(94.8)	(157.9)
Movement recognised in:			
Income statement	3.4	(4.3)	(0.9)
Other comprehensive income	49.8	(29.4)	20.4
Cash flow statement	70.0	26.6	96.6
Disposals	-	7.1	7.1
Net Defined Benefit Surplus/ (Obligation) at 31 December 2014	60.1	(94.8)	(34.7)

Asset profile of schemes

The following table sets out the profile of the overall assets of the schemes (to give an indication of their risk profile), the comparative amounts of the funded and unfunded DBO and a split of the balance sheet impact between schemes with a net pension surplus and a net pension deficit. As noted later in this section, further de-risking was undertaken in January 2014, following the payment into the UK Funds from the proceeds of the sale of the Retail Dispense businesses.

	2014 £m	2013 £m
Quoted equities	22.9	32.0
Quoted bonds	703.1	558.4
Total quoted assets	726.0	590.4
Private equities	85.0	69.8
Insurance policies	287.9	286.6
IMI Scottish Limited Partnership	15.1	13.0
Hedge Funds	185.4	169.0
Property	34.8	40.1
Private finance initiatives	76.8	71.7
Other*	64.8	53.0
Total unquoted assets	749.8	703.2
Fair value of assets	1,475.8	1,293.6
Restriction due to asset ceiling	(0.1)	(0.3)
DBOs for funded schemes	(1,445.0)	(1,373.0)
DBOs for unfunded schemes	(65.4)	(79.0)
Included in liabilities held for sale	-	0.8
Net liability for DBOs	(34.7)	(157.9)
Schemes in net pension deficit	(94.9)	(158.2)
Schemes in net pension surplus	60.2	0.3

* 'Other' assets include the market value of interest, inflation, equity and currency swaps relating to UK scheme assets and liabilities.

The overseas assets of £152.1m (2013: £147.1m) comprise equities of £22.9m (2013: £32.0m), bonds of £88.7m (2013: £70.3m), property of £9.5m (2013: £9.4m) and other assets of £31.0m (2013: £35.4m).

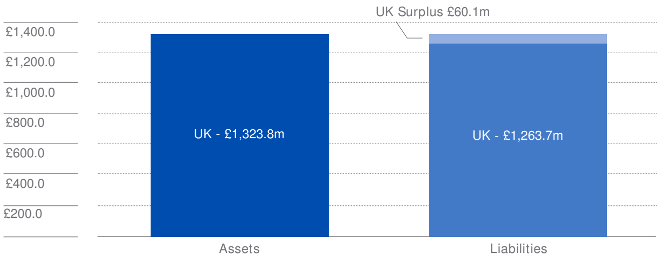
Funded: The majority of the Group defined benefit and other post-employment benefit arrangements are funded, which means they are linked to specific plan assets that have been segregated in a trust or foundation.

Unfunded: Plans that are not funded are those that are not backed by segregated assets. These include some pension plans but also a number of other long-term arrangements for the benefit of our employees, with benefits payable while they are employed by the Group but more than 12 months after the related service is rendered. Actuarial gains and losses on other long-term arrangements are recognised in the income statement in the period in which they arise.

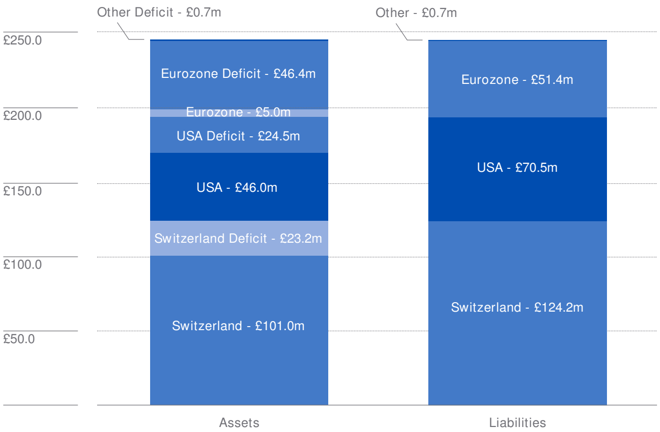
Regional split of defined benefit obligation

The following charts show the geographical profile of the total defined benefit obligations:

UK pension assets & liabilities



Overseas pension assets & liabilities



The USA deficit above excludes £18.9m of assets relating to unqualified plans classified as investments (see section 4.4.6).

Average Duration by geography

The following table shows the weighted average number of years (or duration) over which pension benefits are expected to be paid:

Location	Years
UK	15.7
Switzerland	14.4
USA	14.1
Eurozone	15.4

4.5.2
The IMI Pension Funds (now 'The UK Funds')

The United Kingdom constitutes 84% of Group defined benefit liabilities and 90% of Group defined benefit assets. Historically 'the UK Funds' offered final salary benefits to UK employees until it closed to new entrants in 2005 and to future accrual on 31 December 2010. The UK Trustee Board and the Company have continued a gradual programme of de-risking activities. Recently this has included:

In 2013 the Group increased its inflation hedging and reduced the investment in higher risk assets to reduce the funding volatility. In 2014 £70m cash was injected following the disposal of the Retail Dispense businesses, £53.2m of which was paid in January 2014 which enabled the Trustee to remove all exposure to public equities:

In December 2014, winding-up procedures commenced, with over 2,500 members accepting either trivial commutation payments or winding-up lump sums as full settlement of their Fund pension. The total of the lump sum payments was £25.2m and led to a £3.5m settlement gain. Those members who were not eligible or did not take up the offer of a single cash lump sum transferred to one of two new Funds (IMI 2014 Pensioner Fund or the IMI 2014 Deferred Fund). Both Funds will continue to be run by the same Trustee Board as the IMI Pension Fund with assets held via the IMI Common Investment Fund.

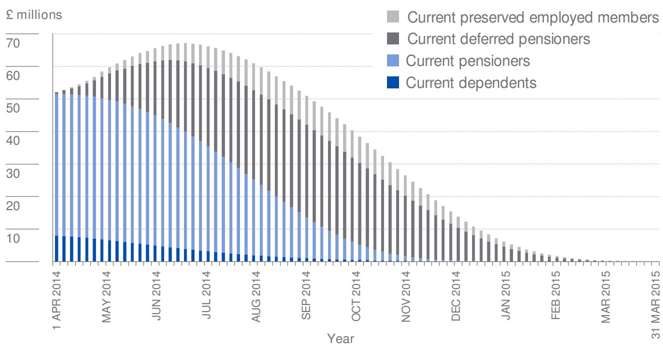
The UK Trustee has determined an investment objective to achieve, over time, a position of self-sufficiency, defined using a discount rate of gilts + 0.25%. The last full actuarial valuation was undertaken as at 31 March 2014 and the six year recovery plan agreed with the Company as a result of the 2011 Valuation was re-ratified, with payments of £16.8m being paid each July until 2016. Contributions paid or to be paid into the Group's UK Funds since 2011, are shown in the table below, split between the six year recovery plan and additional contributions.

	Recovery plan £m	Additional amounts £m	Total £m
2011	16.8	36.1	52.9
2012	16.8	-	16.8
2013	16.8	16.8	33.6
2014	16.8	53.2	70.0
2015	16.8	-	16.8
2016	16.8	-	16.8
Total	100.8	106.1	206.9

The two new UK Funds will have actuarial valuations as at 31 March 2015 which, on completion, will lead to two new recovery plans (if required). As at 31 December 2014 the two UK Funds were, in total, 64% (2013: 54%) hedged against interest rates and 70% (2013: 48%) hedged against UK inflation on the Trustee's self-sufficiency basis.

The following chart shows the projected liability cash flows by year of the Group's UK defined benefit liabilities:

Split by membership type



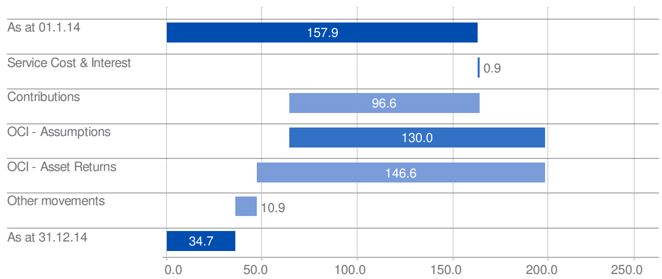
4.5.3
Specific effect on financial statements

The corresponding entries for increases and decreases in the net pension deficit reported in the balance sheet are reflected as follows:

- Cash flow statement: When the Group makes cash contributions to fund the deficit they are reflected in the cash flow statement and reduce the net deficit.
- Other comprehensive income ('OCI'): Movements in the overall net pension deficit are recognised through OCI when they relate to changes in actuarial assumptions or the difference ('experience gain or loss') between previous assumptions and actual results.
- Income statement: Movements in the overall net pension deficit are recognised in the income statement when they relate to changes in the overall pension promise, due to either an additional period of service (known as 'current service cost'), changes to pension terms in the scheme rules (known as 'past service cost'), or closure of all or part of a scheme (known as settlements and curtailments). The interest charge/income on the net deficit/surplus position is also recognised in the income statement.

The following chart shows how the movements in the total net defined benefit obligation in the balance sheet in the year were reflected in the financial statements. As discussed earlier in this report, the comparative assets and liabilities associated with the Retail Dispense businesses were separately reported as assets or liabilities held for sale.

Net IAS19 Pension Deficit £m



SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.5.3.1 Cash flow impacts

	2014			2013		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Amounts from employees	-	3.1	3.1	-	3.2	3.2
Amounts from employers	70.0	4.4	74.4	33.6	7.6	41.2
Benefits and settlements paid directly by the Group	-	22.2	22.2	-	7.7	7.7
Total	70.0	29.7	99.7	33.6	18.5	52.1

The expected contributions to defined benefit arrangements in 2015 are as follows:

	UK £m	Overseas £m	Total £m
Employer contributions	16.8	4.2	21.0
Employee contributions	-	2.8	2.8
Total	16.8	7.0	23.8

4.5.3.2 Other comprehensive income

Movements in pension assets and liabilities that arise during the year from changes in actuarial assumptions, or because actual experience is different from the underlying actuarial assumptions, are recognised in equity via other comprehensive income. These movements are analysed below:

	2014				2013			
	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
Change in discount rate	(170.1)	(41.3)	-	(211.4)	39.4	13.7	-	53.1
Change in inflation	64.5	0.5	-	65.0	(75.9)	-	-	(75.9)
Change in other assumptions	6.4	(3.1)	-	3.3	-	0.4	-	0.4
Actuarial experience	12.1	1.0	-	13.1	5.6	3.0	-	8.6
Asset experience	136.9	9.5	-	146.4	49.1	6.2	-	55.3
Actuarial gains/(losses) in the year	49.8	(33.4)	-	16.4	18.2	23.3	-	41.5
Change in the asset ceiling	-	0.2	-	0.2	-	(0.1)	-	(0.1)
Exchange gains/(losses)	-	3.9	(0.1)	3.8	-	(1.6)	0.1	(1.5)
Gains/(losses) recognised through equity	49.8	(29.3)	(0.1)	20.4	18.2	21.6	0.1	39.9

IMI takes advice from independent actuaries regarding the appropriateness of the assumptions used to determine the present value of the defined benefit obligations. These assumptions include the discount rate applied to the assets and liabilities, the life expectancy of the members, their expected salary and pension increases and inflation. The assumptions used for this purpose in these financial statements are summarised below:

	Weighted Averages					
	31 Dec 2014		31 Dec 2013		31 Dec 2012	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.1	n/a	3.5	n/a	3.0	n/a
Inflation - CPI	2.1	1.7	2.5	1.8	2.0	1.9
Discount Rate	3.6	2.1	4.5	3.3	4.3	2.8
Expected salary increases	n/a	2.2	n/a	2.3	n/a	2.8
Rate of pension increases	3.1	0.3	3.5	0.5	3.0	0.5

	2014 Years	2013 Years	2012 Years
Life expectancy at age 65 (UK Funds only)			
Current male pensioners	21.2	21.0	20.9
Current female pensioners	24.0	23.9	23.8
Future male pensioners	23.0	22.8	22.7
Future female pensioners	26.0	25.9	25.8

The mortality assumptions used for the UK Funds above 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 2014, and the assumptions used as at 31 December 2014 and 2013 reflect the results of this review. The allowance for future improvements in mortality rates from 2014 is in line with the CMI's (a research body funded by the actuarial profession to collect and analyse UK mortality rates) 2013 Core Projection model, with a long-term improvement rate of 1.5% pa.

