IMI plc
Annual Report & Accounts
2015

IMI

Engineering
GREAT the IMI WAY

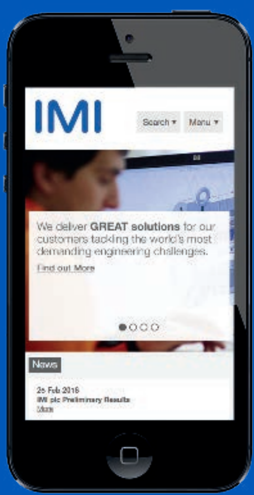
Good strategic progress

Inside this report

IMI

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 8 to 43 has been approved by the Board of Directors and signed on their behalf by **Mark Selway,** Chief Executive, on 25 February 2016.

IMI plc is registered in England No. 714275

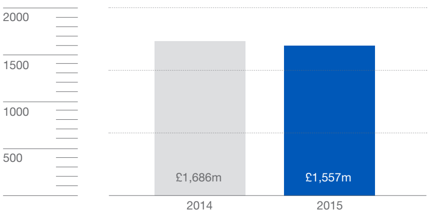
Front cover photo:
IMI Divisional Employees

Highlights

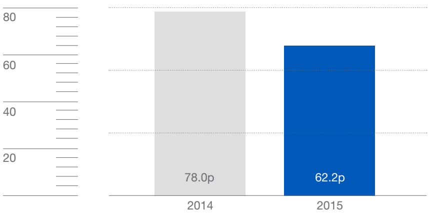
"2015 was characterised by further implementation of our strategic plan, albeit against a difficult economic backdrop. We remain convinced that the opportunities to improve competitiveness and leverage the Group's potential are significant and we will continue to invest in building strong operational foundations and improved customer offerings which will deliver future growth. In those respects, it has been a year of good progress."

Lord Smith of Kelvin
Chairman

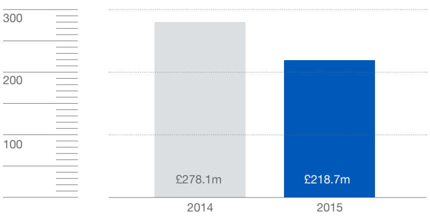
Revenue
£1,557m -5%[1]



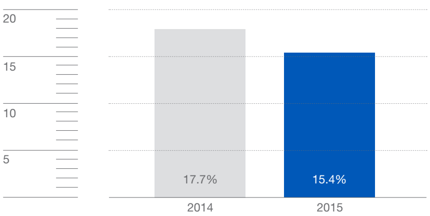
Adjusted basic earnings per share
62.2p -20%



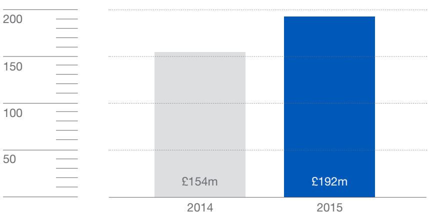
Profit before tax
£218.7m -21%



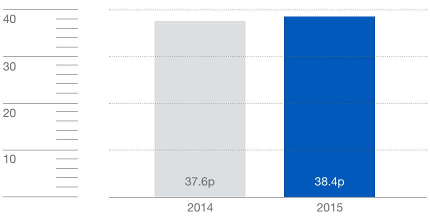
Segmental operating margin
15.4% -230bps



Cash generation[2]
£192m +25%



Total dividend for year
38.4p +2%



- Further progress on strategic initiatives
- Given economic backdrop creditable results with revenues reducing 5% and adjusted EPS down 20%
- Strong cash generation of £192m up 25%
- Strong balance sheet with Net Debt of £237m equating to a Net Debt/EBITDA ratio of 0.9x
- Recommending a 2% increase in the full year dividend
- In 2015 15 new products launched by Hydronic Engineering with further launches in Hydronic Engineering and Precision Engineering scheduled for 2016
- Disposed of non-core businesses to further increase focus on specialist flow control activities

All figures are stated on a reported basis excluding the effect of items reported as exceptional in the income statement. For other statutory measures see Consolidated Income Statement on page 76.

[1] On an organic basis, after adjusting for the impact of acquisitions, disposals and movements in exchange rates, see Section 2.1.1 on page 86.

[2] Cash generated from the operations after interest and tax as described in the commentary to the cash flow statement on page 83.

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, IMI Precision Engineering and IMI Hydronic Engineering – and employ over 12,000 people in over 50 countries around the world.

IMI Critical Engineering

Revenue
£631m

% of Group revenue
41%

Operating profit
£93.1m

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 Bopp & Reuther, 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 Zikesch

Main markets
Oil & Gas, Fossil Power, Nuclear Power, Petrochemical, Iron & Steel, Desalination and Process Industries

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 38

IMI Precision Engineering

Revenue
£662m

% of Group revenue
42%

Operating profit
£117.7m

Number of employees
5,800

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, Energy, Food and Beverage, Industrial Automation, Life Sciences and Rail

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

Find out more about IMI Precision Engineering
Turn to page 40

IMI Hydronic Engineering

Revenue
£264m

% of Group revenue
17%

Operating profit
£51.8m

Number of employees
2,000

IMI Hydronic Engineering is the leading global supplier of hydronic distribution systems which deliver optimal and energy efficient heating and cooling systems to the residential and commercial building sectors.

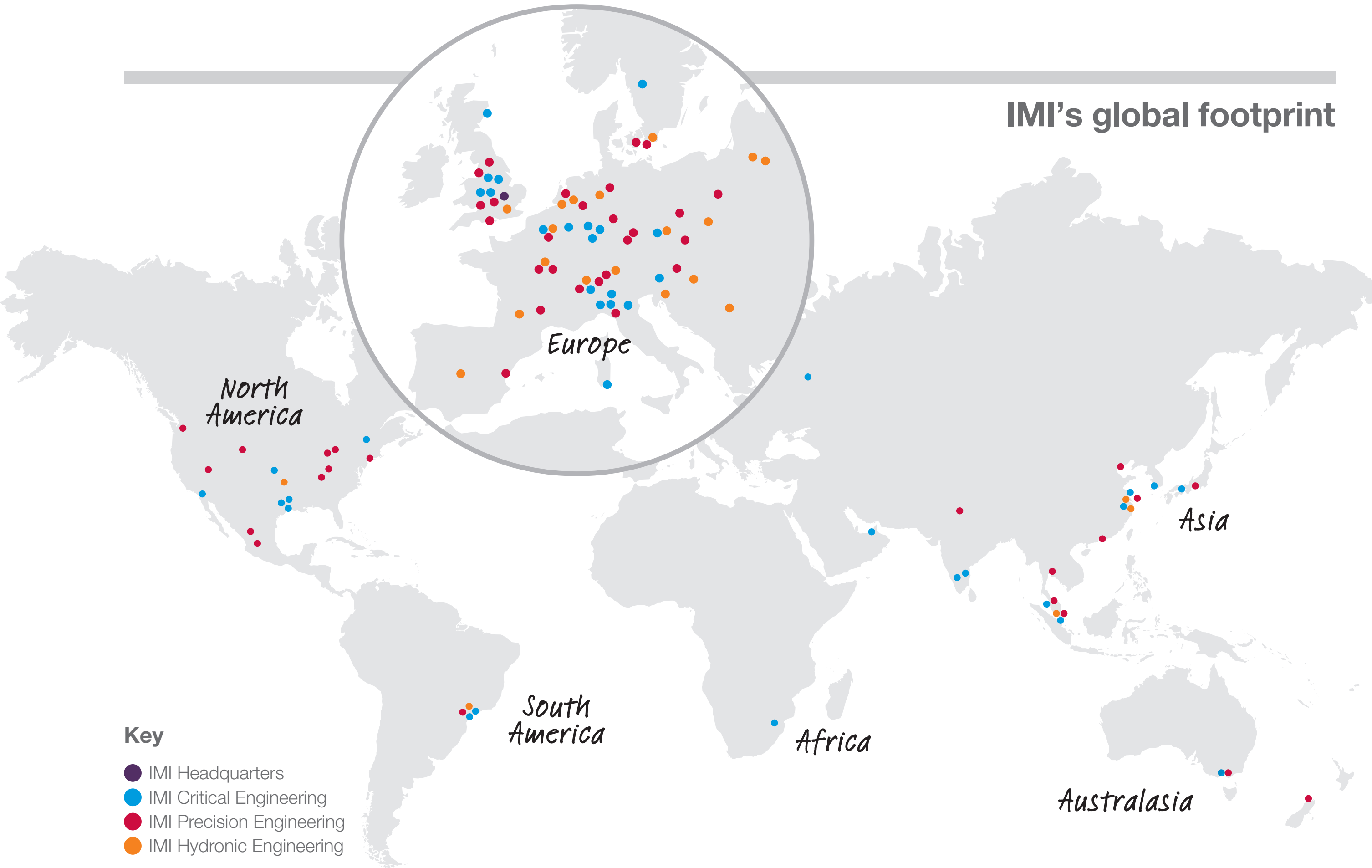
Key brands
IMI Flow Design, IMI Heimeier, IMI Pneumatex, IMI TA

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

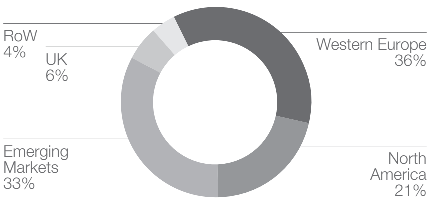
Find out more about IMI Hydronic Engineering
Turn to page 42

IMI's global footprint

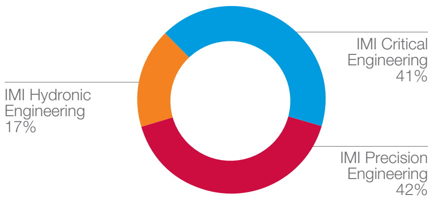


This map illustrates locations with more than ten employees and includes manufacturing sites and sales offices

Group revenue by geography

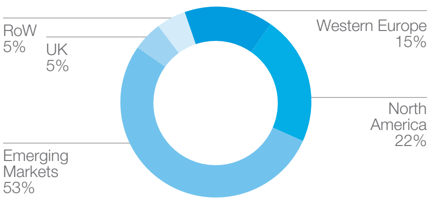


Revenue by division

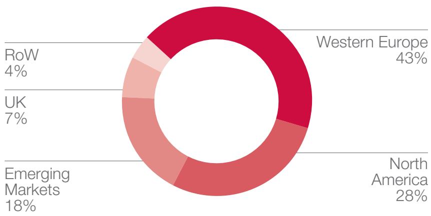


Divisional revenue by geography

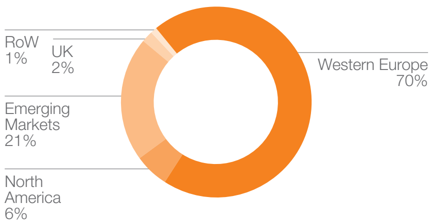
IMI Critical Engineering



IMI Precision Engineering



IMI Hydronic Engineering



Chairman's Statement
"Significant opportunities"

"This is an exciting time to be part of IMI. As we continue to deliver our strategic plan I believe that momentum will continue to build and the benefits of all the work that has been and continues to be done will drive medium-term growth and long-term value for our shareholders."

"While the Group's organic growth strategy provides good prospects for profitable expansion, our strong cash generation and balance sheet give us the full range of options to create growth through business development and acquisitions."

Lord Smith of Kelvin
Chairman

First impressions

I was delighted to be appointed your Chairman in May last year. IMI is a terrific company with many strengths and I am particularly pleased to be taking on this role at such an exciting time.

Following the appointment of Mark Selway as Chief Executive in 2014, the Group's strategic direction was reset and refocused on delivering sustainable accelerated top and bottom line growth and long-term shareholder value.

Since becoming Chairman last year, I have visited a number of our businesses including our world-class Critical Engineering and Precision Engineering operations in the Czech Republic and have been able to spend time with many of our employees. Three things in particular have stood out.

First, our people: they have world-class engineering skills and are committed and passionate about the products and technologies they are creating and the service they provide to customers. I have been particularly impressed with the high levels of employee engagement which are very evident throughout every area of the operation, whether it be continuous improvement driven from the shop floor or the Obeya rooms which are used to improve our project management within Critical Engineering. The culture and ambition for change was evident throughout.

Secondly, the impact of our growth plan: our new strategic direction is well embedded in all our businesses and, while we are still in the early phases of our five year plan, thanks to the hard work of all employees around the Group, we are making progress and benefits are already starting to come through. It is also evident that, despite the challenging market environment, which Mark Selway explains in his review on page 8, the implementation of cost cutting initiatives and the acceleration of a number of operational improvements, our growth plan remains on track.

And thirdly, the opportunity: a range of significant growth opportunities, both organic and acquisitive, exist for all our businesses. I am confident that IMI's inherent strengths and the significant amount of work that has been done this year to ready our businesses for accelerated growth will enable us to fully exploit these opportunities.

Board performance / corporate governance

As a newly appointed Chairman of any complex international Group there are a great many activities with which I have needed to become familiar including a new Board, a new Executive team, new products, new markets and practices and procedures, which in many ways make up the DNA of the Group.

It is pleasing to report that my early reviews of the key components of IMI have been favourable. There is a positive dynamic in the Boardroom where we have a diversity of skills which provide a good balance of support and challenge to our Executive team.

The Executive clearly has a lot on its plate, not helped by the headwinds in many of its markets. With the addition of Massimo Grassi who joined us in June to head up the Precision Engineering division, Mark now has his full complement of Executives who are all committed to delivering our strategic plan. I have completed a review of our succession planning and Executive development plans and am comfortable that with proper execution we have a robustness from which to build our future.

In terms of products and markets, I have spent time with the Board and management reviewing our five year strategic plan and I am impressed with what I have seen. The plan is ambitious but I am a believer in ambitious goals and the Executive has been diligent in its review of its markets, competitors and the opportunities which are available to us in the future.

I have also had the opportunity to undertake reviews of our risk management and internal control and governance framework including meeting with our independent auditor Ernst & Young LLP ('EY'). These reviews give me a great deal of confidence that across the Group, the IMI Way, which sets out our values and how we do business, is well embedded. The new procedures and structures, which are being introduced progressively, and the addition of Francis Knowles, who joined IMI this year as Director of Risk and Compliance, will further strengthen the governance framework of the Group.

Board changes

I succeeded Roberto Quarta as Chairman at the close of the Annual General Meeting in May last year ('AGM'). Roberto had been your Chairman since 2011 and during that time he oversaw much change, as a result of which, IMI is well positioned for long-term growth. On behalf of the Board I would like to thank him for his significant contribution and wish him well in the future.

Daniel Shook joined the Board as Finance Director designate on 1 January 2015 and became Finance Director on 1 March 2015, succeeding Douglas Hurt, who retired from the Board at the AGM. After serving as a non-executive director for nine years, Anita Frew also retired from the Board at the AGM and Bob Stack succeeded her as senior independent director immediately following the AGM. Ross McInnes, who joined the Board as a non-executive director on 1 October 2014, took over as Chairman of the Audit Committee on 1 January 2015 after Phil Bentley stepped down from the Board at the end of 2014.

More recently on 1 September 2015 we welcomed Isobel Sharp to the Board as a non-executive director and a member of the Audit Committee. Isobel has extensive accounting, audit and corporate governance experience and having advised a number of FTSE boards during her career she has wide ranging business experience.

Summary

This is an exciting time to be part of IMI. As we continue to deliver our strategic plan I believe that momentum will continue to build and the benefits of all the work that has been and continues to be done will drive accelerated growth and long-term value for our shareholders.

Board details
Turn to page 46

Corporate Governance
Turn to page 44

Strategic review

Our strategic plan is now being executed across the Group and I am pleased to report real progress and momentum starting to build

Engineering GREAT the IMI Way

Above
Every person at IMI in every function is actively involved in improvement activities

Right
The implementation of lean uses industry recognised Kanban and Pull systems

Chief Executive's Review
"A year of good strategic progress"

Performance in 2015

"Despite tough conditions in many of our markets we made steady progress on a number of fronts. Our financial results, while lower than originally anticipated, were broadly in line with expectations, with substantial progress being made in the execution of the strategic plan we outlined in 2014."

Mark Selway
Chief Executive

Challenging environment

Trading conditions in many of our geographies and markets were tough. In particular economic slowdowns in China and Brazil impacted both our Critical Engineering and Precision Engineering divisions. Challenging trading conditions across industrial markets world-wide adversely affected most of our businesses.

The Oil & Gas market continues to be impacted globally by the unprecedented slide in the oil price and while IMI is uniquely positioned in our exposure to liquid natural gas, the wider market downturn impacted the petrochemical order book in Critical Engineering and the upstream activities of both Critical Engineering and Precision Engineering.

The Group's exposure to the heavy truck sector falls predominantly to Precision Engineering and 2015 represented a solid year of production in Europe and North America with the latter slowing from its peak in the final quarter of 2015. The Brazilian heavy truck market suffered terribly with close to half the volume when compared to 2014.

In Hydronic Engineering, our most important European construction markets remained soft with Germany and the Nordic regions showing small declines in the year. The investments which the division has made in new products proved to be timely, growing our market share and offsetting all of the market decline in the year.

Given these tough market conditions and the expectation that they will continue in the near term we are undertaking a number of cost cutting initiatives including closing smaller, low growth production facilities in Critical Engineering and downsizing our Brazilian footprint in Precision Engineering. We fully recognise that these difficult decisions affect our employees and the communities in which we operate. However they are necessary to keep our strategic plan on track and deliver long-term sustainable growth. We are also taking the opportunity to accelerate some of the improvement projects which were due for implementation during later phases of our growth plan, including the consolidation of Critical Engineering's European footprint and closure of its nuclear operation in Canada.

Mark Selway at the Critical Engineering conference and visiting our CCI operation in California

The cost cutting initiatives and acceleration of the European rationalisation projects will improve the short-term results of the Critical Engineering and Precision Engineering divisions while underpinning the longer term prospects of the Group.

Results overview

Despite experiencing tough conditions in many of our markets, our financial results were broadly in line with expectations. Group revenues on an organic basis decreased by 5% due to tough conditions in many of our end markets. After acquisitions, disposals and adverse exchange rate movements, reported Group revenues were down 8% to £1,557m (2014: £1,686m). Segmental operating profit of £239m (2014: £298m) decreased by 15% on a like for like basis and reflected the lower sales volumes and our investment in a range of growth initiatives. After the impact of adverse exchange rate movements, reported segmental operating profit decreased by 20%. The Group's operating margin was 15.4% (2014: 17.7%) and reported earnings per share decreased by 20% to 62.2p (2014: 78.0p). Cash generation of £192m (2014: £154m) was particularly strong following working capital improvements across our businesses as a result of our lean implementation. This resulted in Net Debt of £237m and a Net Debt to EBITDA ratio of 0.9x.

Reflecting continued confidence in the Group's prospects the Board is recommending that the final dividend be increased by 2% to 24.5p (2014: 24.0p). This makes a total dividend for the year of 38.4p, an increase of 2% over last year's 37.6p.

Mark Selway meeting with the Precision Engineering leadership in Singapore

Strategy starting to deliver

As the Chairman has highlighted on page 4, our new strategic plan is now embedded in all our businesses and across the Group we are seeing real progress and momentum starting to build.

Operational performance continues to improve

Our operational performance continues to improve. This is a fundamental part of our growth plan. As our businesses become more efficient we will better utilise our production facilities, reduce our working capital requirements and generate cost savings, all of which will enhance our competitiveness.

We use a world renowned lean benchmarking assessment to track operational improvement in every IMI facility and the first assessments took place back in June 2014. Since then, significant progress has been made. Critical Engineering has improved its results from its first benchmark of 26% to 56% at the end of 2015, Precision Engineering has improved from 32% to 59% while Hydronic Engineering made the most progress from 37% to 72% in the same period. The goal for all of our facilities is to achieve world-class operational performance by 2018 and I am delighted to report that several of our plants, including Hydronic Engineering's Polish operations, which scored 88% in the latest assessment, are well on track to achieving that.

The early benefits of these operational improvements are already showing through. All the Group's facilities now have established continuous improvement programmes which are driving improvements in quality, productivity and responsiveness to customer demand. The lean journey is a never ending programme to eliminate waste in all of its forms and, while we remain at the early phase of implementation, I was pleased to see the benefits of working capital and inventory gains delivered in the year.

Product lead times and machine set ups have also improved remarkably and these benefits, when tied to normal levels of factory loading will, without question, result in improved competitiveness and sustainable competitive advantage across all of our sectors and geographies.

1.

2.

Our businesses are ready for accelerated growth

Much of 2015 and the early phases of our growth plan have been about strengthening our infrastructure and investing in systems and processes that allow us to operate globally in the most efficient and effective way. I am pleased to report we have also made much progress in this area.

We have launched new ERP systems, which accurately and efficiently manage data in all of our divisions. In May 2015, a new ERP system was launched in Critical Engineering's Czech Republic and Austrian businesses and will be subsequently rolled out in the division's Japanese, Korean and Swedish businesses during 2016. Precision Engineering has also launched a new ERP system which went live at Farmington in Connecticut and will be rolled out across four other US sites next year and a new division-wide system is currently being rolled out in Hydronic Engineering.

The successful launch and roll out of these systems, on time, to budget, and without disruption, is a significant achievement and a testament to the hard work of our employees around the Group. We are progressively rolling out the tools to automatically collect, manage and distribute accurate and consistent information easily and efficiently. Repetitive, time consuming and sometimes erroneous manual data entry is fast becoming a thing of the past.

Day-to-day tasks are performed more efficiently, project cycle times have been reduced and data retrieval and reporting has been made quicker and easier. In addition to these operational benefits, financial improvements are also coming through. Access to accurate consistent data means we can better manage and control operating costs. In particular, as we now have better visibility across the entire production process, management of our inventory has significantly improved leading to an impressive reduction in suppliers and slow moving inventory during the year. Most importantly we are now better equipped to monitor the profitability of each and every project.

We have also introduced systems to improve our project management and quality procedures. A new visual project management system called Obeya is now up and running at Critical Engineering's CCI businesses in the US, Korea and the Czech Republic and a new quality system is now operating across the whole of the Precision Engineering division.

Product development to drive organic growth is accelerating

To maintain our competitiveness and market-leading positions, we outlined in our strategy the need to develop our product portfolio and in particular create new products and technologies that are at the forefront of flow control technology and that offer customers compelling solutions to the engineering challenges they face. Last year we began to progressively increase our R&D spend. In 2014 we spent around 3% of revenue on R&D and by 2017 we plan to have increased this to around 5% of revenue.

In the past 24 months, Hydronic Engineering has developed and launched 29 new products which generated almost 10% of the division's total revenue last year. Of particular note is the Eclipse product, which provides the market with a new and dynamic level of control and has succeeded in substantially growing market shares even in these soft market conditions.

In Precision Engineering we have now completed our review of the Industrial Automation market and its various subsectors. This work, together with rigorous laboratory testing and teardown of recognised market-leading products, has provided a clear roadmap for the product pipeline needed to grow our position in our selected sectors.

Also in the important heavy Commercial Vehicle sector, the division has completed the development of a new proportionate valve, the Phoenix valve. This provides faster response and assists our customers reduce emissions and improve fuel efficiency. This valve has already been adopted by a significant European customer with a good flow of revenue expected from 2019.

In order to manage efficiently the volume of new products within Precision Engineering's future pipeline, the division has developed a new and dynamic New Product Introduction process which includes advanced quality planning and many of the tools successfully used in both Hydronic Engineering and Critical Engineering.

Within Critical Engineering, our already globally recognised excellence in critical valve design has been enhanced with competitor teardown and benchmarking processes and the introduction of our Obeya project management system, which helps reduce lead times and ensure timely and efficient delivery of the entire production process in even the most technically difficult projects.

3.

4.

Business development

In business development, the overarching priority in 2015 has been the integration of Bopp & Reuther which was acquired at the start of the year. This acquisition allowed us to build and implement our new IMI acquisition and integration procedures, which will help deliver successful acquisitions in the future. While the markets for Bopp & Reuther have been similarly impacted by the declines experienced in our other Critical Engineering businesses, the integration, while not without its challenges, has proceeded well and created a platform for accelerated synergy delivery in the years ahead.

While timing can never be certain, our business development activities in 2016 will continue to focus predominantly on value enhancing, strategically aligned bolt-ons for Critical Engineering and Hydronic Engineering, with larger scale opportunities remaining an ambition during the later years of our strategic plan.

Our people

As I have highlighted in 2015, we have made a great deal of progress. While navigating challenging market conditions the Group has delivered results in line with expectations and continued to execute our growth agenda. All of these achievements are due to our employees and on behalf of the Board I would like to thank them for all of their hard work, their commitment and focus.

Outlook

Based on current market conditions, and on an organic constant currency basis, we expect first half revenues to reflect a similar percentage reduction to that experienced in the full year of 2015. Due to reduced sales volumes we expect first half margins to be around 250 basis points lower than the first half of 2015. The benefits of restructuring activities, combined with normal business phasing, are expected to result in improved revenues and margins in the second half of the year.

1. Daily 'tool box' talks and team meetings now feature at all IMI facilities
2. New product and rapid prototyping techniques
3. Critical Engineering's new world-class factory in Korea
4. The use of Total Productive Maintenance helps productivity and reduces downtime

Strategic growth priorities

Our strategic plan, which was first presented to the market in the summer of 2014, outlined our objective to accelerate growth and focuses on the following key 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 and where there are significant higher margin aftermarket opportunities. Our current market positioning and the growth targets we have set are detailed on pages 16 and 17.

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 18 to 21.

3
Increased investment in product development

We are increasing 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 revenue in 2014 to 5% over the next few years. To ensure that we maximise the benefits of this increased investment, we are improving our product development processes and systems and further detail is contained on pages 22 and 23.

4
Expand addressable markets through targeted acquisitions

We plan to 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 24.

Strategic timeline

2014

Year 0: The hard work begins ☑

2015

Year 1: Increased investment ☑

2016

Year 2: Benefits starting to show ☐

Supported by value enhancing acquisitions

Strategic enablers

To deliver our strategic growth objectives while capitalising on the geographic and operational capabilities of the Group 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 work to maintain net debt to EBITDA of no more than two times through the cycle.

Invest in Group-wide IT and infrastructure

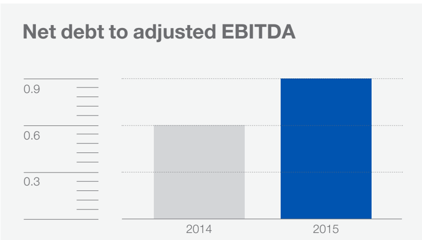
The programme to equip our businesses with effective IT has begun with the first sites either launched or on track to do so across all three of the Group's operating divisions. This commitment, alongside selective investment to upgrade or replace our manufacturing facilities, and our on-going initiatives, is a pre-requisite to achieving our strategic goals.

IT implementations are being phased on a site by site basis to minimise risk and deliver an optimal solution. Overall capital spending is progressively increasing to closer to 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 remain determined to channel and maximise our scale to act as one IMI. Establishing core processes has provided a strong platform that underpins a framework for creating consistent Group–wide standards and behaviours. The global intranet, that all employees regardless of location, are able to access, was established last year and enjoys substantial and growing usage as our businesses share best practice and establish rigorous processes that improve competitiveness and profitability.

In 2015, all Group businesses adopted a standard IMI branding enabling a coherent go to market approach under a single IMI umbrella.



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

The Group's core manufacturing operations have improved considerably in 2015

Investments in IT, E-commerce and intranets improve Group-wide communication

2017

Year 3:
Nearly firing on all cylinders

2018

Year 4:
Up to full speed

2019

Year 5:
Double operating profits

Business priorities

For each of the divisions we initially developed and have now fine-tuned our five year plans to be 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 five years
- Invest to support growth markets
  > New larger sites in Houston, Italy and Korea now complete
  > Commenced the 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 and implementation of Obeya methodology
  > ERP system launched in Czech Republic and 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
  > Introduced standard costing
- New ERP launched in Brazil and first USA site with the balance of USA underway and on track
- 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 market in years one and two 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 five years
- Increase new product development
  > 15 new products launched in 2015
  > Double investment in new product development over five years
  > 15 new products planned for 2016
- Optimise organisational structure
  > Introduce core processes
  > Project underway to implement new divisional ERP system
- Acquisitions
  > Potential bolt-on acquisitions in Europe and larger targets in North America

Executive Committee*

Mark Selway
Chief Executive

Daniel Shook
Finance Director
*From 1 March 2015**

Roy Twite
Divisional Managing Director, IMI Critical Engineering

Massimo Grassi
Divisional Managing Director, IMI Precision Engineering

Peter Spencer
Divisional Managing Director, IMI Hydronic Engineering

Paul Roberts
Group Business Development Director

Geoff Tranfield
Group Human Resources Director

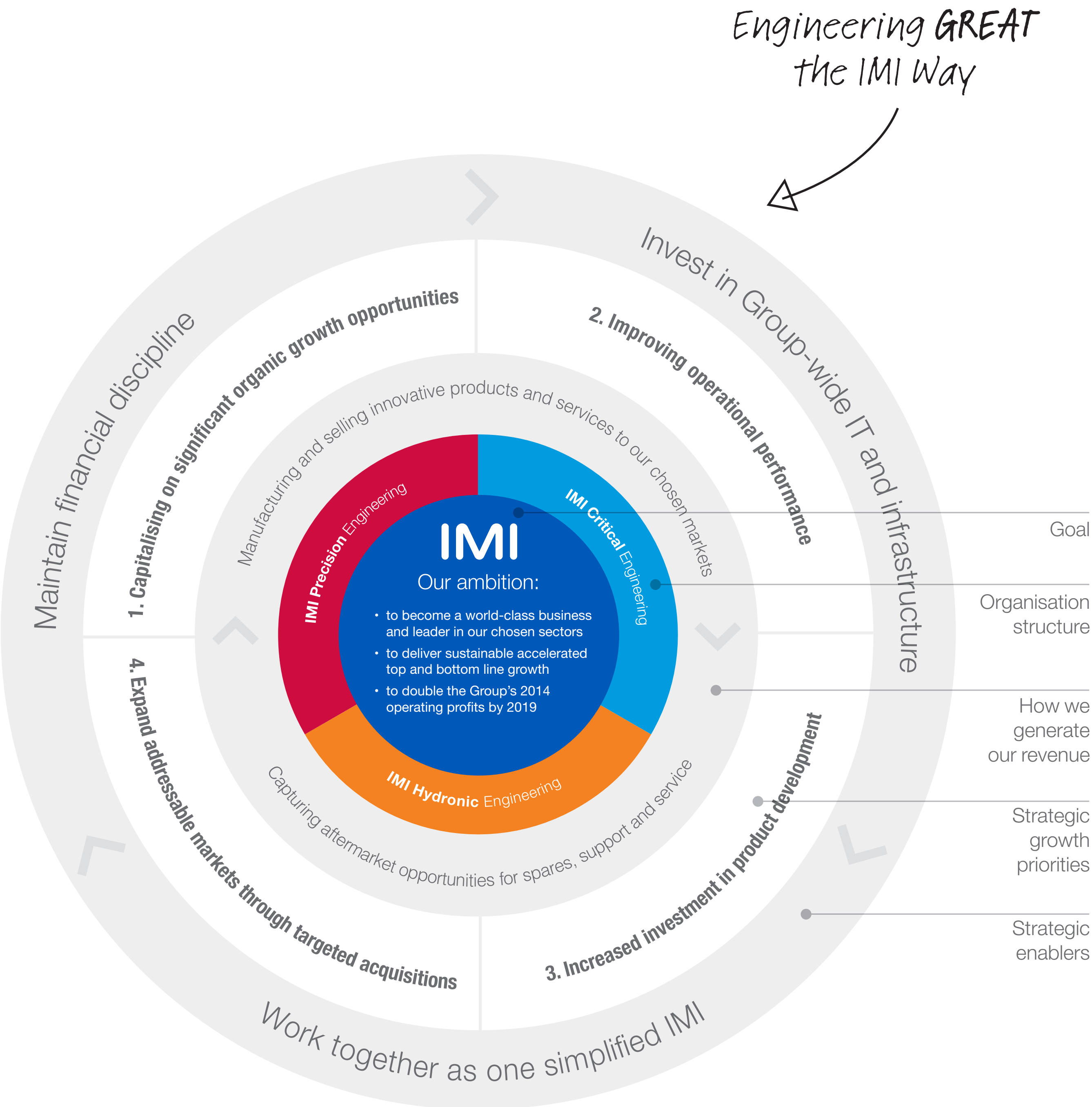
John O'Shea
Group Legal Director and Company Secretary

*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 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 and 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.

2015 Revenue: £259m

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.

2015 Revenue: £185m

Petrochemical

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.

2015 Revenue: £98m

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.

2015 Revenue: £32m

In 2015, IMI Critical Engineering had £57m of other revenue.

IMI Precision Engineering

- £14bn addressable market
- 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.

2015 Revenue: £392m

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.

2015 Revenue: £158m

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.

2015 Revenue: £62m

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.

2015 Revenue: £50m

IMI Hydronic Engineering

- £2bn addressable market opportunity
- Low cyclicality due to resilience of refurbishment markets
- Leadership position in core European markets
- Best in class returns and as from 2015 growing 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.

2015 Revenue: £135m

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.

2015 Revenue: £89m

Pressurisation

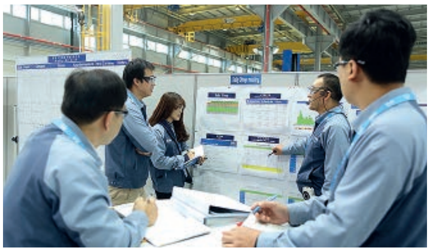
Reliable pressurisation is a basic requirement for a trouble-free operation of heating, cooling and solar systems. Our robust range of pressure maintenance systems with compressors or pumps and expansion vessels maintains the right pressure in the system at all times.

2015 Revenue: £29m

Water Quality

The single most important component in any hydronic system is the 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.

2015 Revenue: £11m



Critical Engineering

Market position

Attractive higher 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%.

Building our presence in attractive markets that offer the greatest potential for growth – expanding our presence in China

In 2015, the IMI Board approved significant investment to enhance Critical Engineering's footprint in mainland China, an attractive market with good long-term growth potential. With a greater presence in China, the division will be able to manufacture more of its products locally in a cost competitive way and be closer to its existing key customers and a range of potential new customers.

During the first quarter of 2015, the existing Critical Engineering manufacturing facility was transferred from Shanghai to the Qingpu Industrial Zone, which is west of Shanghai's city centre. This facility has additional space and will be the base for Critical Engineering's Chinese business until early 2018 when all manufacturing will move into a new purpose built facility, which will also be located in Qingpu. This new facility will cover 130,000 square feet and include a dedicated research and development capability.

Roy Twite, Divisional Managing Director and Jackie Hu, President, IMI China sign the commitment for IMI Critical Engineering's new Shanghai facility

Precision Engineering

Market position

Attractive higher 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 the market. Thereafter the goal is to grow at an average organic rate in the range of 6 to 8%.

Capitalising on organic growth opportunities – identifying markets that offer best returns

In our Precision Engineering division and in line with our strategic plan, during 2015 we undertook a significant amount of work to identify the markets that offer the greatest potential for growth.

The Industrial Automation sector currently contributes more than half of the division's revenues and operates across over 14 global end-markets and a very large number of sub-regional markets. To ensure that we properly harness the businesses' potential, understanding the current landscape it operates within is essential.

During the year we undertook a detailed review of Precision Engineering's 56 businesses to build a comprehensive understanding of their markets, customers, products and competitors. Equipped with an accurate picture of the current position we were then able to identify those markets which have the greatest potential to deliver the best returns. Using this valuable information as our baseline, we have now developed plans to accelerate the division's growth including detailed business specific plans for each region and product roadmaps that will underpin our sustainable competitive advantage.

Precision Engineering's industrial products will deliver new business opportunities in Rail

Hydronic Engineering

Market position

Attractive higher 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.

Increasing addressable market – expanding product portfolio into adjacent markets

New product development is the cornerstone of Hydronic Engineering's growth plan. In addition to developing next generation products to succeed the division's existing product portfolio a great deal of work was undertaken during the year to identify new product ranges that will complement and expand Hydronic Engineering's existing offering and enable the division to access new growth markets.

In 2015, Hydronic Engineering began developing a new actuator product known as Slider. Using the division's new product development processes, Slider was developed, manufactured and launched in just under twelve months. This new product, which is sold alongside the division's valve products, provides accurate and efficient control of heating systems.

To support the Slider launch, Hydronic Engineering created an innovative marketing campaign. The first phase of this campaign, which targets the division's own sales team aiming to educate, motivate and excite them about the project, was rolled out successfully in the final quarter of 2015.

Hydronic Engineering's new actuator product which launched in January 2015

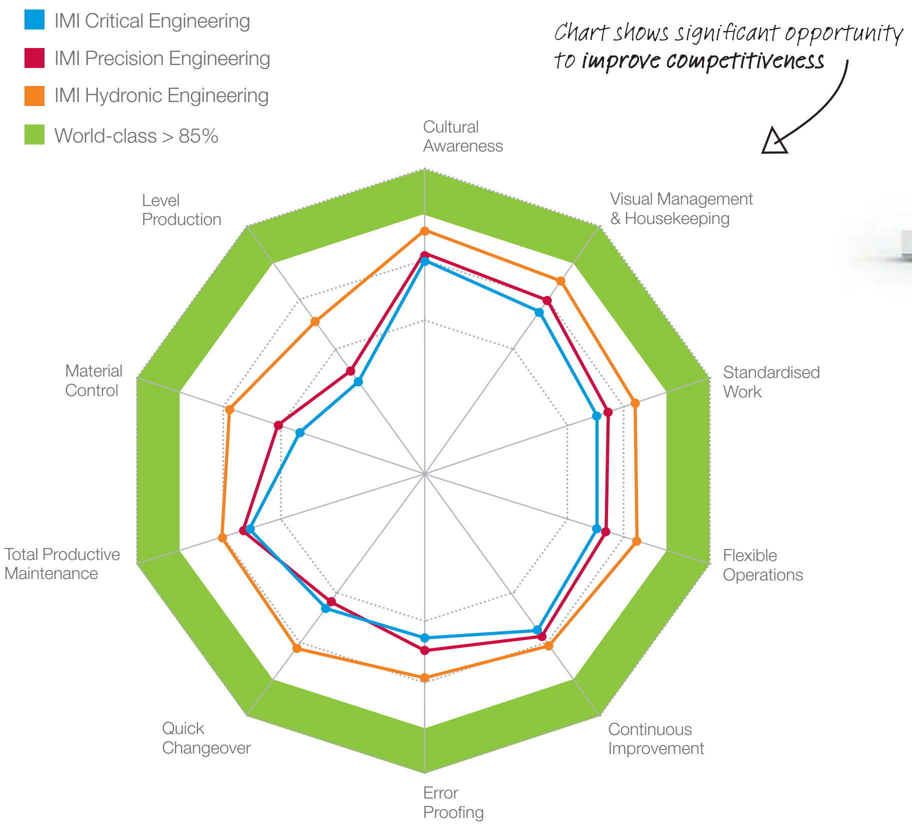
Strategy in action

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 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. At the time of the first benchmark, none of our facilities came close to achieving this, with the highest score being 57%. At the most recent review, the average score reached 59%, with Hydronic Engineering's Polish plant achieving a world-class score of 88%. All of our businesses continue to implement detailed plans to achieve world-class performance by 2018.

