IMI

ENGINEERING ADVANTAGE

2011

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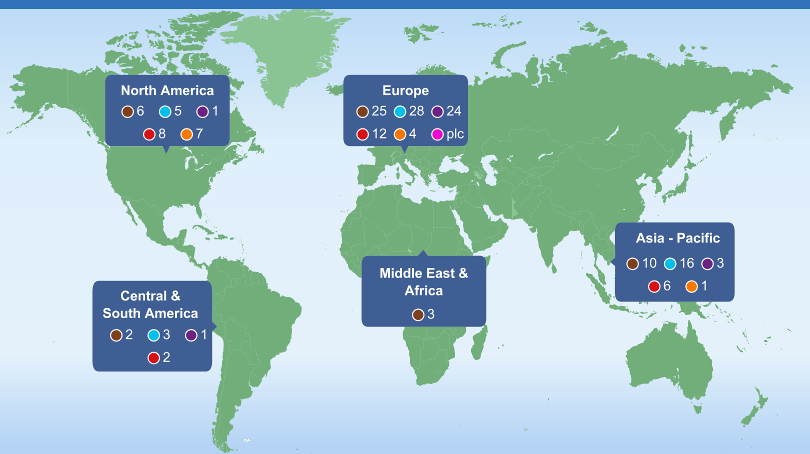


P2 At-a-glance: Where we operate - number of locations by business

IMI IS A GLOBAL ENGINEERING GROUP FOCUSED ON THE PRECISE CONTROL AND MOVEMENT OF FLUIDS IN CRITICAL APPLICATIONS. IMI COMPRISES FIVE PLATFORM BUSINESSES WITH GROWING LEADERSHIP POSITIONS IN FOCUSED NICHE MARKETS. IN DECEMBER 2010, IMI GAINED ENTRY INTO THE FTSE100 FOR THE FIRST TIME IN ITS HISTORY.

2011 RESULTS IN BRIEF

Revenue

£2,131m +12%

2010 £1,911m

Adjusted basic earnings per share[3]

81.5p +23%

2010 66.3p

Segmental operating profit[1]

£374.1m +17%

2010 £319.7m

Basic earnings per share

63.2p -10%

2010 70.4p

Adjusted profit before tax[2]

£363.4m +19%

2010 £304.4m

Total dividend for year

30.0p +15%

2010 26.0p

Profit before tax

£301.4m -2%

2010 £306.1m

Revenue, profit and earnings per share measures quoted above are based on continuing activities.

[1] before exceptional items (restructuring, acquired intangible amortisation, the reversal of economic hedge contract gains and in 2010 the UK employee benefit curtailment gain) totalling £59.9m (2010: £10.6m)

[2] before exceptional items (restructuring, acquired intangible amortisation, financial instruments and in 2010 the UK employee benefit curtailment gain) totalling £62.0m (2010: £1.7m credit) and including economic hedge contract gains and losses totalling £4.1m (2010: £2.7m)

[3] before the after tax cost of exceptional items totalling £57.9m (2010: profit of £0.5m)

AT-A-GLANCE

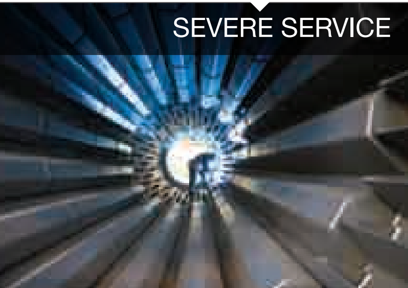
IMI plc is the ultimate holding company of the Group and has been listed on the London Stock Exchange since 1966. At 31 December 2011 it had a market value of £2.4bn and shareholders' funds of £565m.

15,700 employees* provide innovative knowledge-based engineering solutions for market-leading customers around the world. The Company's headquarters is at Lakeside, Birmingham Business Park, England. The trading activities of the IMI Group are conducted through subsidiary companies.