The table below left illustrates how the UK Funds' net pension surplus would decrease (excluding the impact of inflation rate and interest rate hedging), as at 31 December 2014, in the event of the following reasonable changes in the key assumptions above.

The table below right shows how the net pension deficit for IMI's non-UK plans would increase, in the event of the following reasonable changes in the key assumptions above.

UK	
Discount rate 0.1% pa lower	£17m
Inflation-linked pension increases 0.1% pa higher*	£11m
Increase of one year in life expectancy from age 65	£41m
10% fall in non-bond-like assets**	£42m

Overseas	
Discount rate 0.1% pa lower	£4m
Salary increases 0.1% higher	£1m
Increase of one year in life expectancy at age 65	£7m

In each case all other assumptions are unchanged.

* This is an in-payment pension increase sensitivity

** Fund assets excluding cash, bonds, insurance policies and the Funds' interest in the IMI Scottish Limited Partnership.

4.5.3.3 Income statement

In accordance with IAS19, pension costs recorded through the income statement primarily represent the increase in the defined benefit obligation based on employee service during the year and the interest on the net liability or surplus for defined benefit obligations in respect of employee service in previous years. The table below shows the total cost reported in the income statement in respect of pension obligations and therefore also includes the cost of DC schemes.

	2014				2013			
	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
Current service cost	-	4.1	0.8	4.9	-	5.4	0.7	6.1
Past service (credit)/cost	-	(0.1)	-	(0.1)	-	0.7	-	0.7
Settlement/curtailment	(3.5)	(4.5)	-	(8.0)	-	(0.1)	-	(0.1)
Recognition of losses	-	-	1.0	1.0	-	-	0.3	0.3
DC employer contributions	3.4	5.4	-	8.8	3.5	5.6	-	9.1
Pension expense - operating costs	(0.1)	4.9	1.8	6.6	3.5	11.6	1.0	16.1
Interest on DBO	52.5	6.7	0.5	59.7	49.0	6.9	0.5	56.4
Interest on Assets	(52.4)	(4.2)	-	(56.6)	(44.7)	(3.4)	-	(48.1)
Interest expense - financing costs	0.1	2.5	0.5	3.1	4.3	3.5	0.5	8.3

The settlement gain in relation to the UK Funds arose following the splitting of the UK fund into two newly formed schemes. The £4.5m overseas settlement gain relates to the buy-out of our Swedish scheme, a further £1.0m of payroll taxes were incurred as a result of this, resulting in a net settlement gain of £3.5m. Both settlement gains have been treated as exceptional items in the income statement, see section 2.2.3.

The income statement charges and credits in the above table are presented on a total Group basis (i.e. including both continuing and discontinued operations). The charges relating to discontinued operations contributed £nil (2013: £0.4m) to the current service cost, £nil (2013: £2.1m) to the DC employer contributions and £nil (2013: £0.4m) to the net finance expense.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.5.4 Overall reconciliation of changes in the net liability for de□ned bene□t obligations

	2014				2013			
	Defined benefit obligation £m	Assets £m	Asset Ceiling £m	Net defined benefit asset/ (liability) £m	Defined benefit obligation £m	Assets £m	Asset Ceiling £m	Net defined benefit asset/ (liability) £m
Brought forward at start of year	(1,450.2)	1,292.6	(0.3)	(157.9)	(1,442.5)	1,210.5	(0.2)	(232.2)
Current service cost	(4.9)	-	-	(4.9)	(6.1)	-	-	(6.1)
Past service cost - plan amendments	0.1	-	-	0.1	(0.7)	-	-	(0.7)
Past service cost - curtailment	-	-	-	-	0.1	-	-	0.1
Settlement	33.0	(25.0)	-	8.0	-	-	-	-
Net Interest (Cost)/Income on Net Defined Benefit (Liability)/Asset	(59.7)	56.6	-	(3.1)	(56.4)	48.1	-	(8.3)
Immediate Recognition of losses - Other Long-Term Benefits	(1.0)	-	-	(1.0)	(0.3)	-	-	(0.3)
Total (charged)/credited to income statement	(32.5)	31.6	-	(0.9)	(63.4)	48.1	-	(15.3)
Actuarial Gain due to Experience	13.1	-	-	13.1	8.6	-	-	8.6
Actuarial Loss due to Financial Assumption Changes	(146.4)	-	-	(146.4)	(22.8)	-	-	(22.8)
Actuarial Gain due to Demographic Assumption Changes	3.3	-	-	3.3	0.4	-	-	0.4
Return on Plan Assets* Greater than Discount Rate	-	146.4	-	146.4	-	55.3	-	55.3
Change in Effect of Asset Ceiling	-	-	0.2	0.2	-	-	(0.1)	(0.1)
Total remeasurements recognised in other comprehensive income	(130.0)	146.4	0.2	16.6	(13.8)	55.3	(0.1)	41.4
Employer contributions	-	74.4	-	74.4	-	41.2	-	41.2
Employee contributions	(3.1)	3.1	-	-	(3.2)	3.2	-	-
Benefits and settlements paid directly by the Company	22.2	-	-	22.2	7.7	-	-	7.7
Benefits paid from plan assets	65.0	(65.0)	-	-	65.4	(65.4)	-	-
Net cash outflow/(inflow)	84.1	12.5	-	96.6	69.9	(21.0)	-	48.9
Disposals	11.0	(3.9)	-	7.1	-	-	-	-
Transfer to liabilities held for sale	-	-	-	-	1.8	(1.0)	-	0.8
Changes in exchange rates	7.2	(3.4)	-	3.8	(2.2)	0.7	-	(1.5)
Total other movements	18.2	(7.3)	-	10.9	(0.4)	(0.3)	-	(0.7)
Carried forward at end of year	(1,510.4)	1,475.8	(0.1)	(34.7)	(1,450.2)	1,292.6	(0.3)	(157.9)

* Net of asset management costs

4.6 Share capital

The ordinary shareholders of the Group own the Company. This section shows how the total number of ordinary shares in issue has changed during the year and how many of these ordinary shares are held as Treasury shares or in Employee Benefit Trusts, to be used to satisfy share options and awards to Directors and employees of the Company, as part of employee share ownership programmes. This section also sets out the dividends paid or proposed to be paid to shareholders.

4.6.1 Number and value of shares

	2014						2013	
	Ordinary Shares 25p per share Number (m)	Ordinary Shares 28 4/7p per share Number (m)	'B' Shares 200p per share Number (m)	'C' Shares 0.001p per share Number (m)	Deferred shares 0.001p per share Number (m)	Value (£m)	Ordinary shares of 25p each Number (m)	Value (£m)
In issue at the start of the year	341.0	-	-	-	-	85.3	340.7	85.3
Share cancellations	(14.6)	-	-	-	-	(3.7)	-	-
Share consolidation	(326.4)	285.6	-	-	-	-	-	-
Issued to satisfy employee share schemes	-	0.4	-	-	-	0.1	0.3	-
Issue of 'B' shares - Immediate Capital Option	-	-	75.9	-	-	151.9	-	-
Issue of 'B' shares - Deferred Capital Option	-	-	5.5	-	-	10.9	-	-
Redemption of 'B' shares at nominal value	-	-	(81.4)	-	-	(162.8)	-	-
Issue of 'C' shares - Income Option	-	-	-	228.7	-	-	-	-
Dividend paid on 'C' shares	-	-	-	(228.7)	228.7	-	-	-
Cancellation of deferred shares	-	-	-	-	(228.7)	-	-	-
In issue at the end of the year	-	286.0	-	-	-	81.7	341.0	85.3

Share consolidation

The B and C Share Scheme was accompanied by a share consolidation, which is a commonly used arrangement to ensure that the Group's share price after the return of capital is broadly equivalent to the share price prior to the return of capital, which ensures that targets and prices in the Group's various share-based remuneration schemes remain appropriate.

On 16 January 2014 the Company cancelled 14,598,706 ordinary shares that had been held as treasury shares. On 13 February 2014 the Company cancelled a further 5 ordinary shares that had been held as treasury shares.

On 17 February 2014, the Group effected the return of cash to shareholders. 75,928,619 'B' shares of 200 pence each were issued under the Immediate Capital Option; 5,475,074 'B' shares of 200 pence each were issued under the Deferred Capital Option; and 228,744,051 'C' shares of 0.001 pence each were issued under the Income Option.

'B' shares for both the Immediate Capital Option and Deferred Capital Option were redeemed at their nominal value of 200 pence per share on 17 February 2014 and 6 April 2014, respectively.

A dividend of 200 pence per share was declared on the 'C' shares, which was paid on 4 March 2014. Following declaration of the dividend the 'C' shares became deferred shares.

On 17 February 2014, a share consolidation was performed whereby the existing ordinary shares of 25 pence per share were replaced by new ordinary shares of 28 4/7 pence per share at a ratio of 7 new shares for 8 existing shares.

On 26 February 2014 the deferred shares were cancelled.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.6.2 Share movements in the year

Movements in shares due to share issues and purchases during the year were as follows:

	Number of ordinary shares of 25p / 28 4/7p each (million)			
	Employee Benefit Trust	Treasury	Other	Total
25 pence shares in issue at 31 December 2013	1.8	30.9	308.3	341.0
Shares allocated under employee share schemes	(0.3)		0.3	-
Share cancellations		(14.6)		(14.6)
Share consolidation	(0.2)	(2.0)	(38.6)	(40.8)
28 4/7 pence shares in issue at 17 February 2014	1.3	14.3	270.0	285.6
New issues to satisfy employee share scheme awards			0.4	0.4
Market purchases	2.9		(2.9)	-
Shares allocated under employee share schemes	(2.5)		2.5	-
At 31 December 2014	1.7	14.3	270.0	286.0

During the year 0.4m (2013: 0.3m) shares were issued under employee share schemes realising £1.8m (2013: £1.6m).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of 2.9m (2013: 2.4m) shares with an aggregate market value of £40.0m (2013: £31.3m) and a nominal value of £0.8m (2013: £0.6m). Associated transaction costs amounted to £nil (2013: £0.1m).

Share options exercised in 2014 were settled using the shares in the Group’s Employee Benefit Trust. In 2014 2.8m (2013: 2.8m) shares were issued for cash of £9.3m (2013: £7.2m).

Of the 16.0m (2013: 32.7m) shares held within retained earnings, 1.7m (2013: 1.8m) shares with an aggregate market value of £21.5m (2013: £27.5m) are held in trust to satisfy employee share scheme vesting.

Treasury shares

In 2013, on-market purchases of 11.8m shares were conducted relating to the share buyback programme. The aggregate market value of these shares at the dates of purchase was £163.2m. Dealing costs relating to these purchases were £1.1m. There were no such transactions in 2014.