Fourth 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.

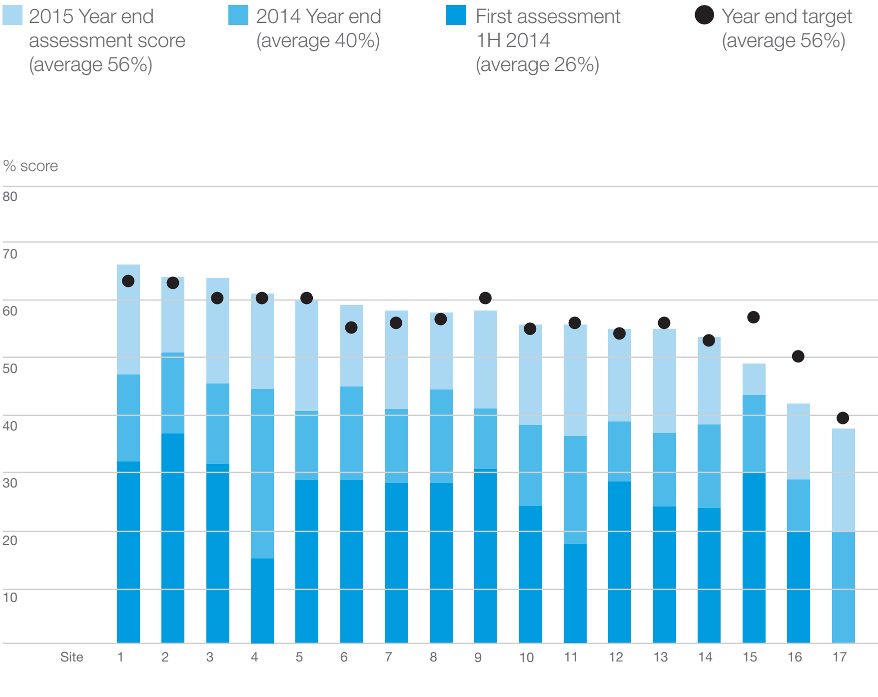
2015 operational snapshot

- Obeya room introduced in Critical Engineering to accelerate project execution
- Hydronic Engineering's Polish plant first to achieve world-class audit scores
- Value engineering and competitor tear downs instituted across all divisions

Lean assessments

During the course of 2015, our sites have been the subject of semi-annual assessments as we closely monitor the progress being made with lean. Improvements to date have been encouraging with average Group scores rising from 31% at the first assessment to 59% at the latest review. Most gratifying has been the collaboration across sites and divisions to achieve that progress which itself is indicative of an important and promising shift in Group culture.

IMI Critical Engineering



Site key:

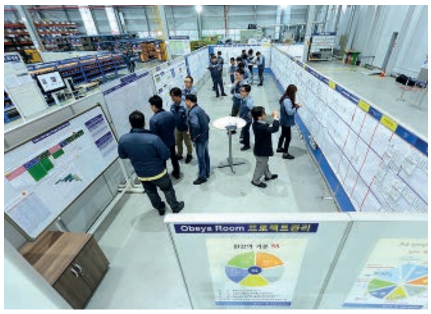
1 IMI CCI Korea
2 IMI CCI Brno
3 IMI CCI RSM
4 IMI STI
5 IMI CCI Japan
6 IMI InterAtiva
7 IMI CCI SriCity
8 IMI Fluid Kinetics
9 IMI CCI Sweden
10 IMI Remosa
11 IMI Critical Engineering Houston
12 IMI Orton
13 IMI Z&J Germany
14 IMI Truflo Rona Belgium
15 IMI Truflo Marine
16 IMI SSF
17 IMI Bopp & Reuther

Strengthening our operational capabilities – new project management tool increases operational agility and customer responsiveness

During the year, Critical Engineering significantly enhanced its project management capabilities by introducing a new tool called Obeya at many of its 17 sites around the world. Obeya, from the Japanese word meaning 'big room', is a dedicated space within a production facility which provides a detailed visual overview of the entire production process from customer order through to customer delivery.

Every member of the team involved in the design, development and manufacture of one of Critical Engineering's complex bespoke valves has access to Obeya and uses the tool to review and track not only their own area of responsibility but every stage of the entire production process.

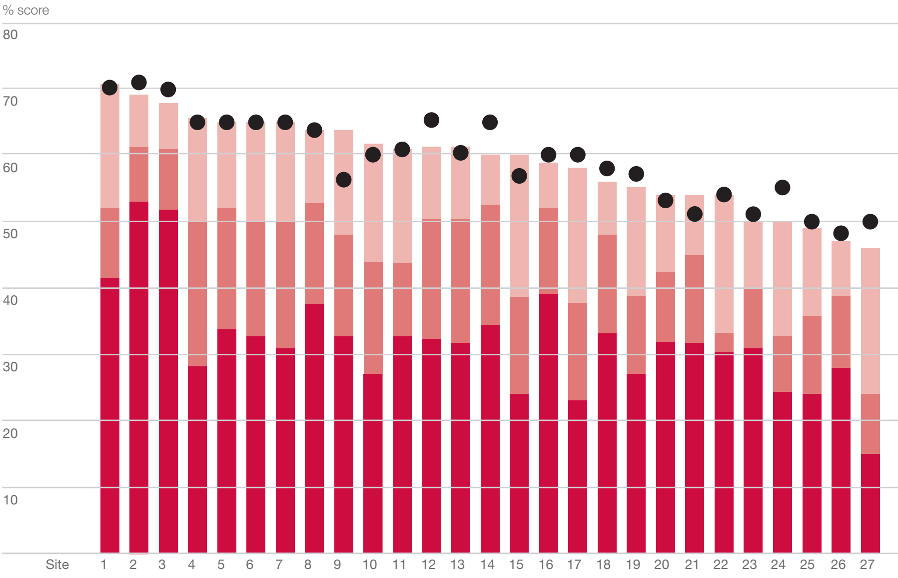
Using Obeya, bottlenecks in production can be easily identified, spare capacity in the process flagged and likely delays anticipated and, as a consequence, avoided. As a result, stock levels and work in progress can be reduced and on time delivery improved. Furthermore the comprehensive overview of the entire process, that Obeya provides, enables the plant's production process effectively to be set to the customer's timetable ensuring on time delivery and customer satisfaction.



The Obeya room process provides real time information to better manage even the most complex projects

IMI Precision Engineering

2015 Year end assessment score (average 59%)
2014 Year end (average 46%)
First assessment 1H 2014 (average 32%)
Year end target (average 60%)



Site key:

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

Building strong foundations for future growth – driving efficiency through simplification

In line with our strategic plan, much of our work in 2015 and during this year is aimed at making a very fragmented and complex business simpler to manage particularly in terms of structure and day-to-day operations.

A key part of this simplification process is rationalising our existing product portfolio to reduce waste and complexity, eliminate duplication and create space in the portfolio for new products. In 2015 we launched a project to significantly reduce the number of products in Precision Engineering's European business. At the start of the project the European product portfolio included 450,000 products of which 13,500 represented 80% of sales. Many products were no longer sold to customers while others were sold in very small volumes. As a result, our portfolio contained a large number of redundant products driving unnecessary complexity and heightened levels of inventory and working capital.

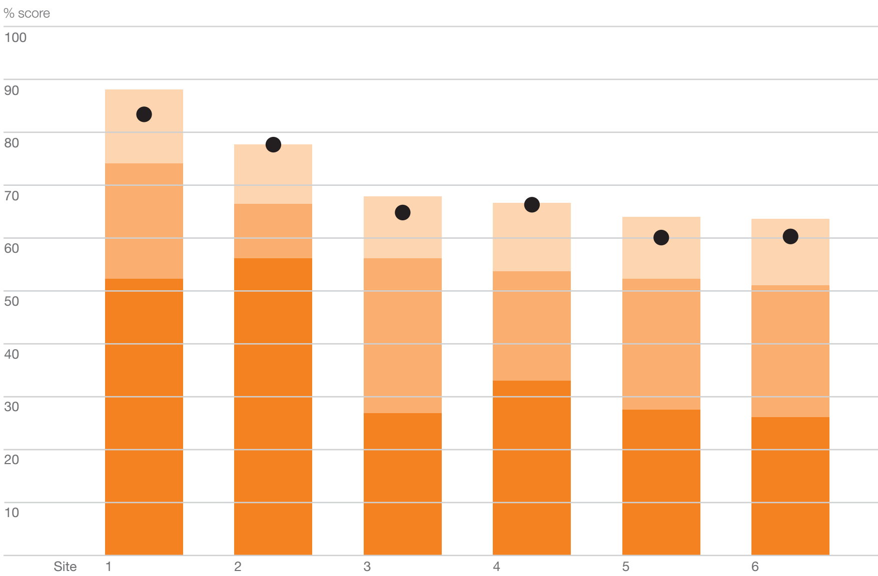
During 2015 excellent progress was made in rationalising the product portfolio. Approximately 295,000 products were eliminated and the division is well on track to remove a further 50,000. Most importantly, this project has been delivered without any material impact on day-to-day business.

Building on the success of the Europe product rationalisation project, similar projects are now being implemented across the division's North American and Asian operations.

Excellent progress is being made across Precision Engineering sites to reduce complexity and combine assembly operations

Hydronic Engineering

2015 Year end assessment score (average 72%)
2014 Year end (average 59%)
First assessment 1H 2014 (average 37%)
Year end target (average 69%)



Site key:
1 IMI Hydronic Poland
2 IMI Hydronic Slovenia
3 IMI Hydronic Sweden
4 IMI Hydronic Germany
5 IMI Hydronic Switzerland
6 IMI Hydronic North America

Achieving operational excellence – becoming more efficient and more competitive

Improving operational performance will help our businesses improve their competitiveness and achieve their growth ambitions. Each of our 50 facilities around the world are working towards world-class operational performance and during the year Hydronic Engineering's Polish plant in Olkusz, near Krakow was the first to achieve this significant milestone.

We assess operational performance using the renowned lean benchmarking system. When the Olkusz plant was first assessed two years ago, it recorded a score of 53%, which was considerably below a world-class performance score of 85% or more. A most recent assessment of the Olkusz facility resulted in a lean score of 88%, and the benefits are very evident. The plant's original production line is now more efficient. It also operates on a smaller footprint freeing up additional capacity which has enabled a second production line to be installed without the need for any additional floor space. Inventory turns across the division have increased from four to nine and the installed capacity is better utilised. Furthermore, customer responsiveness has improved significantly with on time delivery now at 91% compared with 82% 18 months ago.

A continuous improvement culture is now embedded throughout the Olkusz facility. While the team have secured world-class operational status, maintaining momentum and further improving the plant's operational performance to increase the division's competitiveness, remains an on-going target.

Employee involvement and daily 'tool box' talks improve communication

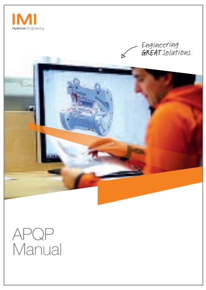
Strategy in action

3. Increasing investment in new product development

The development of rigorous and standardised processes in different functions is an initiative of fundamental importance at IMI, no more so than in New Product Development. At the beginning of 2015 we launched a new Group-wide advanced product quality planning ('APQP') process and a more standardised approach to the computer assisted design ('CAD') systems and procedures that we use across the Group.

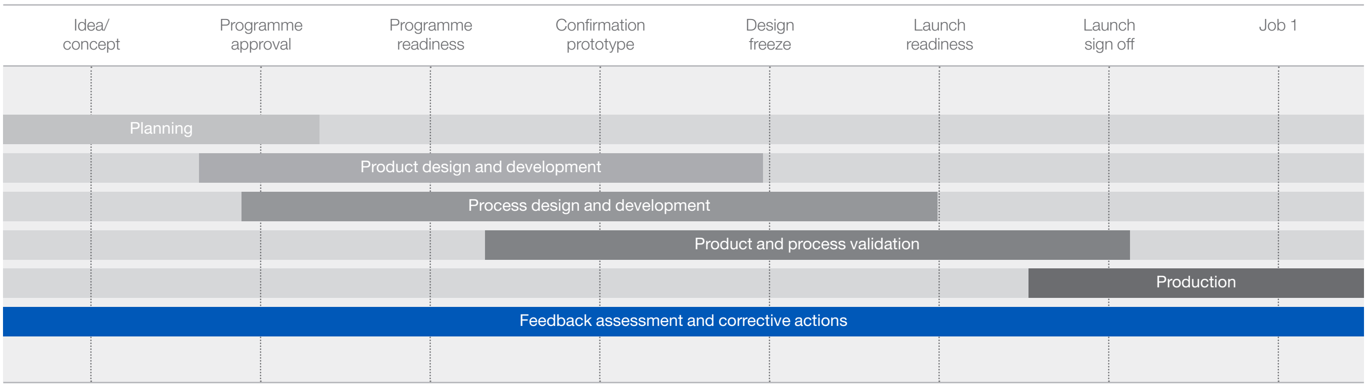
Advanced product quality planning ('APQP')

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, including 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.

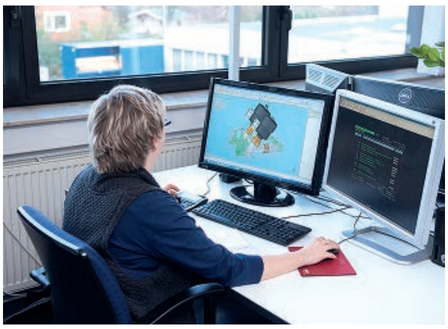
APQP timing plan



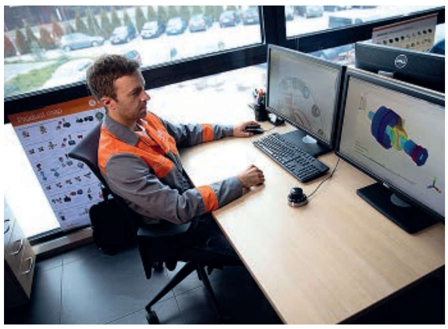
Computer assisted design ('CAD')

We are rationalising the number of CAD systems that we use as part of the new product development process. Going forward 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.

IMI Critical Engineering, Korea



IMI Precision Engineering, Germany

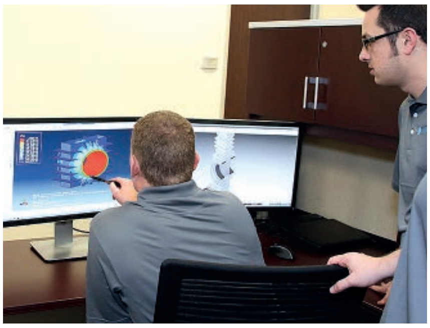


IMI Hydronic Engineering, Poland

IMI
Critical Engineering

Technical expertise and innovation delivers significant contracts

During the year Critical Engineering won eight separate contracts to supply valves and actuators for Yamal LNG project, one of the largest industrial projects in the Arctic. Yamal LNG is based in the estuary of the Ob River in Northern Siberia and is ice bound for nine months of the year. Given this extremely challenging environment, the division's valves were selected for a number of reasons including their ability to withstand temperatures below -162 celsius.



IMI Remosa, part of the Critical Engineering division, secured several multi-million euro contracts to supply, fluidised catalytic cracking valves to a refinery and petrochemical integrated development ('RAPID') in the Southern Johor region of Malaysia. RAPID will cover an area of 2,000 hectares and will include a refinery capable of producing 300,000 barrels a day. The petrochemical complex, using the latest technologies and adhering to the most stringent environmental regulations, will produce highly specialised products such as polyethylene, polypropylene and synthetic rubbers.

IMI
Precision Engineering

Driving organic growth through new product development – responding to market potential

For the first time in eight years Precision Engineering is preparing to launch a new Industrial Automation product range which will progressively come to market from the later part of 2016.

In 2015, building on the extensive work undertaken to assess the potential of the division's Industrial Automation business new product roadmaps were created. A number of Industrial Automation product concepts are now being developed using new processes and procedures, including competitor product benchmarking which involves the physical tear down of competitors' products to examine the differences and identify product advancement opportunities. Teams from Hydronic Engineering, who have introduced 29 new products to market in the past two years, have worked closely with the Precision Engineering product development teams, sharing best practice and practical guidance based on their own experiences.

Following the successful roll-out of the new product development process across Precision Engineering's Industrial Automation business, similar processes will be initiated in the division's Commercial Vehicle, Rail and Life Science businesses during 2016.

IMI
Hydronic Engineering

Driving organic growth – maintaining competitiveness and market-leading positions through new product development

Capitalising on Hydronic Engineering's leading market positions across Europe, new product development is the cornerstone of the division's growth plan. Since 2014, 29 new products have been developed and launched and today generate over 10% of the division's revenue.

One of these new products is Eclipse, the next generation automatic thermostatic radiator valve that accurately and silently controls room temperatures. Eclipse was successfully launched in March 2015 at the ISH Exhibition in Frankfurt, the world's leading trade fair for innovative building solutions.

Customer reaction to this new product has been excellent. 500,000 valves were sold in the first five months of the product's life, a dramatic improvement in demand compared to the product that preceded Eclipse, which sold only 100,000 units during its lifetime. In addition, a number of large European wholesalers have expressed interest in Eclipse and, as a result, Hydronic Engineering has developed a new sales strategy using wholesalers as a distribution channel in those markets where the division currently does not have a strong presence. This new sales strategy came to fruition in November 2015 when Hydronic Engineering entered into its first wholesale contract with one of Europe's largest distributors of building parts and materials.

Underpinning Eclipse's success are a number of new product development procedures which have enabled this product to be developed and launched in eleven months, a process that would have previously taken around four years.

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 continue to target bolt-on acquisitions to expand our product range and our geographic footprint within our existing markets and to extend our presence into adjacent attractive markets, particularly where there is an attractive aftermarket business available. We will also consider expanding our product range to include semi-severe and configured opportunities in each of our key sectors. In 2015 we acquired and successfully integrated Bopp & Reuther ('B&R').

IMI **Precision** Engineering

The growth opportunities within Precision Engineering remain significant. However, readying the business to maximise these opportunities was always going to take time. The first phase of our plan has focused on 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

Although the growth plan in our Hydronic Engineering division is predominantly organically focused, there is potential to enhance the division through acquisition. Any addition would need to satisfy stringent criteria but there are opportunities including, in particular, to build critical mass in the North American market.

Broadening the acquisition universe

- Potential to double addressable market
- Leverage existing positions in attractive end-markets
- 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 CCI Control valves ready for customer witness testing at IMI Critical Engineering's site in the Czech Republic

Corporate Responsibility
Our approach

"Our ambition is for IMI to become a world-class business, a genuine leader in all the areas in which we operate. We will do this by harnessing our engineering heritage and building IMI into a truly great company - one 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 conducts itself in an ethical and responsible manner.

At the heart of building IMI into a truly great company is The IMI Way which sets out our values – excellence, innovation, integrity and collaboration – and embraces our commitment to continually improve through the sharing of best practice and the on-going collaboration and development of our people. It also addresses all aspects of the way we conduct our business and the high standards of ethics and integrity we expect of our employees, including the impact we have on the environment and the communities we operate in."

Mark Selway
Chief Executive

IMI employees are at the centre of our ambition to become world-class

Health & Safety

The health and safety of our employees is paramount. We also have a duty to protect those who work with us, including our customers, suppliers, contractors and visitors who may be affected by what we do and the environment in which we operate.

Our ambition is to achieve world-class health and safety performance in all of our operations and in 2015 we made good progress towards achieving this goal. During the year we significantly improved the predictive elements of our safety programme. However this overall good performance was overshadowed to some degree by the integration of Bopp & Reuther which resulted in a slight deterioration in the number of lost time accidents when compared to the excellent results achieved in 2014.

Recognising the challenges of integrating newly acquired businesses into the IMI safety culture, we have taken action to improve our health and safety awareness and levels of management oversight across the entire Group. Dovetailing into our lean benchmarking and operational improvements initiative, we have introduced twice-yearly 'Lean-HSE' assessments for all manufacturing sites which have resulted in significant improvements in the elimination of hazards and the visual safety of our facilities. Specifically at Bopp & Reuther we are making excellent progress in our work with the local Bopp & Reuther team to ensure we bring their performance up to IMI standards.

Through the year we continued to build on the already strong safety culture in the Group and in 2015 we delivered over 95,000 hours of HS&E training in addition to the 300,000 hours delivered in the previous three years.

Across the Group, our divisional HSE teams continued to focus on rigorous root-cause investigations of lost time accidents, including where appropriate safety alerts being issued across the Group to highlight the incident, identify the causal factors and instruct mitigating actions to reduce the likelihood of reoccurrence. This sharing of best practice remains a fundamental component of our safety performance.

During the year we also improved our incident reporting and communication tools to improve sharing and escalation to senior management in a more robust and real time way.

The application of lean creates HSE discipline

Visual management is a key component in HSE improvements

A formalised approach to problem solving

Environment

Our technologies continue to help our customers respond to a variety of global environmental challenges, including climate change, resource scarcity and urbanisation.

In our day-to-day business operations, we remain committed to minimising the environmental impact of our business operations and continuously improving our energy efficiency.

The recent European Union Energy Efficiency Directive ('EED') included a requirement for UK businesses to undertake independent energy surveys in its major European operations. This initiative supports what IMI has been doing voluntarily for a number of years and provides a useful addition to our internal projects. The surveys were carried out at representative sites from each of our divisions across several European countries and were coordinated centrally to maximise efficiency.

We have reviewed all of the recommendations from the individual site surveys and in 2016 will roll out a programme of improvements to leverage the benefits across all relevant IMI sites. Due to the surveys being carried out at a variety of sites in several countries, they will provide a good cross section of opportunities.

Our 2015 gross CO_2e emissions have reduced by 2% to 61,250 tonnes compared with the previous year (2014: 62,500 tonnes). There has been a slight deterioration in our normalised total CO_2e intensity metric from 37.4 tonnes per £million sales in 2014 to 39.5 in 2015.

In 2013 we targeted to reduce our emissions by 7.5% over a three year period, from the baseline set in 2012, both in terms of gross emissions and emissions intensity. In 2015 we achieved this ambitious target. Overall, we have reduced both gross CO_2e emissions and normalised CO_2e emissions intensity by 13.7% and 13.8% respectively.

Our target for 2016 is to embed these efficiency gains and make our 2015 emissions the minimum baseline performance. In addition, we will look to make continuous improvements in all of our businesses as we implement the improvements identified in our EED energy audits and share those learnings across our non-European sites.

For further information please refer to page 134 of the Directors' Report.

Business integrity & ethics

The IMI Code of Conduct (the 'Code') sets out the standards we expect everyone in the Group to comply with and covers those areas of good governance that we consider essential to operating an ethical business with the highest levels of integrity. It includes workplace conduct, anti-bribery, anti-corruption and fair market competition. The Code was reviewed in 2014 to bring it in line with the Group's purpose and values and all employees participated in face-to-face refresher training on the Code and the importance of ethical behaviour at this year's annual IMI Way Day. The Code was further reinforced at the 2015 divisional and Group senior leadership conferences with case study workshops and specific policy training undertaken throughout the Group.

IMI has a long standing, well-developed whistleblowing policy that encourages employees to speak up when they see conduct that does not accord with the Code. Where normal channels may not be appropriate we provide an easily accessible, confidential and independently operated reporting hotline in more than 20 languages which enables employees to raise issues anonymously. A key foundation of the policy is that employees making reports through any channel and in good faith should have no fear of retaliation. Our Ethics and Compliance Committee meets monthly to review hotline reports and is chaired by Geoff Tranfield, Group Human Resources Director. During 2015, 97 cases were reported which was lower than the previous year (2014: 103 cases).

We operate a supplier evaluation process which assesses our suppliers to provide assurance that they comply with the provisions contained within the Code and our Supply Chain Policy.

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 2015, Precision Engineering's business at Vimercate, Italy identified that the local school's fencing was in urgent need of refurbishment. Small teams from all across the business – both senior and junior employees – repaired and painted the fencing over the course of a long, hard but very rewarding day. Their efforts attracted the appreciation of local residents and its newspaper, with a recognition letter of thanks received from the Mayor of Vimercate.

The IMI Hydronic team in Slovenia got stuck in to provide a fresh new look and much needed handicraft supplies for Ozara - a local organisation for the disabled. The team worked on renovating the organisation premises, where up to 30 disabled members of the community have a workshop and make a variety of hand crafted products to sell. Ozara provides the mentally and physically handicapped with a meeting and creative space to re-integrate into the community. The renovation of the premises provided a much needed facelift and a brighter working environment – much to the delight of everyone there.

A combined team of around 200 staff from IMI headquarters and IMI Critical Engineering and Group, attended a project at Newlands Bishop Farm, a facility that helps young people and adults with mental health issues, learning disabilities, brain injuries and physical disabilities to learn work based skills in a real work environment. The IMI team spent an afternoon helping to create a beach garden, develop an outdoor play space and decking for their outdoor café along with general maintenance such as painting and repairing different areas around the site.

Corporate Responsibility
Our people

Geoff Tranfield
Group Human
Resources Director

"The steady progress we made during the year on our strategic plan is primarily down to the hard work and dedication of our employees around the world. To ensure that this progress is maintained and to position IMI for accelerated sustainable growth, we recognise the need to continue to attract good people, strengthen our talent pipeline and ensure that we have the relevant skills and experiences to serve our customers well. We continue to focus on ensuring that we provide a working environment within which our people can develop, understand the contribution they make and be fully engaged."

Attracting good people and strengthening our talent pipeline

During 2015 we launched a number of new and updated development programmes across the Group.

Following a detailed review in 2014, which was undertaken by a diverse cross-divisional team which took account of feedback from past and present recruits, we launched an updated graduate programme. The main changes were two-fold: firstly the programme, which was previously focused on developing leadership and managerial skills, was realigned to support our strategy and, in particular, recruit and develop the best engineering talent capable of delivering new products and world-class customer service, both of which are key elements of our organic growth plan. Secondly, to replace the former Group-wide single scheme and increase our international mix and level of hiring, our three divisions have each developed their own programme tailored to meet their specific needs. In an increasingly competitive environment this bespoke approach ensures that our graduate recruits quickly gain a deep understanding of our customers, their needs and the markets in which they operate. Equipped with this in-depth knowledge and benefitting from at least one placement outside their home country, our graduates will be better able to contribute to their businesses from an early stage in their career.

During the year we introduced a new leadership development programme which is also aligned to IMI's strategy and its objective is to develop relevant skills and leadership capabilities to support the Group's growth plan. Senior managers from around the Group participated in the inaugural programme which was launched in July 2015.

'Being a GREAT IMI Manager', our new management and supervisory programme was also launched in November and will be rolled out globally in 2016 to over 200 of our supervisors and managers. The programme's objectives are to equip managers and supervisors with the skills to manage their people and their part of the business.

"I joined IMI in February 2009 and attended my first IMI Leadership programme in 2010. This year I was one of the first people to participate in 'Leading the Way to Engineering Great' our new leadership programme. This new programme, which is more closely aligned to our growth plan, links our role and objectives as leaders to the Group's five year strategy and there is a particular focus on better understanding our customers and markets. Working in small groups, with excellent coaching support and the expectation of "teach back" to our teams, really helped us embed our learning from the programme back into our businesses and our day-to-day managerial roles."

CM Merrimon
President,
IMI CCI Americas

"Seeing how passionate the senior executives are about the business was inspiring. I learned how important it is for me to communicate clearly and how to develop my team through coaching and feedback."

Qamar Hashmi
Quality Manager,
Watson Smith,
Precision Engineering

Graduate induction 2015

Serving our increasingly diverse customer base

We are a global business. To ensure that we deliver competitive products and solutions to our increasingly diverse customer base we must employ and retain people who have the best relevant skills, experience and ideas. We have a diverse Board in terms of gender and nationality and in our businesses we always seek to appoint and promote local talent.

In 2014 we formally articulated our approach to diversity through the introduction of a revised diversity and inclusion policy. In 2015 and following the introduction of the revised policy, each of our divisions embedded in their businesses specific and relevant diversity objectives including setting recruitment targets for apprenticeships and graduate programmes. This work is progressing well and already delivering results. By way of example in 2015, through our graduate programme, we hired 28 new recruits, a third of which are female, from 13 nationalities.

Operating more efficiently and transparently in our reward processes

Improving performance across all areas of our business by operating more efficiently is a key priority and a driver of our growth plan. Running our HR, finance and other functions across the Group in an efficient way is as important as operating our production facilities effectively.

During 2015 we made good progress towards simplifying and harmonising the employee benefit schemes that operate across the Group. Working with Mercer, a specialist consultancy focused on employee rewards, we undertook a detailed internal audit of existing benefits and benchmarked them against benefits available in our sector globally to ensure that our offering is in line with market best practice. Our audit revealed that we operated a large number of varied schemes around the world including over 84 pension plans, 90 car policies and 89 health plans. Administration of these arrangements absorbed a significant amount of time and added an unnecessary layer of complexity in the day-to-day running of our HR operations.

Our new diversity policy and graduate recruitment plans will deliver benefits

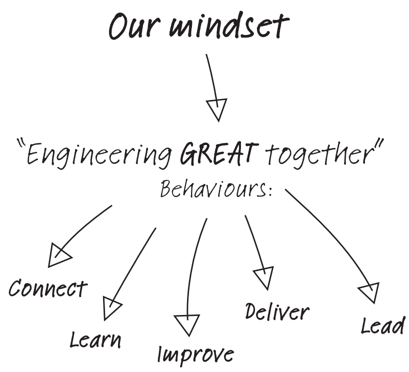
During the year the number of schemes have been reduced significantly. For example, the 500 bonus schemes that previously operated have been rationalised and now only 15 incentive schemes exist across the whole of the Group, all of which are directly linked to IMI's strategic growth plan. We have also standardised a number of procedures, including annual pay reviews, which are now harmonised, wherever practical, to take place on 1 January every year.

As we have reduced the number of schemes and simplified operating procedures administration has become easier and more efficient. Furthermore this rationalisation process will enable us to leverage the purchasing power of the Group to achieve the most competitive pricing. Already across the Group, through the rationalisation and simplification of pension plans, we have achieved savings and reduced our liability in this area.

Engaging effectively with employees

In response to employee requests for improved communication, we have further invested in our Group intranet and to date we have had over four million hits from employees who use the tool on a daily basis to facilitate collaboration with other parts of the Group and share best practice. During the year each division also introduced their own divisional intranet platforms to improve the flow of communication between the businesses in each division. In addition our newsletter the IMI Eye, which covers news stories and updates about all our businesses, is produced twice a year and is distributed to employees and stakeholders across and outside the Group.

Building on the work undertaken in 2014 in relation to communicating IMI's values to all our employees, in 2015 we launched our IMI Way Behaviours which are below:



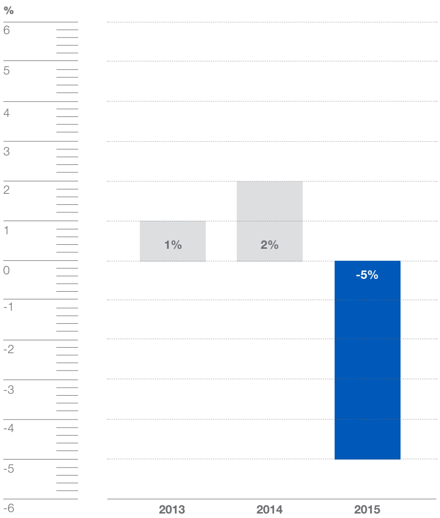
These core IMI Behaviours have been communicated to all employees as part of the IMI Way Day (held in June 2015) and are embedded in all our HR processes including performance management, recruitment, talent development and reward. We continue to hold the IMI Way Day annually and to seek feedback from employees through this and local pulse survey data.

Measurements and targets

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

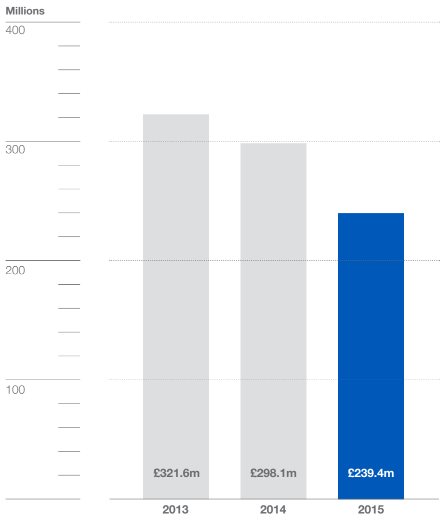
Each IMI business participates in an annual round of planning meetings with the Executive Committee, during which performance and future plans for that business are reviewed and updated. These business plans have all been aligned with the Group's strategy. The Key Performance Indicators ('KPIs') set 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 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 2015, the Group's continuing businesses experienced a drop in organic revenue of 5%.

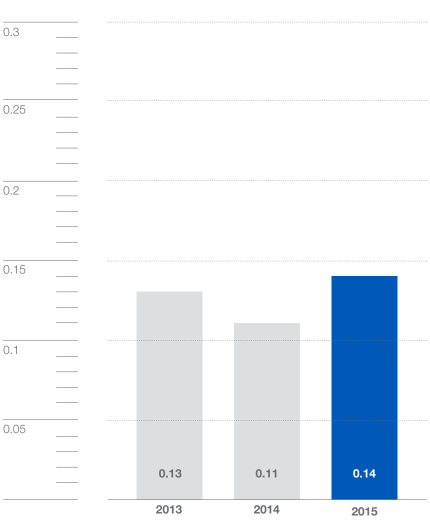
Segmental operating profit



In 2015, Group segmental operating profit was £239m compared to £298m representing a reduction of 20% 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 lower by 15%.

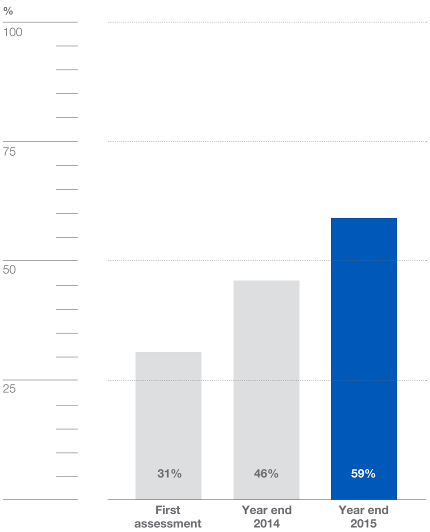
Health & Safety

Lost time accident rate



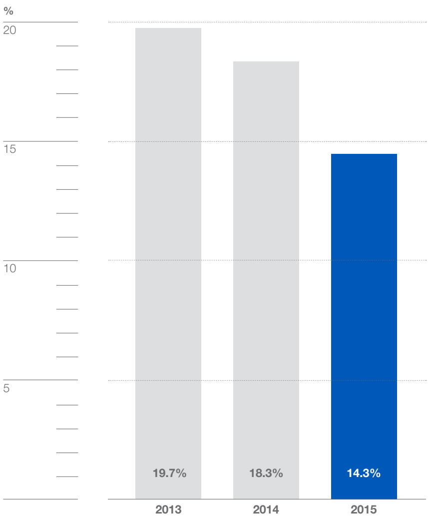
The health and safety of all our employees remains paramount. We measure our progress in this area by tracking our >1 day lost time accident frequency rate ('LTA rate'). In 2015, our LTA rate increased relative to 2014. The inclusion of Bopp & Reuther from January 2015 negatively impacted the result and we continue to work with the Bopp & Reuther local team to ensure we bring their performance up to IMI standards.

Lean score



During the year we continued to improve our operational performance and lean scores toward world-class. Our semi-annual benchmarking process is now well embedded, and scores continue to reflect the improvement that has been executed. Our highest score is now 88% and the average has increased from 31% when we first benchmarked the business in 2014 to 59% in the fourth assessment.

Return on capital employed



Return on capital employed ('ROCE') is defined as segmental operating profit after tax divided by capital employed. In 2015 ROCE was 14.3% which compares to 18.3% in 2014 and reflects the reduced operating profit impacted by market headwinds. For the purposes of the long-term incentive plan the Group uses the segmental operating profit divided by operating assets which equate to 71% (2013), 58% (2014) and 46% (2015).

Principal risks and uncertainties

The Board has responsibility for determining the nature and extent of the principal risks it is prepared to accept to achieve the Group's strategic objectives. The Executive Committee has delegated responsibility from the Board for implementing and monitoring internal controls and other elements of risk management systems. The Executive Committee operates alongside 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.

In 2014 a new risk management process was piloted across the Group which for the first time required our principal business units to produce detailed risk profiles. Following the successful pilot exercise, Group-wide deployment of the new risk profile was completed in March 2015. Each site is now required to develop and maintain a current risk profile, which identifies the key risks facing the business. Every risk is assessed, rated and appropriate mitigating procedures and, where necessary, improvement actions are developed. Specific key performance indicators ('KPIs') are tracked for each risk and site management are required to review progress on a monthly basis. Site level risk profiles are uploaded to the Group intranet every six months and then consolidated into divisional risk registers and ultimately the Group risk register. During 2015 all required business units completed and uploaded their risk profile, demonstrating strong process adherence and a high level of management commitment.