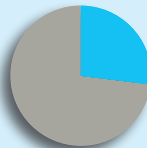
PLATFORM BUSINESSES

Segmental revenue | Segmental operating profit | Revenue by geographical destination

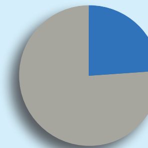
SEVERE SERVICE



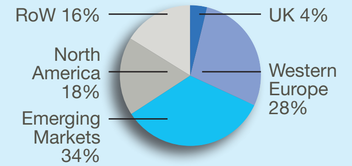
Controlling critical in-plant processes by providing superior custom-engineered severe service valve, actuation and control solutions.



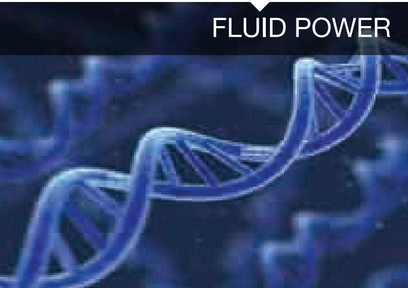
27% £572m



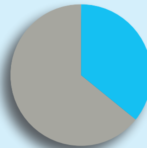
24% £88.9m



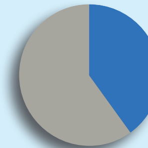
FLUID POWER



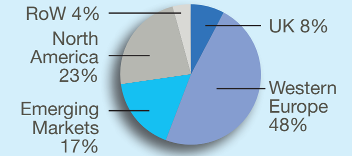
Engineering advantage in motion and fluid control applications.



36% £767m

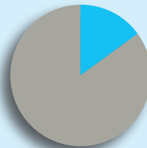


40% £150.5m

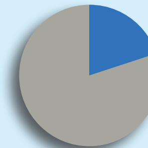


INDOOR CLIMATE

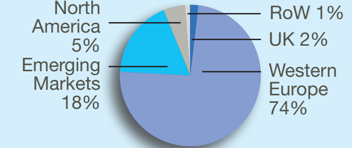
Perfecting indoor climate through the provision of critical energy-efficient valve solutions and related services for water-based heating and cooling systems.



14% £310m

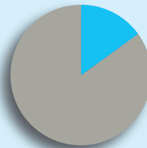


18% £68.2m

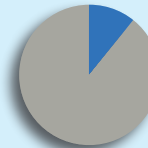


BEVERAGE DISPENSE

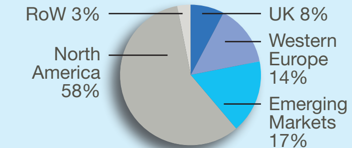
Supplying innovative beverage cooling and dispense solutions to brand owners and retailers around the world. Providing complete beverage and food service parts management solutions.



15% £317m

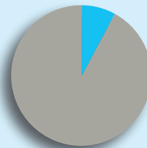


11% £41.1m

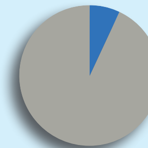


MERCHANDISING

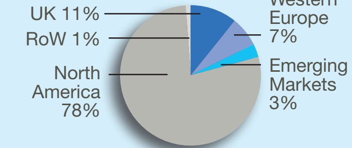
Providing permanent point of sale solutions and technologies that enhance retailer and brand owner profitability by driving impulse purchase.



8% £169m

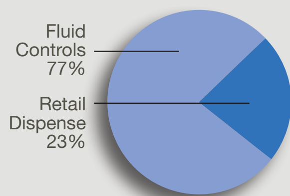


7% £25.4m

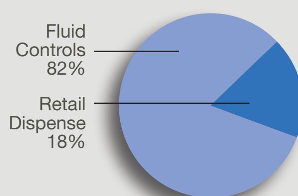


* As at 31 December 2011, including temporary agency and contractor staff and approximately 200 head office employees.

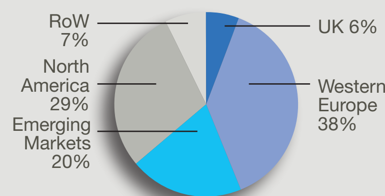
Group revenue
£2,131m



Segmental operating profit
£374.1m



Group revenue by
geographical destination



Factfile

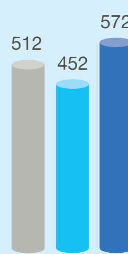
Segmental revenue £m | Segmental operating profit £m | Operating margin %

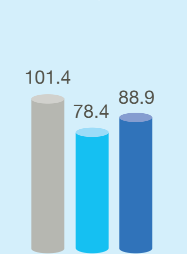
Key brands
CCI, BTG, IMI Nuclear, Orton, Truflo Rona, STI, Z&J, THJ

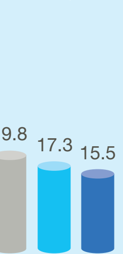
Main markets
Fossil and nuclear power generation; oil & gas production; combined heat & power (CHP); liquified natural gas (LNG); iron & steel; petrochemical and gas processing.