4.6.3 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.

	2014 £m	2013 £m
Current year final dividend - 24.0p per qualifying ordinary share (2013: 22.5p)	64.8	60.7

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

	2014 £m	2013 £m
Prior year final dividend paid - 22.5p per qualifying ordinary share (2013: 20.7p)	60.6	66.0
Current year interim dividend paid - 13.6p per qualifying ordinary share (2013: 12.8p)	36.7	40.2
	97.3	106.2

4.7 Share options

The Group uses share option schemes to reward and retain its employees. The estimated cost of awarding these share options is charged to the income statement over the period that the Group benefits from the employees' services. This cost is then added back to retained earnings, to reflect that there is no overall impact on the Group's balance sheet until the shares are issued to the employees when the options are exercised.

The individual share option schemes, the number of options outstanding under each of them, the estimated cost of these options recognised in the income statement and the assumptions used in arriving at this estimated cost are described in this section.

4.7.1 Outstanding share options

At 31 December 2014, options to purchase ordinary shares had been granted to, but not yet exercised by, participants of IMI share option schemes as follows:

	Date of grant	Number of shares	Price	Dates from which exercisable
IMI Sharesave Scheme	09.04.09	20,517	201.36p	01.08.14 to 31.01.15
	06.04.10	41,262	510.92p	01.08.15
	06.04.11	26,556	849.02p	01.08.14 or 01.08.16
	10.04.12	105,603	890.01p	01.08.15 or 01.08.17
	05.04.13	70,012	1196.50p	01.08.16 or 01.08.18
	06.05.14	97,909	1384.02p	01.08.17 or 01.08.19
		361,859		
Global Employee Share Purchase Plans	19.12.11	32,706	849.02p	01.08.14 or 01.08.16
	10.04.12	1,807	868.05p	01.08.14 to 31.01.15
	10.04.12	5,884	890.01p	01.08.15 or 01.08.17
	20.08.13	30,712	1287.60p	01.08.15
	26.08.14	30,784	1225.00p	01.08.16
		101,893		
Executive Share Option Scheme	23.03.05	7,960	420.50p	23.03.08 to 23.03.15
		7,960		
IMI Share Option Plan	03.09.09	17,898	440.93p	03.09.12 to 03.09.19
	22.03.10	28,500	645.00p	22.03.13 to 22.03.20
	23.03.11	282,000	971.83p	23.03.14 to 23.03.21
	04.05.12	740,265	980.67p	04.05.15 to 04.05.22
	27.11.12	17,950	1007.33p	27.11.15 to 27.11.22
	23.03.13	518,806	1322.70p	23.03.16 to 23.03.23
	10.05.13	10,000	1294.33p	10.05.16 to 10.05.23
	22.10.13	74,000	1518.33p	22.10.16 to 22.10.23
	11.03.14	540,983	1467.00p	11.03.17 to 11.03.24
		2,230,402		
IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan)	03.04.06	4,908	-	03.04.09 to 03.04.16
	05.04.07	2,794	-	29.03.10 to 05.04.17
	04.04.08	8,500	-	04.04.11 to 04.04.18
	10.03.09	124,380	-	10.03.12 to 10.03.19
	10.03.11	32,214	-	10.03.14 to 10.03.21
	04.05.12	185,826	-	04.05.15 to 04.05.22
	12.03.13	109,233	-	12.03.16 to 12.03.23
	22.10.13	98,792	-	22.10.16 to 22.10.23
	11.03.14	162,850	-	11.03.17 to 11.03.24
		729,497		
Share Matching Plan	22.03.10	142,081	-	22.03.13 to 22.03.20
	28.03.11	193,365	-	28.03.14 to 28.03.21
	10.05.12	895,039	-	10.05.15 to 10.05.22
	12.03.13	503,396	-	12.03.16 to 12.03.23
	01.04.14	392,954	-	01.04.17 to 01.04.24
		2,126,835		
Total		5,558,446		

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.7.2 Schemes under which options are outstanding

The options in the above table relate to the following share-based payment schemes:

IMI Sharesave Scheme ('SAYE')

This scheme has now expired but options are still outstanding under it. This scheme was open to the majority of the Group's UK employees, including the executive directors, and allowed 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 IMI shares. SAYE options may be exercised within six months of the date they first become exercisable. Shareholder approval will be sought for a new sharesave scheme to enable IMI to continue to grant sharesave options on the same basis.

Global Employee Share Purchase Plans ('GESPP')

These plans were introduced in 2011 for the USA and Germany. The German and USA GESPP's offer the opportunity to buy shares in IMI at a fixed price at a future date. The German GESPP mirrors the UK Sharesave scheme, with a minimum/maximum savings limit per month and contract duration of three to five years. The USA GESPP also operates in a similar way to the UK Sharesave Scheme, with a minimum/maximum savings limit per month, but the contract duration is for a fixed period of two years and different taxation conditions apply for the exercise period.

Executive Share Option Scheme

This scheme is no longer operated, but options are still outstanding under it. Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in EPS above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown in section 4.7.1.

IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan ('PSP'))

The PSP is open to the Company's executive directors and selected senior managers within the Group. Awards are granted subject to stretching performance targets the nature of which differ depending upon the year in which the award was granted.

IMI Share Option Plan ('SOP')

Awards have been granted to the Company's executive directors and selected senior managers within the Group. Awards have been granted subject to stretching performance targets the nature of which differs depending upon the year in which the award was granted.

4.7.3 Other share-based payment arrangements

The Group also operates the following employee share plans:

Share Matching Plan ('SMP')

The delivery of the executive directors' and selected senior managers' annual bonuses is governed by the individual's 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 bonus is paid in cash. The SMP has been operated on the basis that if the SOG is not achieved a proportion of any annual bonus will be mandatorily deferred for three years and delivered in IMI shares under the SMP. This mandated investment (if the SOG is not achieved) has been matched from 75% up to a maximum of 200%. These matching shares can be earned if performance conditions over the three-year vesting period are met.

Qualifying employees have also been able to elect voluntarily to defer all or part of the remainder of their bonus, and invest personal funds, up to a maximum of 100% of their annual bonus opportunity. Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the 'gross equivalent' number of shares invested in the SMP) if performance conditions over the three-year vesting period are met.

The performance measures for SMP matching awards differ depending upon the year in which the award was granted. No further awards will be granted under the SMP. Refer to the Remuneration Report for information on the proposed new schemes.

Share Incentive Plan ('SIP')

The SIP is open to the majority of the Group's UK employees, including the executive directors. This scheme covers two separate opportunities for employees to share in IMI's success as follows:

- Partnership shares – allow employees to invest up to the statutory maximum from pre-tax pay, which is used to buy IMI shares.
- Free shares – allows a grant of shares to employees each year, up to the statutory maximum.

Shares acquired or awarded under the SIP are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company.

4.7.4
Options granted during the year

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
IMI Sharesave Scheme			
2013	103	1196p	2016-2018
2014	103	1384p	2017-2019
Global Employee Share Purchase Plans			
2013	46	1288p	2015
2014	33	1225p	2016
IMI Share Option Plan			
2013	961	1345p	2016
2014	594	1467p	2017

	Number of options granted (thousand)	Normal exercisable date
Performance Share Plan		
2013	227	2016
2014	163	2017
Share Matching Plan		
2013	694	2016
2014	396	2017

4.7.5 Movement in outstanding options in the year

	Options not granted at £nil cost [1]			Options granted at £nil cost [2]	Total
	Number of options (thousand)	Range of option prices	Weighted average option price	Number of options (thousand)	Number of options (thousand)
Outstanding at 1 January 2013	5,130	201-1007p	771p	5,011	10,141
Exercisable at 1 January 2013	182	201-890p	404p	2,254	2,436
Granted	1,109	1196-1518p	1329p	921	2,030
Exercised	1,465	201-890p	591p	1,477	2,942
Lapsed	508	201-1323p	871p	298	806
Outstanding at 31 December 2013	4,266	201-1518p	966p	4,157	8,423
Exercisable at 31 December 2013	259	358-645p	499p	1,255	1,514
Granted	730	1225-1467p	1444p	559	1,289
Exercised	1,440	201-1384p	780p	1,553	2,993
Lapsed	854	201-1518p	1087p	306	1,160
Outstanding at 31 December 2014	2,702	201-1518p	1157p	2,857	5,559
Exercisable at 31 December 2014	368	201-972p	862p	508	876

(1) Options not granted at nil cost include options granted under the following schemes: IMI Sharesave Scheme, Global Employee Share Purchase Plans, IMI Share Option Plan and Executive Share Option Scheme.

(2) Options granted with nil cost are those granted under the Performance Share Plan and Share Matching Plan.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.7.6
Share-based payment charge for the year

The total expense recognised for the year arising from share-based payments was £4.4m (2013: £8.5m) which comprises a charge of £14.4m (2013: £9.8m) for the year offset by a credit of £10.0m (2013: £1.3m) in respect of lapses.

£4.9m (2013: £6.1m) of the total charge and £3.3m (2013: £0.4m) of the total credit is in respect of options granted to directors.

4.7.7
Share-based payment valuation methodology

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted, based on a Black-Scholes option pricing model. The assumptions used for grants in 2014 included a dividend yield of 2.8% (2013: 2.1%), expected share price volatility of 31% (2013: 38%), a weighted average expected life of 3.5 years (2013: 3.5 years) and a weighted average interest rate of 1.1% (2013: 0.5%). The expected volatility is wholly based on the historical 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.

4.7.8
Other share-based payment disclosures

The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 is 7.24 years (2013: 7.15 years) and the weighted average fair value of share options granted in the year at their grant date was £8.03 (2013: £7.56).

The weighted average share price at the date of exercise of share options exercised during the year was £14.68 (2013: £13.12).

4.8
Non-controlling interests

Non-controlling interests are recorded as reductions from the income and equity recorded in the Group's financial statements. In accordance with IFRS, these arise because if the Group controls an operation, it accounts for that operation as if the Group were the only party holding an interest in it, but in spite of this control, when other parties have an interest in the operation, that interest should be reflected.

The deduction from income and equity therefore reflects the reduction in the Group's interest resulting from the third party's interest.

	Shanghai CCI £m	SLP £m	Total £m
Non-controlling interests as at 1 January 2014	2.7	43.9	46.6
Profit for the year attributable to non-controlling interests	-	2.8	2.8
Dividends paid to non-controlling interests	(0.2)	-	(0.2)
Income earned by partnership		(4.4)	(4.4)
2014 movement in non-controlling interest	(0.2)	(1.6)	(1.8)
Non-controlling interest as at 31 December 2014	2.5	42.3	44.8

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

The non-controlling interest denoted SLP relates to an interest in the IMI Scottish Limited Partnership which was owned by the IMI Pension Fund ('The Fund'), which provided the Fund with a conditional entitlement to receive income of £4.4m per annum unless the Group has not paid a dividend in the prior year or the Fund was fully funded. As referred to in section 4.5.2, during the year the IMI Pension Fund commenced winding up procedures and the relevant liabilities were transferred to one of two new funds, IMI 2014 Deferred Fund and IMI 2014 Pensioner Fund (together 'The Funds'). The interest in the SLP is now held jointly by the Funds and will continue to provide income of £4.4m per annum unless the Group has not paid a dividend in the prior year or the Funds are fully funded.

SECTION 5 – OTHER NOTES

5.1 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision because significant subjectivity exists regarding its outcome.