Each Divisional Managing Director reviewed and approved their business unit risk profiles and as part of this review process calibrated risk assessment across their division, assessed local management mitigating procedures and tracked the status of improvement actions. Once complete, the most significant business unit level risks were consolidated into a summarised divisional risk profile, including any additional divisional level risks as appropriate.

The three divisional risk profiles were subsequently consolidated into a single Group risk profile and the divisional and consolidated Group risk profiles were presented at Executive Committee meetings in the second half of 2015. The senior leadership team reviewed the most pertinent risks facing the IMI Group. This review, the supporting risk profiles and a detailed analysis of the Group risk profile and actions undertaken to ensure compliance with the enhanced requirements of the UK Corporate Governance Code were submitted to the Board. The Board explicitly considers the risks associated with the Group's strategic objectives and the risks involved in specific investment decisions, including acquisitions and divestments.

Through these processes the significant risks facing the business are identified, assessed and ranked according to their likelihood and impact on the business and, following Executive review, the Board is able to actively monitor the measures used to mitigate, transfer or avoid such risks. Risk appetite across the range of Group strategic objectives is also reviewed by the Board.

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

The key strategic and operational risks facing the Group are shown in the table on pages 33 to 35. This analysis includes a description of the risk and the potential impact for the Group, a summary of the mitigation actions, the risk movement and the main changes during 2015.

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
MACRO-ECONOMIC INSTABILITY GLOBAL ECONOMIC OR POLITICAL INSTABILITY IMPACTING THE GROUP'S ABILITY TO ACHIEVE FORECAST AND MARKET EXPECTATIONS RISK MOVEMENT	The Group operates in global markets and demand for our products is dependent on a number of economic and sector-facing environments. A downturn in a regional economy or a political event could impact end-market demand and result in reductions in revenue and profit.	• Divisional management monitor key customers and respond quickly to changes in customer demand. • Our 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. • Enhanced stress testing and sensitivity analysis of business plans with regular reviews of key market and sector metrics.
CHANGES DURING 2015	Economic and market conditions have become increasingly challenging with weakness in Brazil and slower growth in China coupled with lower activity in Oil & Gas and Nuclear Power generation. The Group continues to increase investment in new product development and improve operational performance to enhance competitiveness. To mitigate, where practical, the impact of current market weakness, Critical Engineering and Precision Engineering are reviewing a number of cost-reduction initiatives which will be introduced in 2016.	
MAJOR PROJECT IMPLEMENTATION FAILURE TO DELIVER MAJOR TRANSFORMATIONAL PROJECTS ON TIME AND ON BUDGET RISK MOVEMENT	The Group will undertake a number of major change projects in line with our strategic objectives including: business reorganisations and implementation of IT systems. Failure to deliver the desired objectives and failure to react quickly enough to changing market conditions, could have an adverse financial impact on the Group.	• Continued upgrade of resources to manage projects including the introduction of new Group-wide core processes. • Detailed plans with clear and measurable milestones reviewed by the Divisional Managing Directors to track progress. • Regular review of major project progress by the Executive Committee. • Enhanced risk assessment process including full mitigation action plans for all major change projects. • Specialist IT and Group Assurance reviews of major IT projects. • Detailed contingency plans.
CHANGES DURING 2015	The Group has a similar volume of major change projects compared to 2014, with the majority now relating to business re-organisations and IT system implementations. All significant projects receive substantial senior management oversight in the form of bi-weekly Executive project reviews to deliver the objectives which were approved at project initiation, to ensure they remain on track and are adequately resourced.	
PRODUCT QUALITY QUALITY ISSUES LEADING TO PRODUCT FAILURE, RECALL, WARRANTY ISSUES, INJURY, DAMAGE OR DISRUPTION TO CUSTOMER'S BUSINESS RISK MOVEMENT	The Group prides itself on the innovative engineering solutions we provide our customers. The quality and safety of our products is of the highest importance and failure to deliver the quality required would result in negative financial and reputational impact.	• Implementation of Group-wide standard for advanced product quality planning ('APQP') programme. • Continued focus on adherence to existing quality management systems, including audits to appropriate quality standards. • Testing of finished product and customer sign off on the most critical of products. • Targeted lean events to improve quality and application of problem solving tools to address significant re-occurring quality issues per site. • Upgrade of talent and focus on functional excellence in quality and product development. • Processes to mitigate the reputational and legal implications of product failures.
CHANGES DURING 2015	Customers continue to insist on more onerous contractual terms relating to product quality and performance. The Group has implemented a new APQP process across all manufacturing operations. Significant progress has been made embedding standard work and lean tools such a poka-yoke (quality system with the goal of achieving zero defects), which will reduce the likelihood of issues arising. Introduction of Obeya rooms in Critical Engineering and the addition of a global standard IMI Norgren quality system in Precision Engineering will add significantly to systems integrity and performance monitoring.	
ACQUISITION RISK FAILURE TO INTEGRATE ACQUISITIONS SUCCESSFULLY AND DELIVER THE REQUIRED SYNERGIES RISK MOVEMENT	An important part of our growth agenda is to make acquisitions that complement or extend our product portfolio. Failure to implement the post integration strategy would reduce the value enhancing synergies.	• Resourced central M&A function working with our divisions to identify hard and soft synergies within targeted acquisition opportunities. • Formalised acquisition approval, due diligence and post-acquisition integration processes. • Weekly review of the 100 day post-acquisition plan with the integration team to track progress, led by the Divisional Managing Director.
CHANGES DURING 2015	The revised acquisition integration process introduced in 2014 which was used for the acquisition of Bopp & Reuther at the start of 2015 will ensure efficiency synergies are maximised. This revised and formalised process has improved the visibility and rigour of delivery of the planned synergies.	

Principal Risks and Uncertainties (cont'd)

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
SUPPLY CHAIN FAILURE TO MANAGE THE SUPPLY CHAIN RISK MOVEMENT	The Group has a significant number of contracts with a broad base of suppliers. Failure to meet customers' requirements in respect of quality or delivery, 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. • Adequate safety stock and/or dual supply for critical components. • Supplier scorecard process to monitor performance, capability and resilience.
CHANGES DURING 2015	Continued collaboration across divisions to share knowledge of suppliers and use of standardised scorecards to monitor trends in key supplier performance. Introduction of value engineering programmes across divisions. Introduction of global agreements to leverage Group purchase and ensure all supplies are sourced from reputable suppliers under standard terms and pricing.	
CYBER SECURITY UNAUTHORISED ACCESS TO OUR IT SYSTEMS RISK MOVEMENT	Unapproved access to IT systems resulting in loss of intellectual property, fraudulent activity and theft of cash or data, business interruption and reputational damage.	• Increased IT security resources and establishment of an IT security steering group comprising representatives for all divisions and corporate offices. • Increased cyber security awareness training for all employees, particularly with regard to fraud. • Disaster recovery plans developed. • Increased monitoring of IT systems.
CHANGES DURING 2015	The nature and number of security threats has increased during 2015 and the Group has responded with significant investments in sophisticated anti-virus and firewall preventative measures coupled with increased user awareness. In addition, following a wide-ranging review of the Group's IT infrastructure and cyber security, the Group has agreed and funded a comprehensive Security Improvement Programme, which is currently being piloted in a number of business units before being rolled out across the Group.	
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 tax, anti-bribery, fraud and competition law and need to ensure compliance to avoid 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 and compliance and financial sections of the IMI global intranet. • Group, division 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 are available on the intranet and increased rigour around core legal and compliance processes. • Enhanced third party agent due diligence and approval procedures, standard agency agreements and terminated non-compliant agents.
CHANGES DURING 2015	Whilst the external regulatory environment is increasingly arduous, our process and procedures are more embedded throughout the business. During 2015 we significantly enhanced our due diligence and approval procedures for sales agents and have organised our legal and compliance resources under a divisional structure so that they are now an integral part of our operational management teams.	
COMPETITIVE MARKETS INCREASINGLY COMPETITIVE MARKETS LEADING TO PRICING PRESSURES OR LOSS OF CUSTOMERS RISK MOVEMENT	Increased volatility and slowdown in major economies may result in increased competition, leading to loss of customers and/or pricing pressures leading to lost sales and reduced profits.	• Review of site capacity as part of the lean benchmarking process and to obtain better utilisation and improved productivity. • Rigorous review of standard costings to ensure thorough understanding of product cost. • Monitoring of markets to ensure cost competitiveness and market shares understood and managed. • Formal market, competitor and peer reviews undertaken quarterly.
CHANGES DURING 2015	Increased macro-economic pressures have increased competitive and pricing risks. Formal new product introduction procedures, improvements in operational capabilities, routine teardown testing and competitive benchmarking of competitor products have placed the Group in a better position to respond to these challenges.	

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
NEW PRODUCT DEVELOPMENT **LACK OF INNOVATION OR DEVELOPMENT OF A PIPELINE OF NEW PRODUCTS** RISK MOVEMENT ↓	The Group's strategy to double operating profit is underpinned by organic growth, which will be achieved in part by delivering a pipeline of innovative new products. Failure to achieve this objective will impact our ability to grow.	• Implementation of Group-wide standard for advanced APQP programme. • Five year technology roadmaps included in divisional strategies. • 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 with dedicated teams to monitor progress. • New product introduction procedures in place. • Tracking of key performance metrics – level of sales from new products and level of research and development spend against sales.
CHANGES DURING 2015	A new advanced product quality planning process was launched across the Group which had been developed and piloted in Hydronic Engineering. Fifteen new products in Hydronic Engineering generated £30m of sales in 2015. Five year regional plans including new product priorities were established for the industrial engineering sector and roadmaps were included as an integral component of divisional strategies.	
HEALTH, SAFETY & ENVIRONMENTAL CONTROLS **FAILURE OF HEALTH, SAFETY AND ENVIRONMENTAL (HSE) CONTROLS RESULTING IN HARM TO EMPLOYEES OR OTHER STAKEHOLDERS** RISK MOVEMENT ↓	The Group recognises our duty of care to our employees and other stakeholders. Whilst we have made great progress in recent years we understand the impact on our employees and other stakeholders from the failure of this obligation and therefore 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.	• Application of lean manufacturing principles into an improved HSE assessment and audit process including 5S (housekeeping methodology for manufacturing areas) and Gemba walks (management walks in manufacturing areas). • Improved standard work processes, new lifting and slinging procedures and improved planning around plant layout. • Global process in place to ensure that HSE matters are appropriately monitored and addressed and risks minimised including monthly reporting to, and review at the Executive Committee. • Group and divisional level HSE resource proactively manage and audit divisional HSE performance and provide guidance and support to site management.
CHANGES DURING 2015	We measure progress by tracking lost time accidents ('LTAs'), medical incidents and near misses. In 2015, the Group implemented an improved HSE audit process, incorporating similar methodology to our lean manufacturing benchmark and audit process. These reviews are undertaken more frequently and improve hazard detection across sites in different divisions and regions.	

Risk appetite

The Board has considered the Group's risk appetite and it is deemed to be appropriate to pursuing and achieving our strategic objectives. Specific risk exposures and appetites vary according to the nature of the risk.

Details on risk appetite are communicated to the Divisional Managing Directors and the Group's Executive Committee to ensure that decision making and behaviours across the business are consistent with the guidance set by the Board.

Improved risk management processes have meant that the identification and mitigation of risks are now well-embedded within the operating protocols across our businesses.

Performance review

IMI Critical Engineering

Critical Engineering made significant progress towards achieving its strategic objectives in a tough market environment.

38

IMI Precision Engineering

Precision Engineering advanced a number of strategic initiatives including rationalising the product portfolio, improving operational performance and implementing a new system of product development.

40

IMI Hydronic Engineering

Hydronic Engineering delivered positive results and a number of new market-leading products despite a still challenging European environment.

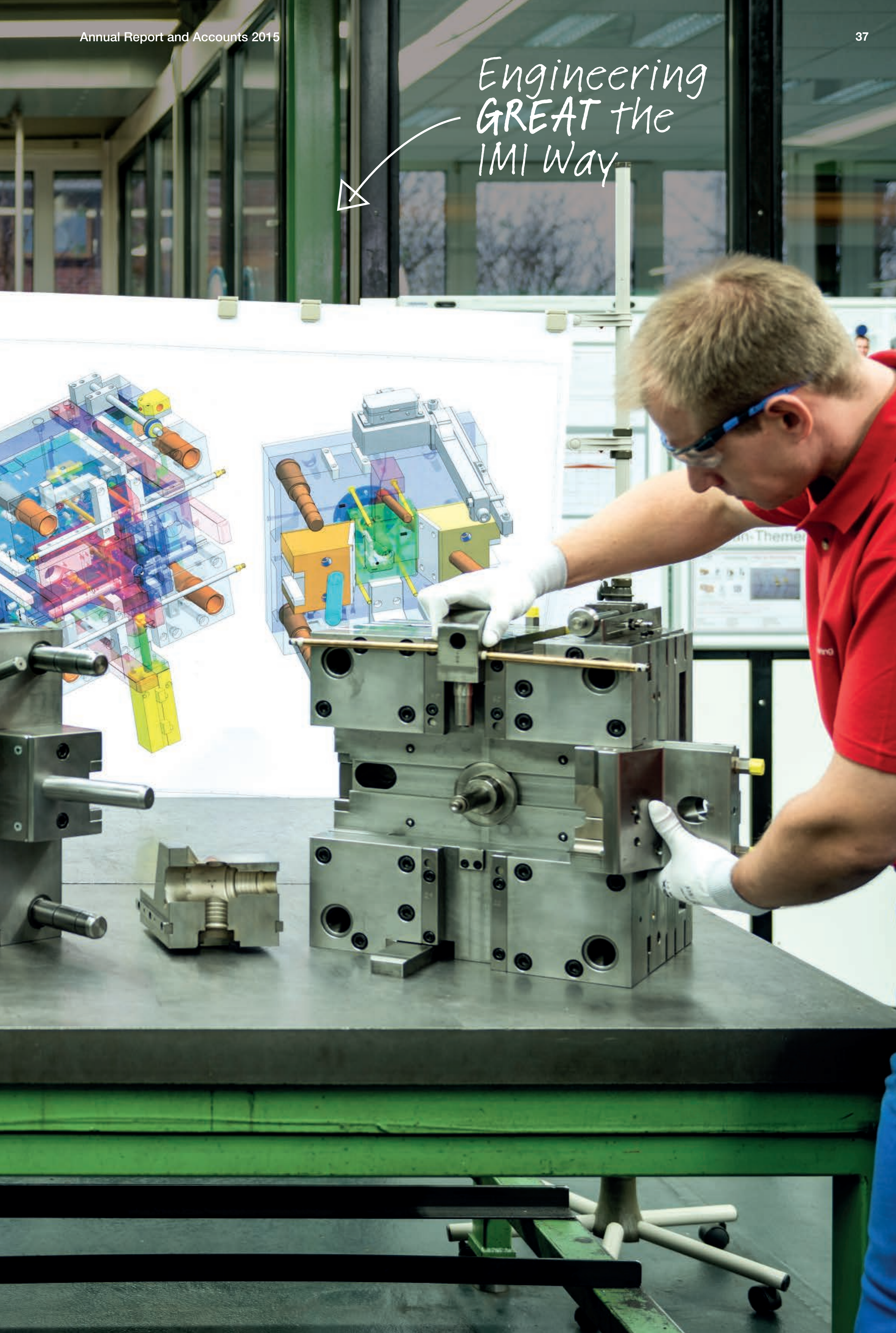
42

Above
Final testing of valve assemblies at IMI CCI Korea

Right
State of the art test technology in our Olkusz, Poland facility

Precision Engineering prototype tooling skills help accelerate new product launches

Engineering GREAT the IMI Way



Operational Review
IMI Critical Engineering

IMI
Critical Engineering

Revenue
£631m Down 10%*

Operating profit
£93.1m Down 24%*

* organic

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 ZIKESCH

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 £619m (2014: £686m) was down 13% on an organic basis (after adjusting for acquisitions, disposals and exchange rate movements). In the second half, order intake decreased 20% on an organic basis. The Oil & Gas sector, where we have a significant position in the LNG market, showed resilience with order intake decreasing by 3% in the year despite the drastic reduction in the oil price. LNG new construction orders played a key role in Oil & Gas, with orders up 23% in the year, more than offset by upstream orders down 25%. Due to the slower new order activity in China, Fossil Power orders were down 1% on the prior year. In the Petrochemical sector, orders were down 42% due to a combination of lower market activity in China, large one-off orders in 2014 and slippage of some large projects from 2015 into 2016. As anticipated, Nuclear orders were down 76% reflecting on-going weakness in the market post-Fukushima.

Aftermarket orders were down 3% compared to 2014 with Oil & Gas being up 3%, more than offset by Fossil Power down 4% and the remaining segments down 6%.

After adjusting for the impact of adverse exchange rate movements of £26m and for acquisitions and disposals, revenues decreased 10% on an organic basis. Revenues of £631m (2014: £692m) were down 9% on a reported basis with IMI Bopp & Reuther contributing £46m of revenues in the year. Segmental operating profit of £93m (2014: £131m) declined by 29% on a reported basis and was 24% lower on an organic basis while margins decreased to 14.8% from 19.0% in 2014. This decline in profitability and margins was primarily due to the reduction in volumes.

The division made good progress on a number of its growth initiatives including the division wide adoption of Obeya, a visual project management system, lean manufacturing and implementation of new ERP systems in two key sites.

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 100,000 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.

"During the year IMI Critical Engineering made significant progress towards achieving its strategic objectives including the completion of a brand new world-class facility in Korea, the successful launch of a new ERP system, excellent progress in lean and project management, as well as sector leading performance in a tough market environment."

Roy Twite
Divisional Managing Director

IMI Bopp & Reuther

IMI Bopp & Reuther was acquired on 2 January 2015 and has been fully integrated into Critical Engineering with 97% of 400 integration actions being completed by the year-end. Hard synergies are now being delivered and actions have been taken to close the Swiss and Canadian Nuclear businesses and transfer their operations to the IMI Bopp & Reuther manufacturing facility in Mannheim by the end of 2016.

Key achievements

- IMI Bopp & Reuther successfully integrated in the year
- Completion of the new £8m manufacturing facility for IMI CCI in South Korea and commencement of a £5m refurbishment of the IMI Z&J Germany manufacturing plant
- Two new service centres opened in China and a new £9m China manufacturing localisation plan started
- Successful adoption of lean with scores improving from 26% to 56%
- Obeya project management process implemented in key manufacturing plants
- New process improvements embedded in each of the business units including the 5 year strategic planning process, new risk profiling process and financial internal controls process
- New divisional ERP system successfully launched in Austria and Czech Republic with a further four sites on track for go-live in 2016
- Won a number of new orders including new choke valves for the Kashagan project, new monitoring and isolating equipment to prevent fugitive emissions and aftermarket high temperature nozzles for de-superheating applications
- Sale of non-core IMI Scott and IMI Z&J South Africa to remove complexity from the division

Market review

Conditions across much of the capital goods sector were particularly difficult in 2015 resulting in Critical Engineering's key markets being more challenging than expected. The sharp decline in the oil price caused significant weakness in the Oil & Gas sector and post the 2011 Fukushima incident, investment continued to be depressed in the Nuclear sector. More generally the slowdown in China and the cautious global capital spending environment impacted new order opportunities significantly.

In response, the division initiated a number of cost-cutting initiatives including the restructuring of its European and Canadian nuclear businesses which are now centred at IMI Bopp & Reuther's Mannheim facility in Germany and the transfer of IMI TH Jansen's production facilities to IMI Z&J's plant at Düren.

Outlook

Based on the current order book and market outlook, we expect first half revenues and margins to reflect a similar percentage reduction as experienced in the full year of 2015. Subject to order book timing, and including the benefits of restructuring actions, we anticipate a second half improvement in both revenues and margins when compared to the first half of the year.

CASE STUDY

Readying our businesses for accelerated growth – efficient systems and processes installed to strengthen operational infrastructure and enhance competitiveness

During the year, a new ERP system, an integrated IT system that automatically manages multiple business processes and functions, was successfully installed on time and to budget at Critical Engineering's Brno, Czech Republic facility. The new system embeds a common way of working, consistent processes and accurate data collection all of which make day-to-day operations more cost and time efficient and product and service offerings more competitive.

Repetitive time consuming manual data entry is now a thing of the past. Day-to-day tasks are now performed more efficiently and effectively, project cycle times have been reduced and data retrieval has been made quicker and easier. Today, as a result of access to accurate consistent data, operating costs at the Brno facility can be better monitored and controlled and the profitability of every single project carefully managed. The team in Brno also now has better visibility across the entire production process which has resulted in improved inventory management and customer responsiveness.

Following the successful Brno launch, the same ERP system will be rolled out across Critical Engineering's eight other major facilities, starting with Japan and Sweden during the first quarter of 2016.

As a result of this investment in a key part of the division's infrastructure, Critical Engineering's operational performance has been enhanced and the business is now better equipped to harness significant market opportunities in the coming years.

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

Operational Review
IMI Precision Engineering

IMI
Precision Engineering

Revenue
£662m Down 3%*

Operating profit
£117.7m Down 14%*

* organic

Engineering GREAT Solutions

IMI NORGREN
IMI BUSCHJOST
IMI FAS
IMI MAXSEAL
IMI HERION

IMI Precision Engineering is a world leader in motion and fluid control technologies wherever precision, speed and reliability of process 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, Czech Republic, Mexico, India and Brazil. Product support is provided through global centres of technical excellence, and facilities for computational fluid dynamics design, research and development and 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 £23m and for acquisitions and disposals, revenues of £662m (2014: £710m) decreased 3% on an organic basis and were down 7% on a reported basis. Industrial Automation revenues were down 5%, driven by lower market demand in North America and the Asia Pacific region. Commercial Vehicle sales decreased 1% in the year through a combination of 9% growth in Europe, a good first half performance in North America and significantly lower truck production in Brazil. Rail was up 17%, while Oil & Gas declined 10% and Life Sciences was up 1%.

Segmental operating profit at £117.7m (2014: £138.5m) was 15% lower on a reported basis and, after adjusting for the impact of adverse exchange rate movements of £3m, 14% lower on an organic basis. Operating margins suffered from weaker market conditions in the second half (H1 2015: 18.6% v H2 2015: 16.9%) and in the full year operating margins of 17.8% were also lower reflecting an adverse sales mix and the increased investment to support long-term growth.

The application of lean made terrific progress right across the division with significantly improved productivity, nearly 50% reduction in warranty costs, a 23% reduction in scrap costs and 7.5% lower inventory when compared to 2014.

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.

Introduction
Strategic Review
Performance Review
Corporate Governance
Financial Statements

"During the year we made good progress on a number of strategic initiatives including rationalising the product portfolio in Europe, improving operational performance through the application of lean, addressing supply chain complexities and implementing a new system of new product development world-wide."

Massimo Grassi
Divisional Managing Director

The division focused on a number of strategic activities during the year including simplifying the organisational structure, improving operational performance through the application of lean manufacturing, upgrading IT systems, addressing supply chain complexities 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

- New Divisional Managing Director, Massimo Grassi, appointed with effect from 1 June 2015
- Successful adoption of lean with scores improving from a year 1 assessment of 32% to 59% at year end 2015
- Division-wide adoption of new product introduction process, reducing lead time and improved 'job 1 readiness'
- New divisional ERP system launched successfully in Brazil and Farmington, Connecticut
- New division-wide quality system implemented across all IMI Norgren global sites
- Parts rationalisation completed in Europe, reducing 450,000 SKUs by 295,000 in the year

Market Review

The global industrial economic outlook for 2016 remains mixed with leading indicators, including the Purchasing Managers Index, weakening in the second half of 2015. While we expect the general industrial markets in Europe to remain broadly neutral, the US and Asian markets will remain challenging, particularly in China. In the truck sector we expect the European market to remain stable while North America class 8 volumes are expected to be lower in the year ahead.

Outlook

Based on current market conditions, we expect first half revenues to reflect a similar percentage reduction to the second half of 2015. Margins in the first half will be comparable to second half of 2015. While markets remain uncertain the benefits of restructuring activities in Brazil and the actions taken to lower our costs are expected to deliver improved margins in the second half of the year.

CASE STUDY

Implementing a robust New Product Development and quality system to deliver competitive advantage – helps secure new contract win

During the year Precision Engineering won a new contract to supply patent protected Phoenix valves to Kongsberg Automotive, the Norwegian based company that provides world-class products to the global vehicle industry.

The Phoenix valve plays a key part in managing the engine and transmission systems of large commercial trucks, in particular their clutch control mechanisms, ensuring that the trucks run efficiently and avoid off-road time which is very costly for the truck operators.

The Phoenix valve was designed in Precision Engineering's Fellbach facility in Germany and is manufactured in the Czech Republic at the division's Brno plant. In the past 18 months both plants have significantly improved their operational performance and this was a key factor in the successful development and commercialisation of the Phoenix valve. In particular, a new robust product development process, that now operates across the whole of the Precision Engineering division, guarantees the quality of the product through every stage of its development ensuring that each valve (one of which will be produced every five seconds) is delivered on time, to specification and to cost. As a result quality issues, late delivery and costly overruns have been eliminated.

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

Operational Review
IMI Hydronic Engineering

IMI Hydronic Engineering

Revenue
£264m Up 2%*

Operating profit
£51.8m Down 1%*

* organic

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 £23m and disposals of £2m, revenues were 2% higher on an organic basis. Revenues on a reported basis of £264m (2014: £284m) were down 7%. The strong growth in the second half of the year was driven by sales of new products and the absence of adverse weather conditions experienced in the prior year.

Segmental operating profit at £52m (2014: £57m) was 9% lower on a reported basis and, after adjusting for £4m of exchange rate impact, 1% lower on an organic basis. Operating margins showed their normal second half seasonal improvement to 21.2% (2014: 21.4%), full year margins at 19.6% were slightly lower compared to last year (2014: 20.0%).

During the year we continued to invest in new product development and successfully launched 15 new products, which delivered annualised revenues of around £30m. A good pipeline of exciting launches is scheduled for 2016, which will underpin our growth ambitions for the division. Good progress was also made on other strategic initiatives, including a further implementation of the lean principles in our factories and of the new ERP system in the division.

The full implementation of lean, including Kanban and Pull Systems, resulted in base load inventory reductions of 18% while on-time delivery rose to 92%. These improvements were delivered despite the impact of 15 great new products which required their own additions to inventory and operational complexity in the year.

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 nine 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.

"IMI Hydronic Engineering delivered positive results in 2015 in a still challenging European environment. We continued to strengthen our business, launched a number of great new products and introduced operational improvements. All of these initiatives resulted in positive sales development in 2015 and will drive significant future growth."

Peter Spencer
Divisional Managing Director

Key achievements

- Delivered 2% organic sales growth
- Launched 15 new products including Eclipse, a revolutionary thermostatic radiator valve based on our patented AFC technology
- Good progress on lean implementation resulting in an improved lean assessment score of 72%, an 18% reduction in inventory levels and over 92% on time deliveries
- Hydronic Engineering's Polish site first in IMI to achieve world-class lean ranking with score of 88%

Market review

Governments and international bodies continue to launch initiatives to significantly increase energy efficiency, such as the European Union's plan for nearly-zero energy buildings by 2020; the agreement by the US and China to reduce greenhouse gas emissions and increase energy efficiency over the next 20 years; and the United Nations' plan to double the rate of improvement in energy efficiency by 2030.

The trend towards a more sustainable and energy efficient world will be a key driver for IMI Hydronic Engineering. While building construction in our core European markets has remained weak in 2015, the global ambition to improve energy efficiency will continue to drive demand for the division's new and world leading products.

Outlook

In 2016 European construction markets are forecast to remain broadly flat, however, the success of our new product launches is expected to result in good revenue growth in 2016. Operating margins are expected to show their normal second half improvement and reflect the on-going investment for longer term growth.

CASE STUDY

Capitalising on new product development – winning new contracts

Eclipse, the next generation automatic thermostatic radiator valve product developed and launched by Hydronic Engineering in just eleven months, has enabled the division to win a number of significant new contracts.

In July 2015, following an introduction to Eclipse during the ISH Exhibition Launch in Frankfurt in March of that year, Vivawest Wohnen GmbH ('Vivawest Wohnen'), one of the largest housing associations in Germany, which owns and manages over 120,000 residential properties, entered into its first contract with Hydronic Engineering. The contract covers the supply of Eclipse valves for installation into 369 flats at its Neue Stadtgärten housing estate in Recklinghausen all of which are being renovated. As the Eclipse product automatically balances the heating system and does not require complex calculations to be undertaken, both time and costs are saved during the installation process, which in the case of Neue Stadtgärten totalled €65,000. Hydronic Engineering is currently in discussions with Vivawest Wohnen to supply Eclipse to a number of other renovation projects it is planning to undertake.

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

Corporate Governance

Corporate Governance Report

The Company Secretary, John O'Shea, reports on corporate governance and the main activities of the Board.

49-53

The Board

46-47

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

Audit Committee Report

54-56

Ross McInnes, Chairman of the Committee, reports on the oversight role and other activities of the Audit Committee.

Nominations Committee Report

57-58

Lord Smith, Chairman of the Committee, outlines the Committee's work on Board appointments and succession and other activities of the Nominations Committee.

Remuneration Report

59-71

Bob Stack, Chairman of the Committee, gives a full and transparent picture of executive director remuneration.

Above
Daily factory performance reviews are a key part of the rhythm of all IMI facilities

Right
Three IMI CCI Korea employees use the new Obeya Project Management room to deliver exceptional on time deliveries to customers

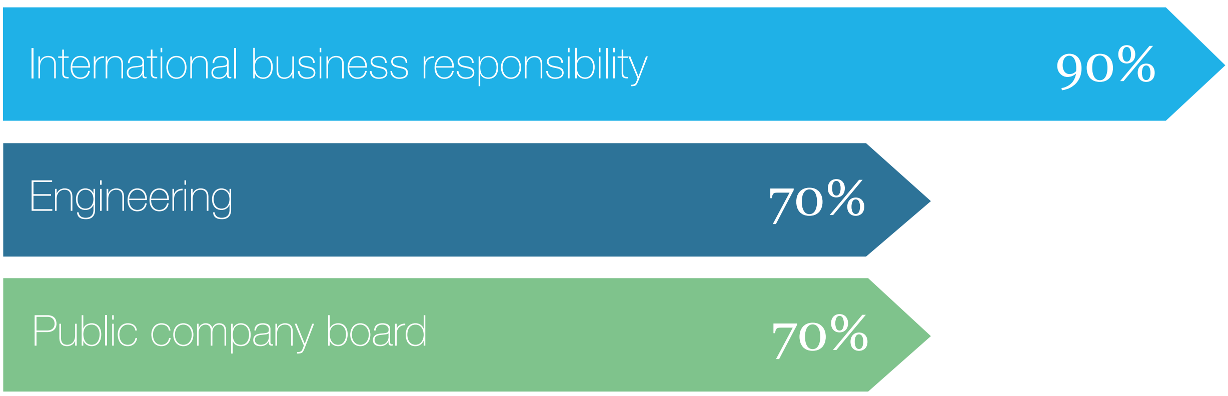
Hydronic Engineering's new Slider actuator prototypes are built in an all new design lean cell


Engineering GREAT the IMI Way
IMI

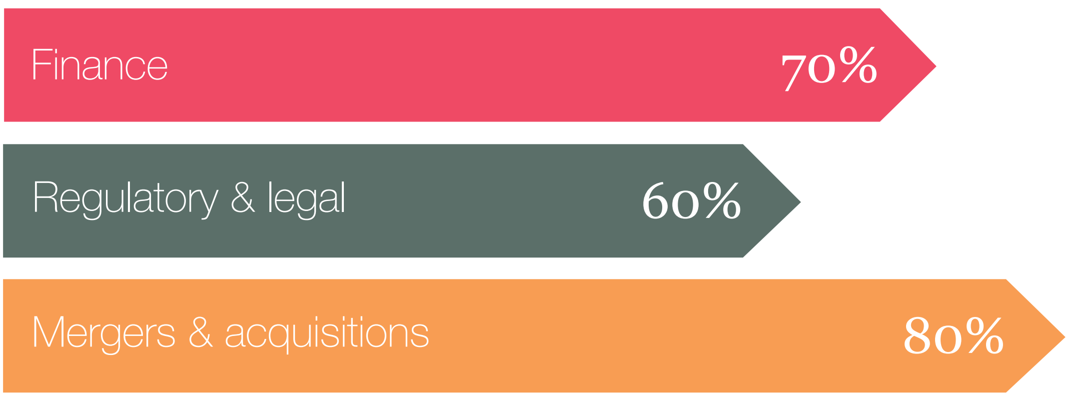
Board of Directors

Lord Smith of Kelvin Chairman	Mark Selway Chief Executive	Roy Twite Executive Director	Daniel Shook Finance Director	Bob Stack Senior independent non-executive director
				
Nationality				
British	Australian	British	American British	American
Committee membership				
Nominations Committee – Chair	Executive Committee	Executive Committee	Executive Committee	Nominations Committee Remuneration Committee – Chair
Date of appointment				
2015	2013	2007	2015	2008
Expertise				
Significant UK and international board experience Extensive knowledge of both engineering and manufacturing Strong track record in private equity, mergers and acquisitions Specialist capability in finance	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	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	Experienced non-executive director at public company level Significant international business experience Specialist capability in human resources, organisation change and corporate affairs
Key external appointments				
Non-executive Chairman of Alliance Trust plc Non-executive Chairman of the UK Green Investment Bank plc		Non-executive director of Halma plc		Non-executive director of the Earthwatch Institute Non-executive director of Signet Jewellers Limited

Board experience



Carl-Peter Forster Non-executive director	**Birgit Nørgaard** Non-executive director	**Ross McInnes** Non-executive director	**Isobel Sharp** Non-executive director
			
Nationality			
German	Danish	French Australian	British
Committee membership			
Audit Committee Nominations Committee Remuneration Committee	Audit Committee Nominations Committee Remuneration Committee	Audit Committee – Chair Nominations Committee	Audit Committee Nominations Committee
Date of appointment			
2012	2012	2014	2015
Expertise			
Experienced international 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 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	Considerable accounting, audit, governance and transactions experience including time as the Senior Technical Partner at Deloitte in London, President of the Institute of Chartered Accountants of Scotland and membership of the UK Accounting Standards Board and the Financial Review Panel
Key external appointments			
Non-executive director of Geely Automobile Holdings, Hong Kong Chairman of London Taxi Company Non-executive director of Volvo Cars Corporation, Gothenburg, Sweden Non-executive director of Rexam plc	Non-executive director of DSV A/S Non-executive director of WSP Global Inc. and Chairman of the Governance, Ethics and Compliance Committee Non-executive director of Cobham plc	Non-executive Chairman 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	Non-executive director of the UK Green Investment Bank plc Non-executive director and Audit Committee Chair of Winton Capital Group Limited Honorary Professor at Edinburgh University Business School



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

Corporate Governance introduction
Chairman's Governance letter

Lord Smith of Kelvin
Chairman

Dear Shareholder

I have been Chairman of IMI since the Annual General Meeting in May 2015 and am delighted to be working with the Board and the Executive team on the delivery of IMI's ambitious accelerated growth plan.

As I visit the businesses I am very impressed with the people and the culture, as well as the improvements and investment programmes that are underway. I am pleased to report that the measures to strengthen the businesses' foundations have continued, with the full support of the Board, despite the economic headwinds we faced in 2015.

I am grateful to my predecessor, Roberto Quarta, for the strong Board and robust governance practices he put in place. From these firm foundations I will continue to build the effectiveness of the Board.

So far during my tenure we have appointed one new non-executive director, we have dedicated time to a Board strategy day and visited our facilities in the Czech Republic. The Board has decided to hold most of our UK Board meetings at the new head office in Birmingham, which I am confident will help increase the visibility and effectiveness of future meetings.

I am now fully recovered since a health issue which affected me back in September and October 2015. My commitment to IMI is as strong as ever and I thank my Board colleagues for their understanding and support.

Looking ahead to 2016, I see the key objectives for the Board to be:

- continuing to develop our strategy review process with a longer-term perspective;
- supporting and advising management as they implement the business improvement and growth investment plans approved by the Board; and
- continuing to strengthen the Group's risk management and control environment.

I am keen to engage with shareholders and since my appointment I have met with a number of IMI's larger institutional investors. I look forward to meeting individual shareholders again at the forthcoming Annual General Meeting.

Yours faithfully

Lord Smith of Kelvin
Chairman

25 February 2016

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 2015 the Company has applied the principles of good governance contained in the 2014 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, all of which are incorporated by reference into this report.

A description of the main features of the Company's internal control system and other regulatory matters including statements on going concern and viability can be found on pages 133 to 136 in the Directors' Report. Risk management systems and principal risks and uncertainties are summarised on pages 33 to 35. Information on corporate responsibility can be found on pages 26 to 29.

The Board

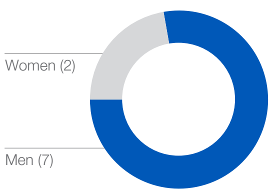
Composition

At the end of 2015 and to date in 2016 the Board comprised nine directors: the Chairman; the Chief Executive; five independent non-executive directors; the Finance Director and one operational executive director.

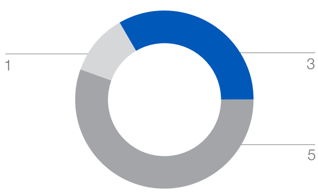
Roberto Quarta, Anita Frew and Douglas Hurt retired at the 2015 Annual General Meeting. Daniel Shook was appointed as an executive director from 1 January 2015 and became Finance Director on 1 March 2015. Isobel Sharp joined as a non-executive director on 1 September 2015.

In line with the Code, all continuing directors submit themselves for election or re-election at the Annual General Meeting.

Board gender
(at the year end/current)



Board balance
(at the year end/current)



1 Chairman
3 Executive directors
5 Non-executive directors

The role of the Board and the division of responsibilities between the Chairman and the Chief Executive are outlined in the Directors' Report on page 134 and 135.