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

Employees 3,950







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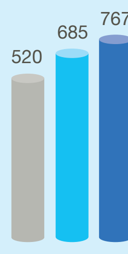
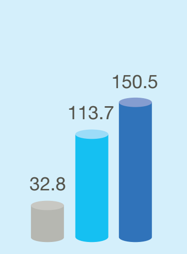
Key brands
Norgren, FAS, Kloehn, Herion, Buschjost, KIP

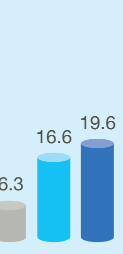
Main markets
Industrial pneumatic applications; commercial vehicles; food and beverage; life sciences; rail; energy.

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

Employees 6,300







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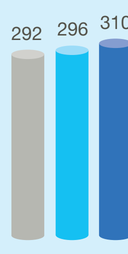
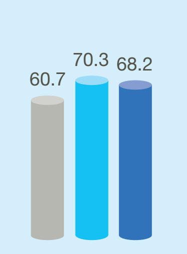
Key brands
TA Hydronics, Heimeier, Pneumatex, FDI

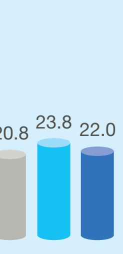
Main markets
Heating and cooling systems for commercial buildings and temperature control for residential buildings.

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

Employees 2,000







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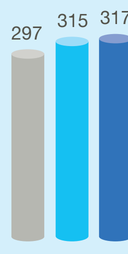
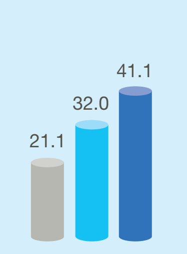
Key brands
Cornelius, 3Wire

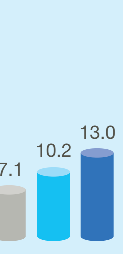
Main markets
Soft drinks, health and wellness drinks and alcoholic beverage cooling, dispense and point of sale equipment for bars, restaurants and retail outlets.

Major operational locations
USA, UK, Germany, Mexico and China.

Employees 2,200







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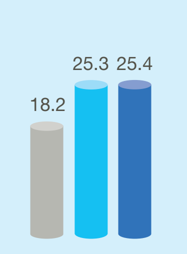
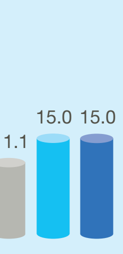
Key brands
Artform, Cannon Equipment, DCI Marketing, Display Technologies

Main markets
Global brand owners and retail sales outlets.

Major operational locations
USA and UK.