In our 2012 and 2013 accounts, we made reference to companies belonging to the British builders' merchant serving damages claims against IMI plc and others relating to alleged financial losses incurred in the UK as a result of anti-competitive behaviour undertaken by a number of manufacturers of copper plumbing tubes and copper plumbing fittings. This matter was settled during the year.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £144m (2013: £114m).

5.2 Related party transactions

Related parties are solely the key management personnel. The Board is considered to be the key management personnel of the Group.

	2014 £m	2013 £m
Short-term employee benefits*	5.1	6.5
Termination Benefits	-	0.5
Share-based payments	1.6	5.7
Total	6.7	12.7

* Short-term employee benefits comprise salary, including employers' social contributions, benefits earned during the year and bonuses awarded for the year.

There are no other related party transactions.

5.3 Subsequent events

Events that occur in the period between 31 December and the date of approval of the Annual Report can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December. If the event is an adjusting event, then an adjustment to the results is made. If a non-adjusting event after the year end is material, non-disclosure could influence decisions that readers of the financial statements make. Accordingly, for each material non-adjusting event after the reporting period we disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

The acquisition of Bopp & Reuther completed on 2 January 2015. This is categorised as a non-adjusting event and is discussed further in section 3.4.1.

5.4 Significant accounting policies

A. Subsidiaries and Non-controlling interests

The Group financial statements consolidate the financial statements of IMI plc and the entities it controls (its subsidiaries) for the year to 31 December. The Group has no significant interests which are accounted for as Associates or Joint Ventures as at 31 December 2014.

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including any goodwill relating to the subsidiary) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Taxation on the above accounting entries would also be recognised where applicable.

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

B. Use of judgements and estimates

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.

i. Judgement

Consolidation of the Scottish Limited Partnership ('SLP') and inclusion of the UK Pension Funds' interests in this special purpose entity as a non-controlling interest.

In June 2010, the Group made a special contribution to the IMI Pension Fund of £48.6m which the Trustee agreed to invest in the IMI Scottish Limited Partnership ('SLP') , an entity controlled by the Group, which conferred upon the Fund conditional rights to receive income of £4.4m a year for twenty years, or until the Fund becomes fully funded. One of the judgements involved in this issue was whether this entity qualified as a Special Purpose Entity as defined by SIC 12: Consolidation – Special Purpose Entities, and whether, in applying this interpretation, the entity should be consolidated. It was determined that the entity meets the definition of a Special Purpose Entity under IFRS10 and furthermore, upon consideration of the criteria in this interpretation, it was determined that

SECTION 5 – OTHER NOTES
Continued

consolidation was appropriate. As referred to in Section 4.5.2, during the year the IMI Pension Fund commenced winding up procedures and the relevant liabilities were transferred to one of two new funds, IMI 2014 Deferred Fund and IMI 2014 Pensioner Fund (together 'the Funds'). The interest in the SLP is now held jointly by the Funds.

There are certain conditions under which the Group can defer the amounts payable to the Funds, in particular, the Partnership Agreement includes a clause under which the payments in the year are deferred in the event that the Group has not paid a dividend in the preceding year. Because the Group has the ability to defer such payments indefinitely and is in control of the circumstances under which the arrangement can be terminated, the payments envisaged by the agreement are discretionary and therefore do not constitute a liability under IAS32. As such the Funds' interests in this SLP have been recorded as non-controlling interests, as a component of equity.

ii. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group bases its assumptions and estimates on information available when the consolidated financial statements are prepared. Market changes or circumstances arising beyond the control of the Group are reflected in the assumptions when they occur. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use is based on a discounted cash flow model. Cash flows are derived from the Group's long-term forecasts for the next three to five years. The principal assumptions in these calculations are the long-term growth rates and the discount rate applied to forecast cash flows in addition to the achievement of the forecasts themselves. Further information on this process and the assets affected is included in Section 3.2.

Disposed businesses

The Group has over the years disposed of a number of 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. These estimates are then regularly reviewed and provisions are recognised where necessary.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and related assumptions. These assumptions and the models used for estimating fair value for share-based payment transactions are disclosed in Section 4.7.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to the tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Trading provisions

The Group sells a wide range of highly technical products and whilst its products are designed and engineered to a high degree of precision and to customer specifications, there will always be a risk of products requiring modification, which can lead to warranty claims as well as excess or obsolete inventory, collection risk regarding receivables and other trading provisions. Provisions are held against these risks, which are estimated based on past experience of claims and by measuring the likely use of inventory in the future against past usage. The degree of dependence on future events makes these estimates inherently subjective.

Employee benefits

The present value of the Group's defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation, future salary increases, mortality rates and future pension increases. These assumptions, accompanied by sensitivity analysis thereon, are included in Section 4.5. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

In particular, although only constituting a minor proportion of the assets, the valuation of the UK Funds' interests in the Scottish Limited Partnership is a highly subjective area because their valuation depends on an actuarial assessment of the amount a third party might be willing to pay for the asset, taking into account the risk that the associated income stream could either cease in the event that the two UK Pension Funds both became fully funded or become deferred in any year in which no dividend was paid to the shareholders.

Development costs

Development costs are capitalised in accordance with the criteria set out in IAS38: 'Intangible Assets'. Initial capitalisation of costs is based on management's judgement regarding the technological and commercial feasibility of the asset, and only when a product development project has reached a point where such determinations can be made. In testing these assets for impairment, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. Further detail is provided in Section 3.2.

C. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and that the revenue can be reliably measured. The nature of the equipment, valve and other contracts into which the Group enters means that:

- the contracts usually contain discrete elements, each of which transfers risks and rewards to the customer. Where such discrete elements are present, revenue is recognised on each element in accordance with the policy on the sale of goods.
- the service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.

As a result of the above, the significant majority of the Group's revenue is recognised on a sale of goods basis.

The specific methods used to recognise the different forms of revenue earned by the Group are set out below:

i. Sale of goods

Revenue from the sale of goods 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 2010, 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 Incoterms 2010 are generally recognised on delivery to the customer.

ii. Rendering of services

As noted above, because revenue from the rendering of services is usually insignificant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

Where this is not the case, 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 and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured. Installation fees are similarly recognised 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.

When a transaction combines a supply of goods with the provision of a significant service, revenue from the provision of the service is recognised separately from the revenue from the sale of goods by reference to the stage of completion of the service unless the service is essential to the functionality of the goods supplied, in which case the whole transaction is treated as a construction contract. Revenue from a service that is incidental to the supply of goods is recognised at the same time as the revenue from the supply of goods.

iii. Construction contracts

As noted above, customer contracts usually contain discrete elements separately transferring risks and rewards to the customer. However, where such discrete elements are not in place, revenue from significant contracts is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms and the costs incurred on the contract to date in comparison to the total forecast costs of the contract.

Variations in contract work, claims and incentive payments are included in revenue from construction contracts when certain criteria are met. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that the customer is certain to accept the claim. Incentive payments are included when a contract is sufficiently advanced that it is probable that the performance standards triggering the incentive will be achieved.

Profit attributable to contract activity is recognised if the final outcome of such contracts can be reliably assessed. On all contracts, full provision is made for any losses in the year in which they are first foreseen.

D. Exceptional items

Exceptional items are disclosed separately on the face of the income statement and added back in arriving at adjusted earnings, where 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:

- gains and losses (including fair value adjustments) on derivative financial instruments;
- 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. Non-significant restructuring costs are not disclosed as exceptional items;
- special pension events, which comprise settlement gains relating to the Group's defined benefit schemes;
- impairment losses recorded against goodwill, intangible assets and other operating assets;
- the amortisation of acquired intangible fixed assets;
- gains on disposals of subsidiaries; and
- costs associated with acquisitions and disposals, which principally represent:
  - costs payable to the legal and financial advisors assisting with the origination and completion of the transactions;
  - contingent consideration payments which (because they might be forfeited in some of the instances in which the vendors' post-acquisition employment contracts may be terminated) are required by IFRS3 (revised) to be treated as remuneration.

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

E. Financial income and expense

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

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

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

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

F. Income tax

Current tax payable/receivable represents the expected tax payable/receivable 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.

SECTION 5 – OTHER NOTES
Continued

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.

G. 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 impairment losses on subsequent remeasurement and any reversal thereof. Once classified as held for sale, assets are no longer depreciated or amortised.

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.

H. 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 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 into 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.

I. Financial instruments and fair value hedging

Financial instruments are initially recorded at fair value plus directly attributable transaction costs unless the instrument is a derivative not designated as a hedge (see below). Subsequent measurement depends on the designation of the instrument, which follows the categories in IAS39:

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

J. 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, financial commitment or forecast transaction, but does not meet the criteria to qualify for hedge accounting under IAS39 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.

Where such a derivative is a formally designated hedge of a forecast transaction for accounting purposes, such as the forward component of the deal-contingent forward contract entered into to hedge foreign exchange movements relating to the US dollar proceeds of the sale of the Retail Dispense businesses, movements in the value of the derivative are recognised directly in other comprehensive income to the extent the hedge is effective. The Company assesses the effectiveness of the hedge based on the expected fair value of the amount to be received and the movement in the fair value of the derivative designated as the hedge.

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 via other comprehensive income to the extent the hedge is effective. The Group 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.

K. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition-related costs incurred are expensed and included in administrative expenses unless their quantum, nature or volatility meets the definition of an exceptional item as set out in accounting policy D.

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

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

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

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

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

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

L. Intangible assets

Intangible assets are further sub-divided in the notes to these accounts between acquired intangible assets and non-acquired intangible assets. Amortisation of acquired intangible assets is treated as an exceptional item as described in accounting policy D of these accounting policies, because of its inherent volatility. The accounting policy for goodwill is described in accounting policy K.

i. Research and development

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

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

ii. Software development costs

Software applications and systems that are not an integral part of their host computer equipment are capitalised on initial recognition as intangible assets at cost. Cost comprises the purchase price plus external costs incurred on development of the asset to bring it into use. Following initial recognition, software development costs are carried at cost less any accumulated amortisation (see below) and accumulated impairment losses (see accounting policy 'Impairment') and are included in the other acquired or other non-acquired category of intangible assets depending on their origin.

iii. Customer relationships and other acquired intangible assets

Customer relationships and other intangible assets that are acquired by the Group as part of a business combination are stated at their fair value calculated by reference to the net present value of future benefits accruing to the Group from utilisation of the asset, discounted at an appropriate discount rate. Expenditure on other internally generated intangible assets 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 (other than for customer relationships and order book, which are charged on a sum of digits basis) over the estimated useful lives of the intangible assets. Amortisation commences from the date the intangible asset becomes available for use. The estimated useful lives for:

- capitalised development costs are the life of the intangible asset (usually a maximum of 10 years)
- software development costs are the life of the intangible asset (up to 10 years)
- customer relationships are the life of the intangible asset (up to 10 years)
- other intangible assets are the life of the intangible asset (up to 10 years)

M. 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 and are included in plant and equipment.

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 equipment - 3 to 20 years

N. Leased assets

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

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

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

Lease incentives received are recognised in the income statement over the period of the lease unless a different systematic method is more appropriate under the terms of the lease. The majority of leasing transactions entered into by the Group are operating leases.

O. Inventories

Inventories are valued at the lower of cost and net realisable value. Because of the varying nature of the Group's operations, both first in, first out ('FIFO') and weighted average methodologies are employed. In respect of work in progress and finished goods, cost includes all direct costs of production and the appropriate proportion of production overheads.

SECTION 5 – OTHER NOTES
Continued

P. 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.

Q. Impairment

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

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

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

i. Calculation of recoverable amount

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

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 forecast and extrapolated using an appropriate long-term growth rate for each cash generating unit in perpetuity consistent with an estimate of the relevant geographic long-term GDP growth). These 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 both historical experience and because it 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.