Independence of non-executive directors

The Board considers that all five current non-executive directors are 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 save that Isobel Sharp is a co-director with Lord Smith on the board of the UK Green Investment Bank plc, a government owned financial institution. Cross-directorships are recognised in the Code criteria for independence as a potential consideration in relation to the assessment of independence. The Board has considered the circumstances and regards Isobel and all of the other non-executive directors as independent. The Chairman, Lord Smith, was also regarded as independent at the date of his appointment to the Board. The non-executive directors are a diverse group from varied backgrounds and bring with them a wide range of skills and experience of senior management in commerce, finance 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
Carl-Peter Forster	1 October 2012	20 December 2015	30 September 2018
Ross McInnes	1 October 2014	20 December 2015	30 September 2017
Birgit Nørgaard	6 November 2012	20 December 2015	5 November 2018
Isobel Sharp	1 September 2015	20 December 2015	31 August 2018
Lord Robert Smith	7 May 2015	20 December 2015	6 May 2018
Bob Stack	13 June 2008	20 December 2015	12 June 2016

Corporate Governance Report (cont'd)

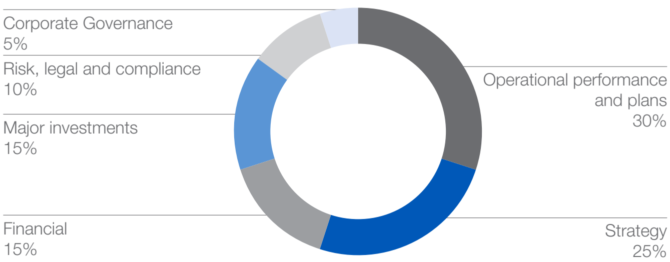
Meetings and use of Board time

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

Highlights of other Board activity in 2015 included:

- As the year opened, IMI searched for a new Chairman and, after a full process led by Anita Frew, the then senior independent non-executive director, Lord Smith was selected
- Progress with Board succession
  - New Finance Director, Daniel Shook, appointed and smooth handover effected in March 2015
  - New non-executive director, Isobel Sharp, with a strong financial background appointed
- Growth and process investments
  - Continuing growth investments made in new products and business IT systems
  - Embedded core process disciplines including lean, risk, compliance, new product development and policy deployment
  - Three major new facilities up and running
  - Completion of the acquisition of Bopp & Reuther to complement our control valve business in Critical Engineering

The Board's time



Board and Committee attendance 2015

Director	Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
	6	4	4	3
Carl-Peter Forster	6	4	-	3
Anita Frew[i]	2	1	1	1
Ross McInnes	6	4	-	-
Birgit Nørgaard[ii]	6	4	3	3
Roberto Quarta[i]	2	-	1	0
Isobel Sharp[iv]	3	1	-	-
Lord Smith[iii]	3	-	3	-
Bob Stack	6	-	4	3
Mark Selway	6	-	1	-
Douglas Hurt[i]	2	-	-	-
Daniel Shook	6	-	-	-
Roy Twite	5	-	-	-

[i] Retired as a director in May 2015
[ii] Joined the Nominations Committee in May 2015
[iii] Joined the Board in May 2015
[iv] Joined the Board in September 2015

Induction and continuing development programme

A formal induction process for new non-executive 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 introduced in consultation with the new Chairman.

Business familiarisation is at the core of induction and continuing development for non-executive directors at IMI and is based around gaining an understanding of the business and getting to know the wider management team. All non-executive directors are expected to attend one of the corporate induction days at head office. There is also a committee induction process designed to brief new committee members on the relevant committee's activity and the issues it faces. Non-executive 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 after induction and there is regular contact between management and non-executive directors during site visits, formal meetings and events.

During the year all of the non-executive directors made site visits and the whole Board spent two days in Brno, Czech Republic where it visited the largest sites in Critical Engineering and Precision Engineering.

Appropriate coaching and access to training and other continuing professional development is available to all non-executive directors and appropriate updates were given during the year at Board and Committee meetings. Special governance and regulatory refresher sessions were held during the year, attended by all of the non-executive directors.

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 2014 such a process was conducted and facilitated by Independent Board Evaluation.

Excellent progress has been made in relation to the actions arising from the external evaluation exercise in 2014, and some highlights are given below:

- introducing governance training for all first-time UK plc Board members;
- allowing more Board time, specifically dedicated to strategy process;
- establishing a Board succession plan, agreed by the Nominations Committee; and
- increasing Board contact with senior management.

In 2015 an internal evaluation exercise was carried out through non-attributable questionnaires and canvassing comments from directors. The results were positive and Board members noted some areas for development over the coming year, including most notably, the appointment of all of the non-executive directors to the Nominations Committee and a training session on best practice for the expanded Nominations Committee.

The Board received the findings of the internal evaluation in December 2015 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 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 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 chair, following each meeting.

Separate reports from the Committees appear as follows: Audit Committee on pages 54 to 56; Nominations Committee on pages 57 and 58 and Remuneration Committee on pages 59 to 71.

Corporate Governance Report (cont'd)

Audit Committee

Ross McInnes
Chairman

Membership:
- Carl-Peter Forster
- Birgit Nørgaard
- Isobel Sharp

Main responsibilities:

Financial reporting
- Oversight role in relation to financial statements
- Reviewing significant areas of judgement 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 control 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
- Appointment of the auditor and responsibility for the audit fee
- Reviewing the system for confidential whistleblowing and the treatment of reports received

Nominations Committee

Lord Smith of Kelvin
Chairman

Membership:
- Carl-Peter Forster
- Ross McInnes
- Birgit Nørgaard
- Isobel Sharp
- Bob Stack

Main responsibilities:
- Board and committee composition
- Succession plans for the Board and for 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 the appointment and removal of divisional business leaders

Remuneration Committee

Bob Stack
Chairman

Membership:
- Carl-Peter Forster
- Birgit Nørgaard

Main responsibilities:
- Define and recommend the remuneration policy
- Determine the individual remuneration packages for the most senior executives and the Chairman within the policy approved by shareholders
- Set annual and long-term incentive metrics and awards and determine the outcomes
- 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 chaired by the Chief Executive and the other members are shown on page 14. Regular attendees include the Group Financial Controller, Director of Risk and Compliance, and the Head of Investor Relations. Other 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 the broad remit set by the Chief Executive it monitors and manages business 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 Executive 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, legal and corporate affairs.

Investor relations

The 2015 Annual General Meeting was presided over by the Chairman, and attended by the chairmen of the standing committees of the Board and other directors. The Chairman encouraged debate and questions at the formal meeting and the directors met shareholders informally afterwards.

Each substantively separate issue was put to the 2015 Annual General Meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and to deal with other regular business. Separate resolutions for the approval of the Directors' Remuneration Report and the Directors' Remuneration Policy were also put to the meeting and a new long-term incentive plan and sharesave plan were approved. Notice of the 2015 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 shown on the IMI website. The Board values the support of shareholders and the poll results for all resolutions proposed at the 2015 Annual General Meeting were 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. Financial analysts' notes are circulated to the directors and the Board receives regular feedback reports from the Company's brokers. Dialogue is maintained with shareholders and the executive directors meet regularly with institutional investors. The Chief Executive and Finance Director have primary responsibility at board level for investor relations and report to the Board on shareholder issues. They are supported by the Head of Investor Relations. The Chairman has also met with some major investors and the senior independent director is available to shareholders as needed.

During 2015 there were consultations with the larger shareholders and institutional shareholder representative bodies in respect of remuneration matters and the new incentive plans and remuneration policy, which were tabled for shareholder approval at the 2015 Annual General Meeting.

Information about share capital, substantial shareholdings, voting and other rights of shareholders, directors' conflicts and indemnification and certain other regulatory disclosures are set out in the Directors' Report on pages 133 to 136.

By order of the Board

John O'Shea
Group Legal Director and Company Secretary

25 February 2016

Audit Committee Report

Ross McInnes
Chairman of the Audit Committee

Dear Shareholder

I am pleased to present my second report as Chairman of the Audit Committee.

Composition of the Audit Committee

I chair the Audit Committee. I was a career finance director until my retirement from executive office with Safran in 2015 and I have significant recent and relevant financial experience. I also chair the audit committees at Faurecia SA and Eutelsat Communications SA. Birgit Nørgaard, Carl-Peter Forster and I were members of the Audit Committee throughout the year. Isobel Sharp joined on 1 September 2015, adding further significant accounting, audit and governance experience to the Committee. All of the Committee members are regarded by the Board as independent non-executive directors.

The Committee generally asks the following to join its meetings: the Chairman, the Chief Executive, the Finance Director, the Group Financial Controller, the Director of Risk and Compliance, the Group Assurance Director and the external auditor.

The Committee holds at least part of several meetings each year alone with the external auditor and with the Director of Risk and Compliance and 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 Group Legal Director.

Main areas of activity in 2015

The Audit Committee met four times in 2015.

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. Based on its review of selected key controls EY agreed with management's assessment that the level of control effectiveness across the Group remains high at 96% and has improved compared to 2014. It is pleasing to report that the areas where controls are weakest have been a key management focus in the year and good progress has been made across all operations in the areas of balance sheet control, inventory management and segregation of duties. The commitment and significant progress in new IT investment and infrastructure will further strengthen our control environment in the years ahead.

The Committee has received reports on the six-monthly Internal Control Declarations which are submitted by each business unit and cover internal controls in financial affairs, IT, human resources and other key areas. The process is managed by Group Assurance which routinely audits and follows up declarations to review the setting and completion of appropriate improvement actions.

Significant accounting issues reflected in the 2015 financial statements include accounting for acquisitions, impairment of goodwill and intangible assets arising from acquisitions, revenue recognition, pensions accounting and inventory valuation. The matters of judgement involved in these issues are described in more detail below.

The Committee reviewed and approved for submission to the Board the statements on going concern and viability, which appear in the Director's Report on page 136.

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 and the Committee is pleased to see further progress in the clarity and quality of reporting in 2015.

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 auditor's report including a summary of key areas of audit focus is set out on pages 138 to 144.

The Committee's work also included reviewing the financial statements, key finance policies including accounting, tax, and treasury, significant issues of judgement and, as described below under the section headed 'Internal audit', looking at the effectiveness of internal financial controls and assurance processes.

Significant judgements related to the financial statements

Accounting for acquisitions

During the year we acquired Bopp & Reuther. The valuation of goodwill and intangible assets and fair values of other assets were reviewed and agreed by the Committee. The result of that valuation is detailed in section 3.4 on page 100.

Impairment of goodwill and intangibles arising from acquisitions

We considered the level of goodwill held on the Group's balance sheet in respect of a number of past acquisitions and whether, given the future prospects of these businesses, the value of goodwill in each case remains appropriate.

The Committee reviewed the assumptions and calculations used by management in the assessment of any impairment of goodwill and intangibles assets and agreed that no impairment charges were required. Section 3.2 to the financial statements on page 97 provides details regarding the Group's intangible assets and goodwill.

Revenue recognition

The Committee discussed the timing of revenue recognition on some of the Group's larger contracts running over several years. In addition, this is an area of audit focus and accordingly EY reported on this matter to the Committee. Having reviewed management's process and EY's report, the Committee concluded that revenues were appropriately reflected in the financial statements. Section 5 note C to the financial statements on page 128 provides further information.

Pensions accounting

An actuarial valuation in accordance with IAS19 has been performed on the Group's defined benefit obligations. The Committee reviewed the appropriateness of this valuation, including the actuarial assumptions used and the treatment of one-off special pension events. The Committee also reviewed reporting from the external auditor. Further details can be found in section 4.5 on page 115.

Inventory valuation

The Committee reviewed the judgements applied to standard costing valuations and provisions against excess and obsolete inventory and concurred with management's assessment. This was another focus area for EY, in respect of which it reported to the Committee that inventory valuation across the Group is considered appropriate. Note 3.1.1 to the financial statements on page 96 provides details of inventory valuation.

In addition the Committee reviewed the appropriateness of costs disclosed as exceptional and the appropriateness of taxation provisions and further details on these are disclosed in sections 2.2 and 2.4 respectively.

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 £0.2m (2014: £0.3m), which represents 7% 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 fee was conducted to ensure that it is appropriate and competitive and the Committee approved the proposed audit fees payable to EY.

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.

To further enhance the audit process certain improvement actions were identified and plans have been put in place to address these, including better visibility and integration of specialists and more timely completion of the statutory accounts of audited subsidiaries.

The FRC's Audit Quality Review ('AQR') team completed a review of the 2014 external audit performed by EY. In respect of the matters within the scope of their review, no significant findings arose.

In 2016 the Committee's review of the auditor will take account of the FRC's May 2015 practice aid in relation to the evaluation of audit quality.

Audit Committee Report (cont'd)

Auditor choice, tenure and tendering

The Committee recommended and the Board approved the proposal to re-appoint EY as the external auditor at the forthcoming Annual General Meeting. EY was first appointed as auditor for the year ending 31 December 2009 following a competitive tendering process, after which it replaced the previous auditor. 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 EY at least every five years and the current Senior Statutory Auditor has now been in place for three 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. ahead of the 31 December 2019 audit) and a change of audit firm ahead of the 31 December 2029 audit, assuming in each case that EY remains in place as auditor until the completion of 2018 and 2028 audits 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 ahead of the 2019 audit.

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 Director of Risk and Compliance, reporting to the Chief Executive, is intended to accelerate the extension of internal audit into compliance and other areas of non-financial audit activity. Group Assurance reports through the Director of Risk and Compliance to the Chief Executive. Group Assurance also has a direct 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 2015 were major computer systems implementations and significant capital projects.

Group Assurance reviewed project management, governance and the ability to achieve the project objectives. These reviews have identified opportunities for process and project management improvements, and Group Assurance will help to facilitate sharing of best practice for similar major projects.

Compliance hotline

The Committee also reviews the operation of the independent compliance hotline for reporting concerns, oversees the more significant reports received and considers 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 Audit Committee reviewed its own performance and terms of reference and received positive feedback from the evaluation exercise carried out by 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

25 February 2016

Nominations Committee Report

Lord Smith of Kelvin
Chairman of the Nominations Committee

Dear Shareholder

Main areas of activity in 2015

The Committee carried out a successful search for a non-executive director and used The Zygos Partnership as recruitment consultants. Committee members interviewed a range of candidates and the Committee made a recommendation to the Board for the appointment of Isobel Sharp as a non-executive director resulting in her appointment with effect from 1 September 2015.

The Committee also reviewed the composition of the Board and its committees. It recommended changes in executive responsibilities and supported the selection of the new Divisional Managing Director, Massimo Grassi, for Precision Engineering. The Board approved all of the recommendations made by the Committee for the appointment of new directors and renewals of appointment for continuing directors. All of the directors are recommended for election or re-election at the 2016 Annual General Meeting.

Anita Frew, formerly our senior independent non-executive director, and Bob Stack worked with Mark Selway on the selection of a successor for the outgoing Chairman, Roberto Quarta, resulting in the Board approving my own appointment. Zygos was also retained in respect of the recruitment for a new Chairman.

Members

All of the members of the Committee are regarded as independent other than the Chairman. Bob Stack was a member of the Committee throughout the year. Roberto Quarta and Anita Frew were members of the Committee until the 2015 Annual General Meeting on 7 May 2015, on which date Birgit Nørgaard and I became members. Mark Selway stepped down from the Committee on 26 February 2015. Carl-Peter Forster, Ross McInnes and Isobel Sharp became members of the Committee on 15 December 2015.

Review of time commitments and contributions

The appointments of the Chairman and non-executive directors are made on the basis of a formal letter of appointment including a stated minimum time commitment judged appropriate by the Committee. The Committee considers that the time given to IMI by each non-executive director is sufficient. The Board is satisfied that I have the necessary time to devote to my role as Chairman. Since my appointment in May 2015, I have stepped down from the Chairmanships of SSE plc and Standard Bank Group Limited and subsequently became Chairman of Alliance Trust plc, which is my only other publicly listed company role outside IMI.

Succession planning

The Committee reviews Board skills and put in place a structured, medium-term plan for Board succession. During the year 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 were encouraged to see that progress had been made in terms of embedding good processes and cultivating a pipeline of high calibre management 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 six nationalities, two of the five 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. 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.

Nominations Committee Report (cont'd)

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 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, both internally and when recruiting externally, to maximise the continuing effectiveness of the Group. In line with our recruitment practices, the Group strives to produce diverse shortlists for internal and external vacancies and specifically requests this of external providers, with the aim of encouraging and promoting diversity.

The Nominations Committee has agreed to measure progress on diversity metrics including gender and nationality mix, although specific targets have not been set. At the year end the mix of male and female employees across the Group is as follows:

	All employees	Managers	Senior managers	Board directors
Female	3,197	198	106	2
Female %	26	18	15	22
Male	8,997	885	584	7
Male %	74	82	85	78

As part of the performance management process in 2015, each Divisional Managing Director agreed objectives aimed at improving diversity in their area and our Executive Committee undertook a training session on diversity and inclusion. Further work is planned in both these areas for 2016.

The Nominations Committee reviewed its own performance and terms of reference and received positive feedback from the 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

Lord Smith of Kelvin
Chairman of the Nominations Committee

25 February 2016

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

"The Remuneration Committee has worked hard this year to ensure our new remuneration policy has been implemented consistently and is aligned to our strategic growth plan whilst reflecting a strong link between pay and performance."

Bob Stack
Chairman of the Remuneration Committee

Dear Shareholder

2015 saw the first full year under our new remuneration policy which was strongly supported and approved by shareholders in 2014. To simplify this year's report, our approved remuneration policy can be found on our website www.imiplc.com. Our focus this year has been twofold, to ensure consistent application of the new policy whilst ensuring remuneration arrangements remain appropriate in light of the continuing difficult economic and market conditions.

2015 has been a challenging year for IMI with continued difficult economic and market conditions putting pressure on our ability to grow in the short-term. Trading conditions in many of our geographies and markets were tough. In particular economic slowdowns in both China and Brazil impacted both our Critical Engineering and Precision Engineering businesses and challenging trading conditions across industrial markets world-wide adversely affected most of our businesses. Despite this difficult environment our financial results were broadly in line with expectations.

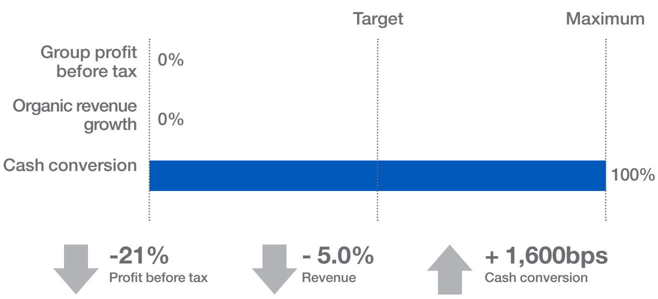
Group profit before tax decreased by 21% to £219m while revenue of £1,557m decreased by 5% on an organic basis. Adjusted EPS decreased by 20% in 2015 and we declared a total dividend of 38.4p – an increase of 2% from last year.

We remain focused on executing our strategic plans which includes investing in the business and capitalising on long-term growth opportunities. In particular, the investments made over the course of 2014 and 2015 give us improved potential to grow shareholder value in the long-term and we believe we are well positioned for progress in a depressed market. The Committee remains confident that the remuneration arrangements in place will continue to support the strategic business plan and ensure a strong focus on growth.

How were pay outcomes linked to performance?

Remuneration for the executive directors is closely tied to business performance with a high proportion of total remuneration delivered through variable pay linked to our strategic plan. At IMI we operate a strong pay-for-performance philosophy and as a result of the performance challenges I outlined above, the outcomes under our variable pay schemes are well below the targeted level.

Annual incentives paid to executive directors for 2015 were based on a combination of Group profit before tax, organic revenue growth, cash conversion and strategic and personal objectives. Below threshold performance under the Group profit before tax, and organic revenue growth measures were balanced by strong performance under the cash conversion measure. Our focus on investing for future growth has resulted in strong performance under the strategic and personal objectives, recognising the contribution made to achieving our strategic plan. Summary outcomes against financial targets are presented in the chart below:



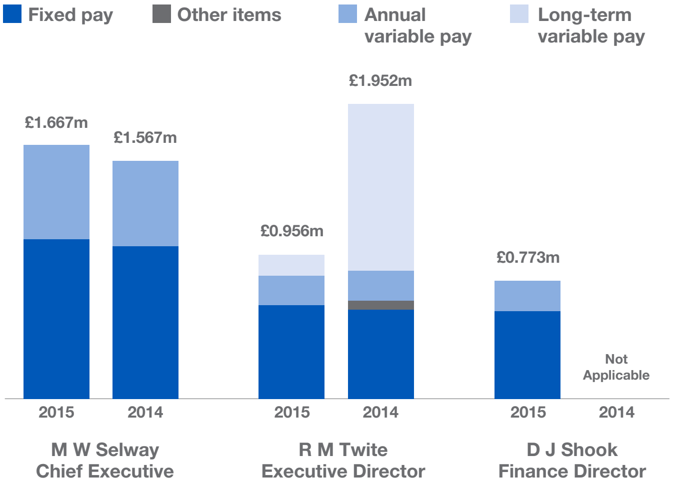
Strategic and personal objectives vary by person as detailed later in the report.

As the IMI Incentive Plan was only implemented last year, the first vesting of the award will be in 2018.

Roy Twite and Douglas Hurt were granted a matching share award and performance award in 2013 and the awards vested at 17.3% and 0% respectively.

Directors' Remuneration Report (cont'd)

The chart below provides a view of each executive directors' single figure of remuneration over the course of 2014 and 2015:



What changes were made in 2015?

The Committee reviewed remuneration arrangements for the executive directors during the year and remain confident that they remain fit-for-purpose with no changes to structure required.

The Committee has reviewed the base salary levels for executive directors in light of 2015 business performance and concluded that an increase of 2.1%, effective 1 January 2016, was appropriate and in line with the wider employee workforce.

The Chairman and non-executive director fees were increased by 2.0%, effective 1 January 2016 in line with the wider employee workforce.

Looking forward

The Committee anticipates 2016 to be another difficult trading year with market and economic head winds featuring heavily. Notwithstanding these issues the committee plans to implement the approved policy on a similar basis to 2015.

The Committee will keep the existing remuneration policy under review to ensure it continues to support IMI's strategic growth plan.

Yours faithfully

Bob Stack
Chairman of the Remuneration Committee

25 February 2016

Directors' Remuneration Report
Annual Remuneration Report

Introduction

The Committee presents the Directors' Remuneration Report, which will be put to shareholders for an advisory (non-binding) vote at the Annual General Meeting to be held on 5 May 2016. The report includes details of the Committee, the pay received by our executive directors during the year in accordance with our current remuneration policy (approved on 7 May 2015) 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 and Birgit Nørgaard. Roberto Quarta and Anita Frew were members of the Committee until they stepped down from their positions after the AGM in May 2015. In accordance with the UK Corporate Governance Code, all of the non-executive directors were regarded by the Board as independent.

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 packages of the other executive directors and senior managers. It also received the advice 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, Willis Towers Watson, is formally appointed by the Committee and provided advice on directors' remuneration to the Committee in 2015. The Committee noted that the firm are actuaries and administrators for the IMI Pension Fund and provided some broader reward and human resources support to management. The Committee is comfortable that these activities do not represent a conflict of interest and that objective and independent advice continues to be received by the Committee from the dedicated team servicing it at Willis Towers Watson.

During 2015, Willis Towers Watson has also supported management on some broader reward and human resource matters. The fees charged by Willis Towers Watson in respect of advice and services to the Committee totalled £50,000 and for support to management totalled £27,178 in 2015. Willis Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK.

A summary of the Committee activities during 2015

The Committee had three formal meetings during the year, that were attended by all members. The principal agenda items were as follows:

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

Voting outcome at the 2015 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	Votes withheld (abstentions)
Directors' Remuneration Policy	96.55%	3.45%	3,352,149
Annual Remuneration Policy	98.52%	1.48%	2,525,925

Directors' Remuneration Report
Annual Remuneration Report

Executive single figure table (audited)

Director		Fixed pay (£000)			Annual variable pay (£000)	Long-term variable pay (£000)			Other items in the nature of remuneration (£000)		
		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 64	Page 64	Page 65	Pages 65 to 66	Page 67	Pages 67 to 68		Page 69	Page 69	
M W Selway	2015	770	231	50	611	-	-	-	5	-	1,667
	2014	750	225	45	545	-	-	-	2	-	1,567
R M Twite	2015	445	156	19	194	138	-	138	4	-	956
	2014	430	151	19	197	1,106	-	1,106	3	46	1,952
D J Shook	2015	400	80	100	193	-	-	-	-	-	773
	2014	-	-	-	-	-	-	-	-	-	-
D M Hurt[1]	2015	150	52	6	75	104	-	104	-	-	387
	2014	430	151	21	191	1,202	-	1,202	4	148	2,147

R M Twite served on the board of Halma plc during the year and received fees of £48,000 in respect of this appointment. D M Hurt served on the boards of Vesuvius plc and Tate & Lyle plc during his time as a director of IMI plc and received fees of £6,411 and £25,221 respectively.

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 adjacent).

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 adjacent).

Share price assumptions: for shares vesting in 2016, that related to performance in the three years to 31 December 2015, the average share price over the final three months of 2015 (940.93 pence) is used to estimate the value of shares on vesting. For shares vested in 2015, relating to performance in the three years to 31 December 2014, previously reported figures[2] are updated to reflect the actual share price on the date of vesting (1,193.00 pence for the Share Matching Plan and 1,253.00 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] Douglas Hurt retired from the Board on 7 May and the table reflects payments to this date.

[2] The average share price over the final three months of 2014 (1,204.86 pence) was used.

Comparative data

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

Relative importance of pay spend

	2015 £m	2014 £m	Change
Acquisitions	106.2	-	-
Dividends	102.5	97.3	5%
Return of cash	-	620.3	-100%
Purchase of own shares	-	40.0	-100%
Total employment costs for Group (see section 2.1.3.1 on page 89)	508.2	535.5	-5%

In 2015, the total dividend for the year of 38.4 pence represented an increase of 2% over last year's 37.6 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.

Relative percentage change in remuneration for Chief Executive

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.

	Chief Executive	Employees[1]
Base salary	2.7%	3.9%
Benefits	11.1%	0.9%
Annual bonus	12.1%	6.6%

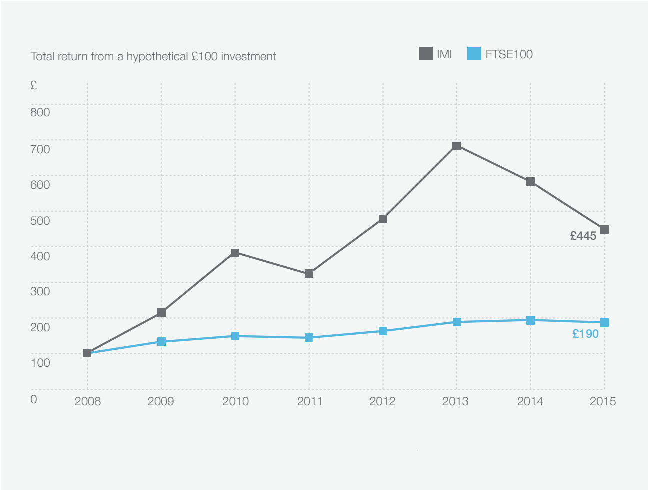
[1] All UK head office employees. This comparison excludes our international workforce which we feel would not provide a true comparison given differing local market factors.

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 graph below compares IMI's TSR to the FTSE100 over the last seven years. We compare performance to the FTSE100 as it is a position where IMI aspires to be and IMI was historically traded on the broad market index, therefore, allowing for consistent comparisons. 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 seven 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.



Directors' Remuneration Report (cont'd)

The following table summarises the total remuneration for the Chief Executive over the last seven 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]	2015[2]
Total remuneration (single figure, £000)	2,547	4,439	12,289	7,954	6,688	1,567	1,667
Annual variable pay (% of maximum)	91%	95%	85%	47%	62%	36%	40%
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%	-	-

[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 2015

Base salary

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. Daniel Shook was appointed on a salary of £400,000 from 1 January 2015.

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 Daniel Shook receives a cash allowance of 20% of salary. Roy Twite receives a cash allowance of 35% of salary as legacy obligations to those appointed to the Board before October 2013 continue to be honoured. Douglas Hurt was eligible for a cash allowance of 35% of salary.

Pension benefits for past service

Roy Twite was previously an active member of the defined benefit IMI Pension Fund. He opted out with effect from 1 February 2007 and as a result, he retains past pensionable service up to that date in the IMI 2014 Deferred Fund ('the Fund').

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

- the normal retirement age under the Fund is 62 and Roy Twite may retire from employment with IMI any time after age 60 without actuarial discount.
- on death after retirement, a dependant's pension is provided equal to 50% of the member's pension.
- should he die within the first five years of retirement, 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.

	Accrued pension in the Fund as at 31 December 2015 £000pa	Accrued pension in the Fund as at 31 December 2014 £000pa
R M Twite	69	67

Benefits

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

	M W Selway		R M Twite		D J Shook		D M Hurt[1]	
	2015	2014	2015	2014	2015	2014	2015	2014
Non-cash benefits (£000)								
Total	1	1	2	2	11	-	-	1
Cash benefits and taxable allowances (£000)								
Company car and fuel allowance	20	19	17	17	14	-	6	17
Relocation	-	-	-	-	75	-	-	-
Other	29	25	-	-	-	-	-	3
Total	50	45	19	19	100	-	6	21

[1] Douglas Hurt retired from the Board on 7 May and the table reflects payments to this date.

In addition to the above benefits and allowances that are included in the single figure (refer to table on page 62), 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 2015 bonus plan focused on the financial performance of IMI during the year, considering Group profit before tax (40%), organic revenue growth (20%), cash conversion (20%) and strategic and personal objectives (20%). Health and safety underpins the plan to ensure bonuses are only paid out when minimum standards are achieved.

2015 was a challenging year for IMI with difficult economic and market conditions contributing to weaker financial results than expected:

- Group profit before tax decreased to £219m in 2015 from £278m 2014, representing 21% decrease;
- Group revenue decreased by 5% on an organic basis compared to 2014;
- cash conversion was 97%, compared with 81% in 2014;
- the total dividend for the year increased by 2% compared to 2014; and
- strong performance for health and safety with leading measures showing benefits from lean and HSE integration in the year.

Summarised in the table below is the achievement against Group targets set at the beginning of the year alongside the resulting contribution to bonus payout.

Annual bonus metrics[1]		2015 performance required	Actual performance	Payout as a percentage of maximum	Weighting as a percentage of total bonus opportunity	Contribution to payout as a percentage of maximum bonus opportunity
Group profit before tax	Threshold	£278.6m	£231.0m (adjusted)[2]	0%	40.0%	0%
	Target	£287.7m				
	Maximum	£296.7m				
Organic revenue growth	Threshold	0.0%	-5.2%	0%	20.0%	0%
	Target	1.8%				
	Maximum	3.0%				
Cash conversion (FY figures shown)	Threshold	65.0%	97.4%	100%	20.0%	20.0%
	Target	77.0%				
	Maximum	84.0%				

[1] Roy Twite's annual bonus opportunity is dependent on a combination of Group (40%) and Critical Engineering (40%) financial objectives in line with his role's responsibilities. The Committee believes that the specific business unit targets are commercially sensitive and are therefore not disclosed in the table above.

[2] Group Profit Before tax actual performance of £231.0m is stated at the exchange rates used in the targets, which results in a £12.0m increase when compared with reported results, and includes £0.3m of profit for the performance of disposed businesses included within the target.

Directors' Remuneration Report (cont'd)

In addition to these quantifiable measures, each executive director has a number of personal objectives. Objectives are agreed with 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.

Individual performance metrics	2015 performance required	Payout as a percentage of maximum	Weighting as a percentage of total bonus opportunity	Contribution to payout as a percentage of maximum bonus opportunity
Individual performance objectives are robustly set and are customised for each individual. All objectives are measurable and are objectively determined. Individual objectives for 2015 were built around the Group's key performance indicators.	**M W Selway:** Objectives included areas such as organisation, strategy, financial integrity and specific projects.	98.3%	20.0%	19.7%
	D J Shook: Objectives included areas such as strengthening investor/analyst relationships, financial process improvements, strategy and specific IT projects.	93.4%	20.0%	18.7%
	R M Twite: Objectives included areas such as diversity, strategy, core process and specific projects.	95.0%	20.0%	19.0%
	D M Hurt: Objectives included areas such as effective and efficient transition to Daniel Shook.	100.0%	20.0%	20.0%

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

	2015 maximum bonus opportunity (% of salary)	Total bonus awarded (£000)	Total bonus awarded (% of salary)	Achievement of share ownership guidelines at 31 Dec 2015	Bonus delivered in form of cash (£000)	Bonus delivered in form of shares (£000)
M W Selway	200%	611	79%	10%	305	306
R M Twite	150%	194	44%	117%	194	-
D J Shook	125%	193	48%	6%	96	97
D M Hurt[1]	150%	75	50%	N/A	75	-

[1] Douglas Hurt retired from the Board on 7 May and annual bonus paid was pro-rated based on his employment up to that date.

Share interests granted to executive directors during 2015 (audited)

Grants made under the IMI Incentive Plan ('IIP')

As approved at the AGM, grants under the IIP were made on 7 May 2015 in the form of nil-cost options. Awards will vest subject to performance in three core areas aligned to our long-term strategic priorities: return on capital employed (25%), relative Total Shareholder Return (25%) and Group profit before tax growth (50%).

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 2015 IIP awards are as follows:

	ROCE	Relative TSR	Group profit before tax growth	Level of vesting
Threshold	40%	Median	2.5%	25%
Maximum	50%	Upper quartile	7.5%	100%
Weighting	25%	25%	50%	-

The following grants were approved and made in 2015:

	IIP shares awarded	Value on date of award[1] (£000)	Award as a percentage of salary
M W Selway	154,041	1,925	250%
R M Twite	71,218	890	200%
D J Shook	48,012	600	150%
D M Hurt	Nil	Nil	Nil

[1] The three day average mid-market price on the date of award was 1,249.67 pence.

The IIP is also used to grant deferred bonus awards exercisable after three years to satisfy bonus delivered in the form of shares. Details of these awards made in 2015 are shown in the table on page 70 under the 'without performance conditions' column.

Awards vesting under legacy share plans

The Share Matching Plan ('SMP') – the last grant made under this plan was in 2014 and will vest in 2017

Roy Twite and Douglas Hurt received an award under the SMP in May 2013. At the date of awards, Roy and Douglas both exceeded their share ownership requirements and as such were invited to invest up to the maximum permitted. The 2013 SMP award will vest at 17.3%.

Vesting was subject to the achievement of an Economic Value Added ('EVA') performance condition, measured over the three years ending 31 December 2015. 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 2013 to 2015 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.

Over the period IMI delivered compound annual EVA growth of 2.9% based on three-year EVA from 2013 to 2015 of £557.4m compared to three-year EVA from 2010 to 2012 of £511.5m. The total awards vesting for Roy Twite in March 2016 will be:

	Shares invested by the executive	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)
R M Twite	18,086	78,000	956	13,494	1,142	14,636	138
D M Hurt[3]	19,659	58,637	719	10,144	858	11,002	104

[1] The mid-market price on the date of award was 1,226.00 pence.

[2] Awards will vest on 9 April 2016. The value of shares on vesting is estimated using the average price over the last quarter of 2015 (940.93 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] Douglas Hurt retired from the Board on 7 May and the award vesting was pro-rated based on his employment up to that date.

The Performance Share Plan ('PSP') – the last grant made under this plan was in 2014 and will vest in 2017

In March 2013, awards were made to Roy Twite and Douglas Hurt under the PSP. The vesting of the awards was subject to the achievement of three independent performance conditions: EPS growth (50%), relative TSR (25%) and organic revenue growth (25%), measured over the three years ending 31 December 2015.

The 2013 PSP award will vest at 0%.

- EPS growth

  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 -5.7% per annum, decreasing EPS from 64.7 pence in 2012[4] to a comparable 54.2 pence at the end of 2015[5].

[4] Adjusted for IAS19

[5] Adjusted for 2014 share consolidation and the acquisition of Bopp & Reuther

Directors' Remuneration Report (cont'd)

- Relative TSR

  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 2013 peer group comprised the companies shown opposite, adjusted to take account of merger and acquisition activity during the performance period in line with the Committee's established guidelines.

At the end of the three-year performance period, the Company ranked 31 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.

UK	US
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

- Organic revenue growth

  Organic growth is 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 -0.7%.

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)
R M Twite	31,500	417	-	-	-	-
D M Hurt[2]	31,500	417	-	-	-	-

[1] The mid-market price on the date of award was 1,324.00 pence.

[2] Douglas Hurt retired from the Board on 7 May and the award vesting will be pro-rated based on his employment up to that date.

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 2015, Mark Selway and Roy Twite received free share awards under the Employee Share Ownership Plan. Mark Selway received SAYE awards in 2015 of 836 shares.

		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	**2015**	289	4	836	1	-	5
	2014	73	1	650	1	-	2
R M Twite	**2015**	289	4	-	-	-	4
	2014	196	3	-	-	-	3
D J Shook	**2015**	-	-	-	-	-	-
	2014	-	-	-	-	-	-
D M Hurt	**2015**	-	-	-	-	-	-
	2014	196	3	650	1	-	4

[1] In 2015 free shares were awarded at a share price of 1,245.00 pence (1,526.00 pence in 2014).

[2] In 2015 SAYE awards were made at a 10% discount and the value shown is the intrinsic gain at the date of the grant, calculated in accordance with the single figure requirements (on page 62).

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 62) 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.

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.

The Committee can confirm that under the terms of his departure, Sean Toomes' 2012 PSP and SMP awards were pro-rated to the date of his departure (30 June 2013) and vested, subject to the performance conditions, on 4 May 2015 and 10 May 2015 respectively. No shares vested under the PSP and a total of 23,420 shares vested under the SMP (21,145 award shares and 2,275 dividend shares) which equated to a value on the vesting date of £279,401.

The Committee can confirm that under the terms of his departure, Martin Lamb's 2013 PSP and SMP awards vested, subject to the performance conditions, on 12 March 2016 and 9 April 2016 respectively. No shares vested under the PSP and a total of 23,254 shares vested under the SMP (21,440 award shares and 1,814 dividend shares) which equated to a value at vesting of £218,804.