Employees 1,050





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OUR STRATEGY

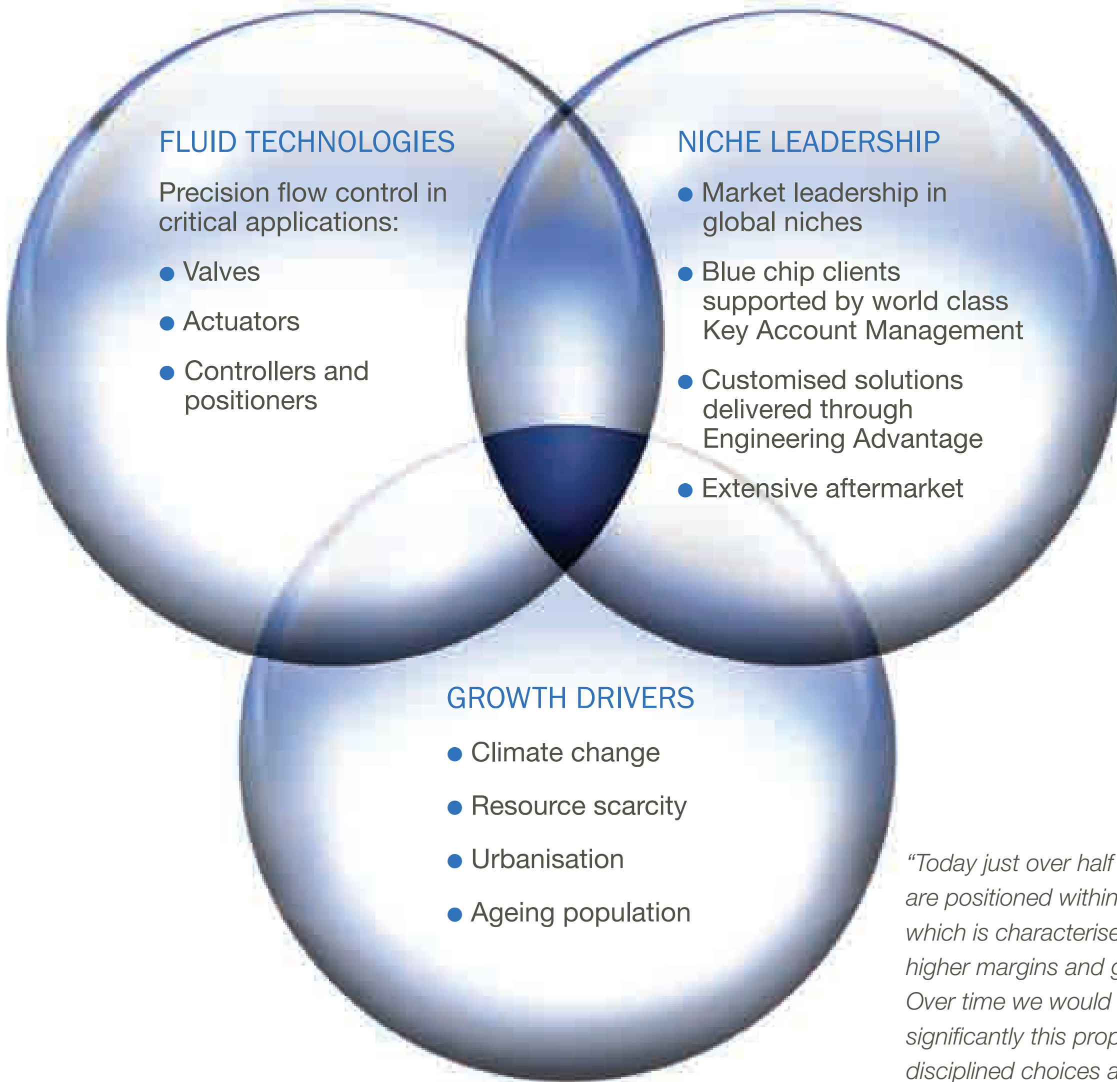
OUR MISSION

IMI's goal is to become one of the world's leading engineering companies in the global niche markets we serve and to be recognised for our innovation, applications expertise and global service.

Postioning ourselves for the future

We are seeking to concentrate a higher proportion of our business activities in our 'sweetspot' of operation – the area where we create the greatest value for our customers via product differentiation, where we can expect to enjoy clear market leadership, higher margins and greater exposure to long-term macro trends driving global growth.

STRATEGIC CONVERGENCE



"Today just over half of IMI's operations are positioned within the 'sweetspot' which is characterised by higher growth, higher margins and greater resilience. Over time we would expect to increase significantly this proportion through disciplined choices around customer selection, new product development and acquisitions."

Martin Lamb, Chief Executive,
1 March 2012

Customer advantage

IMI delivers customer advantage where we can deploy our highly differentiated technologies in targeted market niches where our core competencies in Key Account Management and Engineering Advantage can be leveraged to maximum effect. We are highly focused on customers whose own growth agenda is being driven by key global trends such as climate change, resource scarcity, urbanisation and an ageing population.