R. Dividends

Final dividends payable are recognised as a liability at the date at which they are approved by the Company's shareholders or by the subsidiary's shareholders in respect of dividends to non-controlling interests. Interim dividends payable are recognised on the date they are declared.

S. Employee benefits

i. Defined contribution pension plans

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 the fair value of any plan assets are deducted. Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs. 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. Any deduction made by the tax authorities in the event of a refund of a surplus would be regarded by the Group as an income tax.

When the benefits of a plan are improved, the expense is recognised immediately in the income statement. Re-measurement gains and losses are recognised immediately in equity and disclosed in the statement of comprehensive income.

iii. Long-term service and other post-employment benefits

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

iv. Equity and equity-related compensation benefits

The Group operates a number of equity and equity-related compensation benefits as set out in Section 4.7. 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.

For newly issued shares, 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.

T. 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.

DIRECTORS' REPORT

The directors present their report, together with the audited financial statements, for the year ended 31 December 2014. The Strategic Report is on pages 6 to 23.

Results and dividend

The Group consolidated income statement is shown on page 84. Segmental operating profit amounted to £298m (2013: £322m) and profit before taxation and discontinued operations amounted to £246m (2013: £249m).

The directors recommend a final dividend of 24.0p per share (2013: 22.5p per share) on the ordinary share capital payable, subject to shareholder approval, at the Annual General Meeting to be held on 7 May 2015 to shareholders on the register at the close of business on 10 April 2015. Together with the interim dividend of 13.6p per share paid on 19 September 2014, this final dividend will bring the total distribution for the year to 37.6p per share (2013: 35.3p per share).

Research and development

The continuing cost of research and development expenditure charged directly to the income statement was £45m (2013: £50m). In addition, amortisation of capitalised intangible development costs amounted to £2m (2013: £2m) and across the Group a further £6m (2013: £3m) was capitalised.

Shareholders' funds

Shareholders' funds decreased from £601m at the end of 2013 to £509m at 31 December 2014.

Share capital

As at 31 December 2014, the Company's share capital comprised a single class of share capital which was divided into ordinary shares of 28 4/7p each. Details of the share capital of the Company are set out in section 4.6 to the financial statements on pages 129 and 130. The Company's ordinary shares are listed on the London Stock Exchange.

The Company has a Level 1 American Depositary Receipt ('ADR') programme for which Citibank, N.A. acts as depositary. The ADRs are traded on the US over-the-counter market under the symbol IMIAY, where each ADR represents two ordinary shares.

As at 31 December 2014, 1,725,101 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.6% of the issued share capital (excluding treasury shares) at that time. The independent trustee of the trust has the same rights as any other shareholder. Participants in option schemes do not hold any voting rights on the shares until the date of exercise.

During the year, 463,694 new ordinary shares were issued under employee share schemes: 416,194 under save as you earn plans and 47,500 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, from the Company's website or by writing to the Company Secretary. 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. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

Holders of ordinary shares are entitled to receive the Company's report and accounts, to attend, speak and vote at general meetings of the Company, and to appoint proxies to exercise their rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company.

Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or propose resolutions at Annual General Meetings. Voting rights for ordinary shares held in treasury are suspended and the treasury shares carry no rights to receive dividends or other distributions of assets.

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

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

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights. None of the ordinary shares 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. Electronic and paper proxy appointments and voting instructions must be received by the Company's registrars not later than 48 hours (excluding any non-working days) before a general meeting, or (subject to the Company's articles of association) any adjournment thereof.

Return of cash and share capital consolidation

On 21 January 2014, the Company announced the terms of a return of cash to shareholders of 200p per existing ordinary share of 25p each and a share capital consolidation of every 8 existing ordinary shares of 25p each into 7 new ordinary shares of 28 4/7p each.

The return of cash was structured as a 'B and C share' scheme. Under its terms, shareholders (subject to restrictions in respect of US shareholders and certain other overseas shareholders), were able to elect whether to receive their cash proceeds as: (i) an immediate income payment (the 'Income Option'); (ii) an immediate capital payment (the 'Immediate Capital Option'); (iii) a capital payment deferred until after 6 April 2014 (the 'Deferred Capital Option'); or (iv) any combination of the above.

The resolutions required for the return of cash and share capital consolidation (including to amend the articles of association of the Company) were approved by shareholders at a general meeting of the Company held on 13 February 2014. The new ordinary shares of 28 4/7p were admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 17 February 2014.

On 17 February 2014, the Company issued a total of: (i) 228,744,051 C shares to satisfy elections (or deemed elections) for the Income Option; (ii) 75,928,619 redeemable B shares to satisfy elections for the Immediate Capital Option; and (iii) 5,475,074 redeemable B shares to satisfy elections for the Deferred Capital Option. On 18 February 2014, a dividend of 200p was declared on each C share issued to satisfy an election (or deemed election) for the Income Option and all such shares were then automatically reclassified as deferred shares (which were later purchased by the Company, for an aggregate consideration of 1p). On the same date, each B share issued to satisfy an election for the Immediate Capital Option was redeemed by the Company for 200p per share. Each B share issued to satisfy an election for the Deferred Capital election were redeemed for 200p per share between 7 and 14 April 2014.

Further details can be found in the circular dated 21 January 2014, available on the Company's website.

Own shares acquired by the Company

In 2014 the Company did not make market purchases of its own ordinary shares.

The Company was granted authority at the Annual General Meeting held on 8 May 2014 to purchase up to 40,708,000 of its ordinary shares of 28 4/7p each. This authority will expire at the conclusion of the next Annual General Meeting to be held on 7 May 2015 where shareholders will be asked to give a similar authority, details of which are contained in the separate Notice of Annual General Meeting.

As at 31 December 2014, 14,248,836 ordinary shares (nominal value £4,071,096) were held in treasury representing 5.24% of the issued share capital (excluding treasury shares) at that time. The maximum number of shares held in treasury during the year ended 31 December 2014 was 30,883,095. On 16 January 2014, the Company cancelled 14,598,706 ordinary shares of 25p each held in treasury and on 13 February 2014 the Company cancelled 5 ordinary shares of 25p each held in treasury.

Substantial shareholdings

Information provided to the Company pursuant to the Disclosure and Transparency Rules is published on a regulatory information service and on the Company's website. As at 31 December 2014, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules, had been notified to the Company:

	% Held [1]
Standard Life Investments Limited	7.01%
Ameriprise Financial, Inc.	5.01%
BlackRock Inc	5.01%
Legal & General Group plc	3.03%

[1] As of the date in the notification to the Company

Subsequent to 31 December 2014 and up to the date of this Report, the Company was notified that the interests of Standard Life Investments Limited were 8.00%.

As far as the Company is aware, there are no persons with substantial holdings in the Company other than those noted above.

Statement on corporate governance

The required disclosures are contained in the Corporate Governance Report on pages 42 to 51 and are incorporated into this report by reference.

Employment policies

The Group continues to support employee involvement at all levels in the organisation and strongly encourages each of its businesses to keep its employees informed on Group and individual business developments and to make its employees aware of the financial and economic factors affecting the performance of the business in which they work, using their own consultation and communication methods. During the year, we put in place a global intranet that all employees are able to access. We also introduced a cross-divisional newsletter that is produced bi-anually and features success stories and news from around the globe. A European Works Council has been in operation since 2003 and meets at least once a year to exchange views on pan-European issues facing the Group. At the date of this Annual Report, there are 17 members of the European Works Council comprising 15 employee representatives nominated from among employees from each of our European businesses, covering 11 countries, with the balance being Company appointees. The Group's financial results and important initiatives such as health and safety, training and development, and employee engagement are communicated through a number of mechanisms including the Works Council, newsletters and intranets for the individual businesses and the Company's website and 'town hall' meetings.

Share schemes are a long established and successful part of our total reward package, encouraging and supporting employee share ownership. Further details of employee share schemes are set out in the Remuneration Report on pages 73 to 75 and in section 4.7 of the financial statements on pages 131 to 133.

A number of people recruitment and development initiatives are co-ordinated across the Group. These initiatives and the Company's approach to employee investment, talent recruitment and development are explained on pages 26 and 27.

Our policy on employee diversity and inclusion is to comply with relevant legislation in the countries in which we operate and to actively promote our diversity goal to recruit the very best people to execute our strategic priorities and to reflect the diverse nature of our global business. Further details of our approach to diversity and inclusion are set out in pages 26 and 27 and are incorporated into this report by reference.

At all levels we are focused on increasing our diversity as reflected in the composition of our Board; further details of the Board composition along with biographies are set out in pages 44 and 45.

Every effort is made to ensure that applications for employment from disabled employees are fully and fairly considered and that disabled employees have equal opportunity in training, succession planning and promotion.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment.

The key statistics for our carbon reporting indicate that our recent performance in gross tonnes of CO_2e has been: 2012-71,000, 2013-69,000, 2014-62,500

We previously reported CO_2e intensity by normalising against hours worked. However, in light of other production efficiency measures, this is no longer considered to be the most appropriate measure. Therefore, we are now reporting CO_2e intensity relative to £million sales.

These carbon intensity figures (tonnes/£m sales) have improved equally well: 2012-41.9, 2013-39.6, 2014-37.4

Our 2014 performance is 11% better than 2012. As our 2015 year-end target is 7.5% below 2012, we plan to ensure that our 2014 performance is maintained for 2015.

Our CO_2e accounting methodology follows DEFRA guidelines and includes all material emissions across IMI.

Further information is also available on our website www.imiplc.com.

Donations

No political donations were made during the year.

Directors

The membership of the Board and biographical details of the directors are given on pages 44 and 45 and are incorporated into this report by reference. Douglas Hurt and Anita Frew will retire from the Board at the end of the Annual General Meeting to be held on 7 May 2015. Daniel Shook became Finance Director Designate on 1 January 2015 and becomes Finance Director from 1 March 2015. Phil Bentley stepped down as chair of the Audit Committee and retired from the Board on 31 December 2014. Ross McInnes was appointed to the Board on 1 October 2014 and assumed the chair of the Audit Committee from 1 January 2015. Both Daniel Shook and Ross McInnes will seek election to the Board for the first time at the Annual General Meeting to be held on 7 May 2015.

The rules for the appointment and replacement of directors are set out in the Company's articles of association. Each new appointee to the Board is required to stand for election at the next Annual General Meeting following their appointment. In addition, the Company's articles of association require each director to stand for re-election at least once every three years. However, in accordance with the UK Corporate Governance Code (the 'Code'), all directors wishing to serve again will submit themselves for re-election at the next Annual General Meeting and are recommended for re-election.

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.

Role of the Directors

The role of the Board is:

- to promote the success of the Company;
- be guardians of stakeholders' interests;
- to set/monitor leadership behaviour and culture;
- to select and appoint the executive management team;
- to provide supportive challenge to the executive management team;
- to approve business plans and strategy;
- to oversee governance, risk and the control environment; and
- to monitor and oversee the businesses and management.

The Board provides leadership, direction and governance for the Company and oversees business and management performance. The Board has adopted a corporate governance framework which defines Board roles and includes the list of matters reserved to it and written delegations of authority for its committees and the executive management. Board reserved matters include strategy and key areas of policy, major operational and strategic risks, significant investment decisions and material changes in the organisation of the Group.

In the IMI Corporate Governance Framework the Board has clearly defined in writing those matters which are reserved to it and the respective delegated authorities of its committees and it has also set written limits of authority for the Chief Executive. 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 and are subject to regular senior management reviews of performance.