Payments made to Douglas Hurt during his period as a past director are disclosed in the table on page 62 and do not include any payments for loss of office.

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.

Directors' Remuneration Report (cont'd)

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 2015 and 31 December 2014.

Director	2015 (£000)			2014 (£000)		
	Base fees	Additional fees	Total	Base fees	Additional fees	Total
Lord Smith of Kelvin[1]	195	-	**195**	-	-	**-**
R Quarta[2]	106	-	**106**	300	-	**300**
C P Forster	60	-	**60**	60	-	**60**
A M Frew[3]	21	4	**25**	60	10	**70**
B Nørgaard	60	-	**60**	60	-	**60**
R J Stack[4]	60	22	**82**	60	15	**75**
R McInnes[5]	60	15	**75**	15	-	**15**
I Sharp[6]	20	-	**20**	-	-	**-**

[1] Joined the IMI Board in 2015 and became the Chairman at the 2015 AGM.

[2] Stepped down as Chairman at the 2015 AGM.

[3] Appointed senior independent director May 2013 and stepped down at the 2015 AGM.

[4] Appointed senior independent director at the 2015 AGM.

[5] Appointed 1 October 2014 and became Audit Committee Chair on 1 January 2015.

[6] Joined the IMI Board on 1 September 2015 and is a member of the Audit Committee.

Directors' shareholdings and share interests (audited)

The following table summarises the share interests of any director who served during the year as at 31 December 2015 or at the date of retirement from the Board.

During the period 31 December 2015 to 25 February 2016 there were no changes in the interests of any current director from those shown save for purchases within the IMI All Employee Share Ownership Plan on 12 January 2016 of 16 shares on behalf of each of M W Selway, D J Shook and R M Twite at 788p per share, and 9 February 2016 of 16 shares on behalf of each of M W Selway, R M Twite and D J Shook at 777p per share.

Director	Total interests	Beneficial interests	Scheme interests				
			Nil-cost options				All-employee share plans
			With performance conditions		Without performance conditions		
			Unvested	Vested but unexercised	Unvested	Vested but unexercised	
M W Selway	400,557	9,016	368,843	-	22,100	-	598
R M Twite	410,045	112,421	291,325	-	-	-	6,299
D J Shook	52,747	4,000	48,653	-	-	-	94
D M Hurt[1]	855,515	66,351	369,062	418,531	-	-	1,571
Lord Smith of Kelvin	8,300	8,300	-	-	-	-	-
R Quarta[1]	7,248	7,248	-	-	-	-	-
C P Forster	2,625	2,625	-	-	-	-	-
A M Frew[1]	6,562	6,562	-	-	-	-	-
B Nørgaard	2,625	2,625	-	-	-	-	-
R J Stack	13,125	13,125	-	-	-	-	-
R McInnes	3,000	3,000	-	-	-	-	-
I Sharp	3,000	3,000	-	-	-	-	-

[1] Share interests as at retirement on 7 May 2015.

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 Roy Twite significantly exceeded the share ownership guideline. Daniel Shook made progress towards his guideline through direct market purchase of shares.

Application of the Directors' Remuneration Policy in 2016

Service contracts

The unexpired terms of the Directors' service contracts can be reviewed in the Board's Corporate Governance Report on page 49.

Executive director fixed pay

Salaries effective January 2016 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 2.7%, compared to 2.1% for the executive directors. Mark Selway's, Roy Twite's and Daniel Shook's salaries were increased by 1.9%, 2.0% and 2.5% to £785,000, £454,000 and £410,000 respectively.

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

Incentive pay

Annual bonus

In accordance with the approved remuneration policy, the annual bonus plan will be operated as follows in 2016:

- 2016 bonus opportunity is set at 200% of salary for Mark Selway, 150% for Roy Twite and 125% for Daniel Shook.
- Bonus will be paid subject to performance in Group profit before tax (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.
- In 2016 the annual bonus weightings for Roy Twite will change to reflect his leadership role for the Critical Engineering division. His 2016 annual bonus will be subject to IMI Group profit before tax (35%), Critical Engineering operating profits (15%), Critical Engineering organic revenue growth (15%), Critical Engineering cash conversion (15%) and strategic and personal objectives (20%).
- The Committee has determined that the targets associated with the performance measures has been disclosed retrospectively (refer to table on page 65).

IMI Incentive Plan ('IIP')

In accordance with the approved remuneration policy, the IIP will be operated as follows in 2016:

- 2016 awards are set at 250% of salary for Mark Selway, 200% for Roy Twite and 150% for Daniel Shook.
- 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%).

Fees for the Chairman and non-executive directors

The Chairman and non-executive directors' remuneration increased by 2.0%, effective 1 January 2016. This is in line with the executive directors and the wider employee workforce.

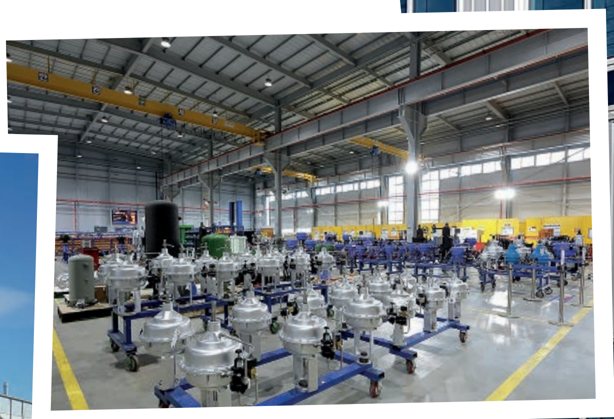
Share ownership for the Chairman and non-executive directors

The Chairman and non-executive directors are encouraged to hold some shares in IMI within a reasonable period after their appointment. As at 25 February 2016, the Chairman and non-executive directors hold IMI shares as set out in the table on page 70.

Bob Stack
Chairman of the Remuneration Committee
for and on behalf of the Board

25 February 2016

Financial Statements



IMI Critical Engineering invested £7m in a brand new world-class facility at Paju, South Korea in order to support its Korean growth ambitions. This fantastic facility was delivered in just 8 months

Below far left
IMI Critical Engineering's brand new facility in Houston, Texas

Below left
Inside view of IMI Critical Engineering's new Korean factory showing engineered valves awaiting final test

Financial statements
FINANCE DIRECTOR'S INTRODUCTION

Introduction from Daniel Shook

Dear Shareholder

Welcome to the financial statements section of our Annual Report.

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'.

I am very pleased with the progress the IMI Finance Team has made in 2015 to further strengthen our control environment and support our businesses. In the year we fully launched a new, best-in-class Treasury Management System and made considerable progress in strengthening our financial controls. All businesses performed two internal control reviews and declarations, providing evidence that our hard work is delivering improvements across the organisation.

Despite difficult market conditions, IMI continues to deliver good results and, importantly, advance its longer term strategic initiatives to position the Group for future growth.

Daniel Shook
Finance Director

Financial statements
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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 2015

		2015			2014		
	Notes	Reported £m	Exceptional items £m	Statutory £m	Reported £m	Exceptional items £m	Statutory £m
Revenue	2.1	1,557	10	1,567	1,686	6	1,692
Segmental operating profit	2.1	239.4		239.4	298.1		298.1
Reversal of net economic hedge contract losses/(gains)	2.2.1		7.6	7.6		3.9	3.9
Restructuring costs	2.2.2	(2.1)	(27.1)	(29.2)	(2.6)	(8.6)	(11.2)
Gains on special pension events	2.2.3		9.1	9.1		7.0	7.0
Impairment losses	2.2.4		-	-		(40.8)	(40.8)
Acquired intangible amortisation	2.2.4		(32.2)	(32.2)		(19.6)	(19.6)
(Loss)/gain on disposal of subsidiaries	2.2.5	(0.4)	(8.4)	(8.8)		34.2	34.2
Acquisition and disposal costs	2.2.6		-	-		(1.8)	(1.8)
Operating profit		236.9	(51.0)	185.9	295.5	(25.7)	269.8
Financial income	4.3	3.2	20.9	24.1	1.1	15.1	16.2
Financial expense	4.3	(21.6)	(25.9)	(47.5)	(15.4)	(21.8)	(37.2)
Net financial income/(expense) relating to defined benefit pension schemes	4.5.3.3	0.2		0.2	(3.1)		(3.1)
Net financial expense		(18.2)	(5.0)	(23.2)	(17.4)	(6.7)	(24.1)
Profit before tax		218.7	(56.0)	162.7	278.1	(32.4)	245.7
Taxation	2.4.5	(48.1)	8.7	(39.4)	(61.2)	8.3	(52.9)
Profit from continuing operations after tax		170.6	(47.3)	123.3	216.9	(24.1)	192.8
Profit from discontinued operations after tax	2.5		6.7	6.7		478.5	478.5
Total profit for the year		170.6	(40.6)	130.0	216.9	454.4	671.3
Attributable to:							
Owners of the parent				127.6			668.5
Non-controlling interests	4.8			2.4			2.8
Profit for the year				130.0			671.3
Earnings per share	2.3						
Basic - from profit for the year				47.2p			243.4p
Diluted - from profit for the year				46.8p			241.3p
Basic - from continuing operations				44.7p			69.2p
Diluted - from continuing operations				44.4p			68.6p
Basic - from adjusted profit for the year				62.2p			78.0p
Diluted - from adjusted profit for the year				61.7p			77.3p

COMMENTARY ON THE CONSOLIDATED INCOME STATEMENT

Results summary (on continuing operations and before exceptional items, see section 2.1.1)
Reported revenue decreased by 8% to £1,557m (2014: £1,686m). After adjusting for an adverse exchange rate impact of £72m and the contribution from acquisitions and disposals, organic revenue decreased 5%, reflecting difficult market conditions, particularly in Critical Engineering which was impacted by the lower oil price and a slowdown in capital spending globally.

Segmental operating profit of £239m (2014: £298m) fell by 20% on a reported basis and by 15% at constant exchange rates and excluding acquisitions and disposals. The segmental operating margin was 15.4% (2014: 17.7%). Operating profit was £186m (2014: £270m) after the deduction of exceptional items which are discussed in more detail below.

Continuing net interest costs on net borrowings were £18m (2014: £14m) and reflect the Group's higher net debt following the acquisition of Bopp & Reuther earlier in 2015. These were covered 15 times (2014: 23 times) by continuing earnings before interest, tax, depreciation, amortisation and exceptional items of £275m (2014: £334m). The net pension financing income under IAS19 was £0.2m (2014: charge of £3m). This movement is as a result of our UK scheme being in surplus throughout 2015.

Profit before taxation and exceptional items was £219m (2014: £278m), a decrease on the previous year of 21%.

The effective tax rate for the Group before exceptional items remained at 22% (2014: 22%). The total tax charge for the year on continuing operations was £48m (2014: £61m) and continuing profit after tax was £171m (2014: £217m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Code of Conduct which is explained further in section 2.4.

Exceptional items
Operating profit was £186m (2014: £270m) after the deduction of exceptional items which are discussed below:

Reversal of net economic hedge contract losses
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 £8m (2014: £4m) and records a charge within interest (see section 2.2.1).

Restructuring costs
The restructuring costs treated as exceptional in 2015 of £27m (2014: £9m) are as a result of a number of significant restructuring projects across the Group, in particular within Critical Engineering and Precision Engineering. This restructuring is explained in more detail in section 2.2.2 on page 90. Restructuring costs of £2m (2014: £3m) that arose from normal recurring cost reduction exercises have not been treated as exceptional.

Pensions
During the year the Group continued its focus on de-risking the exposure to defined benefit obligations by undertaking a number of scheme closures, buy-outs and mergers in Switzerland, the UK and the US which resulted in settlement gains of £5m. In addition, following the commencement of a significant restructuring exercise in Switzerland, a curtailment gain of £4m was realised.

Impairment and acquired intangible amortisation
The Group recorded no exceptional impairment charges in 2015 (2014: £41m). Acquired intangible amortisation increased to £32m (2014: £20m) as a result of the acquisition of Bopp & Reuther.

Loss on disposal of subsidiaries
The Group disposed of Asterm in H1 resulting in a loss of £0.4m which is presented separately within reported operating profit, as based on its quantum, it did not meet our definition of an exceptional item. In H2 the Group made further disposals of IMI Scott Limited ('Scott'), Zimmerman & Jansen South Africa (Pty.) Ltd ('Z&J SA') and the non-core elements of Nano Porous Solutions Limited ('NPSL'). The H2 disposals resulted in losses of £8m (2014: profit of £34m) which are presented in the income statement as an exceptional item as, based on their quantum, they meet our definition of exceptional items. The losses on disposals are not disclosed within discontinued operations because none of these businesses represented a separate major line of business.

Acquisitions and disposal costs
There were no exceptional acquisition costs in 2015. Acquisition and disposal costs in 2014 comprised £2.2m of fees associated with the acquisition of Bopp & Reuther 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. The costs associated with the disposals in 2015 are included within the loss on disposal.

Financing costs
A net charge arose on the revaluation of financial instruments and derivatives under IAS39 of £5m (2014: £7m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Taxation
An exceptional tax credit of £9m (2014: £8m) arose in connection with business restructuring and other exceptional costs.

Profit from continuing operations after tax and exceptional items
Profit after taxation and exceptional items was £123m (2014: £193m).

Earnings per share ('EPS')
The Board considers that a more meaningful indication of the underlying performance of the Group is provided by continuing earnings before exceptional items after tax. Details of this calculation are given in section 2.3 to the Group financial statements on page 91. Adjusted EPS from continuing operations was 62.2p, a decrease of 20% on last year's 78.0p. Statutory basic EPS was down 81% to 47.2p (2014: 243.4p) and diluted EPS was 46.8p (2014: 241.3p), both decreasing largely as a result of the profit on disposal of the Retail Dispense businesses of £478m in the prior year.

Corporate costs
In 2014 and prior years corporate costs were allocated to each of the divisions to arrive at segmental operating profit. For our 2015 reporting we have separately disclosed the Group's corporate costs in our segmental information. This change gives greater transparency of the underlying segmental operating profits for each division.

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:

	2015	2014
Euro	1.38	1.24
US dollar	1.53	1.65

The movement in average exchange rates between 2014 and 2015 resulted in our reported 2015 segmental revenue and segmental operating profit each being 4% lower as the average euro rate was 11% weaker against sterling partially offset by the US dollar rate, which strengthened 7% against sterling.

If the average exchange rates for January 2016 of US$1.45 and €1.33 were projected for the full year and applied to our 2015 results, it is estimated that segmental revenue and segmental operating profit would have been approximately 3-4% higher.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015		2014	
	£m	£m	£m	£m
Profit for the year		130.0		671.3
Items reclassified to profit and loss in the year				
Foreign exchange loss/(gain) reclassified to income statement on disposal of operations	2.0		(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	
		2.0		(12.7)
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	(11.0)		3.6	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	2.9		(14.7)	
Change in fair value on deal-contingent forward relating to disposal proceeds	-		(3.0)	
Fair value (loss)/gain on available for sale financial assets	(1.7)		1.1	
Related tax effect on items that may subsequently be reclassified to profit and loss	(1.6)		1.0	
		(11.4)		(12.0)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement gain on defined benefit plans	27.8		16.6	
Related taxation effect in the year	(5.6)		(2.2)	
Taxation in relation to restructure of UK Pension Fund	0.5		(6.6)	
Effect of taxation rate change on previously recognised items	(5.1)		-	
		17.6		7.8
Other comprehensive income/(expense) for the year, net of taxation		8.2		(16.9)
Total comprehensive income for the year, net of taxation		138.2		654.4
Attributable to:				
Owners of the parent		135.8		651.6
Non-controlling interests		2.4		2.8
Total comprehensive income for the year, net of taxation		138.2		654.4

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 2015 was £546m (2014: £509m). Movements in shareholders' equity can be split into three categories:

- the profit for the year attributable to the equity shareholders of £128m (2014: £669m). This is discussed on the page opposite the income statement.
- other comprehensive income movements in the year increased shareholders' equity by £8m (2014: £17m reduction). These are discussed below.
- movements taken directly to equity in the year reduced shareholders' equity by £99m (2014: £743m). These are discussed overleaf.

Other comprehensive income

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 reclassified to the income statement, those that may be reclassified to the income statement and those items that will not subsequently be reclassified 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 2015, amounted to a loss of £10m (2014: income of £4m) 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, which 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 nil in 2015 (2014: loss of £13m).

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 loss of £1m (2014: gain of £1m) including the related taxation effect.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	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 2014	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5
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
Changes in equity in 2015									
Profit for the year						**127.6**	**127.6**	**2.4**	**130.0**
Other comprehensive income/(expense)				**(10.1)**	**1.8**	**16.5**	**8.2**		**8.2**
Total comprehensive income/(expense)				**(10.1)**	**1.8**	**144.1**	**135.8**	**2.4**	**138.2**
Issue of share capital	**0.1**	**1.0**					**1.1**		**1.1**
Dividends paid						**(102.5)**	**(102.5)**	**-**	**(102.5)**
Share-based payments (net of tax)						**0.1**	**0.1**		**0.1**
Shares issued by:									
employee share scheme trust						**2.3**	**2.3**		**2.3**
Income earned by partnership								**(4.4)**	**(4.4)**
As at 31 December 2015	**81.8**	**11.8**	**174.4**	**0.6**	**1.4**	**276.1**	**546.1**	**42.8**	**588.9**

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 115. Together with the taxation effect, the gain in the year was £22m (2014: £14m).

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.

0.2m (2014: 0.4m) shares were issued during the year, realising £1m (2014: £2m) in the share capital and share premium account.

The 2014 final dividend of 24.0p (2014: 22.5p) per share and the 2015 interim dividend of 13.9p (2014: 13.6p) per share were paid during the year, which reduced equity by £103m (2014: £97m).

The credit for share-based payments, which reverses the £1m (2014: £4m) 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, together with the reversal of the associated £1m tax credit (2014: £1m).

The credit to reserves relating to the issue 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 £2m (2014: charge of £31m), refer to section 4.6 for more information.

CONSOLIDATED BALANCE SHEET
At 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Intangible assets	3.2	**457.2**	367.7
Property, plant and equipment	3.3	**230.8**	226.5
Employee benefit assets	4.5	**88.7**	60.2
Deferred tax assets	2.4.7	**19.8**	21.3
Other receivables		**4.6**	6.0
Total non-current assets		**801.1**	681.7
Inventories	3.1.1	**233.3**	226.3
Trade and other receivables	3.1.2	**351.4**	368.9
Other current financial assets	4.4.6	**2.8**	10.5
Current tax		**10.4**	14.9
Investments	4.4.6	**27.0**	26.9
Cash and cash equivalents	4.1	**114.2**	43.8
Total current assets		**739.1**	691.3
Total assets		**1,540.2**	1,373.0
Liabilities			
Bank overdraft	4.1	**(6.4)**	(23.0)
Interest-bearing loans and borrowings	4.2	**(54.1)**	(2.0)
Provisions	3.6	**(25.1)**	(22.7)
Current tax		**(44.6)**	(42.6)
Trade and other payables	3.1.3	**(342.1)**	(333.9)
Other current financial liabilities	4.4.6	**(8.9)**	(9.2)
Total current liabilities		**(481.2)**	(433.4)
Interest-bearing loans and borrowings	4.2	**(290.6)**	(218.8)
Employee benefit obligations	4.5	**(84.3)**	(94.9)
Provisions	3.6	**(17.5)**	(16.4)
Deferred tax liabilities	2.4.7	**(53.5)**	(27.2)
Other payables		**(24.2)**	(28.2)
Total non-current liabilities		**(470.1)**	(385.5)
Total liabilities		**(951.3)**	(818.9)
Net assets		**588.9**	554.1
Equity			
Share capital	4.6.1	**81.8**	81.7
Share premium		**11.8**	10.8
Other reserves		**176.4**	184.7
Retained earnings		**276.1**	232.1
Equity attributable to owners of the parent		**546.1**	509.3
Non-controlling interests	4.8	**42.8**	44.8
Total equity		**588.9**	554.1

Approved by the Board of Directors on 25 February 2016 and signed on its behalf by:

Lord Smith of Kelvin
Chairman

COMMENTARY ON THE CONSOLIDATED BALANCE SHEET

Net debt
Net debt at the year-end was £237m compared to £200m at the end of the previous year, largely reflecting the payment for the Bopp & Reuther acquisition offset by good operating cash delivery. The net debt is composed of a cash balance of £114m (2014: £44m), a bank overdraft of £6m (2014: £23m) and interest-bearing loans and borrowings of £345m (2014: £221m).

The year-end net debt to EBITDA ratio was 0.9 times (2014: 0.6 times) based on continuing EBITDA before exceptional items. Following the drawdown of €150m during the year, at the end of 2015 the loan notes totalled £341m (2014: £218m), with a weighted average maturity of 4.6 years (2014: 3.4 years) and other loans including bank overdrafts totalled £10m (2014: £26m). Total committed bank loan facilities available to the Group at the year-end were £294m (2014: £272m), of which nil (2014: nil) was drawn.

Intangible assets
The value of the Group's intangible assets increased to £457m at 31 December 2015 (2014: £368m), a £118m increase in intangible assets arose in relation to the acquisition of Bopp & Reuther, which comprised goodwill of £53m, customer relationships of £44m, order book of £9m, brand of £11m and software of £1m. Details of the acquisition accounting for Bopp & Reuther can be found in section 3.4. Other additions to intangible assets were £20m (2014: £18m), including £14m of IT related capital expenditure, partly offset by the continuing amortisation charge, foreign exchange movements and disposals.

Property, plant and equipment ('PPE')
The net book value of the Group's PPE at 31 December 2015 was £231m (2014: £227m). Capital expenditure on PPE amounted to £51m (2014: £53m), with significant capital expenditure on our new manufacturing plant in South Korea and a new Chinese service centre in the Critical Engineering division. Including capitalised intangible assets, total capital expenditure was £71m (2014: £71m) and was 1.9 times (2014: 1.9 times) the depreciation and amortisation charge (excluding acquired intangible amortisation) for the year of £38m (2014: £38m).

Working capital
The reduction in the Group's trade and other receivables of £18m is due to favourable cash movements of £29m and foreign exchange movements of £6m, partially offset by an increase of £17m following the acquisitions and disposals in the year.

The Group's inventory increased by £7m due to an increase of £7m following the acquisitions and disposals in the year and a further increase of £4m due to cash movements. These increases were partially offset by a £4m reduction due to foreign exchange movements.

The Group's trade and other payables increased by £4m due to an increase of £11m following the acquisitions and disposals in the year and movements in accruals of £4m. These increases were partially offset by cash movements of £7m and foreign exchange movements of £4m.

The working capital cash movements during the year are discussed in more detail in the narrative opposite the consolidated cash flow statement.

Taxation
The current tax asset fell by £5m to £10m (2014: £15m), as it was used to offset current year tax payments (which is discussed further at 2.4.3). Deferred tax liabilities increased by £27m during the year to £54m (2014: £27m). This largely arose as a result of the recognition of deferred tax on certain intangible assets relating to the acquisition of Bopp & Reuther, together with the deferred tax taken to the statement of comprehensive income in respect of the pension funds. More analysis of the deferred tax movement in the year is shown in section 2.4.7.

Pensions
The Group has 63 (2014: 64) defined benefit obligations in existence as at 31 December 2015. 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 possible and providing in their place appropriate defined contribution arrangements.

The net surplus for defined benefit obligations at 31 December 2015 was £4m (2014: £35m net liability). The UK funds surplus was £89m as at 31 December 2015 (2014: £60m) and constituted 88% (2014: 84%) of the total defined benefit liabilities and 95% (2014: 90%) of the total defined benefit assets. The improvement in the UK funds in 2015 principally arose from actuarial gains of £26m.

The deficit in the overseas funds as at 31 December 2015 was £84m (2014: £95m), including the impact of £4m from the acquisition of Bopp & Reuther. This reduction in the overseas deficit is as a result of a number of liability management exercises that were undertaken during the year, in particular in Switzerland and the United States.

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 106. 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	
	2015	2014
Euro	**1.36**	1.29
US dollar	**1.47**	1.56

Return on capital employed
Post tax return on capital employed ('ROCE') from continuing operations was 14.3% compared to 18.3% in 2014.

Dividend
The Board has recommended a final dividend in respect of 2015 of 24.5p (2014: 24.0p) per share, an increase of 2.1% over the 2014 final dividend. This makes the total dividend for 2015 of 38.4p (2014: 37.6p). The cost of the final dividend is expected to be £66m (2014: £65m), leading to a total dividend cost of £104m (2014: £102m) in respect of the year ended 31 December 2015. Dividend cover based on reported earnings for the continuing businesses is 1.6 times (2014: 2.1 times). As detailed in note C9 of the Company financial statements on page 149, all of the retained earnings at both 31 December 2015 and 31 December 2014 are considered to be distributable reserves.

Whilst the Group does not have a formal dividend policy or payout ratio, the Group's aim is to continue with its progressive dividend policy, which typically increases at a steady rate for both the interim and final dividend payments, with an aim that the dividend should, through the cycle, be covered by at least two times reported earnings. In making its dividend recommendations, the Board considers the levels of cash and debt within the Group, forecasted operating and capital cash flow requirements and the availability of distributable reserves. The Board also monitors the Group's dividend cover based on reported earnings for the continuing business. For more details refer to section 4.4.4.4.

Share price and shareholder return
The share price at 31 December 2015 was £8.62 (2014: £12.63) and the average for the year was £11.34 (2014: £14.02) representing a decrease of 32% and 19% respectively. Based on the 2015 average share price, the proposed total dividend of 38.4p represents a yield of 3.4%.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 £m	2014 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	185.9	269.8
Operating profit for the year from discontinued operations	0.9	1.0
Adjustments for:		
Depreciation and amortisation	70.4	57.6
Impairment of property, plant and equipment and intangible assets	6.9	43.5
Loss/(gain) on disposal of subsidiaries	8.8	(34.2)
Gain on special pension events	(9.1)	(7.0)
(Profit)/loss on sale of property, plant and equipment	(6.9)	1.2
Equity-settled share-based payment expense	1.1	4.4
(Increase)/decrease in inventories	(3.5)	5.8
Decrease/(increase) in trade and other receivables	29.2	(37.7)
Decrease in trade and other payables	(7.3)	(18.9)
Increase/(decrease) in provisions and employee benefits	5.6	(13.7)
Cash generated from the operations	282.0	271.8
Income taxes paid	(36.2)	(67.2)
Cash generated from the operations after tax	245.8	204.6
Additional pension scheme funding - UK and overseas	(2.9)	(87.0)
Net cash from operating activities	242.9	117.6
Cash flows from investing activities		
Interest received	3.2	1.1
Proceeds from sale of property, plant and equipment	12.0	1.1
Purchase of investments	(0.8)	(3.6)
Settlement of transactional derivatives	(5.0)	(0.2)
Settlement of currency derivatives hedging balance sheet	29.0	36.7
Acquisitions of subsidiaries net of cash	(106.2)	-
Acquisition of property, plant and equipment and non-acquired intangibles	(70.6)	(70.8)
Proceeds from disposal of subsidiaries net of cash	0.6	696.3
Net cash from investing activities	(137.8)	660.6
Cash flows from financing activities		
Interest paid	(21.6)	(15.4)
Payment to non-controlling interest	(4.4)	(4.4)
Shares issued by/(acquired for) employee share scheme trust	2.3	(30.7)
Proceeds from the issue of share capital for employee share schemes	1.1	1.9
Net drawdown/(repayment) of borrowings	107.9	(80.7)
Dividends paid to equity shareholders and non-controlling interest	(102.5)	(97.5)
Return of cash to equity shareholders	-	(620.3)
Net cash from financing activities	(17.2)	(847.1)
Net increase/(decrease) in cash and cash equivalents	87.9	(68.9)
Cash and cash equivalents at the start of the year	20.8	90.3
Effect of exchange rate fluctuations on cash held	(0.9)	(0.6)
Cash and cash equivalents at the end of the year*	107.8	20.8

* Net of bank overdrafts of £6.4m (2014: £23.0m).

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 (after exceptional items) and net debt is shown in the column opposite, upon which this section provides commentary.

Operating cash flow
The operating cash flow from continuing operations was £222m (2014: £205m). This represents a conversion rate of total Group segmental operating profit after restructuring costs of £210m (2014: £287m) into operating cash flow of 106% (2014: 71%).

Net working capital balances decreased by £18m (2014: £51m increase) during the year. Inventory increased by £4m (2014: £6m decrease) due to an increase in inventory of £13m within Critical Engineering reflecting the timing of orders and customer shipments, partially offset by inventory reductions in Precision Engineering and Hydronic Engineering of £6m and £3m respectively as a result of lean initiatives. The Group's receivables decreased by £29m (2014: £38m increase) as a result of both a reduction in revenue and increased efforts across the Group to improve the collection of receivables. Payables decreased by £7m (2014: £19m) due to the timing of payments to suppliers across each of the divisions.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £71m (2014: £71m) which was equivalent to 1.9 times (2014: 1.9 times) depreciation and amortisation thereon.

Continuing research and development spend including capitalised intangible development costs of £5m (2014: £6m) totalled £52m (2014: £52m).

In 2015 the Group paid tax of £36m (2014: £67m) which was 75% (2014: 109%) of the reported tax charge for the year. This reflects the timing of estimated tax payments on account and is discussed in more detail in section 2.4.

In 2015 there was a £29m cash inflow (2014: £37m) following the settlement of currency derivatives hedging the balance sheet.

After payment of interest and tax, the free cash flow generated from operations was £192m (2014: £154m).

Free cash flow before corporate activity
As noted in section 4.5, following the special pension events in Switzerland and the US, £2.9m of additional pension contributions were made. Free cash flow before corporate activity was £189m (2014: £67m).

Net cash outflow (excluding debt movements)
Dividends paid to shareholders totalled £103m (2014: £98m) and there was a cash inflow of £3m (2014: £29m outflow) for net share issues to satisfy employee share options. There was a cash outflow of £109m (excluding £3m net cash acquired) in relation to the acquisition of Bopp & Reuther.

The total net cash outflow (excluding debt movements) was £22m (2014: inflow of £41m).

Closing net debt
The opening net debt was £200m (2014: £199m). There were exchange rate losses of £8m (2014: £12m), principally on US dollar-denominated borrowings. After the net cash outflow in the year of £22m (2014: £41m inflow), net borrowings acquired of £6m and net cash disposed of £1m, closing net debt was £237m (2014: £200m).

Movement in Net Debt	2015 £m	2014 £m
EBITDA* from continuing operations	**263.2**	370.9
Working capital movements	18.4	(50.8)
Capital and development expenditure	(70.6)	(70.8)
Loss/(gain) on disposal of subsidiaries	8.8	(34.2)
Gain on special pension events	(9.1)	(7.0)
Other	11.0	(3.0)
Operating cash flow from continuing operations	**221.7**	205.1
EBITDA from discontinued operations	0.9	1.0
Other	-	(7.6)
Operating cash flow from discontinued operations	**0.9**	(6.6)
Operating cash flow**	**222.6**	198.5
Tax paid	(36.2)	(67.2)
Interest/derivatives	5.6	22.2
Cash generation	**192.0**	153.5
Additional pension scheme funding - UK	-	(70.0)
Additional pension scheme funding - overseas	(2.9)	(17.0)
Free cash flow before corporate activity	**189.1**	66.5
Acquisitions (before net cash acquired)	(109.2)	-
Dividends paid to equity shareholders and non-controlling interest	(102.5)	(97.5)
Return of cash	-	(620.3)
Disposal of subsidiaries	1.4	725.3
Payment to non-controlling interest	(4.4)	(4.4)
Net issue/(purchase) of own shares	3.4	(28.8)
Net cash flow (excluding debt movements)	**(22.2)**	40.8
Opening net debt	(200.0)	(199.4)
Net cash disposed	(0.8)	(29.0)
Net debt acquired	(5.6)	-
Foreign exchange translation	(8.3)	(12.4)
Closing net debt	**(236.9)**	(200.0)

* Earnings before interest (£23m), tax (£39m), depreciation (£33m), amortisation (£38m) and impairment (£7m).

** 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 FRS 101 and these are presented on pages 145 to 151. The financial statements were approved by the Board of Directors on 25 February 2016.

1.2 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 2015

The following amended standards were adopted in these financial statements during 2015, none of which had any impact.

- IFRS2 *'Share-based Payment'*
- IFRS3 *'Business Combinations'*
- IFRS8 *'Operating Segments'*
- IFRS13 *'Fair Value Measurement'*
- IAS16 *'Property, Plant and Equipment'*
- IAS19 *'Employee Benefits'*
- IAS24 *'Related Party Disclosures'*
- IAS38 *'Intangible Assets'*

ii) Issued Accounting Standards which are not effective for the year ended 31 December 2015 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'* (2015)

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 still assessing IFRS15's full impact, following the deferral of the effective date from 2017 to 2018. Early indications suggest our Critical Engineering business will be most likely to be impacted by any changes. The standard will be adopted from 1 January 2018.

- IFRS16 *'Leases'* (2015)

IFRS16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group is yet to assess IFRS16's full impact, however a significant portion of leases currently accounted for as operating leases (therefore off balance sheet) would be expected to be recognised as assets with a corresponding liability under IFRS16. The standard will be adopted from 1 January 2019.

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 information

Reported revenues and profits for the Group are stated before exceptional items as presented in the consolidated income statement.

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. As described on page 2, each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

Continuing operations

IMI Critical Engineering
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.

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

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

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 were 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 we have separately disclosed corporate costs before arriving at segmental operating profit so that reporting is consistent with the format that has been used for review by the chief operating decision maker from 1 January 2015. As required by IFRS8, comparative amounts have been restated to reflect this change. This change gives greater transparency of the underlying segmental operating profits for each division.

Definitions
References to segmental revenue, segmental operating profit and segmental operating margins, unless otherwise stated, relate to amounts on a reported basis before exceptional items as noted on the face of the consolidated income statement.

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

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	
	2015 £m	2014 £m	**2015 £m**	2014 restated* £m	**2015 %**	2014 restated* %
Continuing operations						
IMI Critical Engineering	**631**	692	**93.1**	131.4	**14.8%**	19.0%
IMI Precision Engineering	**662**	710	**117.7**	138.5	**17.8%**	19.5%
IMI Hydronic Engineering	**264**	284	**51.8**	56.8	**19.6%**	20.0%
Corporate costs			**(23.2)**	(28.6)		
Total segmental revenue/segmental operating profit and margin	**1,557**	1,686	**239.4**	298.1	**15.4%**	17.7%
Restructuring costs (non-exceptional)			**(2.1)**	(2.6)		
Loss on disposal of subsidiaries (non-exceptional)			**(0.4)**	-		
Total segmental revenue/operating profit and margin (before exceptional items)	**1,557**	1,686	**236.9**	295.5	**15.2%**	17.5%
Reversal of net economic hedge contract losses/(gains)	**10**	6	**7.6**	3.9		
Restructuring costs			**(27.1)**	(8.6)		
Gains on special pension events			**9.1**	7.0		
Impairment losses			**-**	(40.8)		
Acquired intangible amortisation			**(32.2)**	(19.6)		
(Loss)/gain on disposal of subsidiaries			**(8.4)**	34.2		
Acquisition and disposal costs			**-**	(1.8)		
Statutory revenue/operating profit	**1,567**	1,692	**185.9**	269.8		
Net financial expense			**(23.2)**	(24.1)		
Profit before tax from continuing operations			**162.7**	245.7		

*Restatement reflects the separate disclosure of corporate costs.

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

	Year ended 31 December 2015					Year ended 31 December 2014			
	As reported	**Acquisitions/ disposals**	**Organic**	**Reported growth (%)**	**Organic growth (%)**	As reported	Movement in foreign exchange	Acquisitions/ disposals	Organic
Segmental revenue									
IMI Critical Engineering	**631**	**(52)**	**579**	**-9%**	**-10%**	692	(26)	(23)	643
IMI Precision Engineering	**662**	**-**	**662**	**-7%**	**-3%**	710	(23)	(1)	686
IMI Hydronic Engineering	**264**	**-**	**264**	**-7%**	**2%**	284	(23)	(2)	259
Total	**1,557**	**(52)**	**1,505**	**-8%**	**-5%**	1,686	(72)	(26)	1,588
Segmental operating profit									
IMI Critical Engineering	**93.1**	**(1.2)**	**91.9**	**-29%**	**-24%**	131.4	(5.4)	(5.7)	120.3
IMI Precision Engineering	**117.7**	**-**	**117.7**	**-15%**	**-14%**	138.5	(3.4)	1.7	136.8
IMI Hydronic Engineering	**51.8**	**-**	**51.8**	**-9%**	**-1%**	56.8	(4.3)	(0.1)	52.4
Corporate costs	**(23.2)**	**-**	**(23.2)**			(28.6)	-	-	(28.6)
Total	**239.4**	**(1.2)**	**238.2**	**-20%**	**-15%**	298.1	(13.1)	(4.1)	280.9
Segmental operating profit margin (%)	**15.4%**		**15.8%**			17.7%			17.7%

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	
	2015 £m	2014 £m	**2015 £m**	2014 £m
IMI Critical Engineering	**682.1**	590.2	**196.9**	183.6
IMI Precision Engineering	**419.2**	430.6	**90.7**	91.9
IMI Hydronic Engineering	**165.6**	149.7	**53.7**	45.8
Total segmental assets/liabilities	**1,266.9**	1,170.5	**341.3**	321.3
Corporate items	**9.1**	17.4	**61.5**	71.4
Employee benefits	**88.7**	60.2	**84.3**	94.9
Investments	**27.0**	26.9	**-**	-
Net debt items	**114.2**	43.8	**351.1**	243.8
Net taxation and others	**34.3**	54.2	**113.1**	87.5
Total assets and liabilities in Group balance sheet	**1,540.2**	1,373.0	**951.3**	818.9

The following table includes other information to show how certain costs are allocated between the segments of the Group.