FLUID TECHNOLOGIES

Our highly engineered products provide precise and reliable control of fluids and gases, often in critical applications:

- Control circuit – valves to impede or isolate flow, actuators to control the stroke of the valves, and positioners / controllers for feedback and control
- Type of fluid – steam, gas, oxygen, air, reagents and water
- Operating parameters:
  - Operating pressures 0bar to 660bar
  - Operating temperatures -170°C to +1,600°C
  - Orifice sizes 0.5mm to 3.0m

NICHE LEADERSHIP

We seek leadership positions in clearly defined global niches where our competencies in Key Account Management and Engineering Advantage can be leveraged to maximum effect.

IMI's key market niches share certain characteristics:

- Niche global markets of no more than US$3-4 billion
- Market leading positions, typically with market share of over 25%
- Blue-chip customers with a clear appetite for innovative, differentiated and customised solutions
- Significant aftermarket

Our people are trained to establish close working relationships with our customers, develop genuine insight as to the key competitive and business issues facing the customer, and to translate that insight into innovative and highly bespoke products and solutions which deliver significant and measurable value.

In short, we deploy the very best practices of Key Account Management with technical know-how to deliver real Engineering Advantage for our customers.

GROWTH DRIVERS

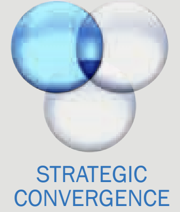
The global trends shaping our future and providing higher than average growth opportunities for IMI include:

- Climate change – solutions for cleaner energy (e.g. LNG and nuclear), improved energy efficiency and better environmental control
- Resource scarcity – process improvement and automation
- Urbanisation – building design and mass transit infrastructure in the emerging economies
- Ageing population – products to support healthier lifestyles and improved quality and longevity of life

FLUID TECHNOLOGIES

OUR KNOW-HOW

We deliver Engineering Advantage to our customers through the unique combination of engineering know-how and fluid controls technology. Throughout IMI, we invest in people and techniques to improve market understanding and customer insight. We listen and identify the issues facing our customers and then, most importantly, we apply our acquired know-how and our engineering capabilities to provide bespoke solutions delivering clear and measurable benefits.



STRATEGIC CONVERGENCE

STEAM, GAS, WATER

Zimmermann & Jansen have designed a new energy-saving Hot Blast Valve, which requires substantially less cooling water. 'Hot blast' is compressed air at very high temperatures. The valve is used as the shut-off valve between a stove and a blast furnace, with the flow of the 'hot blast' being shut-off by the valve disc.

The Hot Blast Valve, which can weigh up to 41,000 kgs, is manufactured with a refractory lining and special insulation of the body passage, all internal walls and the disc. Only the metallic sealing seats of the body and disc, which are exposed to the hot blast, are water cooled.

Platform business: Severe Service
Product name: Hot Blast Valve DN 2200 / 2900 L 800
Orifice range: 150mm to 3,000mm
Temperature max: 1,600°C
Pressure max: 87PSI

WATER

TA Hydronics have produced the first in-line differential pressure controller with integrated pilot operation and adjustable set-point. It is used for heating and cooling systems and is particularly effective in situations experiencing high temperatures and/or pressure drops.

Larger buildings, such as offices or hospitals, have complicated heating and cooling systems and require more accurate techniques. To obtain the correct design flows, TA Hydronics design systems to include balancing valves and differential pressure controllers. Balancing valves allow the measurement of differential pressures which can be used to calculate a flow. Differential pressure controllers control the pressures in the installation, simplify balancing procedures and enable the installation to be more precisely controlled.

Platform business: Indoor Climate
Product name: Differential pressure controller DA516 DN150
Water orifice: 150mm
Temperature range: -10°C to 150°C
Differential pressure max: 232PSI

From 3m orifice size and 660bar pressure...

The key to our success is in retaining people and knowledge, and creating a network of experts who can be called upon to engineer solutions specific to our customers' requirements.

Our five platform businesses all have unique ways of engineering advantage; Severe Service have their Valve Doctors, Fluid Power and Indoor Climate have the Norgren University and Hydronic College respectively, whilst Beverage Dispense rely on their industry-recognised experts and Merchandising lead the way with their Retail Science methodology.

SYRUP, WATER, CO_2

The Cornelius proportional flow control valve is designed to precisely control the ratio of syrup to water for carbonated or still beverages.