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 and are subject to regular senior management reviews of performance.

Division of responsibilities amongst Directors

Chairman:

- building a well-balanced Board
- chairing meetings, setting the agenda and ensuring the best use of time
- ensuring effectiveness of the Board including the quality of debate and decisions
- promoting the right environment and relations for effective engagement and challenge around the boardroom table
- setting the tone and high standards of governance practice
- getting the right executive leadership and succession plans in place

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

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 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.

Chief Executive:

- leadership of the executive management team
- formulating strategy, business plans and budgets
- ensuring the highest compliance and internal control standards are maintained
- developing organisation structure
- resourcing, talent development and succession plans

Directors' powers

The powers of the directors are determined by UK legislation and the articles of association of the Company in force from time to time. The directors were authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares by resolutions of the Company passed at its general meeting held on 13 February 2014. These authorities were replaced at the Annual General Meeting held on 8 May 2014 by the passing of new resolutions, in respect of the new ordinary shares of 28 4/7p each. The current authorities will expire at the conclusion of the next Annual General Meeting to be held on 7 May 2015, at which new authorities will be sought.

Further details of authorities the Company is seeking for the allotment, issue and purchase of its ordinary shares are set out in the separate 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 73 to 79.

Management of conflicts of interest

The Company's articles of association include certain provisions relevant to the activity of the Board and its committees and can be viewed on the IMI website. These provisions include requirements for disclosure and approval by the Board of potential conflicts of interest. These procedures apply, inter alia, to external directorships and it is the Board's view that they operated effectively during 2014.

Each director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the duty that they owe to the Company to disclose to the Board any interest in any transaction or arrangement under consideration by the Company. If any director becomes aware of any situation which may give rise to a conflict of interest, that director informs the rest of the Board and the Board is then permitted under the articles of association to decide to authorise such conflict. The information is recorded in the Company's register of conflicts and a conflicts authorisation letter is issued to the relevant director.

Change of control

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.

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 the provisions of the Company's share schemes include a discretion to allow awards granted to directors and employees under such schemes to vest in those circumstances.

DIRECTORS' REPORT
Continued

Information included in the Strategic Report

Important events since the year-end are described on page 23 of the Strategic Report. All disclosures concerning greenhouse gas emissions (as required to be disclosed by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained on the previous page. Likely future developments are also covered in the Strategic Report on pages 6 to 41.

Internal control

The Board has responsibility for oversight of the Group's system of internal control and confirms that the system of internal control takes into account the Code and relevant best practice guidance including the Financial Reporting Council's publication, 'Internal Control: Revised Guidance for Directors on the Combined Code.'

All operating units prepare forward plans and forecasts which are reviewed in detail by the Executive Committee and consolidated for review by the Board. Performance against forecast is continuously monitored 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 bi-annual reports are required from senior executives of operating units, confirming compliance with Group financial reporting requirements. The internal audit function, Group Assurance, operates a rolling programme of internal assurance on site reviews at selected operating units. Additionally, visits to operations are carried out by senior Group finance personnel. These internal assurance processes are co-ordinated with the activity of the Company's 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 including those relating to ethics and compliance matters, treasury activities, environmental issues, health and safety, human resources, taxation, insurance and pensions. Compliance and internal Audit Reports are made to the Board, the Audit Committee and the Executive Committee, to enable control issues and developments to be monitored.

Control processes are dynamic and continuous improvements are made to adapt them to the changing risk profile of operations and to implement proportionate measures to address any identified weakness in the internal control system. In the year we made further improvements to our control environment including the introduction of a new internal controls declaration process with appropriate assurance and follow up action plans. We are committed to further strengthen the key financial control processes. More information in relation to risk is given on page 30 under the heading 'Principal Risks and Uncertainties'.

Through the procedures outlined here, the Board has considered the effectiveness of all significant aspects of internal control for the year 2014 and up to the date of this Annual Report. The Board believes that the Group's system of internal control, which is designed to manage rather than eliminate risk, provides reasonable but not absolute assurance against material misstatement or loss.

Financial reporting processes

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

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 Strategic Report on pages 6 to 41. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, section 4.4 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. Section 4.5 to the financial statements addresses the management of the funding risks of the Group's employee benefit obligations.

The Group has considerable financial resources together with long-standing relationships with a number of customers, suppliers and funding providers across different geographic areas and industries. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of facilities either in place on 31 December 2014, or renewed since, without the need to renew any further facilities before 26 February 2016. As a consequence, the directors believe that the Group is well-placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook.

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

Disclosure of information to the auditor

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

Annual General Meeting

The Annual General Meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Thursday 7 May 2015 at 10am. Notice of the meeting will be published on the Company's website.

Auditor

Resolutions for the re-appointment of Ernst & Young LLP as auditor of the Company and to authorise the directors to determine their remuneration will be proposed at the next Annual General Meeting.

By order of the Board

John O'Shea
Company Secretary

26 February 2015

IMI plc is registered in England No. 714275

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

- select suitable accounting policies in accordance with IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- make judgements and estimates that are reasonable;
- 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;
- 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 adequate 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 44 and 45 confirms that:

- the Group and Parent Company financial statements in this Annual Report, which have been prepared in accordance with applicable UK law and with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report (which includes the Directors' Report and the Strategic Report) 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.

The directors are responsible for preparing the Annual Report in accordance with applicable laws and regulations. Having taken advice from the Audit Committee, the Board considers the Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

John O'Shea
Company Secretary

26 February 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of IMI plc for the year ended 31 December 2014 set out on pages 84 to 152. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014;
- the financial statements give a true and fair view of the Group profit for the year ended 31 December 2014;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. What we have audited

We audited the Group financial statements of IMI plc for the year-ended 31 December 2014 which comprise:

Group	Company
The Group income statement	The Company balance sheet;
The Group statement of comprehensive income	The related notes C1 to C10.
The Group balance sheet	
The Group cash flow statement	
The Group statement of changes in equity	
The related sections 1 to 5.	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements 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.

3. Overview

Materiality	- Overall Group materiality of £12.4 million which represents 5% of adjusted profit before tax
Audit scope	- We performed an audit of the complete financial information of 13 entities and audit procedures on specific balances for a further 31 entities
	- The 44 reporting components where we performed audit procedures accounted for 65% of the Group's revenue, 87% of the Group's adjusted profit before tax and 82% of the Group's total assets
Areas of focus	- Revenue and profit recognition
	- Inventory valuation
	- Valuation of the overall pension scheme liabilities
	- The assessment of the carrying value of goodwill and acquired intangible assets

4. Our assessment of risks of material misstatement

We identified the following risks to have the greatest effect on the overall audit strategy; the allocation of audit resources; and on directing the efforts of the audit engagement team. In addressing these risks we have performed the detailed procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Area of focus

Revenue and profit recognition

Refer to page 53 of the Audit Committee report.

The completeness, occurrence and measurement of revenue and recognition of profit is considered to be a significant risk across the Group. The cyclical nature of deliveries within the Critical Engineering division's results in significant shipments near the December period end which increases the risk of a cut-off error.

How our audit work addressed the area of focus

To address this risk the following audit procedures have been undertaken:

- we carried out testing of controls over revenue recognition with a focus on those related to the timing of revenue recognition;
- we performed analytical procedures to compare revenue recognised with expectations from past experience, management's forecasts and, where possible, external market data;
- we obtained support for individually unusual and/or material revenue journals;
- we performed tests of detail for a sample of revenue transactions to ensure the transactions had been appropriately recorded in the income statement. We verified that the risks and rewards of ownership of the products had been transferred to the customer by analysing the contract and terms of the sale to ensure the Group had fulfilled the requirements of the contract, confirming revenue could be reliably measured by reference to underlying documentation, ensuring collectability of the revenue was reasonably assured by agreeing to collection history and ensuring that the costs of the transactions could be traced and supported to bills of materials and expenses incurred;
- we performed cut-off testing on third party delivery note documentation and customer acceptance around the period end; and
- in respect of the Critical Engineering division we audited management's assessment of forecast costs to complete, corroborating the underlying assumptions against historic experience and future production plans to ensure any contract losses are appropriately recognised.

Area of focus

Inventory valuation

Refer to page 53 of the Audit Committee report.

The valuation of inventory across the Group is dependent on establishing appropriate valuation controls and physical counting procedures. This includes reliance on manual processes. Management judgement is applied to formulaic calculations for standard costing and excess and obsolete inventory provisions. If these judgements are not appropriate then this increases the risk that inventory is inappropriately stated.

How our audit work addressed the area of focus

To address this risk the following audit procedures have been undertaken:

- we carried out testing on controls over inventory valuation to verify the Group values inventory appropriately;
- we tested the accumulation of cost within inventory, ensuring the valuation reflected the physical inventory counts and the products' stage of completion including agreement to the physical inventory counts we attended;
- we tested the appropriateness of overhead absorption in the inventory valuation by analysing the nature of costs being absorbed, verifying the level of costs to be absorbed based on production data; and
- we audited the adequacy of excess and/or obsolete provisions held against inventory by verifying future demand data, historical usage, historical accuracy of provisioning and future plans of management to utilise the inventory.

Area of focus

Valuation of the overall pension scheme liabilities

Refer to page 53 of the Audit Committee report.

The actuarial assumptions used to value the UK and overseas pension scheme liabilities are judgemental and sensitive. Due to the significance of the value of the pension obligation, a small change in assumptions may result in a material difference to amounts reported.

How our audit work addressed the area of focus

To address this risk the following audit procedures have been undertaken:

- we understood and walked through management's controls in respect of the selection of key assumptions related to valuation of actuarial liabilities.
- using external data we verified the appropriateness of the key actuarial assumptions, as detailed in section 4.5.3.2 of the consolidated financial statements, used by management, in determining the pension obligation under IAS19(R) to ensure their assumptions were appropriate, met the requirements of IFRS and were in line with market practice.
- this included a comparison of life expectancy with relevant mortality tables, benchmarking inflation and discount rates against external market data, considering changes in historical assumptions and evaluating the independence, qualifications and results of work performed by management's experts involved in the valuation process.
- we used our pension specialists to assist us with these procedures.

Area of focus

The assessment of the carrying value of goodwill and acquired intangible assets

Refer to page 53 of the Audit Committee report.

As a consequence of the Group's growth strategy a significant value of goodwill and intangible assets has arisen from acquisitions. There is a risk that cash generating units ('CGUs') may not achieve the anticipated business performance to support the carrying value of these assets leading to an impairment charge that has not been recognised by management. Significant judgement is required in assessing the future cash flows of the CGU, together with the rate at which they are discounted.

How our audit work addressed the area of focus

To address this risk the following audit procedures have been undertaken:

- we walked through management's controls in respect of their assessment of the valuation of goodwill and acquired intangible assets and ensured these are designed and implemented effectively;
- we examined management's methodology, as detailed in section 3.2.2 of the consolidated financial statements, and models for assessing the valuation of significant goodwill balances to confirm the composition of management's future cash flow forecasts, and the process by which they were drawn up including timely oversight and challenge by the Directors and that the underlying cash flows were consistent with the Board approved budgets;
- in accordance with the requirements of IAS36: 'Impairment of Assets', management performed an impairment test on all CGUs that have goodwill allocated. In respect of the CGUs identified as having impairment indicators or low levels of head room we performed detailed testing to critically assess and corroborate the key inputs of the forecast cash flows including:
  - Corroborating the discount rate used through analysing the cost of capital for the Group and comparable organisations;
  - Validating the growth rate assumed by comparing them to economic and industry forecasts;
  - Analysing the historical accuracy of budgets to actual results ensuring the forecast cash flows are reliable based on past experience.
- for the CGUs where indicators of impairment existed we calculated the degree to which the key assumptions would need to move before an impairment conclusion was triggered;
- we assessed the appropriateness of the amortisation rates and useful economic lives of intangible assets allocated to CGUs on acquisition to ensure the lives were consistent with their usage and future economic inflows, for customer relationships and order books that the values corresponded with the expected underlying economic substance of future transactions and that the performance of CGUs with significant intangible asset values remained consistent with the original business plans upon acquisition of the CGUs;
- we performed sensitivity analysis on management's cash flow forecasts to gain comfort over the level of headroom in the impairment models; and
- through completion of the above procedures we assessed the appropriateness of the impairment charge recorded by the Group in respect of the Remosa CGU of £26.9m.