	Restructuring costs*		Capital Expenditure		Amortisation**		Depreciation	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
IMI Critical Engineering	**13.4**	5.1	**22.4**	27.0	**33.2**	18.8	**11.7**	10.6
IMI Precision Engineering	**13.6**	5.8	**30.4**	25.6	**3.0**	4.3	**14.1**	15.3
IMI Hydronic Engineering	**2.2**	0.3	**17.2**	12.7	**1.3**	1.5	**6.3**	6.6
	29.2	11.2	**70.0**	65.3	**37.5**	24.6	**32.1**	32.5
Corporate costs	**-**	-	**0.6**	5.5	**-**	-	**0.8**	0.5
Total	**29.2**	11.2	**70.6**	70.8	**37.5**	24.6	**32.9**	33.0

* Restructuring costs include both exceptional and non-exceptional.

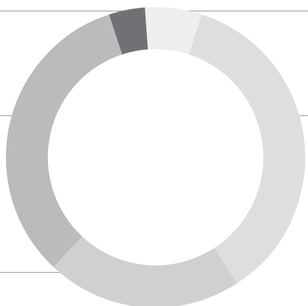
** The amortisation figures above includes the amortisation of acquired intangibles. £30.8m (2014: £17.2m) is included in respect of Critical Engineering, the increase being due to the acquisition of Bopp and Reuther in the year, £1.2m (2014: £2.1m) is included in respect of Precision Engineering and £0.2m (2014: £0.3m) is included in respect of Hydronic Engineering.

SECTION 2 – RESULTS FOR THE YEAR
Continued

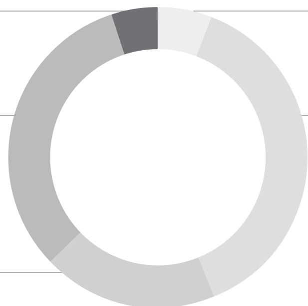
The following table shows a geographical analysis of how the Group's revenue is derived by destination.

	2015 Revenue £m	2014 Revenue £m
UK	**90**	98
Germany	*219*	*235*
Other Western Europe	*344*	*409*
Western Europe	**563**	644
USA	*311*	*300*
Canada	*23*	*18*
North America	**334**	318
Emerging Markets	**505**	544
Rest of World	**65**	82
Total segmental revenue	**1,557**	1,686
Reversal of economic hedge contract losses	**10**	6
Total	**1,567**	1,692

Continuing revenue by destination (2015)



Continuing revenue by destination (2014)



The following table shows a geographical analysis of the location of the Group's property, plant and equipment and intangible assets.

	2015 £m	2014 £m
UK	**77.5**	77.0
Germany	**223.2**	130.9
Rest of Europe	**205.3**	208.2
USA	**129.4**	123.6
Asia Pacific	**39.0**	35.4
Rest of World	**13.6**	19.1
Total	**688.0**	594.2

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.

	2015 £m	2014 £m
Segmental revenue	**1,557.0**	1,686.0
Cost of sales	**(866.7)**	(919.6)
Segmental gross profit	**690.3**	766.4
Selling and distribution costs	**(199.9)**	(211.5)
Administrative expenses	**(251.0)**	(256.8)
Loss on disposal	**(0.4)**	-
Restructuring costs	**(2.1)**	(2.6)
Operating profit before exceptional items	**236.9**	295.5
Exceptional items*	**(51.0)**	(25.7)
Operating profit	**185.9**	269.8

* 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:

	2015	2014
IMI Critical Engineering	**4,236**	3,971
IMI Precision Engineering	**5,482**	5,748
IMI Hydronic Engineering	**1,862**	1,878
Corporate	**131**	151
Total Group	**11,711**	11,748

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

	2015 £m	2014 £m
Wages and salaries	**427.9**	436.7
Share based payments	**1.1**	4.4
Social security costs	**77.0**	84.3
Pension costs*	**2.2**	10.1
Total	**508.2**	535.5

* In 2015, pension costs include the gains on special pension events which are disclosed as exceptional items, see section 4.5.3.3. The 2014 comparatives include a gain of £3.5m in relation to our Swedish pension scheme. The £3.5m gain arising from the split of the UK Funds was excluded as this was in respect of former employees.

The aggregate gains made by directors on the exercise of share options was £2.9m (2014: £10.6m). 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 62 of the Remuneration Report. For details of the non-executive directors' remuneration please refer to page 70 of the Remuneration Report. In addition, in 2014 former executive director M J Lamb received remuneration of £0.5m and former non-executive director P Bentley received remuneration of £0.1m. These comparatives are required under IAS1 'Presentation of Financial Statements' but are not required to be disclosed in the single figure table in 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 £14.7m (2014: £14.4m) relating to the lease of properties and a charge of £7.7m (2014: £7.8m) 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:

	2015		2014	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	**13.7**	**6.6**	13.4	7.5
In the second to fifth year	**39.4**	**8.6**	41.3	10.8
After five years	**20.7**	**-**	35.0	1.5
	73.8	**15.2**	89.7	19.8

2.1.3.3 Research and development expenditure

The continuing cost of research and development expenditure charged directly to the income statement was £46.7m (2014: £45.4m). In addition, amortisation of capitalised intangible development costs amounted to £2.5m (2014: £2.3m) and across the Group a further £5.3m (2014: £6.4m) was capitalised.

2.1.3.4 Exchange gains on operating activities net of hedging arrangements

The transactional foreign exchange losses in the Group were £1.3m (2014: £1.8m).

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 55. Fees earned by EY and its associates during the year are set out below:

	2015 £m	2014 £m
Fees earned by the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.2
The audit of the Company's subsidiaries, pursuant to legislation	**2.5**	2.5
Tax compliance services	**0.1**	0.3
Other assurance services	**0.1**	-
Total	**2.9**	3.0

SECTION 2 – RESULTS FOR THE YEAR
Continued

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 £7.6m (2014: reversal of a loss of £3.9m) and the latter amounted to a loss of £5.0m (2014: loss of £6.7m).

2.2.2
Restructuring costs

The restructuring costs treated as exceptional in 2015 of £27.1m (2014: £8.6m) are as a result of a number of significant restructuring projects across the Group. These include £9.6m relating to a large European restructuring exercise across each of the divisions and £9.3m in relation to the restructuring of our Switzerland business, that both Critical Engineering and Precision Engineering operate from. Our Critical Engineering business in Switzerland will be merged with Bopp & Reuther along with our Canadian Nuclear business which is also being closed at a cost of £1.7m. £3.6m was incurred in relation to the closure of two of our Petrochemical sites in Italy and Germany, with further costs expected in 2016. As part of Critical Engineering's localisation plan in China, £1.1m of restructuring costs were incurred. Included within the costs above are £6.9m of impairment charges against property, plant and equipment directly resulting from these significant restructuring projects.

Exceptional restructuring costs in 2014 related to the closure of IMI Components and the IMI Precision Engineering UK factory move (£8.6m). Further costs of £1.8m were incurred associated with these restructuring exercises in 2015.

Other restructuring costs of £2.1m (2014: £2.6m) are not included in the measure of segment operating profit reported to the Executive Committee. These costs have been charged below segmental operating profit and included in reported operating profit as, based on their quantum, they do not meet our definition of exceptional items.

2.2.3
Gains on special pension events

During the year the Group continued its focus on de-risking the exposure to defined benefit obligations by undertaking a number of scheme closures, buy-outs and mergers in Switzerland, the UK and the US. These exercises resulted in settlement gains of £4.9m. Following the commencement of a restructuring exercise in Switzerland, a curtailment gain of £4.2m was realised. Gains on special pension events in the UK and Sweden of £7.0m were recognised in 2014.

2.2.4
Impairment losses and acquired intangible amortisation

As reported on page 98, following completion of the Group's annual impairment review, no impairment charge has been recognised in 2015 against goodwill or intangible assets (2014: £40.8m). As described in 2.2.2, directly resulting from a number of significant restructuring projects was £6.9m of impairment of property, plant and equipment. An analysis by segment of acquired intangible amortisation is included in section 2.1.1.

2.2.5
Losses on disposal of subsidiaries

Losses on the disposal of Scott, Z&J SA and part of our NPSL business are discussed in section 3.5.

2.2.6
Acquisition and disposal costs

There were no exceptional acquisition and disposal costs in 2015. Acquisition and disposal costs in 2014 comprised £2.2m of fees associated with the acquisition of Bopp & Reuther 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.

2.2.7
Taxation

The tax effects of the above items are included in the exceptional column of the income statement.

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	2015 million	2014 million
Weighted average number of shares for the purpose of basic earnings per share	A	270.6	274.6
Dilutive effect of employee share options		1.9	2.4
Weighted average number of shares for the purpose of diluted earnings per share	B	272.5	277.0

	Key	£m	£m
Profit for the year		**130.0**	671.3
Non-controlling interests		**(2.4)**	(2.8)
Profit for the year attributable to owners of the parent	C	**127.6**	668.5
Profits from discontinued operations, net of tax		**(6.7)**	(478.5)
Continuing profit for the year attributable to owners of the parent	D	**120.9**	190.0
Total exceptional charges included in profit before tax		**56.0**	32.4
Total exceptional credits included in taxation		**(8.7)**	(8.3)
Earnings for adjusted EPS	E	**168.2**	214.1

	Key	2015	2014
EPS measures			
Basic EPS	C/A	**47.2p**	243.4p
Diluted EPS	C/B	**46.8p**	241.3p
Basic continuing EPS	D/A	**44.7p**	69.2p
Diluted continuing EPS	D/B	**44.4p**	68.6p
Adjusted EPS measures			
Adjusted basic continuing EPS	E/A	**62.2p**	78.0p
Adjusted diluted continuing EPS	E/B	**61.7p**	77.3p

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.

Discontinued earnings per share

Basic discontinued earnings per share were 2.5p (2014: 174.2p). Diluted discontinued earnings per share were 2.4p (2014: 172.7p).

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 balance sheet date. The profits of each company are subject to certain 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 adjustments have future tax impact then deferred taxes may also be recorded.

2.4.1
Tax governance, risk and strategy

IMI recognises its corporate responsibility to ensure that all businesses within the IMI group follow responsible tax practices. Accordingly, the IMI Tax Policy sets the core principles of compliance, fairness, value and transparency for the management of the Group's tax affairs. This Policy 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. A robust tax governance framework has also been established under which the Executive Committee and the IMI Board are appraised on a timely basis of any material or significant tax matters, so that appropriate action can be effected.

IMI seeks to manage its taxation obligations worldwide in compliance with all applicable tax laws and regulations, as well as fully in line with the Group's Code of Conduct. Accordingly, the tax contribution by the individual businesses is monitored and processes installed such that corporate tax returns should be accurately filed with the tax authorities around the world and taxes paid on time.

In particular, IMI aims to build positive working relationships with tax authorities by co-operating in a constructive, open and timely manner. IMI seeks to disclose its tax affairs in its published accounts and taxation returns fully in accordance with the applicable standards and, where appropriate, will supplement its tax disclosures with further information to better inform, and to be transparent to, its stakeholders. As tax laws are often complex, there will be areas of differing legal interpretation. Where this occurs, IMI seeks to engage in proactive discussion with the fiscal authorities to obtain early resolution and seek to remove uncertainty and controversy. Tax risks are regularly assessed for all companies within the Group, promptly addressed and reported so that they may be appropriately provided and disclosed in the relevant accounts and tax returns.

IMI seeks to record its profits across the subsidiary companies around the world on an arm's length basis in accordance with internationally accepted best practices, recognising the relative contributions of people, assets, intellectual property and risks borne by the various businesses.

IMI manages the impact of taxation on its businesses in a responsible manner by only adopting legitimate, commercial and generally acceptable positions. In particular, IMI seeks to follow not only the law itself but the intention of the local laws where this can reasonably be ascertained. As a UK Headquartered group, IMI's profits are ultimately subject to UK taxation, although as the Group pays significant taxes overseas, the overall effective tax rate for the Group is marginally above the UK statutory tax rate.

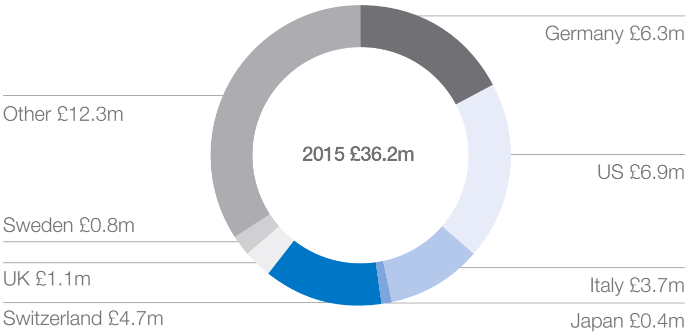
2.4.2
UK corporation tax

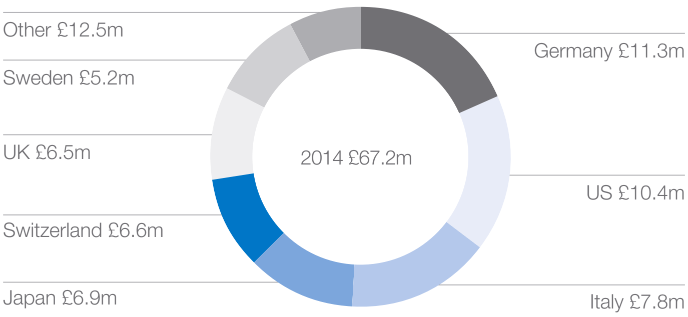
The average weighted rate of corporation tax in the UK for the 2015 calendar year was 20.25% (2014: 21.5%). Changes to the rate of UK corporation tax were proposed in the budget of 8 July 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These were substantively enacted on 26 October 2015. UK deferred tax assets and liabilities have therefore been calculated using a rate of 18% (2014: 20%), on the basis that no material items are forecast to reverse prior to 1 April 2020.

2.4.3
Tax payments

During the year, the Group made payments of corporate income tax of £36.2m (2014: £67.2m), principally as follows:

Jurisdiction of Companies Making Corporate Income Tax Payments:





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 particular the level of payments made during 2015 was reduced compared to 2014 as the Group recovered certain tax prepayments that had built up during 2014. In addition, the 2014 payments included a one-off tax payment arising from restructuring of the UK defined benefit pension schemes, which was recognised through other comprehensive income.

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.

	2015 £m	2014 £m
Current tax charge		
Current tax charge	34.6	46.3
Adjustments in respect of prior years	3.3	(3.4)
	37.9	42.9
Deferred taxation		
Origination and reversal of temporary differences	0.1	12.5
Total income tax charge	38.0	55.4

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

	2015 £m	2014 £m
Current tax charge		
Continuing operations	39.3	39.9
Discontinued operations	(1.4)	3.0
	37.9	42.9
Deferred tax charge		
Continuing operations	0.1	13.0
Discontinued operations	-	(0.5)
	0.1	12.5

	2015 £m	2014 £m
Total income tax charge		
Continuing operations	39.4	52.9
Discontinued operations	(1.4)	2.5
	38.0	55.4

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:

	2015			2014		
	Before exceptionals £m	Exceptional items £m	Total £m	Before exceptionals £m	Exceptional items £m	Total £m
Profit before tax from continuing operations	218.7	(56.0)	162.7	278.1	(32.4)	245.7
Profit before tax from discontinued operations (section 2.5)		5.3	5.3	-	481.0	481.0
Profit before tax	218.7	(50.7)	168.0	278.1	448.6	726.7
Income tax using the Company's domestic rate of tax of 20.25% (2014: 21.5%)	44.3	(10.3)	34.0	59.8	96.4	156.2
Effects of:						
Non-deductible items	2.7	1.5	4.2	2.9	4.7	7.6
Non-taxable loss/(profit) on disposal of businesses	0.1	0.5	0.6	-	(108.0)	(108.0)
Release of deferred tax asset	1.0	1.6	2.6	-	-	-
Utilisation of losses on which no deferred tax had been recognised	(2.6)	-	(2.6)	-	-	-
Current year losses for which no deferred tax asset has been recognised	3.2	-	3.2	1.3	-	1.3
Change in future tax rate on UK deferred tax	(5.5)	-	(5.5)	-	-	-
Differing tax rates	0.1	(3.5)	(3.4)	0.8	(1.7)	(0.9)
Under/(over) provided in prior years	4.8	0.1	4.9	(3.6)	2.8	(0.8)
Total tax in income statement (section 2.4)	48.1	(10.1)	38.0	61.2	(5.8)	55.4
Income tax expense reported in the consolidated income statement	48.1	(8.7)	39.4	61.2	(8.3)	52.9
Effective rate of tax (continuing operations):	22.0%		24.2%	22.0%		21.5%
Income tax attributable to discontinued operations (section 2.5)		(1.4)	(1.4)		2.5	2.5
Effective rate of tax (discontinued operations):			-26.4%			0.5%
Total tax in income statement (section 2.4)	48.1	(10.1)	38.0	61.2	(5.8)	55.4
Effective rate of tax (total Group):	22.0%		22.6%	22.0%		7.6%

SECTION 2 – RESULTS FOR THE YEAR
Continued

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:

	2015 £m	2014 £m
Deferred tax:		
On equity-settled transactions	0.9	5.2
On change in value of effective net investment hedge derivatives	(0.9)	0.7
On available for sale financial assets	(0.6)	0.4
On fair value gain on deal-contingent forward relating to disposal proceeds	-	(3.0)
On re-measurement gains and on defined benefit plans	10.7	2.2
On pension restructuring	-	(3.0)
	10.1	2.5
Current tax:		
On pension restructuring	(0.5)	9.6
On foreign currency translation differences	3.1	(1.5)
On equity-settled transactions	0.1	(4.0)
	12.8	6.6
Of which the following amounts are charged/(credited):		
to the statement of comprehensive income	11.8	5.4
to the statement of changes in equity	1.0	1.2
	12.8	6.6

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	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Non-current assets	1.9	3.7	(48.1)	(40.8)	(46.2)	(37.1)
Inventories	3.1	3.5	(4.1)	(4.1)	(1.0)	(0.6)
On revaluation of derivatives	0.7	1.9	(2.2)	(2.4)	(1.5)	(0.5)
Employee benefits and provisions	30.0	35.2	(15.9)	(5.4)	14.1	29.8
Other tax assets	0.9	2.5	-	-	0.9	2.5
	36.6	46.8	(70.3)	(52.7)	(33.7)	(5.9)
Offsetting within tax jurisdictions	(16.8)	(25.5)	16.8	25.5	-	-
Total deferred tax assets and liabilities	19.8	21.3	(53.5)	(27.2)	(33.7)	(5.9)

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

	Balance at 1 Jan 15 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions /disposals £m	Balance at 31 Dec 15 £m
Non-current assets	(37.1)	8.3	-	2.0	(19.4)	(46.2)
Inventories	(0.6)	(0.2)	-	(0.2)	-	(1.0)
On revaluation of derivatives	(0.5)	(1.8)	0.9	(0.1)	-	(1.5)
Employee benefits and provisions	29.8	(5.1)	(11.0)	0.3	0.1	14.1
Other tax assets	2.5	(1.3)	-	(0.3)	-	0.9
Net deferred tax asset/(liability)	(5.9)	(0.1)	(10.1)	1.7	(19.3)	(33.7)

	Balance at 1 Jan 14 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Disposals £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)

All exchange movements are taken through the translation reserve.

2.4.8 Unrecognised deferred tax assets and liabilities

Deferred tax assets of £48.9m (2014: £39.8m) have not been recognised in respect of tax losses of £32.8m (2014: £16.1m), interest of £59.0m (2014: £40.4m) and capital losses of £123.2m (2014: £113.3m). 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 £74.3m (2014: £81.7m) 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 £5.3m (2014: £8.1m), of which £4.7m (2014: £2.0m) has been provided on the basis that the Group expects to remit these amounts. The balance has not been provided as the Group is able to control the timing of dividends and does not expect to pay up these amounts in the foreseeable future.

2.5 Discontinued operations

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.

A pre-tax and post-tax gain of £4.4m was recognised in the current year as a result of the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses, which were sold on 1 January 2014 and a pre-tax gain of £0.9m and post-tax gain of £2.3m relating to other discontinued operations.

The prior year comparative includes a post-tax gain on disposal of the Retail Dispense businesses of £477.5m and a pre-tax and post-tax gain of £1.0m relating to other discontinued operations.

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 Inventories

	2015 £m	2014 £m
Raw materials and consumables	78.8	87.0
Work in progress	99.7	71.9
Finished goods	54.8	67.4
	233.3	226.3

In 2015 the cost of inventories recognised as an expense (being segmental cost of sales) amounted to £866.7m (2014: £919.6m). The Group's inventory increased by £7m due to an increase of £7m following the acquisitions and disposals in the year and a further increase of £4m due to an increase in inventory of £13m within Critical Engineering, reflecting the timing of orders and customer shipments, partially offset by inventory reductions in Precision Engineering and Hydronic Engineering of £6m and £3m respectively as a result of lean initiatives. These increases were partially offset by a £4m reduction due to foreign exchange movements.

In 2015 the write-down of inventories to net realisable value amounted to £5.8m (2014: £7.9m). The reversal of write-downs amounted to £2.5m (2014: £3.9m). 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.

3.1.2 Trade and other receivables

	2015 £m	2014 £m
Current		
Trade receivables	291.3	318.0
Other receivables	39.8	34.8
Prepayments and accrued income	20.3	16.1
	351.4	368.9
Receivables are stated after:		
Allowance for impairment	8.9	7.1

The reduction in the Group's trade and other receivables of £18m is due to favourable cash movements of £29m and foreign exchange movements of £6m, partially offset by an increase of £17m following the acquisitions and disposals in the year.

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

3.1.3 Trade and other payables

	2015 £m	2014 £m
Current		
Trade payables	171.2	164.4
Social security and other taxation	21.1	26.1
Other payables	5.9	7.5
Accruals and deferred income	143.9	135.9
	342.1	333.9
Non-current		
Other payables	24.2	28.2
	366.3	362.1

The Group's trade and other payables increased by £4m due to an increase of £11m following the acquisitions and disposals in the year and movements in accruals of £4m. These increases were partially offset by cash movements of £7m and foreign exchange movements of £4m.

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, 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 recognised. 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 2014	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
Exchange adjustments	**(4.5)**	**(7.7)**	**(1.8)**	**(14.0)**	**0.2**	**(0.1)**	**(13.9)**
Acquisitions	**52.5**	**43.9**	**20.7**	**117.1**	**1.0**	**-**	**118.1**
Disposals of subsidiaries	**(2.4)**	**(1.0)**	**(15.0)**	**(18.4)**	**-**	**-**	**(18.4)**
Additions	**-**	**-**	**-**	**-**	**5.9**	**14.1**	**20.0**
Transfers from assets in the course of construction	**-**	**-**	**-**	**-**	**6.0**	**(6.0)**	**-**
Disposals	**-**	**-**	**-**	**-**	**(0.9)**	**-**	**(0.9)**
As at 31 December 2015	**366.3**	**166.4**	**86.0**	**618.7**	**64.8**	**18.7**	**702.2**
Amortisation							
As at 1 January 2014	-	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
Exchange adjustments	**(1.3)**	**(2.9)**	**(0.6)**	**(4.8)**	**(0.3)**	**-**	**(5.1)**
Disposals of subsidiaries	**(0.9)**	**(0.7)**	**(14.5)**	**(16.1)**	**-**	**-**	**(16.1)**
Disposals	**-**	**-**	**-**	**-**	**(0.9)**	**-**	**(0.9)**
Amortisation for year	**-**	**19.7**	**12.5**	**32.2**	**5.3**	**-**	**37.5**
As at 31 December 2015	**25.6**	**109.0**	**73.0**	**207.6**	**37.4**	**-**	**245.0**
Net book value at 31 December 2014	292.9	38.3	6.5	337.7	19.3	10.7	367.7
Net book value at 31 December 2015	**340.7**	**57.4**	**13.0**	**411.1**	**27.4**	**18.7**	**457.2**

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 20 cash generating units to which goodwill is allocated, compared to 24 in the prior year. The change in the composition of CGUs follows changes in both the way in which cash inflows are generated and the internal reporting structure. 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 and include a terminal value multiple. 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 8% (2014: 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:

	2015 %	2014 %
Pre-tax discount rate	**9.9 – 16.2**	9.8 – 16.4
Long-term growth rate	**1.0 – 2.1**	1.0 – 3.8

For the purpose of assessing the significance of CGUs, the Group uses a threshold of 20% of the total goodwill balance. Goodwill of £78.4m associated with the Control Valves CGU in Critical Engineering is considered to be significant. The recoverable amount of the CGU is determined from a value in use calculation. The key assumptions for the value in use valuation are the discount rate, growth rate and operating cashflows. These estimates are determined using the methodology discussed above. The discount rate applied for Control Valves is 12.5% and a growth rate of 1.6% is applied into perpetuity.

No other CGUs have goodwill that is considered significant in the context of the Group's total goodwill balance, nor do any CGUs use the same key assumptions for the purposes of impairment testing in either this year or the last.

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 (2014: £34m).

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 £m	Plant & equipment £m	Assets in the course of construction £m	Total £m
Cost				
As at 1 January 2014	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
Exchange adjustments	**(3.0)**	**(9.4)**	**0.1**	**(12.3)**
Acquisitions	**0.4**	**3.8**	**-**	**4.2**
Disposals of subsidiaries	**(0.4)**	**(3.0)**	**-**	**(3.4)**
Additions	**1.8**	**22.9**	**25.9**	**50.6**
Transfers from assets in the course of construction	**5.3**	**19.0**	**(24.3)**	**-**
Disposals	**(8.0)**	**(42.5)**	**-**	**(50.5)**
As at 31 December 2015	**159.5**	**524.6**	**21.7**	**705.8**
Depreciation				
As at 1 January 2014	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
Exchange adjustments	**(1.4)**	**(7.0)**	**-**	**(8.4)**
Disposals of subsidiaries	**-**	**(1.7)**	**-**	**(1.7)**
Disposals	**(3.4)**	**(42.0)**	**-**	**(45.4)**
Impairment charge	**5.1**	**1.8**	**-**	**6.9**
Depreciation	**3.3**	**29.6**	**-**	**32.9**
As at 31 December 2015	**81.3**	**393.7**	**-**	**475.0**
NBV at 31 December 2014	85.7	120.8	20.0	226.5
NBV at 31 December 2015	**78.2**	**130.9**	**21.7**	**230.8**

A net impairment charge of £6.9m relating to continuing operations occurred during the year (2014: £0.7m charge) as described in section 2.2. The recoverable amount of these assets has been determined using their fair value less costs to sell, estimated by both internal and external valuation specialists.

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date relating to the continuing business amounted to £6.9m (2014: £7.6m).

Included in the total net book value of plant and equipment is £0.7m (2014: £1.0m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.3m (2014: £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 assets and liabilities.

On 2 January 2015, the Group acquired the entire share capital of B&R Holding GmbH ('Bopp & Reuther') for a cash consideration of £109.2m (€140.8m).

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 team and all of its approximately 400 employees transferred upon completion of the acquisition by the Group.

Bopp & Reuther joins the IMI Critical Engineering division and over the course of the year has been effectively integrated into its control valve business ('CCI').

The final fair values of the assets and liabilities acquired are summarised below:

	£m
Customer relationships	43.9
Order book	9.3
Brand	11.4
Property, plant and equipment	4.2
Other intangibles - software	1.0
Inventories	10.4
Trade and other receivables	21.1
Cash and cash equivalents	3.0
Interest-bearing liabilities and borrowings	(8.6)
Trade and other payables	(14.9)
Taxation balances	(20.3)
Employee benefit obligations	(4.4)
Other assets	0.6
Total identifiable net assets	**56.7**
Goodwill arising on acquisition	52.5
Total purchase consideration	**109.2**

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

	£m
Cash consideration	**109.2**
Net cash and cash equivalents acquired	(3.0)
Net cash paid on acquisition	**106.2**
Acquisition costs (included in cash flows from operating activities)	1.8
Total cash flow on acquisition of controlling interests	**108.0**

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Bopp & Reuther with those of the Group. The goodwill is not deductible for income tax purposes.

Acquisition costs of £2.2m were incurred in 2014 and were recorded as an exceptional item in the income statement. The cash flows associated with these acquisition costs in 2015 are shown in the table above.

At the date of the acquisition, the fair value and gross amount of the trade receivables was £21.1m. At 31 December 2015, £0.1m of the trade receivables have been impaired.

From the date of acquisition, Bopp & Reuther has contributed £46m of revenue and a profit of £1.3m to the operating profit of the Group. In addition, the effective integration of Bopp & Reuther within IMI Critical Engineering's existing large control valve business has resulted in strong revenue synergies elsewhere within the Group.

3.5 Disposals

Disposals in the current year

During the year, the Group disposed of Asterm SAS ('Asterm'), IMI Scott Limited ('Scott'), Zimmerman & Jansen South Africa (Pty.) Ltd ('Z&J SA') and the non-core elements of Nano Porous Solutions Limited ('NPSL'), with the remainder of the NPSL business being transferred to Norgren UK.

These disposals resulted in losses of £8.8m and with the exception of Asterm, are presented in the income statement as an exceptional item as, based on their quantum, they meet our definition of exceptional items. The losses on disposals are not disclosed within discontinued operations because none of these businesses represented a separate major line of business.

A summary of the proceeds received, assets disposed and resulting losses on disposal are included in the table below:

	Asterm 21 January 2015 £m	Scott 30 October 2015 £m	Z&J SA 13 November 2015 £m	NPSL 16 December 2015 £m	Total 2015 £m
Sale consideration	0.4	1.2	0.2	0.7	2.5
Net assets disposed	(0.7)	(2.7)	(2.2)	(2.0)	(7.6)
Costs of disposal	(0.1)	(0.6)	(0.4)	(0.6)	(1.7)
Foreign exchange loss reclassified on disposal	-	-	(2.0)	-	(2.0)
Loss on disposal	(0.4)	(2.1)	(4.4)	(1.9)	(8.8)
Net cash flow arising on disposal					
Sale consideration	0.4	1.2	0.2	0.7	2.5
Cash disposed of	(0.2)	(0.2)	(0.3)	(0.1)	(0.8)
Cash costs of disposal	(0.1)	(0.5)	(0.4)	(0.1)	(1.1)
Net cash flow arising on disposal of operations	0.1	0.5	(0.5)	0.5	0.6

Disposals in the prior year

Retail Dispense

The Group disposed of the Retail Dispense businesses on 1 January 2014 for proceeds of £691.2m resulting in a post-tax gain on disposal of £477.5m.

Eley

The Group disposed of Eley Limited, Accles and Shelvoke Limited and Eley Americas Inc (together 'Eley') on 4 October 2014 for proceeds of £41.6m resulting in a gain on disposal for the Group of £33.1m, after disposing of £6.5m of net assets and incurring £2.0m of associated costs.

AFP

The Group disposed of Mecanique Analytique Inc (trade name 'AFP') on 23 October 2014 for proceeds of £3.4m resulting in a gain on disposal for the Group of £1.1m, after disposing of £1.3m of net assets and incurring £1.0m of associated costs.

The gains on disposal of Eley and AFP were presented in the income statement as an exceptional item. They were not disclosed as discontinued operations because they did not represent a separate major line of business.

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	4.4	6.9	11.4	22.7
Non-current	1.2	7.4	7.8	16.4
At 1 January 2015	5.6	14.3	19.2	39.1
Arising during the year	**24.4**	**2.6**	**(4.7)**	**22.3**
Utilised during the year	**(16.4)**	**(1.3)**	**(0.3)**	**(18.0)**
Exchange adjustment	**(0.2)**	**(0.1)**	**(0.5)**	**(0.8)**
At 31 December 2015	**13.4**	**15.5**	**13.7**	**42.6**
Current	**12.5**	**9.3**	**3.3**	**25.1**
Non-current	**0.9**	**6.2**	**10.4**	**17.5**
	13.4	**15.5**	**13.7**	**42.6**

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 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) are held in foreign currencies. Movements in foreign exchange rates affect the sterling value of the net debt.

a) Reconciliation of cash and cash equivalents

	2015 £m	2014 £m
Cash and cash equivalents in current assets	114.2	43.8
Bank overdraft in current liabilities	(6.4)	(23.0)
Cash and cash equivalents	**107.8**	20.8

b) Reconciliation of net cash to movement in net borrowings

	2015 £m	2014 £m
Net increase/(decrease) in cash and cash equivalents excluding foreign exchange and net cash disposed/acquired	85.7	(39.9)
Net (drawdown)/repayment of borrowings	(107.9)	80.7
(Increase)/decrease in net debt before acquisitions, disposals and foreign exchange	(22.2)	40.8
Net cash disposed	(0.8)	(29.0)
Net debt acquired	(5.6)	-
Currency translation differences	(8.3)	(12.4)
Movement in net borrowings in the year	(36.9)	(0.6)
Net borrowings at the start of the year	(200.0)	(199.4)
Net borrowings at the end of the year	(236.9)	(200.0)

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 2015	20.8	(2.0)	(218.8)	(200.0)
Net cash and cash equivalents disposed of	(0.8)			(0.8)
Net cash/(debt) acquired	3.0	-	(8.6)	(5.6)
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash disposed of/acquired	53.8	(49.1)	(58.8)	(54.1)
Settlement of currency derivatives hedging balance sheet	31.9			31.9
Currency translation differences	(0.9)	(3.0)	(4.4)	(8.3)
At 31 December 2015	**107.8**	**(54.1)**	**(290.6)**	**(236.9)**

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.

	2015 £m	2014 £m
Current liabilities		
Unsecured loan notes and other loans	53.6	1.3
Finance lease liabilities	0.5	0.7
	54.1	2.0
Non-current liabilities		
Unsecured loan notes and other loans	290.2	218.2
Finance lease liabilities	0.4	0.6
	290.6	218.8

The increase in unsecured notes and other loans is primarily due to the drawdown of £107.9m of loans in the year, following the acquisition of Bopp & Reuther.

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 reported 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

	2015			2014		
	Interest £m	Financial instruments £m	Total £m	Interest £m	Financial instruments £m	Total £m
Interest income on bank deposits	3.2		3.2	1.1		1.1
Financial instruments at fair value through profit or loss:						
Designated hedges		-	-		0.8	0.8
Other economic hedges						
- current year trading		14.5	14.5		7.1	7.1
- future year transactions		6.4	6.4		7.2	7.2
Financial income	3.2	20.9	24.1	1.1	15.1	16.2
Interest expense on interest-bearing loans and borrowings	(21.6)		(21.6)	(15.4)		(15.4)
Financial instruments at fair value through profit or loss:						
Designated hedges		-	-		(0.8)	(0.8)
Other economic hedges						
- current year trading		(16.8)	(16.8)		(7.2)	(7.2)
- future year transactions		(9.1)	(9.1)		(13.8)	(13.8)
Financial expense	(21.6)	(25.9)	(47.5)	(15.4)	(21.8)	(37.2)
Net financial income/(expense) relating to defined benefit pension schemes	0.2		0.2	(3.1)		(3.1)
Net financial expense	(18.2)	(5.0)	(23.2)	(17.4)	(6.7)	(24.1)

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

	2015 £m	2014 £m
Change in fair value of effective portion of net investment hedges	(11.0)	3.6
Foreign currency translation differences	2.9	(14.7)
Settlement of/change in fair value of deal contingent forward	-	(14.2)
Change in fair value of other financial assets	(1.7)	1.1
Income tax on items recognised in other comprehensive income	(1.6)	3.4
Total items recognised in other comprehensive income (net of tax)	(11.4)	(20.8)
Recognised in:		
Hedging reserve	(10.1)	(8.3)
Translation reserve	(0.2)	(13.2)
Retained earnings	(1.1)	0.7
	(11.4)	(20.8)

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 44 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 2015 these totalled £417.9m (2014: £388.9m).

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 2% of our 2015 revenues (2014: 3%).

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	
	2015 £m	2014 £m
Cash and cash equivalents	**107.8**	43.8
Investments	**18.7**	19.0
Forward exchange contracts*	**0.1**	8.1
	126.6	70.9

* Forward exchange contracts include the net amount receivable by each entity in the Group, from each financial institution, reflecting the Group's maximum credit exposure since individual entities within the Group have the right but not the obligation to settle these net.

4.4.2.3
Exposure to credit risk in respect of trade receivables

	Carrying amount	
	2015 £m	2014 £m
UK	**18.4**	23.7
Germany	**25.9**	23.5
Rest of Europe	**77.0**	89.3
USA	**43.6**	51.2
Asia Pacific	**74.1**	90.9
Rest of World	**52.3**	39.4
	291.3	318.0

The maximum exposure to credit risk for trade receivables at the reporting date by segment was as follows:

	Carrying amount	
	2015 £m	2014 £m
IMI Critical Engineering	**156.8**	170.7
IMI Precision Engineering	**95.6**	111.2
IMI Hydronic Engineering	**38.9**	36.1
	291.3	318.0

4.4.2.4
Impairment provisions for trade receivables

The ageing of trade receivables at the reporting date was:

	2015		2014	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	247.9	(0.3)	273.1	(0.5)
Past due 1-30 days	22.9	(0.5)	26.8	(0.6)
Past due 31-90 days	14.4	(0.7)	13.8	(0.6)
Past due over 90 days	15.0	(7.4)	11.4	(5.4)
Total	300.2	(8.9)	325.1	(7.1)

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

	2015 £m	2014 £m
Net balance at 1 January	7.1	8.1
Utilised during the year	(1.0)	(1.5)
Charged to the income statement	3.5	2.3
Released	(0.4)	(1.1)
Exchange	(0.3)	(0.7)
Net balance at 31 December	8.9	7.1

The net impairment charge recognised of £3.1m (2014: charge of £1.2m) 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 2015 credit exposure including cash deposited did not exceed £23.2m with any single institution (2014: £7.5m).

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 periodically adjusted following regular reviews. On this basis up to 50% of the Group's annual exposures to transactional risk 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 in the prior year.

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

	Cash* 2015 £m	Debt 2015 £m	Exchange contracts 2015 £m	Assets subject to interest rate risk 2015 £m	Other net assets 2015 £m	Total net assets 2015 £m	Total net assets 2014 £m
Sterling	65	-	270	335	77	412	426
US dollar	5	(231)	85	(141)	141	-	26
Euro	3	(111)	(209)	(317)	377	60	(10)
Other	35	(3)	(146)	(114)	231	117	112
Total	108	(345)	-	(237)	826	589	554

* 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.