The valve technology performs the following key control functions:

- Isolates fluids and actuates flow as required in the application
- Once actuated, the valve controls the flow of the fluid in an open loop by modulating flow area in proportion to the pressure drop across the valve. This modulation is achieved by a precision ceramic piston that slides linearly in a precision ceramic sleeve in response to input pressure changes.

In doing this, the valve maintains flow accuracy of +/- 2.5% from set points and helps control key consumer-centric parameters such as taste and visual appearance.

Platform business: Beverage Dispense
Product name: Grappa UFB/1
Water orifice: 3mm to 5mm Syrup orifice: 1mm to 2.5mm
Temperature range: 1°C to 41°C
Pressure range: 20PSI to 120PSI

AIR, OXYGEN, EXHAUST GAS, REAGENT

The FAS Chipsol series valves are miniature solenoid valves for applications that require low energy consumption, a compact solution and superior performance.

The Chipsol is a flexible product and is ideal for deployment in applications that need to control medical micro or pneumatic devices, ranging from respirators and diving equipment, to fragrance dispensers, to pick and place distribution machinery.

They are incredibly complex due to their small size, small stroke and tolerances of less than 0.01mm on elastomer parts. They are produced using a metal injection moulding process, and have a patented, long-life, cartridge design.

The Chipsol series could be used as either a valve to control the media directly, such as the dispense of medical gases or gas dosing manifolds, or as an actuator to the pilot distributor or pressure regulator.

Platform business: Fluid Power
Product name: FAS Chipsol
Orifice range: 0.5mm to 1.0mm
Temperature range: 1°C to 50°C
Pressure range: 1PSI to 115PSI

to 0.5mm orifice size and 0bar pressure.

NICHE LEADERSHIP

OUR PEOPLE

We concentrate on global niche markets where we already hold, or can achieve, a market leadership position and where we can clearly differentiate ourselves from our competitors with end-user insight and application of innovative technology. The disciplines of Key Account Management and

MARKET LEADERSHIP IN GLOBAL NICHES

We are focused on working with industry or sector leading customers in global niche markets who have good exposure to the key global trends which are driving growth. We currently operate in around 40 niche markets globally across our businesses, where in many cases we benefit from being market leaders through our innovative bespoke customer solutions.

TA Hydronics have demonstrated their market leadership in such niche markets by setting up the Hydronic College. Gilbert Gremont, who is responsible for knowledge and training in France, has developed a range of training courses covering all aspects of hydronics. The internal training ensures continuous improvement and that we remain leaders within the industry.

The external programme allows us to educate (amongst others) our customers and stakeholders; installers, consultants, contractors, commissioners and developers. We help them to solve their specific problems in respect of complex indoor comfort requirements, whilst addressing global issues such as energy efficiency. Our seminar programme covers a wide range of topics including our core hydronic competencies; pressurisation and water quality, balancing and control, and thermostatic control. Over the last three years more than 160,000 people have participated globally.

Gilbert Gremont, Knowledge and Training Manager, France, TA Hydronics

KEY ACCOUNT MANAGEMENT

World class Key Account Management (KAM) and project management are important disciplines for the effective delivery of bespoke solutions to our customers. We focus on the key elements of the IMI KAM model, including customer / segment selection and end market drivers, Engineering Advantage through ideation and innovation, capturing value through pricing and negotiation, and delivering sustainable results by first class execution.

Lucy McQuillan is the Key Account Director for the IMI Group and in this role drives profitable growth through best practice approaches to KAM. Previously, as the Global Vice President of Yum! Brands Account with Cornelius, Lucy helped to broaden the offer into new categories of more profitable beverages directly as a result of the customer's need to expand their menu offering.

Applying the insights of profitable category development with the customer's application, such as labour utilisation and speed of service, has consistently delivered unique differentiated products for both the customer and IMI.

Lucy McQuillan, Key Account Director, IMI

Engineering Advantage are central to achieving this aim. IMI is increasing its investment in these two key areas to underpin the Group's aspirations of accelerating top line growth and delivering further margin improvement. We also target markets where we can provide aftermarket support in the form of service and spares to our customers' installed product base.

ENGINEERING ADVANTAGE

IMI converts industry knowledge and market insight into design-engineered solutions, which creates competitive advantage for our customers. We call this Engineering Advantage.