The above risk areas are consistent with those in the prior year with the exception of the valuation of the Scottish Limited Partnership and the accounting treatment for the disposal of the Retail Dispense businesses which were considered to be areas of focus for the 2013 audit. See Section 4.5 for details regarding the Scottish Limited Partnership asset. However, as the valuation principles are now confirmed, auditing this asset no longer constitutes a significant proportion of audit effort or audit strategy. While the gain on disposal of the Retail Dispense businesses is realised in the 2014 Annual Report and Accounts, the key judgements and assumptions underpinning the gain on the disposal were audited in the prior year as disclosed in our 2013 Audit Report. See section 2.5 for details of the disposal.

5. Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 145, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

6. 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 and 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

7. Our application of materiality

We determined planning materiality for the Group to be £12.4 million (2013: £16.1 million), which is 5% (2013: 5%) of adjusted profit before tax. We believe that profit before tax, adjusted for the items described below, provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity. The reduction from the prior year predominantly reflects the disposal of the Beverage Dispense and Merchandising divisions which occurred on 1 January 2014. In calculating materiality, we excluded the effects of certain non-recurring items from profit before tax. For 2014, these related to the impairment losses of £40.8 million, the gain on disposals of subsidiaries of £34.2 million, pension settlement gains of £7.0 million and acquisition costs of £1.8 million as highlighted on page 84 of the financial statements. Our materiality provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC
Continued

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% (2013: 50%) of planning materiality, namely £6.2 million (2013: £8 million). Our objective in adopting this approach was to ensure that undetected audit differences in all accounts did not exceed our planning materiality level.

Audit work at individual entities is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the entity and our view of the risk of misstatement at that entity. In the current year the range of performance materiality allocated to entities was £0.7 million to £1.8 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6 million (2013: £0.8 million), as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

8. An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected 44 (2013: 45*) entities which represent the principal business units within the Group's three reportable segments. 13 of these entities (2013: 16*) were subject to a full audit and 31 entities (2013: 29*) were subject to a partial scope audit where the extent of audit work was based on our assessment of the risks of material misstatement outlined above and the materiality of the entities' business operations relative to the Group. Partial scope entity testing of significant risks is primarily focused on revenue recognition and inventory valuation as the assessment of the carrying value of goodwill and acquired intangible assets and pension scheme liabilities are audited centrally.

In total the audit of these entities provides coverage of 65% (2013: 68%) of the Group's revenue, 87% (2013: 78%) of the Group's profit before tax and 82% (2013: 71%) of the Group's assets. Full scope entity audits provides coverage of 38% (2013: 48%) of the Group's revenue, 25% (2013: 40%) of the Group's profit before tax and 56% (2013: 49%) of the Group's assets. Partial scope entity audits provide coverage of 27% (2013: 20%) of the Group's revenue, 62% (2013: 39%) of the Group's profit before tax and 26% (2013: 22%) of the Group's assets, although for entities where a partial scope audit was performed, not all balances that comprise these coverage percentages have been audited. The audit work at the 44 locations was executed at levels of materiality applicable to each individual entity which was lower than Group audit materiality.

The Group's remaining 96 trading locations have an average revenue of £6 million and average profit before tax of £0.3 million. In addition, these locations do not have common systems and controls. As a consequence, we consider the likelihood of any systematic error arising within this population to be low. Notwithstanding this, for the remaining 96 locations we undertook analytical and enquiry procedures to address the residual risk of material misstatement.

The Group audit team focused its involvement in higher risk areas through regular conference calls with entity teams (including discussion of the work performed in relation to the significant risks) and review of key working papers. In addition, the Group team follows a programme of site visits to higher risk locations. During 2014 the Group team visited 17 of the full and specific scope entities within the Group.

9. Opinion on other matter 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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 42 to 51 of the Annual Report 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.

10. Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report and Accounts is fair, balanced and understandable and whether the Annual Report and Accounts appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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; 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 145, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Andrew Walton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
26 February 2015

1. The maintenance and integrity of the IMI plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

* Comparative amounts exclude entities audited in 2013 that were part of the Retail Dispense businesses which the Group sold on 1 January 2014.

COMPANY BALANCE SHEET
At 31 December 2014

	Note	2014 £m	2013 £m
Fixed Assets			
Investments	C5	507.5	573.4
Current assets			
Debtors falling due within one year	C6	46.5	88.0
Cash at bank and in hand		3.4	-
		49.9	88.0
Creditors: amounts falling due within one year			
Bank overdraft		-	(2.5)
Borrowings	C8	-	(19.0)
Other creditors	C7	(41.2)	(41.0)
Net current assets		8.7	25.5
Total assets less current liabilities		516.2	598.9
Net assets		516.2	598.9
Capital and reserves			
Called up share capital	C9	81.7	85.3
Share premium account	C9	10.8	171.8
Capital redemption reserve	C9	174.4	7.9
Profit and loss account	C9	249.3	333.9
Equity shareholders' funds		516.2	598.9

Approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

Roberto Quarta

Chairman

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 where otherwise noted below:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards except for certain financial instruments as defined by FRS26 'Financial Instruments: Measurement' which are stated at fair value.

The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

Under FRS1 'Cash Flow Statements', the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

The Company has taken advantage of the exemptions contained in FRS8 'Related party disclosures' and has not disclosed transactions or balances with wholly owned entities which form part of the Group. Related party transactions with the Company's key management personnel are disclosed in the Remuneration Report on pages 57 to 79 and in Section 5.2 on page 135 of 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.

The Company intends to adopt FRS101 'Reduced Disclosure Framework', which is effective for accounting periods commencing on 1 January 2015. The comparatives for the year ending 31 December 2014 will be restated to reflect this change. Notice will be provided to shareholders at the 2015 Annual General Meeting.

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 are included in the profit and loss account.

Investments

The Company's cost of investments 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 is recognised at that time.

Equity and equity-related compensation benefits

The Company operates a number of equity and equity-related compensation benefits as set out in Section 4.7 to the Group financial statements. The fair value of the employee services received in exchange for the grant of the options is 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 estimate 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.

For newly issued shares, 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 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 57 to 79 and Section 2.1.3 of the Group financial statements.

C3. Staff numbers and costs

The number of people employed by the Company, including Directors, during the year was 28 (2013: 25) all of whom were employed in administrative roles. The costs associated with them were borne by a subsidiary undertaking.

The Company participates in the IMI UK Funds, which are defined benefit schemes 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 schemes were a defined contribution schemes. Section 4.5 to the Group financial statements provides further details regarding the defined benefit schemes.

C4. Dividends

The aggregate amount of dividends comprises:

	2014 £m	2013 £m
Prior year final dividend paid - 22.5p per qualifying ordinary share (2013: 20.7p)	60.6	66.0
Current year interim dividend paid - 13.6p per qualifying ordinary share (2013: 12.8p)	36.7	40.2
Aggregate amount of dividends paid in the financial year	97.3	106.2

Dividends paid in the year of £97.3m represent 36.1p per share (2013: 33.5p).

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.

	2014 £m	2013 £m
Current year final dividend - 24.0p per qualifying ordinary share (2013: 22.5p)	64.8	60.6

Dividends proposed after the balance sheet date may differ from the final dividend paid. This is a result of the final number of qualifying shares entitled to dividends differing from those in issue at the balance sheet date.

C5. Fixed assets - investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
At 1 January 2014 cost and net book value	239.1	334.3	573.4
Disposals in the period	(65.9)	-	(65.9)
At 31 December 2014 at cost and net book value	173.2	334.3	507.5

The Company disposed of its £65.9m investment in Artform International Limited on 1 January 2014 for consideration of £61.3m.

Details of subsidiary undertakings as at 31 December 2014 are shown on page 153.

C6. Debtors

	2014 £m	2013 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	43.0	86.3
Deferred tax asset	3.5	-
Prepayments and accrued income	-	0.9
Other financial assets	-	0.8
	46.5	88.0

The deferred taxation balance relates to short-term timing differences arising on unexercised share options and has been calculated at a rate of 20%.

C7. Other creditors falling due within one year

	2014 £m	2013 £m
Amounts owed to subsidiary undertakings	39.5	39.5
Other payables	1.7	1.0
Accruals and deferred income	-	0.5
	41.2	41.0

COMPANY NOTES TO THE FINANCIAL STATEMENTS
Continued

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 section 4.4 in the Group financial statements.

	2014 £m	2013 £m
Due within one year:		
Unsecured US loan notes 2014	-	19.0

The reduction in unsecured loan notes is due to their settlement in the year.

C9. Share capital and reserves

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2013	85.2	170.3	7.9	328.5	591.9
Retained profit for the year				288.9	288.9
Shares issued in the year	0.1	1.5			1.6
Dividends paid				(106.2)	(106.2)
Share-based payments				11.2	11.2
Shares acquired for:					
employee share scheme trust				(24.2)	(24.2)
share buyback programme				(164.3)	(164.3)
At 31 December 2013	85.3	171.8	7.9	333.9	598.9
Retained profit for the year				659.3	659.3
Dividends paid on ordinary shares				(97.3)	(97.3)
Shares issued in the year	0.1	1.8			1.9
Issue of 'B' shares - capital option	151.9	(151.9)			-
Issue of 'C' shares - income option	10.9	(10.9)			-
Redemption of 'B' and 'C' shares	(162.8)		162.8	(162.8)	(162.8)
Dividends paid on 'C' shares				(457.5)	(457.5)
Cancellation of treasury shares	(3.7)		3.7		-
Share-based payments				4.4	4.4
Shares acquired for:					
employee share scheme trust				(30.7)	(30.7)
At 31 December 2014	81.7	10.8	174.4	249.3	516.2

All of the retained earnings held at both 31 December 2014 and 31 December 2013 are considered to be distributable reserves.

Share capital

	2014 £m	2013 £m
Issued and fully paid		
286.0m (2013: 341.0m) ordinary shares of 28 4/7p (2013: 25p) each	81.7	85.3

C10. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £73.5m (2013: £74.1m).

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 Section 5.1 of the Group financial statements.

SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings listed are those which in the opinion of the directors principally affect the figures shown in the financial statements. A full list of subsidiary undertakings will be included in the Annual Return of IMI plc to be filed with the Registrar of Companies during 2015. Except where indicated below, the undertakings are subsidiaries incorporated in the United Kingdom and the share capital consists of ordinary shares only. The principal country in which each subsidiary operates is the country of incorporation. IMI plc's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for IMI Group Ltd which is held directly by IMI plc.

The Group has an interest in a partnership, the IMI Scottish Limited Partnership, which is fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be and have not been filed at Companies House.