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 2015 £m	Cash and exchange contracts 2015 £m	Assets subject to interest rate risk 2015 £m	Floating rate 2015 £m	Fixed rate 2015 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	335	335	335	-		
US dollar	(231)	90	(141)	90	(231)	6.8	2.4
Euro	(320)	3	(317)	(207)	(110)	1.4	9.3
Other	(149)	35	(114)	(114)	-		
Total	(700)	463	(237)	104	(341)		

	Debt and exchange contracts 2014 £m	Cash and exchange contracts 2014 £m	Assets subject to interest rate risk 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	343	-		
US dollar	(218)	106	(112)	106	(218)	6.8	3.4
Euro	(303)	6	(297)	(297)	-		
Other	(172)	38	(134)	(134)	-		
Total	(693)	493	(200)	18	(218)		

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

The Group's operating companies purchase metal and metal components and are therefore exposed to changes in commodity prices.

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 regular covenant compliance reviews to ensure that we remain fully within those covenant limits. At the end of 2015 the Group had undrawn committed facilities totalling £294m (2014: £272m) and was holding cash and cash equivalents of £114m (2014: £44m). 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

	2015 £m	2014 £m
Total equity	589	554
Gross debt including overdrafts	351	244
Gross cash	(114)	(44)
Capital base	826	754
Employee benefits and deferred tax assets	(24)	13
Extended capital base	802	767
Undrawn funding facilities	294	272
Available capital base	1,096	1,039

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 Group is considered regularly by the Board in light of market conditions, business forecasts, growth opportunities and the ratio of net debt to continuing EBITDA before exceptional items. Funding covenants currently limit net debt to a maximum of 3.0 times EBITDA. The net debt to EBITDA ratio at the end of 2015 was 0.9 times (2014: 0.6 times). Through the life of our five year plan, the Board would consider appropriate acquisitions that could take net debt up to 2.5 times EBITDA on acquisition, provided that a clear plan exists to reduce this ratio back to under 2.0 times. It is expected that at these levels our debt would continue to 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 buy-backs

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, through the cycle, be covered by at least two times reported 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 8% (2014: 9%) 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.

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:

	2015 £m	2014 £m
Expiring within one year	22.1	48.3
Expiring between one and two years	75.0	23.2
Expiring after more than two years	197.1	200.0
	294.2	271.5

The weighted average life of these facilities is 3.2 years (2014: 2.9 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
2015									
Cash and cash equivalents	**Floating**	**114.2**	**114.2**	**114.2**					
US loan notes 2016	**7.26%**	**(50.9)**	**(53.0)**	**(53.0)**					
US loan notes 2018	**5.98%**	**(101.7)**	**(114.8)**	**(6.1)**	**(6.1)**	**(102.6)**			
US loan notes 2019	**7.61%**	**(67.8)**	**(86.4)**	**(5.2)**	**(5.2)**	**(5.2)**	**(70.8)**		
US loan notes 2022	**7.17%**	**(10.2)**	**(15.1)**	**(0.7)**	**(0.7)**	**(0.7)**	**(0.7)**	**(0.7)**	**(11.6)**
US loan notes 2025	**1.39%**	**(110.4)**	**(124.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(117.0)**
Finance leases	**Various**	**(1.0)**	**(1.0)**	**(0.5)**	**(0.3)**	**(0.1)**	**(0.1)**		
Bank overdrafts	**Floating**	**(6.4)**	**(6.4)**	**(6.4)**					
Unsecured bank loans	**Floating**	**(2.7)**	**(2.9)**	**(2.7)**	**(0.1)**	**(0.1)**			
Total		**(236.9)**	**(289.9)**	**38.1**	**(13.9)**	**(110.2)**	**(73.1)**	**(2.2)**	**(128.6)**
2014									
Cash and cash equivalents	Floating	43.8	43.8	43.8					
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)	
US loan notes 2022	7.17%	(9.6)	(15.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(11.6)
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)

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 the 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 2015 and 31 December 2014. 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.

	Fair value					
	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
2015						
Cash and cash equivalents			114.2		114.2	
Bank overdrafts				(6.4)	(6.4)	
Borrowings due within one year				(54.1)	(54.1)	(55.6)
Borrowings due after one year				(290.6)	(290.6)	(308.3)
Trade and other payables*				(352.6)	(352.6)	
Trade receivables				291.3	291.3	
Investments			18.7	8.3	27.0	
Other current financial assets/(liabilities)						
Derivative assets**		2.8			2.8	
Derivative liabilities***	(2.9)	(6.0)			(8.9)	
Total	(2.9)	(3.2)	132.9	(404.1)	(277.3)	
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)	

* Trade and other payables exclude corporation tax and other tax liabilities and include liabilities of £10.5m (2014: £15.4m) falling due after more than one year

** Includes £0.2m (2014: nil) falling due after more than one year.

*** Derivative liabilities include liabilities of £0.3m (2014: £0.4m) falling due after more than one year: £0.3m in 1-2 years and nil in 2-3 years (2014: £0.4m in 1-2 yrs and nil in 2-3 yrs). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The decrease in value of net investment hedge derivatives (from an asset to a liability) in the year of £11.0m is shown in the consolidated statement of comprehensive income (net of tax).

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 2015				
Financial assets measured at fair value				
Equity instruments*	**18.7**			**18.7**
Cash and cash equivalents	**114.2**			**114.2**
Foreign currency forward contracts		**2.8**		**2.8**
	132.9	**2.8**	**-**	**135.7**
Financial liabilities measured at fair value				
Foreign currency forward contracts		**(8.9)**		**(8.9)**
	-	**(8.9)**	**-**	**(8.9)**
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)

* 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 £2.8m and £8.9m 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

The Group has no financial assets or financial liabilities measured at fair value using significant unobservable (level 3) inputs.

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 determined by the unadjusted price quotation at the reporting date.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

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 2015						
Impact on income statement (loss)/gain	**-**	**-**	**(0.7)**	**0.7**	**0.3**	**(0.3)**
Impact on equity (loss)/gain	**-**	**-**	**(55.3)**	**55.3**	**-**	**-**
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	-	-

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 income statement as incurred.

Defined benefit ('DB'): 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 is shown on the Group balance sheet.

4.5.1 Summary information

Net pension surplus: £4.4m (2014: deficit of £34.7m)

The net pension surplus or 'net asset for defined benefit obligations' ('DBO') at 31 December 2015 was £4.4m (2014: deficit of £34.7m). 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: 63 (2014: 64)

During the year, following the acquisition of Bopp & Reuther, the Group took on the Bopp & Reuther Pension & Jubilee plans and also recognised the CCI Long Service Plan in Australia. The Group fully settled the IMI Americas inc & CCI inc Pension plans and the Asterm retirement indemnity plan, following disposal. It is anticipated the number of DBOs will reduce in 2016 following the merger of the five Swiss plans into the IMI Switzerland Pension Fund from 1 January 2016 and the formal wind-up of the IMI Pension Fund.

The following table shows a summary of the geographical profile of the Group's DBOs:

	Quantity 2015	Assets £m	DBO £m	Surplus/ (deficit) £m	Quantity 2014
Australia	2	-	(0.3)	(0.3)	1
Austria	6	-	(2.4)	(2.4)	6
France	3	0.1	(0.9)	(0.8)	4
Germany	27	5.0	(45.8)	(40.8)	25
India	6	-	(0.4)	(0.4)	6
Italy	6	-	(2.9)	(2.9)	7
Spain	2	-	(0.1)	(0.1)	2
Switzerland	5	68.3	(86.7)	(18.4)	5
US*	3	-	(18.2)	(18.2)	5
UK	3	1,272.9	(1,184.0)	88.9	3
Asset ceiling		(0.2)		(0.2)	
	63	1,346.1	(1,341.7)	4.4	64

* The US deficit above excludes £18.7m of assets relating to unqualified plans classified as investments (see section 4.4.6).

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

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 %	DBO £m	% of total liabilities %
2015					
Final salary*	**21**	**1,273.0**	**95%**	**(1,233.4)**	**92%**
Cash balance**	**11**	**68.3**	**5%**	**(89.4)**	**7%**
Jubilee***	**13**	**-**	**0%**	**(2.0)**	**0%**
Other	**18**	**5.0**	**0%**	**(16.9)**	**1%**
Total	**63**	**1,346.3**	**100%**	**(1,341.7)**	**100%**
Asset ceiling		**(0.2)**			
Revised assets		**1,346.1**			
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			

*** 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.

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.

	2015 £m	2014 £m
Quoted equities	**77.8**	22.9
Quoted bonds	**661.8**	703.1
Total quoted assets	**739.6**	726.0
Private equities	**92.3**	85.0
Insurance policies	**273.9**	287.9
IMI Scottish Limited Partnership	**17.4**	15.1
Hedge funds	**142.7**	185.4
Property	**30.1**	34.8
Private finance initiatives	**-**	76.8
Other*	**50.3**	64.8
Total unquoted assets	**606.7**	749.8
Fair value of assets	**1,346.3**	1,475.8
Restriction due to asset ceiling	**(0.2)**	(0.1)
DBOs for funded schemes	**(1,277.1)**	(1,445.0)
DBOs for unfunded schemes	**(64.6)**	(65.4)
Net surplus/ (deficit) for DBOs	**4.4**	(34.7)
Schemes in net pension deficit	**(84.3)**	(94.9)
Schemes in net pension surplus	**88.7**	60.2

* 'Other' assets include the market value of interest, inflation, equity and currency swaps relating to UK scheme assets and liabilities.

The overseas assets of £73.2m (2014: £152.1m) comprise equities of £12.5m (2014: £22.9m), bonds of £22.2m (2014: £88.7m), insurance of £28.8m (2014: nil), property of £6.5m (2014: £9.5m) and other assets of £3.2m (2014: £31.0m).

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.

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	15.6
Switzerland	18.1
USA	9.2
Eurozone	14.7

4.5.2
The UK and overseas pension funds

4.5.2.1
The UK Funds

The United Kingdom constitutes 88% (2014: 84%) of total defined benefit liabilities and 95% (2014: 90%) of total defined benefit assets. Historically the IMI Pension Fund offered final salary benefits to UK employees until it closed to new entrants in 2005 and to future accrual on 31 December 2010. In December 2014 winding-up procedures commenced and 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 – 'the UK Funds'). Ongoing pension benefits in the UK are provided via the Trustee's defined contribution plan - The IMI Retirement Savings Plan. All UK pension assets are run on behalf of the Trustee by the Board of the IMI Common Investment Fund.

The Trustee has determined an investment objective to achieve, over time, a position of self-sufficiency, defined using a discount rate of gilts + 0.25% and at the March 2015 valuation the UK Funds were 91.5% funded on this level.

Asset allocation
The Trustee has, over recent valuations, continued to reduce asset volatility and sensitivity to UK interest rates, inflation and foreign currencies. The Trustee has been able to do this due to asset outperformance and significant contributions from IMI (£173m from 2011-2014). It has been agreed as part of the 2015 Valuation that the percentage of external assets categorised as Fixed Income will be gradually increased in 2016 towards:

IMI 2014 Pensioner Fund	100%
IMI 2014 Deferred Fund	84%

As at 31 December 2015 the two UK Funds were, in total, 62% (2014: 64%) hedged against interest rates and 81% (2014: 70%) hedged against UK inflation on the Trustee's self-sufficiency basis.

Liability management
As discussed above, in December 2014 over 2,500 members (£25.2m of payments) accepted either minimal commutation payments or winding-up lump sums as full settlement of their pension. A further trivial commutation exercise was carried out in summer 2015 with a further £10.1m of settlements resulting in a settlement gain of £0.2m (see section 2.2.3). It is anticipated that further exercises to manage the Trustee's liabilities will be carried out in 2016.

Contributions
The recovery plan from the 2011 valuation agreed annual contributions of £16.8m until 2016. The Trustee agreed, as part of the 2015 valuation, the payments for 2015 and 2016 were not to be paid and instead a contingent contribution plan was agreed for the IMI 2014 Pensioner Fund. The amount of contributions due, if any, will depend on asset performance over the next three triennial valuations with contributions payable where asset returns are less than 1.5% over gilts. The maximum amounts payable, where asset returns are less than or equal to 0.7% over gilts would be:

£13m	due 30 June 2019
£12m	due 30 June 2022
£12m	due 30 June 2025

4.5.2.2
Overseas pension funds

In September 2015 liabilities relating to all pensions in payment in Switzerland were settled via an insurance contract with Patrimonia (this related to two autonomous plans). Payments of £40.3m were made to settle £45.1m of liabilities resulting in a settlement gain of £4.8m. Following the commencement of a restructuring exercise in Switzerland, a curtailment gain of £4.2m was realised.

In the US, termination proceeds commenced for the IMI Americas inc and CCI inc pension plans and all liabilities were settled via lump sum payments or insurance contracts. In total £47.5m of payments were made to settle £48.1m of liabilities resulting in a settlement gain of £0.6m in 2015.

Following the deduction of fees of £0.7m associated with these settlements, all three of these events led to the special pension events which are classified as exceptional items (see section 2.2.3).

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/increase the net surplus.
- **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.
- **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.

The table below reconciles the movement in the UK and overseas defined benefit surplus/(obligation) between 1 January 2015 and 31 December 2015.

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) at 1 January 2015	60.1	(94.8)	(34.7)
Movement recognised in:			
Income statement	**2.7**	**2.9**	**5.6**
OCI	**25.9**	**1.9**	**27.8**
Cash flow statement	**-**	**9.7**	**9.7**
Acquisitions	**-**	**(4.0)**	**(4.0)**
Net defined benefit surplus/(obligation) at 31 December 2015	**88.7**	**(84.3)**	**4.4**

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.5.3.1
Cash flow impacts

	2015			2014		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Amounts from employees	-	2.8	2.8	-	3.1	3.1
Amounts from employers	-	5.2	5.2	70.0	4.4	74.4
Benefits and settlements paid directly by the Group	-	4.5	4.5	-	22.2	22.2
Total	-	12.5	12.5	70.0	29.7	99.7

The expected contributions to the defined benefit arrangements in 2016 are £2.2m of normal employer contributions and £2.2m of normal employee contributions, both in relation to overseas pension funds.

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:

	2015				2014			
	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	28.2	2.8	-	31.0	(170.1)	(41.3)	-	(211.4)
Change in inflation	-	0.4	-	0.4	64.5	0.5	-	65.0
Change in other assumptions	(8.0)	0.9	-	(7.1)	6.4	(3.1)	-	3.3
Actuarial experience	31.6	(2.6)	-	29.0	12.1	1.0	-	13.1
Asset experience	(25.9)	0.5	-	(25.4)	136.9	9.5	-	146.4
Actuarial gains/(losses) in the year	25.9	2.0	-	27.9	49.8	(33.4)	-	16.4
Change in the asset ceiling	-	(0.1)	-	(0.1)	-	0.2	-	0.2
Exchange gains/(losses)	-	0.1	(0.1)	-	-	3.9	(0.1)	3.8
Gains/(losses) recognised through equity	25.9	2.0	(0.1)	27.8	49.8	(29.3)	(0.1)	20.4

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 2015		31 Dec 2014		31 Dec 2013	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.1	n/a	3.1	n/a	3.5	n/a
Inflation - CPI	2.1	1.5	2.1	1.7	2.5	1.8
Discount rate	3.7	1.7	3.6	2.1	4.5	3.3
Expected salary increases	2.5	1.7	n/a	2.2	n/a	2.3
Rate of pension increases	3.1	0.4	3.1	0.3	3.5	0.5

	2015 Years	2014 Years	2013 Years
Life expectancy at age 65 (UK Funds only)			
Current male pensioners	**21.1**	21.2	21.0
Current female pensioners	**24.0**	24.0	23.9
Future male pensioners	**23.2**	23.0	22.8
Future female pensioners	**26.3**	26.0	25.9

The mortality assumptions used for the UK Funds above reflect its scheme specific 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 2015 and 2014 reflect the results of this review.

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 2015, 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	£16.1m
Inflation-linked pension increases 0.1% pa higher*	£10.8m
Increase of one year in life expectancy from age 65	£37.7m
10% fall in non-bond-like assets**	£48.2m

Overseas	
Discount rate 0.1% pa lower	£2.2m
Salary increases 0.1% higher	£0.4m
Increase of one year in life expectancy at age 65	£3.3m

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.

	2015				2014			
	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	**-**	**5.0**	**0.9**	**5.9**	-	4.1	0.8	4.9
Past service credit	**-**	**-**	**-**	**-**	-	(0.1)	-	(0.1)
Settlement/curtailment	**(0.2)**	**(9.7)**	**0.1**	**(9.8)**	(3.5)	(4.5)	-	(8.0)
Recognition of (gains)/losses	**-**	**-**	**(1.5)**	**(1.5)**	-	-	1.0	1.0
DC employer contributions	**3.5**	**4.1**	**-**	**7.6**	3.4	5.4	-	8.8
Pension (income)/expense - operating costs	**3.3**	**(0.6)**	**(0.5)**	**2.2**	(0.1)	4.9	1.8	6.6
Interest on DBO	**43.8**	**4.1**	**0.4**	**48.3**	52.5	6.7	0.5	59.7
Interest on assets	**(46.3)**	**(2.2)**	**-**	**(48.5)**	(52.4)	(4.2)	-	(56.6)
Interest (income)/expense - financing costs	**(2.5)**	**1.9**	**0.4**	**(0.2)**	0.1	2.5	0.5	3.1

During the year the Group continued its focus on de-risking the exposure to defined benefit obligations by undertaking a number of scheme closures, buy-outs and mergers in Switzerland, the UK and the US. These exercises resulted in a settlement gain of £5.6m. Following the commencement of a restructuring exercise in Switzerland, a curtailment gain of £4.2m was realised. Fees of £0.7m were incurred as part of these settlements resulting in a net settlement gain of £9.1m in the income statement.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
Continued

4.5.4
Overall reconciliation of changes in the net surplus/(liability) for defined benefit obligations

	2015				2014			
	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	(1,510.4)	1,475.8	(0.1)	(34.7)	(1,450.2)	1,292.6	(0.3)	(157.9)
Current service cost	(5.9)	-	-	(5.9)	(4.9)	-	-	(4.9)
Past service cost	-	-	-	-	0.1	-	-	0.1
Settlement/curtailment	108.2	(98.4)	-	9.8	33.0	(25.0)	-	8.0
Net interest (cost)/income on net defined benefit (liability)/asset	(48.3)	48.5	-	0.2	(59.7)	56.6	-	(3.1)
Immediate recognition of gains/(losses)	1.5	-	-	1.5	(1.0)	-	-	(1.0)
Total credited/(charged) to income statement	55.5	(49.9)	-	5.6	(32.5)	31.6	-	(0.9)
Actuarial gain due to experience	29.0	-	-	29.0	13.1	-	-	13.1
Actuarial gain/(loss) due to financial assumption changes	23.7	-	-	23.7	(146.4)	-	-	(146.4)
Actuarial gain due to demographic assumption changes	0.6	-	-	0.6	3.3	-	-	3.3
Return on plan assets* (lower)/greater than discount rate	-	(25.4)	-	(25.4)	-	146.4	-	146.4
Change in effect of asset ceiling	-	-	(0.1)	(0.1)	-	-	0.2	0.2
Total remeasurements recognised in other comprehensive income	53.3	(25.4)	(0.1)	27.8	(130.0)	146.4	0.2	16.6
Employer contributions	-	5.2	-	5.2	-	74.4	-	74.4
Employee contributions	(2.8)	2.8	-	-	(3.1)	3.1	-	-
Benefits and settlements paid directly by the Group	4.5	-	-	4.5	22.2	-	-	22.2
Benefits paid from plan assets	68.0	(68.0)	-	-	65.0	(65.0)	-	-
Net cash outflow/(inflow)	69.7	(60.0)	-	9.7	84.1	12.5	-	96.6
Acquisitions	(4.0)	-	-	(4.0)	11.0	(3.9)	-	7.1
Changes in exchange rates	(5.8)	5.8	-	-	7.2	(3.4)	-	3.8
Total other movements	(9.8)	5.8	-	(4.0)	18.2	(7.3)	-	10.9
Carried forward at end of year	(1,341.7)	1,346.3	(0.2)	4.4	(1,510.4)	1,475.8	(0.1)	(34.7)

* 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

	2015		2014					
	Ordinary Shares 28 4/7p per share Number (m)	Value (£m)	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)
In issue at the start of the year	286.0	81.7	341.0	-	-	-	-	85.3
Share cancellations	-	-	(14.6)	-	-	-	-	(3.7)
Share consolidation	-	-	(326.4)	285.6	-	-	-	-
Issued to satisfy employee share schemes	0.2	0.1	-	0.4	-	-	-	0.1
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	286.2	81.8	-	286.0	-	-	-	81.7

All issued share capital at 31 December 2015 is fully paid and conveys the same rights.

Share consolidation

The 'B' and 'C' share scheme in the prior year 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.

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 28 4/7p each (million)			
	Employee Benefit Trust	Treasury	Other	Total
In issue at 31 December 2014	1.7	14.3	270.0	286.0
New issues to satisfy employee share scheme awards	-	-	0.2	0.2
Shares allocated under employee share schemes	(0.8)	-	0.8	-
At 31 December 2015	0.9	14.3	271.0	286.2

During the year 0.2m (2014: 0.4m) shares were issued under employee share schemes realising £0.9m (2014: £1.8m).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of nil (2014: 2.9m) shares with an aggregate market value of nil (2014: £40.0m) and a nominal value of nil (2014: £0.8m). Associated transaction costs amounted to nil (2014: nil).

Share options exercised in 2015 were settled using the shares in the Group's Employee Benefit Trust. In 2015 0.8m (2014: 2.8m) shares were issued for cash of £2.3m (2014: £9.3m).

Of the 15.2m (2014: 16.0m) shares held within retained earnings, 0.9m (2014: 1.7m) shares with an aggregate market value of £8.0m (2014: £21.5m) are held in trust to satisfy employee share scheme vesting.

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.

	2015 £m	2014 £m
Current year final dividend - 24.5p per qualifying ordinary share (2014: 24.0p)	66.4	64.9

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

	2015 £m	2014 £m
Prior year final dividend paid - 24.0p per qualifying ordinary share (2014: 22.5p)	64.9	60.6
Current year interim dividend paid - 13.9p per qualifying ordinary share (2014: 13.6p)	37.6	36.7
	102.5	97.3

4.7
Share-based payments

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 2015, 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	06.04.10	912	510.92p	01.08.15
	06.04.11	18,122	849.02p	01.08.16
	10.04.12	40,216	890.01p	01.08.15 or 01.08.17
	05.04.13	45,247	1196.50p	01.08.16 or 01.08.18
	06.05.14	40,944	1384.02p	01.08.17 or 01.08.19
	05.06.15	212,485	1075.32p	01.08.18 or 01.08.20
		357,926		
Global Employee Share Purchase Plans	19.12.11	22,255	849.02p	01.08.14 or 01.08.16
	10.04.12	1,682	890.01p	01.08.15 or 01.08.17
	26.08.14	25,165	1225.00p	01.08.16
	01.09.15	63,038	911.52p	01.09.17
		112,140		
IMI Incentive Plan	07.05.15	781,784	-	07.05.17 or 07.05.18
		781,784		
IMI Share Option Plan	03.09.09	7,989	440.93p	03.09.12
	22.03.10	24,500	645.00p	22.03.13
	23.03.11	246,840	971.83p	23.03.14
	04.05.12	509,400	980.67p	04.05.15
	27.11.12	14,400	1007.33p	27.11.15
	23.03.13	474,870	1322.70p	23.03.16
	10.05.13	10,000	1294.33p	10.05.16
	22.10.13	74,000	1518.33p	22.10.16
	11.03.14	475,913	1467.00p	11.03.17
		1,837,912		
IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan)	03.04.06	2,454	-	03.04.09
	05.04.07	2,146	-	29.03.10
	04.04.08	4,500	-	04.04.11
	10.03.09	40,705	-	10.03.12
	12.03.13	102,380	-	12.03.16
	22.10.13	98,792	-	22.10.16
	11.03.14	146,688	-	11.03.17
		397,665		
Share Matching Plan	22.03.10	135,549	-	22.03.13
	28.03.11	100,791	-	28.03.14
	10.05.12	366,757	-	10.05.15
	12.03.13	473,807	-	12.03.16
	01.04.14	335,465	-	01.04.17
		1,412,369		
Total		**4,899,796**		

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 is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase IMI shares. SAYE options may be exercised within six months of the date they first become exercisable.

Global Employee Share Purchase Plans ('GESPP')

These plans were introduced in 2011 for the US and Germany. The German and US 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 US 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. No further awards are intended to be granted under the German GESPP.

IMI Share Option Plan ('SOP')

Share option awards were made from 2009 to selected senior managers and certain other employees under the SOP. These awards are not subject to performance conditions, but are subject to a three year vesting period. The purpose of the SOP is to give selected IMI employees (who are not executive directors of the Company) the opportunity to share in the benefits of share price growth and to increase their IMI shareholding.

IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan ('PSP'))

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. No further awards can be granted under the PSP.

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 (up 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 can 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.

The IMI Incentive Plan ('IIP')

In light of the expiry in 2015 of both the PSP and SMP, the IIP was introduced to act as the Company's sole senior executive long-term incentive plan. The IIP acts as an umbrella plan which allows the Company to grant different types of award to different employee groups in an efficient way. The IIP is to be used annually to grant 'Performance Share Awards' in respect of ordinary shares to the executive directors and other members of senior management subject to performance conditions. The IIP will also be used annually to grant 'Bonus Share Awards' below board level. The IIP also gives the Company the ability to grant 'Restricted Stock Unit Awards' and 'Share Options'. It is currently intended that Restricted Stock Unit Awards and share options will only be granted in response to specific business requirements.

4.7.4
Options granted during the year

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
SAYE			
2014	103	1384p	2017-2019
2015	**227**	**1075p**	**2018-2020**
GESPP			
2014	33	1225p	2016
2015	**66**	**912p**	**2017**
SOP			
2014	594	1467p	2017
2015	**-**	**-**	**-**

	Number of options granted (thousand)	Normal exercisable date
PSP		
2014	163	2017
2015	**-**	**-**
SMP		
2014	396	2017
2015	**-**	**-**
IIP		
2014	-	-
2015	**783**	**2017-2018**

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 2014	4,266	201-1518p	966p	4,157	8,423
Exercisable at 1 January 2014	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
Granted	**293**	**912-1075p**	**1038p**	**783**	**1,076**
Exercised	**382**	**201-1384p**	**858p**	**487**	**869**
Lapsed	**305**	**201-1467p**	**1239p**	**561**	**866**
Outstanding at 31 December 2015	**2,308**	**441-1518p**	**1180p**	**2,592**	**4,900**
Exercisable at 31 December 2015	**814**	**441-1007p**	**961p**	**653**	**1,467**

[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 at nil cost are those granted under the Performance Share Plan, Share Matching Plan and IMI Incentive 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 £1.1m (2014: £4.4m) which comprises a charge of £12.9m (2014: £14.4m) for the year offset by a credit of £11.8m (2014: £10.0m) in respect of lapses.

£3.5m (2014: £4.9m) of the total charge and £4.2m (2014: £3.3m) 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 2015 included a dividend yield of 3.4% (2014: 2.8%), expected share price volatility of 22% (2014: 31%), a weighted average expected life of 3.5 years (2014: 3.5 years) and a weighted average interest rate of 0.6% (2014: 1.1%). 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 2015 is 6.87 years (2014: 7.24 years) and the weighted average fair value of share options granted in the year at their grant date was £9.15 (2014: £8.03).

The weighted average share price at the date of exercise of share options exercised during the year was £11.90 (2014: £14.68).

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 2015	2.5	42.3	44.8
Profit for the year attributable to non-controlling interests	**(0.4)**	**2.8**	**2.4**
Income earned by partnership		**(4.4)**	**(4.4)**
2015 movement in non-controlling interest	**(0.4)**	**(1.6)**	**(2.0)**
Non-controlling interest as at 31 December 2015	**2.1**	**40.7**	**42.8**

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 is held jointly by the Funds and provides the Funds 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 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.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £161m (2014: £144m).

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.

	2015 £m	2014 £m
Short-term employee benefits*	4.6	5.1
Share-based payments**	(0.7)	1.6
Total	3.9	6.7

* Short-term employee benefits comprise salary, including employers' social contributions, benefits earned during the year and bonuses awarded for the year.

** For details of the shared based payment (credit)/charge for key management personnel, see section 4.7.6.

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.

There were no adjusting or non-adjusting subsequent events after the balance sheet date of 31 December 2015.

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 2015.

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 UK Funds' 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. Judgements, estimates and assumptions

The key judgements and 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

SECTION 5 – OTHER NOTES
Continued

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.

Acquired businesses

The Group has over the years acquired a number of businesses. IFRS3 '*Business Combinations'* requires the acquired assets to be recognised at their fair value at the acquisition date. The valuation of these acquired assets involves the use of estimates and assumptions, in particular with respect to the valuation of acquired intangibles for which there are significant unobservable inputs.

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.

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 consolidation was appropriate. 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 and therefore, because the Group has the ability to defer these 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 Pension Funds' interests in this SLP have been recorded as non-controlling interests, as a component of equity. During the prior 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.

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 excluded in arriving at reported results, 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 comprises settlement gains or losses 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 or losses on disposals of subsidiaries;
- 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; and
  - 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. 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.

SECTION 5 – OTHER NOTES
Continued

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 shall 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.

F. 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.

G. 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.

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.

H. 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

I. 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.

J. 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.

K. 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.

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 E.

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 directly attributable 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 (including order books, brands and software) 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.

SECTION 5 – OTHER NOTES
Continued

O. Inventories

Inventories are valued at the lower of cost and net realisable value. Due to 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.

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 2015. The Strategic Report is on pages 8 to 43.

Results and dividend

The Group consolidated income statement is shown on page 76. Segmental operating profit amounted to £239m (2014: £298m) and profit before taxation and discontinued operations amounted to £163m (2014: £246m).

The directors recommend a final dividend of 24.5p per share (2014: 24.0p per share) on the ordinary share capital payable, subject to shareholder approval, at the Annual General Meeting to be held on 5 May 2016 to shareholders on the register at the close of business on 8 April 2016. Together with the interim dividend of 13.9p per share paid on 18 September 2015, this final dividend will bring the total distribution for the year to 38.4p per share (2014: 37.6p per share).

Research and development

See section 2.1.3.3 to the financial statements on page 89.

Shareholders' funds

Shareholders' funds increased from £509m at the end of 2014 to £546m at 31 December 2015.

Share capital

As at 31 December 2015, 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 page 49. 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 2015, 925,169 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.3% of the issued share capital (excluding treasury shares) at that time. The 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, 144,709 new ordinary shares were issued under employee share schemes: 136,749 under save as you earn plans and 7,960 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.

Own shares acquired by the Company

In 2015 the Company did not make market purchases of its own ordinary shares.

The Company was granted authority at the Annual General Meeting held on 7 May 2015 to purchase up to 40,774,071 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 5 May 2016 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 2015, 14,248,836 ordinary shares (nominal value £4,071,096) were held in treasury representing 5.2% 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 2015 was 14,248,836.

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 2015, 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 (Holdings) Limited	7.77%
MFS Investment Management	5.04%
Blackrock Inc	5.01%
Ameriprise Financial Inc	5.01%
Legal & General Group plc	3.03%

[1] As of the date in the notification to the Company

Subsequent to 31 December 2015 and up to the date of this Report, the Company was notified that the interests of MFS Investment Management were 10.17%.

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 49 to 53 and are incorporated into this report by reference.

DIRECTORS' REPORT
Continued

Employment policies

The Group continues to invest in employee involvement at all levels of the organisation. Since the global intranet was put in place in 2014, we have had over 4 million hits from employees. It has been instrumental in developing cross business collaboration and sharing of best practice. To date we have invested £1.6m in developing the intranet recognising the importance we place on keeping employees informed and connected with Group and individual business developments. Each Division has now launched its own Divisional intranet to communicate and support business developments specific to its particular needs and markets. The Group also continues to publish its cross-divisional newsletter, the 'IMI eye', bi-annually which features news stories from sites around the globe and is distributed to employees and key stakeholders. The Company's European Works Council, which has been in operation since 2003, 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 15 members of the European Works Council comprising 13 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. A Global Benefits Review, which commenced in early 2015, is underway across the Group to harmonise the remuneration for our employees across each country and align to local market practice.

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 59 to 71 and in section 4.7 of the financial statements on pages 123 to 126.

A number of people initiatives, including development, employee engagement, global benefits and diversity are co-ordinated across the Group. These initiatives and the Company's approach to investment in these areas are explained on pages 26 to 29.

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. 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. Further details of our approach to diversity and inclusion are set out in pages 29 and 57 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 on pages 46 and 47.

Health, safety and the environment

It is Group policy to continuously improve healthy and safe working conditions and to always operate in an environmentally responsible manner.

Our carbon reporting statistics indicate that our recent performance in gross tonnes of CO_2e has continued to improve: 2012-71,000, 2013-69,000, 2014-62,500, 2015-61,250. Of the 2015 total, our direct (Scope 1) emissions of CO_2e, essentially gas, diesel and fuel oil consumed, amounted to 18,250 tonnes. Our indirect (Scope 2) emissions of $C0_2$e, essentially the emissions generated on our behalf to provide our electricity, amounted to 43,000 tonnes.

In addition to gross tonnes of CO_2e, we report CO_2e intensity relative to £million sales. There has been a slight deterioration in our CO_2e intensity metric to 39.5 (tonnes/£m sales) in 2015 (2014: 37.4), largely on account of exchange rate movement. On a normalised line-for-line basis however, the IMI carbon intensity metric has comfortably achieved our 2015 year-end target of a 7.5% reduction over 2012 performance. Using 2015 as our new baseline, we plan to continuously improve our emissions performance going forward, building on the results from the European Energy Directive audits undertaken in 2015 and cascading these lessons throughout our non-European facilities.

Our CO_2e accounting methodology follows DEFRA guidelines and includes all material emissions across IMI.

Political 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 46 and 47 and are incorporated into this report by reference. Roberto Quarta resigned as Chairman and Director with effect from the end of the Annual General Meeting held on 7 May 2015. Lord Smith of Kelvin was appointed as a director on 7 May 2015 and was appointed as Chairman of the Board at the end of the Annual General Meeting held on 7 May 2015. Douglas Hurt and Anita Frew retired from the Board at the end of the Annual General Meeting held on 7 May 2015. Daniel Shook became Finance Director Designate on 1 January 2015 and become Finance Director on 1 March 2015. Isobel Sharp was appointed to the Board on 1 September 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, subject always to the limitations set by the Companies Act 2006.

Role of the Board

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.

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 Annual General Meeting held on 7 May 2015 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 5 May 2016, 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 page 70.

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 2015.

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.

Information included in 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 43.

Information to be disclosed under Listing Rules 9.8.4R

Listing Rule	Detail	Page
9.8.4R (1-2)(5-14)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	59 to 71

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 September 2014 publication, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

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 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.

DIRECTORS' REPORT
Continued

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 available 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. The internal control declaration process introduced in 2014 is now fully embedded and is enabling improvement in control through bi-annual self-assessments from all operating units. Action plans to improve controls as a result of these assessments are being tracked and reported to the Audit Committee. We are committed to further strengthen the key financial control processes. More information in relation to risk is given on page 32 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 2015 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.

Viability statement

In accordance with the 2014 UK Corporate Governance Code, the directors have assessed the viability of the Company over a relevant period, taking into account the Group's financial and trading position as summarised in this Annual Report, the principal risks and uncertainties set out on pages 32 to 35 and the five year business plan reviewed by the Board in September 2015. Based on this assessment, and other matters considered and reviewed by the Board, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this Annual Report to 31 December 2020.

The directors have determined that the period to 31 December 2020 constitutes an appropriate period over which to make its assessment of viability. Whilst the directors have no reason to believe the Company will not be viable over a longer timing horizon, the five year period to 31 December 2020 was chosen as it aligns with the Company's business and strategic planning timing horizon and is a sensible period for such an assessment. It is believed this period provides readers of the Annual Report with an appropriately long-term view with which to assess the Company's prospects although future outcomes cannot be predicted with certainty.

In making its assessment, the Board recognised the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A summary of these risks can be found on pages 32 to 35 of the Annual Report.

The five year business plan was used to assess the headroom on the Company's facilities and to stress test ongoing covenant compliance under scenarios where its principal risks materialise. The analysis considered both 'running business' risks, such as reducing revenues and margins, as well as one-off 'event' risks such as product recalls. The Board also considered the Company's ability to raise capital in the future, as well as both the ongoing actions undertaken to prevent occurrence and the potential actions to mitigate the impact of any particular risk.

The directors also recognised a number of key features of the Company's operations. The Company's wide geographical and sector diversification, and the lack of a single major production site, help minimise the risk of serious business interruption. Furthermore, our business model is structured so that the Company is not overly reliant on a few large customers. Our largest customer constitutes only 2% of Group revenue and our top 20 customers account for just over 16% of Group revenue. In addition, our ability to flex our cost base reduces our exposure to sudden adverse economic conditions.

Going concern

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. 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 43. Principal risks are detailed on pages 32 to 35. 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 potential and realistic changes in trading performance, indicate that the Group is able to operate within the level of facilities either in place on 31 December 2015, or renewed since, without the need to renew any further facilities before 25 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. Such uncertainties as have been identified are not regarded as material uncertainties for the purpose of the going concern assessment.

After making due enquiry, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 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 5 May 2016 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 Audit Committee to determine their remuneration will be proposed at the next Annual General Meeting.

By order of the Board

John O'Shea
Company Secretary

25 February 2016

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 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 and 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 financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies 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;
- state that the Group financial statements have complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- state for the parent company financial statements whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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, as at the date of this report, 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, are fair, balanced and understandable and provide 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

25 February 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

Our opinion on the financial statements is unmodified

We have audited the financial statements of IMI plc for the year ended 31 December 2015 set out on pages 76 to 151. In our opinion:

- IMI plc's Group financial statements and Parent Company financial statements (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 2015 and of the Group profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom 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.

What we have audited

We audited the Group and Parent Company financial statements of IMI plc for the year ended 31 December 2015 which comprise:

Group	Parent Company
Consolidated balance sheet as at 31 December 2015	Balance sheet as at 31 December 2015
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes C1 to C11 to the financial statements
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 5 to the financial statements	

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), including FRS 101 "Reduced Disclosure Framework".