Aero Dynamiek BV Netherlands
Buschjost GmbH Germany
CCI AG Switzerland
CCI América do Sul Comércio de Equipamentos Industriais Ltda Brazil
CCI (Asia Pacific) Pte Ltd Singapore
CCI Czech Republic sro Czech Republic
CCI Flow Control (Shanghai) Co. Ltd China
CCI Italy srl Italy
CCI KK Japan
CCI Ltd Korea
CCI Switzerland AG Switzerland
CCI Valve Technology AB Sweden
CCI Valve Technology GmbH Austria
Control Components Inc USA
Control Component India Pvt Ltd India
IMI Hydronic Engineering Inc USA
Fluid Automation Systems GmbH Germany
Fluid Automation Systems SA Switzerland
Fluid Automation Systems Technologies SA Switzerland
Herion Systemtechnik GmbH Germany
Hochdruck-Reduziertechnik GmbH Germany
IMI Components Inc USA
IMI Components Ltd
IMI Indoor Climate Trading (Shanghai) China
IMI International Kft Hungary
IMI International LLC Russia
IMI International sro Czech Republic
IMI International sp zoo Poland
IMI Norgren Herion Pvt Ltd India
Norgren Finland Oy Finland
IMI Norgren SA Spain
IMI Scott Ltd
Industrie Mecanique Pour Les Fluides SAS France
Interativa Indústria, Comércio e Representações Ltda Brazil
Nano Porous Solutions Limited
Newman Hattersley Ltd Canada
Norgren A/S Denmark
Norgren AG Switzerland
Norgren AS Norway
Norgren Automation Solutions LLC USA
Norgren BV Netherlands
Norgren Co Ltd China
Norgren European Logistics Company Ltd
Norgren GesmbH Austria
Norgren GT Development Corporation Inc USA
Norgren Kloehn Inc USA
Norgren Ltd
Norgren Ltd New Zealand
Norgren Ltda Brazil
Norgren Manufacturing Co Ltd China
Norgren Pte Ltd Singapore
Norgren Pty Ltd Australia
Norgren SA de CV Mexico
Norgren SAS France
Norgren SpA Italy
Norgren Sweden AB Sweden
Orton srl Italy
Pneumatex BV Netherlands
Pneumatex GmbH Germany
Remosa Service & Construction SpA Italy
Remosa SpA Italy
Shanghai CCI Power Control Equipment China (70%)
Stainless Steel Fasteners Ltd
STI srl Italy
IMI Hydronic Engineering Deutschland GmbH Germany
IMI Hydronic Engineering AB Sweden
IMI Hydronic Engineering AS Norway
IMI Hydronic Engineering BV Netherlands
IMI Hydronic Engineering A/S Denmark
IMI Hydronic Engineering Ges.m.b.H Austria
IMI Hydronic Engineering Oy Finland
IMI Hydronic Engineering SA France
IMI Hydronic Engineering SA Spain
IMI Hydronic Engineering International SA Switzerland
IMI Hydronic Switzerland AG Switzerland
IMI Hidronik Muhendislik Iklimlendirme Sistemleri Ltd Sti Turkey
TA Regulator d.o.o Slovenia
Th Jansen-Armaturen GmbH Germany
Thompson Valves Ltd
IMI Hydronic Engineering Ltda Brazil
IMI Hydronic Engineering NV Belgium
Truflo Marine Ltd
Truflo Rona SA Belgium
Truflo Rona srl Italy
Z&J Technologies GmbH Germany
Zimmermann & Jansen Inc USA
Zimmermann & Jansen South Africa (Pty) Ltd South Africa

Corporate

IMI Group Ltd
IMI Kynoch Ltd
IMI Overseas Investments Ltd
IMI Americas Inc USA
IMI Fluid Controls Holdings Inc USA
IMI Consulting (Shanghai) Co Limited China
IMI Americas Inc USA
IMI Fluid Controls Holdings Inc USA
IMI Consulting (Shanghai) Co Limited China

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES

The following table shows the geographic distribution of employees as at 31 December 2014 and is not required to be audited.

UK	1,375
Continental Europe	6,285
Americas	2,340
Asia Pacific	1,609
Rest of World	62
Total	11,671

FIVE YEAR SUMMARY

The restated figures in the tables below relate to the exclusion of the Retail Dispense businesses, which were sold on 1 January 2014. Further information is included within section 2.5.

Income statement

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Revenue	1,427	1,645	1,694	1,743	1,692
Segmental revenue*	1,433	1,649	1,696	1,744	1,686
Operating profit*	262.4	307.6	300.1	321.6	295.5
Adjusted profit before tax*	235.4	280.9	274.8	297.7	278.1
Net credit on special pension events	-	-	10.9	-	7.0
Employee benefit curtailment - UK scheme	15.1	-	-	-	-
Restructuring costs	(10.7)	(21.4)	(18.9)	(14.2)	(8.6)
Acquired intangible amortisation and impairment	(6.7)	(32.3)	(29.6)	(21.9)	(60.4)
Acquisition and disposal costs	-	-	(6.3)	(9.9)	(1.8)
Gains on disposal of subsidiaries	-	-	-	-	34.2
Financial instruments excluding economic hedge contract gains/losses	9.6	(6.2)	(1.0)	(2.4)	(2.8)
Profit before tax from continuing operations	242.7	221.0	229.9	249.3	245.7
EBITDA†	320	321	318	332	371

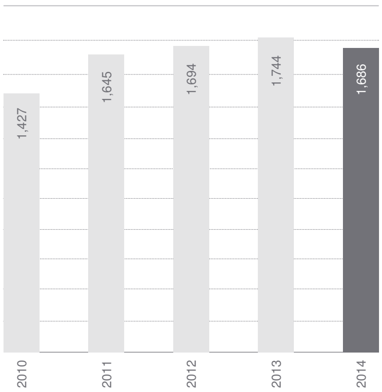
* Before exceptional items.

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

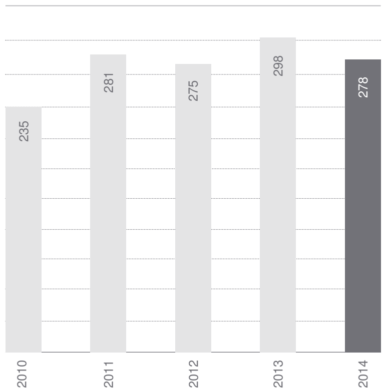
Group sales by destination

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
UK	92	91	101	104	98
Western Europe	669	744	694	686	644
North America	259	297	306	338	318
Emerging Markets	327	396	462	504	544
Rest of World	86	121	133	112	82
	1,433	1,649	1,696	1,744	1,686

Revenue £m

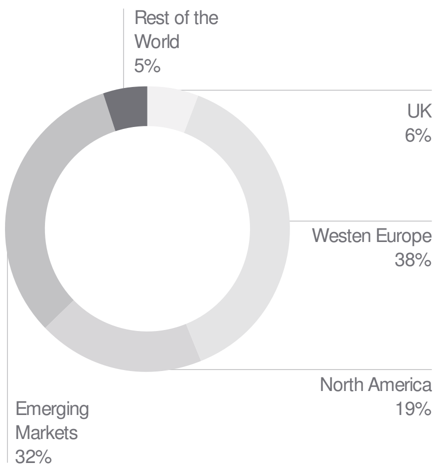


Adjusted proﬁt before tax* £m



* Before exceptional items.

Continuing revenue by geographic destination 2014



Earnings and dividends

	2010	2011	2012	2013	2014
Adjusted earnings per share (continuing)	52.6p	64.5p	64.7p	72.6p	78.0p
Basic earnings per share (continuing)	54.3p	50.5p	53.9p	60.4p	69.2p
Ordinary dividend per share	26.0p	30.0p	32.5p	35.3p	37.6p

Balance sheet

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Segmental net assets					
Continuing	791	806	906	897	849
Discontinued	194	192	189	196	-
Other net non-operating liabilities excluding borrowings	(264)	(275)	(267)	(246)	(95)
Net debt					
Continuing	(164)	(127)	(160)	(226)	(200)
Discontinued	19	18	16	27	-
Net assets	576	614	684	648	554

Statistics

	2010	2011	2012	2013	2014
Segmental operating profit as a percentage of segmental revenue	18.3%	18.7%	17.7%	18.4%	17.5%
Segmental operating profit as a percentage of segmental net assets	33.2%	38.2%	33.1%	35.9%	34.8%
Effective tax rate on adjusted profit before tax	28.0%	26.0%	24.0%	22.0%	22.0%
Net assets per share (excluding treasury and EBT shares)	181.9p	193.5p	214.0p	210.0p	218.4p
Net debt as a percentage of shareholders' funds	28.5%	20.7%	23.4%	34.9%	36.1%
Net debt: EBITDA**	0.5	0.4	0.5	0.7	0.5
EBITDA: Interest	21	19	18	21	26

** For 2014, net debt to EBITDA excluding disposal gains and one off pension gains was 0.6 times.

SHAREHOLDER AND GENERAL INFORMATION

Announcement of trading results

The trading results for the Group for the first half of 2015 will be announced on 31 July 2015.

The trading results for the full year ending 31 December 2015 will be announced in early 2016.

Interim management statements will be issued in May and November 2015.

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 2014 was 1,263.00p (2013: 1,525.00p). 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*,
or from overseas +44 121 415 7047.

Lines are open 8.30am to 5.30pm,
Monday to Friday.

*Calls cost 8p per minute plus network extras.

Please remember to tell Equiniti if you move house, change bank details or if there is any other change to your account information.

Managing your shares online

Shareholders can manage their holdings online by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and by doing so allows shareholders to:

- help us to reduce print, paper and postage costs and the associated environmental impact of these
- cast your AGM vote electronically
- receive an email alert when important shareholder documents are available online such as Annual Reports and Notices of General Meetings
- access details of your individual shareholding quickly and securely
- set up a dividend mandate online
- change your registered postal address or your dividend mandate details

To find out more information about the services offered by Shareview and to register, please visit www.shareview.co.uk.

Corporate website

The IMI plc website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares. As well as providing share price data and financial history, the site also provides background information about the Company.

Shareholders are also encouraged to sign up to receive news alerts by email in the Investors section of the website. These includes all of the financial news releases from throughout the year that are not sent to shareholders by post. You can access the corporate website at www.imiplc.com.

Annual General Meeting 2015

This year's AGM will be held at the Hilton Birmingham Metropole, National Exhibition Centre, Birmingham B40 1PP on Thursday 7 May 2015 at 10am. For further information, please refer to the Notice of Meeting that accompanies this Report.

Individual Savings Account (ISA)

IMI's ordinary shares can be held in an ISA. For information about the ISA operated by our Registrar, Equiniti, please call the Equiniti ISA helpline on 0845 300 0430. Lines are open from 8.30am to 5.30pm, Monday to Friday.

Share dealing service

Managed by Equiniti, the Company's registrar, the IMI plc Share Dealing Service provides shareholders with a simple way of buying and selling IMI ordinary shares. Telephone 0845 603 7037. 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).

Share fraud

Over the past few years we have been aware, as have many listed companies that our shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. Further information on how to avoid share fraud or report a scam can be found on our website.

American Depository Receipts

IMI plc has an American Depositary Receipt (ADR) programme that trades on the Over-The-Counter ('OTC') market in the USA, using the symbol IMIAY. ADR enquiries should be directed to Citibank Shareholder Services, PO Box 43077, Providence, RI 02940-3077, USA. Toll-free number in the USA is 1-877-CITI-ADR (877-248-4237) and from outside the USA is 1-781-575-4555. You can also email citibank@shareholders-online.com.

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*Calls cost 8p per minute plus network extras.

Stockbrokers

J.P. Morgan Cazenove

Bank of America Merrill Lynch

Auditor

Ernst & Young LLP

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