Overview of our audit approach

Risks impacting audit strategy	- 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
	- Accounting for the acquisition of Bopp & Reuther
Audit scope	- We performed an audit of the complete financial information of 14 entities and audit procedures on specific balances for a further 29 entities.
	- The entities where we performed full or specific audit procedures accounted for 85% of profit before tax adjusted for non-recurring items, 66% of revenue and 83% of total assets.
Materiality	- Overall Group materiality of £9.4m which represents 5% of profit before tax adjusted for non-recurring items.
What has changed	- The accounting for the acquisition of Bopp & Reuther has been included as a risk of material misstatement. Bopp & Reuther has also been included as a full scope entity.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the 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.

Risk	Our response to the risk
Revenue and Profit Recognition (£1,557m, PY comparative £1,686m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 128); and section 2.1.1 of the Consolidated Financial Statements (page 85)* Revenue recognition is a significant audit risk across all divisions within the Group. Specifically there is a risk of inappropriate revenue and profit recognition if deliveries are recorded within the wrong accounting period, contract loss provisions are misstated or revenue is not accounted for in line with contractual terms. 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.	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 our 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 confirm 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 determine that the Group had fulfilled the requirements of the contract; confirming revenue could be reliably measured by reference to underlying documentation; • confirming collectability of the revenue was reasonably assured by agreeing to collection history; and • tracing the costs of the transactions to bills of materials and expenses incurred; We performed cut-off testing by tracing a sample of transactions around the period end to third party delivery note documentation and customer acceptance. 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 confirm that any contract losses are appropriately recognised. We performed the same audit procedures at full and specific scope entities over this risk area in 34 locations where revenue is in scope, which represents 66% of the total revenue balance. We also performed specific procedures over £268m of revenue recognised in the 50 Precision and Hydronic divisions' marketing companies. These companies purchase IMI manufactured products, either directly from the manufacturing IMI entity or through the Group's centralised warehousing, and sell into local markets. The specific procedures performed included verifying the occurrence and completeness of a sample of sales transactions recognised by the marketing companies through to goods despatch documentation. We also test a sample of transactions recognised in these companies to determine that the valuation of revenue recognised is consistent with the Group's transfer pricing policies and the inter-company transactions eliminate on consolidation.

What we concluded to the Audit Committee:
Our year-end audit procedures did not identify any concerns regarding revenue or profit recognition in the Group. All transactions tested have been recognised in accordance with contractual terms.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC
Continued

Risk	Our response to the risk
Inventory Valuation (£233m, PY comparative £226m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 132); and section 3.1.1 of the Consolidated Financial Statements (page 96)* 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.	We carried out testing on controls over inventory valuation to verify the Group values inventory appropriately; We tested the accumulation of cost within inventory, confirming that the valuation reflected 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 and verifying the level of costs absorbed based on production data; and We audited the adequacy of excess and obsolete provisions held against inventory by verifying received orders, inspecting approved budgets, considering historical usage and the historical accuracy of provisioning and understanding management's future plans to utilise the inventory. We performed the same audit procedures at full and specific scope entities over this risk area in 28 locations where inventory is in scope, which represents 81% of the total inventory balance.
What we concluded to the Audit Committee:	
Inventory valuation across the Group is considered appropriate including the adequacy of the excess and obsolete provision. Our audit procedures confirmed the variances between standard and actual costs and the overheads absorbed in the inventory valuation had been correctly calculated.	

Risk	Our response to the risk
Valuation of the overall pension scheme liabilities (£1,342m, PY comparative £1,510m) within the net pension asset of £4m *Refer to the Audit Committee Report (page 55); Accounting policies (page 132); and section 4.5 of the Consolidated Financial Statements (page 115)* 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 the amounts reported. The risk has marginally reduced on the valuation of pension scheme liabilities reflecting further scheme closures in the current year, although the UK scheme represents the vast majority of the total liability and the assumptions continue to be subject to judgement.	Using external data we benchmarked 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 IAS 19(R) to determine that 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. The audit procedures performed to address this risk have been performed by the group audit team.
What we concluded to the Audit Committee:	
The actuarial assumptions used in the valuation of the year end liabilities are well within the acceptable range when compared to external benchmarks. We consider the valuation of pension scheme liabilities to be appropriate.	

Risk	Our response to the risk
The assessment of the carrying value of goodwill and acquired intangible assets (£411m, PY comparative £338m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 129); and section 3.2.2 of the Consolidated Financial Statements (page 98)* 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. During 2015, and as a result of changes to the operational activities within the Group to integrate the activities of acquired business, transfer technology and increase the incidence of cross-selling by its businesses, management have redefined the groups of CGUs within the Critical engineering division to which goodwill is allocated. In particular, some previously separate CGUs have been combined to reflect those groups which now generate cash inflows that are largely independent of the others. These changes led management to restructure its internal reporting accordingly. A risk exists that the CGUs used in the impairment testing are not appropriate.	We walked through management's controls in respect of their assessment of the valuation of goodwill and acquired intangible assets and determined these to be designed and placed in operation; We examined management's methodology, as detailed in section 3.2 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. This included confirming that the underlying cash flows were consistent with the Board approved budgets; In accordance with the requirements of IAS 36 Impairment of Assets, management performed an impairment test on all CGUs that have goodwill allocated. For all CGUs we calculated the degree to which the key assumptions would need to fluctuate before an impairment conclusion was triggered and considered the likelihood of this occurring. 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 by obtaining the underlying data used in the calculation and benchmarking it against comparable organisations; • validating the growth rate assumed by comparing them to economic and industry forecasts; and • analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience. We considered the appropriateness of the amortisation rates and useful economic lives of intangible assets allocated to CGUs on acquisition with reference to their expected usage and future economic inflows. We obtained evidence of increased cross-selling within the Critical businesses and interdependencies of cash flows within this division. We confirmed the change in internal reporting has occurred and the CGUs considered for impairment testing are aligned to this new basis of internal reporting on financial performance. The audit procedures performed to address this risk have been performed by the group audit team.
What we concluded to the Audit Committee:	
We concurred with management's conclusion that none of the CGUs are required to be impaired as at 31 December 2015. Based on the change in the way in which cash inflows are generated and the changes in the associated internal reporting structure, we consider the CGUs to be appropriate.	

Risk	Our response to the risk
Accounting for the acquisition of Bopp & Reuther (Consideration of £109m, Goodwill and intangibles of £118m). New risk for FY15 *Refer to the Audit Committee Report (page 55); Accounting policies (page 129); and section 3.4 of the Consolidated Financial Statements (page 100)* The identification and valuation of intangible assets arising on the Bopp & Reuther acquisition is considered to be a significant risk for the IMI plc group audit. Management has exercised significant judgement in determining the appropriate fair value adjustments in respect of the assets and liabilities acquired. In particular, the judgement in determining the fair value and estimated useful economic life of intangible assets acquired such as customer relationships, the order book and the Bopp & Reuther brand.	We obtained and inspected the key contracts associated with the acquisition, including the sale and purchase agreement, to confirm that significant terms and conditions have been appropriately accounted for. With involvement of EY business valuations specialists, we evaluated management's determination of the fair values of the assets and liabilities acquired, and in particular the valuation of intangible assets. This included corroborating the key assumptions made by management, such as the useful economic lives, discount rates and growth rates applied. These assumptions were also benchmarked against historic IMI acquisitions and other transactions in the sector. We worked with EY tax audit specialists to determine the completeness and accuracy of the current and deferred tax balances included in the acquisition balance sheet including the impact on the tax balances of the fair value adjustments applied in the acquisition accounting. The audit procedures performed to address this risk have been performed by the group audit team.
What we concluded to the Audit Committee:	
We confirmed management had used appropriate valuation techniques to determine the fair value of the identified assets and liabilities acquired. Accordingly, we concluded the goodwill and intangibles of £118.1m were correctly recognised.	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC
Continued

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of Group revenue and operating profit, risk profile (including country risk, risk determined to be associated based on the grading of internal audit findings, controls findings, historical knowledge and discussions with management and the level of growth in the entity), the number of significant accounts based on performance materiality and any other known factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to achieve adequate quantitative coverage of significant accounts in the financial statements, of the 128 reporting entities of the Group, we selected 43 entities, which represent the principal business units within the Group.

Of the 43 entities selected, we performed an audit of the complete financial information of 14 entities ('full scope entities') which were selected based on their size or risk characteristics. For the remaining 29 entities ('specific scope entities'), we performed audit procedures on specific accounts within that entity that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

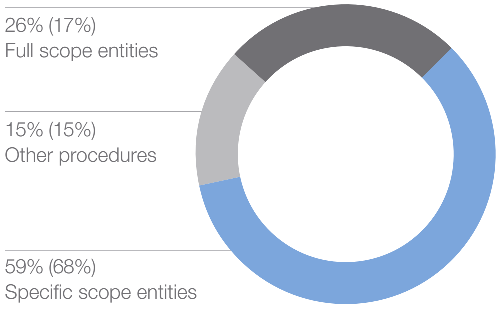
The reporting entities where we performed audit procedures accounted for 85% (2014: 85%) of the Group's profit before tax adjusted for non-recurring items, 66% (2014: 65%) of the Group's revenue and 83% (2014: 82%) of the Group's total assets.

We also performed procedures over the revenue recognised in the Precision and Hydronic divisions' marketing companies, which provided additional coverage of 17% in respect of the Group's Revenue.

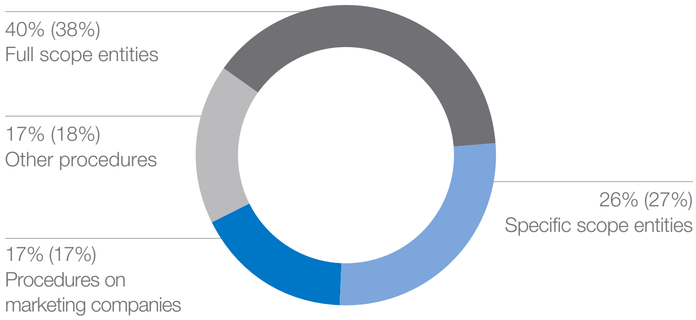
Excluding full and specific scope entities, there are a further 85 reporting entities with average revenues of £6.1m and average profit before tax adjusted for non-recurring items of £0.3m. In addition, these locations do not have common systems and controls. As a consequence, we consider the likelihood of any systematic error arising within this population to be low. Notwithstanding this, for the remaining 85 entities we performed other procedures, including analytical review and enquiries of management to address the residual risk of material misstatement.

The charts to the right illustrate the coverage obtained from the work performed by our audit teams.

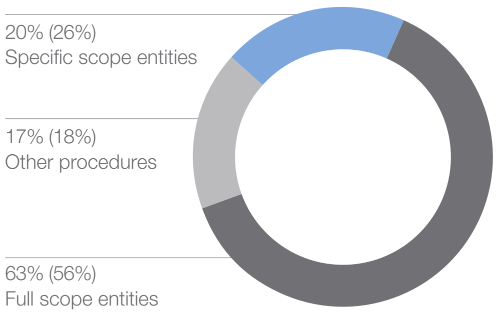
Profit before tax adjusted for non-recurring items - CY / (PY)



Revenue - CY / (PY)



Total assets - CY / (PY)



Involvement with entity teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the entities by us, as the group audit team, or by entity teams from other EY global network firms operating under our instruction. Of the 43 full scope and specific scope entities, where the work was performed by entity teams, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, visits were undertaken by the group audit team to the entity teams in China, Czech Republic, Germany, India, Mexico, Sweden, Switzerland and the USA. These visits involved meeting with our entity team to discuss and direct their audit approach, reviewing and understanding the significant audit findings in response to the risk areas including revenue, profit recognition and inventory valuation, holding meetings with local management, undertaking factory tours and obtaining updates on local regulatory matters including tax, pensions and legal. The group audit team interacted regularly with the entity teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

- We determined materiality for the Group to be £9.4m (2014: £12.4m), which is 5% (2014: 5%) of profit before tax adjusted for non-recurring items. We believe that profit before tax, adjusted for the items described in the table, provide us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity.
- During the course of our audit, we reassessed and reduced materiality from preliminary materiality of £10.9m to final materiality of £9.4m following a reduction to the forecasted profitability of the Group. This was due to a combination of adverse exchange differences, lower profit within the Critical Engineering division due to the economic weakness observed in China and a weakening in market conditions in Europe affecting the Precision and Hydronic Engineering divisions which developed throughout the period.

Starting basis	• Profit before tax - £162.7m • For the year ended 31 December 2015
Adjustments	• Loss on disposals of businesses - £8.4m (Note 3.5 to the Financial Statements) • Gain on special pension events - (£9.1m) (Note 2.2.3 to the Financial Statements) • Restructuring - £27.1m (Note 2.2.2 to the Financial Statements)
Materiality	• Profit before tax adjusted for non-recurring items - £189.1m (basis for materiality) • Materiality - £9.4m (5% of £189.1m)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

- On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely £4.7m (2014: £6.2m). Our objective in adopting this approach was to conclude that undetected audit differences in all accounts did not exceed our planning materiality level.

Audit work at entity locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement at that entity. In the current year, the range of performance materiality allocated to entities was £0.45m to £1.35m (2014: £0.7m to £1.8m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2014: £0.6m), which is set at 5% of planning materiality, 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 light of other relevant qualitative considerations in forming our opinion.

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 the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 137, the directors are responsible for the preparation of the 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 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.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC
Continued

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.
Companies Act 2006 reporting	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.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 136, and longer-term viability, set out on page 136; and • the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Conclusion in respect of all matters on which we are required to report by exception:

We have nothing to report in respect of any of the items above.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Conclusion:

We have nothing to add or to draw attention to in respect of the above.

Andrew Walton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
25 February 2016

Notes:

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

COMPANY BALANCE SHEET
At 31 December 2015

	Note	2015 £m	2014 £m
Fixed assets			
Investments	C5	**173.2**	173.2
Current assets			
Debtors	C6	**397.3**	447.3
Deferred tax assets	C7	**1.9**	4.3
Cash at bank and in hand		**11.3**	3.4
		410.5	455.0
Creditors: amounts falling due within one year			
Other creditors	C8	**(2.9)**	(41.2)
Net current assets		**407.6**	413.8
Total assets less current liabilities		**580.8**	587.0
Net assets		**580.8**	587.0
Capital and reserves			
Called up share capital	C9	**81.8**	81.7
Share premium account	C9	**11.8**	10.8
Capital redemption reserve	C9	**174.4**	174.4
Profit and loss account	C9	**312.8**	320.1
Equity shareholders' funds		**580.8**	587.0

Approved by the Board of Directors on 25 February 2016 and signed on its behalf by:

Lord Smith of Kelvin

Chairman

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2014	85.3	171.8	7.9	333.9	598.9
Retained profit for the year				730.1	730.1
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	320.1	587.0
Retained profit for the year				**91.8**	**91.8**
Dividends paid on ordinary shares				**(102.5)**	**(102.5)**
Shares issued in the year	**0.1**	**1.0**			**1.1**
Share-based payments				**1.1**	**1.1**
Shares issued by:					
employee share scheme trust				**2.3**	**2.3**
At 31 December 2015	**81.8**	**11.8**	**174.4**	**312.8**	**580.8**

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 were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. Transition tables showing all material adjustments are disclosed in note C11.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 45 (b) and 46-52 of IFRS2 'Share based Payment';

b) the requirements of IFRS7 'Financial Instruments';

c) the requirements of paragraphs 91-99 of IFRS13 'Fair Value Measurement';

d) the requirement in paragraph 38 of IAS1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a) (iv) of IAS1;

e) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS1;

f) the requirements of IAS7 'Statement of Cash Flows';

g) the requirements of paragraphs 30 and 31 of IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors';

h) the requirements of paragraph 17 of IAS24 'Related Party Disclosures'; and

i) the requirements in IAS24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member. Related party transactions with the Company's key management personnel are disclosed in the Remuneration Report on pages 59 to 71 and in section 5.2 on page 127 of the Group financial statements.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Foreign currencies

The Company's functional currency and presentation currency is sterling. 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

Investments in subsidiaries are accounted for at cost less any provision for impairment. 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 temporary differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all temporary 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 IAS12 'Income Taxes'. Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

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 in full to the principal employing company and accordingly, there is no net charge 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. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to share premium. If treasury shares are subsequently cancelled the nominal value of the cancelled shares is transferred from share capital to the capital redemption reserve. No gain or loss is recognised on the purchase, sale or cancellation of treasury shares.

Dividends

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 59 to 71 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 32 (2014: 28) 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 total net defined benefit costs of these Funds are borne by a subsidiary undertaking and therefore in accordance with IAS19, no net defined benefit costs are recognised in the Company's financial statements. Section 4.5 to the Group financial statements provides further details regarding the defined benefit schemes.

COMPANY NOTES TO THE FINANCIAL STATEMENTS
Continued

C4. Dividends

The aggregate amount of dividends comprises:

	2015 £m	2014 £m
Prior year final dividend paid - 24.0p per qualifying ordinary share (2014: 22.5p)	64.9	60.6
Current year interim dividend paid - 13.9p per qualifying ordinary share (2014: 13.6p)	37.6	36.7
Aggregate amount of dividends paid in the financial year	102.5	97.3

Dividends paid in the year of £102.5m represent 37.9p per share (2014: 36.1p).

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.

	2015 £m	2014 £m
Current year final dividend - 24.5p per qualifying ordinary share (2014: 24.0p)	66.4	64.9

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	
	2015 £m	2014 £m
At 1 January 2015 and 31 December 2015 cost and net book value	173.2	173.2

Details of subsidiary undertakings as at 31 December 2015 are shown on pages 152 to 153.

C6. Debtors

	2015 £m	2014 £m
Falling due for payment after more than one year:		
Amounts owed by subsidiary undertakings	316.4	334.3
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	80.9	113.0
	397.3	447.3

C7. Deferred tax

	2015 £m	2014 £m
The deferred tax included in the balance sheet is as follows:		
Employee benefits and share based payments	1.9	4.3
Deferred tax asset included in the balance sheet	1.9	4.3

	£m
Reconciliation of movement in deferred tax asset:	
At 1 January 2015	4.3
Deferred tax charge in the profit and loss account	(2.4)
At 31 December 2015	1.9

It was announced in the Budget of July 2015 that the UK corporate tax rate will reduce to 19% and 18% in 2017 and 2020 respectively. These rates were substantively enacted on 26 October 2015. The deferred tax balance has been calculated based on the rates applicable when the balances are expected to reverse, which is mainly 18% (2014: 20%).

C8. Other creditors falling due within one year

	2015 £m	2014 £m
Amounts owed to subsidiary undertakings	**1.0**	39.5
Other payables	**1.9**	1.7
	2.9	41.2

C9. Share capital and reserves

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2014	85.3	171.8	7.9	333.9	598.9
Retained profit for the year				730.1	730.1
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	320.1	587.0
Retained profit for the year				**91.8**	**91.8**
Dividends paid on ordinary shares*				**(102.5)**	**(102.5)**
Shares issued in the year	**0.1**	**1.0**			**1.1**
Share-based payments				**1.1**	**1.1**
Shares issued by*:					
employee share scheme trust				**2.3**	**2.3**
At 31 December 2015	**81.8**	**11.8**	**174.4**	**312.8**	**580.8**

* Details of treasury and employee trust share scheme movements are contained in section 4.6 of the Group financial statements and details of dividends paid and proposed in the year are shown in note C4.

All of the retained earnings held at both 31 December 2015 and 31 December 2014 are considered to be distributable reserves.

Share capital

	2015 £m	2014 £m
Issued and fully paid		
286.2m (2014: 286.0m) ordinary shares of 28 4/7p each	**81.8**	81.7

C10. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £64.4m (2014: £73.5m).

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.

COMPANY NOTES TO THE FINANCIAL STATEMENTS
Continued

C11. Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice ('UK GAAP').

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS1 *'First time adoption of International Financial Reporting Standards'*.

Reconciliation of equity at 1 January 2014

	UK GAAP £m	FRS 101 reclassifications and re-measurements £m	FRS 101 £m
Fixed assets			
Investments	573.4	(334.3)	239.1
Current assets			
Debtors	88.0	334.3	422.3
Deferred tax assets	-	-	-
Cash at bank and in hand	-	-	-
	88.0	334.3	422.3
Creditors:			
amounts falling due within one year			
Bank overdraft	(2.5)	-	(2.5)
Borrowings	(19.0)	-	(19.0)
Other creditors	(41.0)	-	(41.0)
Net current assets	25.5	334.3	359.8
Total assets less current liabilities	598.9	-	598.9
Net assets	598.9	-	598.9
Capital and reserves			
Called up share capital	85.3	-	85.3
Share premium account	171.8	-	171.8
Capital redemption reserve	7.9	-	7.9
Profit and loss account	333.9	-	333.9
Equity shareholders' funds	598.9	-	598.9

Reconciliation of equity at 31 December 2014

	UK GAAP £m	FRS 101 reclassifications and re-measurements £m	FRS 101 £m
Fixed assets			
Investments	507.5	(334.3)	173.2
Current assets			
Debtors	43.0	404.3	447.3
Deferred tax assets	3.5	0.8	4.3
Cash at bank and in hand	3.4	-	3.4
	49.9	405.1	455.0
Creditors:			
amounts falling due within one year			
Other creditors	(41.2)	-	(41.2)
Net current assets	8.7	405.1	413.8
Total assets less current liabilities	516.2	70.8	587.0
Net assets	516.2	70.8	587.0
Capital and reserves			
Called up share capital	81.7	-	81.7
Share premium account	10.8	-	10.8
Capital redemption reserve	174.4	-	174.4
Profit and loss account	249.3	70.8	320.1
Equity shareholders' funds	516.2	70.8	587.0

a) Loans to subsidiary undertakings

Under UK GAAP at 1 January 2014 and 31 December 2014, the Company recognised £334.3m of long-term loans to subsidiary undertakings as fixed asset investments in accordance with FRS15. Under FRS 101, these amounts have been reclassified as debtors falling due after more than one year.

b) Defined benefit pension costs

Under UK GAAP, the Company was unable to identify its share of the underlying assets and liabilities of the IMI UK Funds and consequently was required to account for pension costs as if the schemes were defined contribution schemes in accordance with FRS17 paragraph 9(b).

As a result of a contractual arrangement, the total net defined benefit obligation of these Funds are now borne by a subsidiary undertaking and therefore in accordance with IAS19, no net defined benefit costs are recognised in the Company's financial statements. The £70.0m pension costs recognised in the profit and loss account for the year ended 31 December 2014 have been restated to comply with IAS19.

c) Deferred tax asset

Under UK GAAP, the Company had an unrecognised deferred tax asset at 31 December 2014 of £0.8m relating to future tax relief for pension contributions paid in 2014. Upon transition to FRS 101, this deferred tax asset has been recognised.

SUBSIDIARY UNDERTAKINGS

A full list of the Group's subsidiary undertakings as at 31 December 2015 is included below. Except where indicated, the undertakings are subsidiaries incorporated in the United Kingdom and the share capital consists of ordinary shares only. The principal country in which each subsidiary operates is the country of incorporation. IMI plc's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for IMI Group Ltd which is held directly by IMI plc.

The Group has an interest in a partnership, the IMI Scottish Limited Partnership, which is fully consolidated into these Group 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 B.V. *Netherlands*

Aero-Dynamiek BVBA *Belgium*

Anson Cast Products Limited

Ashford Valves Limited

B&R Holding GmbH *Germany*

Bopp & Reuther Gesellschaft mit beschraenkter Haftung *Austria*

Bopp & Reuther Sicherheits- und Regelarmaturen GmbH *Germany*

Bopp & Reuther Zikesch Maintenance Group s.r.l. *Romania*

Brookvale International Insurance Limited *Bermuda*

Buschjost GmbH *Germany*

C.H. Zikesch Armaturen GmbH *Germany*

CCI (Asia Pacific) Pte Ltd *Singapore*

CCI AG *Switzerland*

CCI America do Sul Comercio de Equipamentos Industriais Ltda *Brazil*

CCI Czech Republic s.r.o. *Czech Republic*

CCI Flow Control (Shanghai) Co Ltd *China*

CCI International Limited

CCI Italy Srl *Italy*

CCI KK *Japan*

CCI Limited *Korea, Republic of*

CCI Switzerland AG *Switzerland*

CCI Valve Technology AB *Sweden*

CCI Valve Technology GmbH *Austria*

Charles Baynes Netherlands BV *Netherlands*

Church Bell Financial Services Limited

Commtech Limited

Control Component India Pvt Limited *India*

Control Components Inc *United States*

Deeside Titanium Limited (18%)

Engineering Appliances Limited

EVU Energi & VVS Utveckling AB *Sweden*

FAS Medic SA *Switzerland*

FCX Ireland Limited *Ireland*

FCX North America Limited

FCX Pension Trustees Limited

Fluid Automation Systems GmbH *Germany*

Fluid Automation Systems SA *Switzerland*

Fluid Automation Systems Technologies SA *Switzerland*

Heimeier GmbH *Germany*

Herion Systemtechnik GmbH *Germany*

Holford Estates Limited

IMI Americas Inc *United States*

IMI Australia Pty Limited *Australia*

IMI CIF Trustee Limited

IMI Components Inc *United States*

IMI Components Limited

IMI Consulting (Shanghai) Co Limited *China*

IMI Critical Engineering Holding GmbH *Germany*

IMI Deutschland II GmbH & Co KG *Germany*

IMI Deutschland Limited

IMI Deutschland Verwaltungs GmbH *Germany*

IMI Euro Finance Limited

IMI Fluid Controls (Finance) Limited

IMI Fluid Controls Holdings Inc *United States*

IMI France SARL *France*

IMI Germany Holding Limited & Co. KG *Germany*

IMI Germany Limited

IMI Group Inc *United States*

IMI Group Limited

IMI Group Services Limited

IMI Hidronik Muhendislik Iklimlendirme Sistemleri Ltd Sti *Turkey*

IMI Holdings Limited

IMI Holdings LLC *United States*

IMI Holland Limited

IMI Hydronic Engineering SA *Luxembourg*

IMI Hydronic Engineering A/S *Denmark*

IMI Hydronic Engineering AB *Sweden*

IMI Hydronic Engineering AS *Norway*

IMI Hydronic Engineering BV *Netherlands*

IMI Hydronic Engineering Deutschland GmbH *Germany*

IMI Hydronic Engineering FZE *United Arab Emirates*

IMI Hydronic Engineering GesmbH *Austria*

IMI Hydronic Engineering Inc *United States*

IMI Hydronic Engineering International SA *Switzerland*

IMI Hydronic Engineering Limited

IMI Hydronic Engineering Ltda *Brazil*

IMI Hydronic Engineering NV *Belgium*

IMI Hydronic Engineering OY *Finland*

IMI Hydronic Engineering Pte Ltd *Singapore*

IMI Hydronic Engineering s.r.l. *Italy*

IMI Hydronic Engineering SA *France*

IMI Hydronic Engineering SA *Spain*

IMI Hydronic Engineering UAB *Lithuania*

IMI Hydronic Engineering Switzerland AG *Switzerland*

IMI Indoor Climate AB *Sweden*

IMI Indoor Climate Trading (Shanghai) Co Ltd *China*

IMI Interamerica Inc. *United States*

IMI International EOOD *Bulgaria*

IMI International Co Srl *Romania*

IMI International d.o.o *Slovenia*

IMI International d.o.o. Beograd *Serbia and Montenegro*

IMI International d.o.o. *Croatia*

IMI International Kft. *Hungary*

IMI International LLC *Russian Federation*

IMI International s.r.o. *Czech Republic*

IMI International Sp. z.o.o. *Poland*

IMI Kynoch Limited

IMI Lakeside Five Limited

IMI Lakeside Four Limited

IMI Lakeside Ireland Limited *Ireland*

IMI Lakeside NZ Limited *New Zealand*

IMI Lakeside One Limited

IMI Lakeside Three Limited

IMI Lakeside Two Limited

IMI Marston Limited

IMI Netherlands Holdings BV *Netherlands*

IMI Norgren Herion PVT Limited *India*

IMI Norgren Limited *Ireland*

IMI Norgren Limited *Canada*

IMI Norgren Pneumatics (Shanghai) Co Limited *China*

IMI Norgren SA (Sociedad Unipersonal *Spain*

IMI Norgren Terracco S.L. *Spain*

IMI Overseas Investments Limited
IMI Pensions Trust Limited
IMI plc
IMI Property Investments Limited
IMI Refiners Limited
IMI Retirement Savings Trust Limited
IMI Scotland Limited
IMI Sweden AB *Sweden*
IMI Sweden Finance Limited
IMI Systems Limited
IMI Vision Limited
IMI Watson Smith Limited
IMI Webber Limited
Industrie Mecanique Pour Les Fluides SA *France*
Interativa Indústria, Comércio e Representações Ltda *Brazil*
Kynoch Sweden Holding AB *Sweden*
Lakeside Finance *Ireland*
Lakeside Treasury *Ireland*
Liquick 200 Limited
Liquick 211 Limited
Liquick 213 Limited
Martonair International Limited
Martonair Limited
Middlepark
Newman Hattersley Limited *Canada*
Norgren A/S *Denmark*
Norgren AG *Switzerland*
Norgren AS *Norway*
Norgren Automation Solutions LLC *United States*
Norgren B.V. *Netherlands*
Norgren Co Limited *China*
Norgren Co Limited *Thailand*
Norgren European Logistics Company Limited
Norgren Finland OY *Finland*
Norgren Ges.m.b.H *Austria*
Norgren GmbH *Germany*
Norgren GT Development Corporation *United States*
Norgren Inc *United States*
Norgren Kloehn, Inc. *United States*
Norgren Limited *New Zealand*
Norgren Limited *Hong Kong*
Norgren Limited
Norgren Ltda *Brazil*
Norgren Manufacturing Co Ltd *China*
Norgren Manufacturing De Mexico SA DE CV *Mexico*
Norgren NV *Belgium*
Norgren Pte. Limited *Singapore*
Norgren Pty Limited *Australia*
Norgren SA de CV *Mexico*
Norgren SAS *France*
Norgren SDN BHD *Malaysia*
Norgren SpA *Italy*
Norgren Sweden AB *Sweden*
Norgren Taiwan Co Limited *Taiwan*
Oldpeg Limited *Ireland*
Orton S.R.L, *Italy*
Pneumatex GmbH *Germany*
Premier Profiles Limited
Quanta Fluid Solutions Limited (24%)
Remosa Service & Construction Srl *Italy*
Remosa Srl *Italy*
SAIC CCI Valve Co., Ltd. *China* (44%)
Shanghai CCI Power Control Equipment Co Ltd *China* (70%)
Stainless Steel Fasteners Limited
STI s.r.l. *Italy*
TA Hydronics Holding AG *Switzerland*
TA Hydronics LLC *Ukraine*
TA Regulator d.o.o. *Slovenia*
TH Jansen Armaturen GmbH *Germany*
The Commtech Group Limited
The IMI Scottish Limited Partnership
Thompson Valves Limited
Transpal Limited *Ireland*
Truflo Group Limited
Truflo International Limited
Truflo Investments Limited
Truflo Marine Limited
Truflo Rona S.A. *Belgium*
Truflo Rona S.r.l. *Italy*
Tube Fittings Sales Pty Limited *Australia*
Valves Holding GmbH *Germany*
Z&J High Temperature Equipment (Shanghai) Co Ltd *China*
Z&J Technologies GmbH *Germany*
Zimmermann & Jansen Inc *United States*

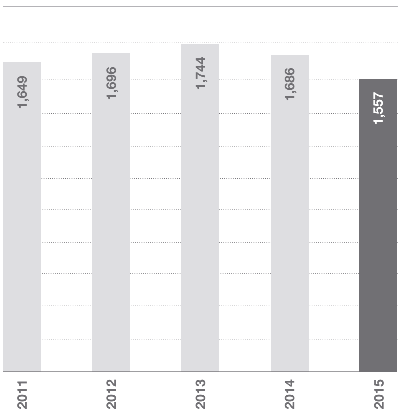
GEOGRAPHIC DISTRIBUTION OF EMPLOYEES

The following table shows the geographic distribution of employees as at 31 December 2015 and is not required to be audited.

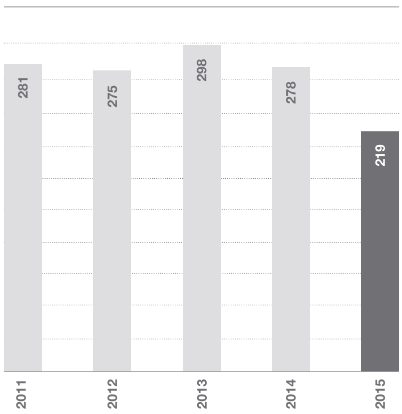
UK	1,439
Continental Europe	6,160
Americas	2,187
Asia Pacific	1,469
Rest of World	45
Total	**11,300**

FIVE YEAR SUMMARY

Reported revenue £m

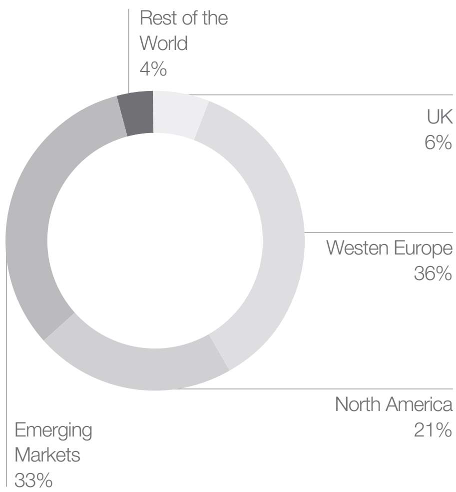


Reported profit before tax* £m



* Before exceptional items.

Group revenue by geography 2015



Income statement

	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Statutory revenue	1,645	1,694	1,743	1,692	**1,567**
Reported revenue*	1,649	1,696	1,744	1,686	**1,557**
Reported operating profit*	307.6	300.1	321.6	295.5	**236.9**
Reported profit before tax*	280.9	274.8	297.7	278.1	**218.7**
Special pension events	-	10.9	-	7.0	**9.1**
Restructuring costs	(21.4)	(18.9)	(14.2)	(8.6)	**(27.1)**
Acquired intangible amortisation					
and impairment	(32.3)	(29.6)	(21.9)	(60.4)	**(32.2)**
Acquisition and disposal costs	-	(6.3)	(9.9)	(1.8)	**-**
(Loss)/gain on disposal of subsidiaries	-	-	-	34.2	**(8.4)**
Financial instruments excluding economic hedge contract gains/losses	(6.2)	(1.0)	(2.4)	(2.8)	**2.6**
Profit before tax from continuing operations	221.0	229.9	249.3	245.7	**162.7**
EBITDA†	321	318	332	371	**263**

* Before exceptional items.

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

Group revenue by geography

	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
UK	91	101	104	98	**90**
Western Europe	744	694	686	644	**563**
North America	297	306	338	318	**334**
Emerging Markets	396	462	504	544	**505**
Rest of World	121	133	112	82	**65**
	1,649	1,696	1,744	1,686	**1,557**

Earnings and dividends

	2011	2012	2013	2014	**2015**
Adjusted earnings per share (continuing)	64.5p	64.7p	72.6p	78.0p	**62.2p**
Basic earnings per share (continuing)	50.5p	53.9p	60.4p	69.2p	**44.7p**
Ordinary dividend per share	30.0p	32.5p	35.3p	37.6p	**38.4p**

Balance sheet

	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Segmental net assets					
Continuing	806	906	897	849	**926**
Discontinued	192	189	196	-	**-**
Other net non-operating liabilities excluding borrowings (gross)	(275)	(267)	(246)	(95)	**(100)**
Net debt					
Continuing	(127)	(160)	(226)	(200)	**(237)**
Discontinued	(18)	(16)	(27)	-	**-**
Net assets	614	684	648	554	**589**

Statistics

	2011	2012	2013	2014	**2015**
Segmental operating profit as a percentage of segmental revenue	18.7%	17.7%	18.4%	17.5%	**15.4%**
Segmental operating profit as a percentage of segmental net assets	38.2%	33.1%	35.9%	34.8%	**25.9%**
Effective tax rate on adjusted profit before tax	26.0%	24.0%	22.0%	22.0%	**22.0%**
Net assets per share (excluding treasury and EBT shares)	193.5p	214.0p	210.0p	218.4p	**217.3p**
Net debt as a percentage of shareholders' funds	20.7%	23.4%	34.9%	36.1%	**40.2%**
Net debt: EBITDA*	0.4	0.5	0.7	0.6	**0.9**
EBITDA*: Interest	19	18	21	23	**15**

* EBITDA before exceptional items.

SHAREHOLDER AND GENERAL INFORMATION

Announcement of trading results

The trading results for the Group for the first half of 2016 will be announced on 29 July 2016.

The trading results for the full year ending 31 December 2016 will be announced in early 2017.

Interim management statements will be issued in May and November 2016.

Dividend payment

Final: 20 May 2016

Interim: September 2016

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 2015 was 862.00p (2014: 1,263.00p). 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 (contact details appear below).

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 on-line

Shareholders can manage their holdings on-line by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and 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 on-line such as Annual Reports and Notices of General Meetings;
- access details of your individual shareholding quickly and securely;
- set up a dividend mandate on-line; and
- 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 include 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 2016

This year's AGM will be held at the Hilton Birmingham Metropole, National Exhibition Centre, Birmingham B40 1PP on Thursday 5 May 2016 at 10am. For further information, please refer to the Notice of Meeting which appears on the corporate website.

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 0345 300 0430. Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding UK public holidays.

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: 0345 603 7037. Full written details can be obtained from Equiniti (contact details appear below).

Share fraud

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 spot share fraud or report a scam can be found on our corporate 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.

Headquarters and registered office

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Telephone: +44 121 717 3700
IMI plc is registered in England
No.714275

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0371 384 2916
or from overseas +44 121 415 7047
Lines are open 8.30am to 5.30pm,
Monday to Friday (excluding UK public holidays)

Stockbrokers

JPMorgan Cazenove
Bank of America Merrill Lynch

Auditor

Ernst & Young LLP

Cautionary statement

This Annual Report may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this Annual Report. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.

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Designed and produced by Design Motive Ltd
Printed and bound in the UK by CPI Colour Ltd

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