We deliver Engineering Advantage to our customers through the unique combination of engineering know-how and fluid controls technology. We focus on solving our customers' problems, enabling them to operate faster, more efficiently and more cost effectively.

Mark Sealy, Global Engineering Director for Norgren's Commercial Vehicle (CV) Sector, is responsible for defining product strategy and co-ordinating technology development across the seven Norgren sites that comprise our international CV business. Increasingly, his team is stepping up from delivering components, to developing bespoke modules and complete systems to OEMs all over the world, helping them to meet emissions legislation and improve vehicle performance.

Our Engineering Advantage comes from responding quickly to new opportunities through creative solutions, often leveraging proven elements from different business units. We specialise in precise fluid and motion control products which are fit for purpose, in the hostile environments on trucks.

Mark Sealy, Director, Commercial Vehicle Sector, Norgren

AFTERMARKET

We have developed an agile service business that provides maximum flexibility across the niche markets we serve. Our global footprint is expanding in order to support customer demands in the emerging markets.

Across the Group, many of our businesses are unique in the industry for our direct sales approach and dedicated support for customers worldwide. We will continue to find innovative ways to provide even greater aftermarket support for our customers.

The North American aftermarket group is responsible for supporting approximately 10,000 CCI valves installed at roughly 1,000 sites. The aftermarket group consists of sales teams, engineering support, repair capabilities, a dedicated cross-functional operations team and a field-service support team dedicated to proactively delivering custom aftermarket solutions to our customers. Recently, a US electricity company turned to CCI for some spare valve parts for a new generation unit. Working together, the aftermarket team delivered over 60 parts in just three weeks (normally 12) so that the plant could be commissioned on the designated start-up date.

Nengi Krukrubo, Senior Manager, Operations, CCI
Steve Martens, Director of North America Aftermarket, CCI

GROWTH DRIVERS

OUR INSIGHTS

We have identified a set of mega trends that will impact on our business and markets over the coming years: climate change, resource scarcity, urbanisation and ageing population. Our products and services are ideally positioned to respond to these key environmental and demographic trends that are shaping the future.

Integrating these trends, or growth drivers, into our business strategy has enabled us to identify a set of new product opportunities; meeting the energy challenge will require alternative solutions that rely on highly engineered bespoke

CLIMATE CHANGE CASE STUDY: BEVERAGE DISPENSE

CORNELIUS HELPS CUSTOMER WITH SUSTAINABILITY COMMITMENT

IMI Company: Cornelius
Customer: The Kroger Co.
Location: USA

Requirement

The Kroger Co. is one of the largest US grocery retailers. Sustainability is an integral part of their business and is embedded in the company's core values and mission.

A key new concept was introduced in 2010 to increase revenue, whereby an area at the front of a select number of stores was designated for a convenience-store (C-store) concept, including a retail food service area and fountain and frozen beverage dispense sections.

Consequently, The Kroger Co. needed a sustainable frozen dispenser solution with high performance and reliability, and which was in line with their legacy in sustainability leadership, to include in their new C-store outlets.

Solution

The Kroger Co. chose Cornelius' high quality, reliable, Viper Frozen Carbonated Beverage (FCB) machine, which has a patented energy saving design resulting in an average saving of 25% compared with traditional FCB equipment.

Cornelius applied its expertise to create Viper's efficient refrigeration design, compressor technology and novel adaptive Intelligent Defrost™ feature which allows maximum uptime, and reduces wear on components. Additionally, Cornelius' experience in valve technology ensures Viper properly mixes the syrup and water to directly reduce the number of refrigeration system cycles required to keep the product frozen.

Viper's LED lighting provides seven times the life expectancy of fluorescent bulbs which reduces its carbon footprint, and also eliminates waste and disposal fees. The insulating foam is environmentally friendly with zero Global Warming Potential (GWP) and zero Ozone Depleting Potential (ODP). All of Viper's electronics are compliant with the RoHS directive (Reduction of Hazardous Substances).

Viper FCB machine

technology, the development of mega cities will require energy-efficient building solutions, and the development of new transportation networks will require technology that meets stringent legislation.

All our platform businesses continue to focus on Engineering Advantage to deliver sustainable solutions whilst also limiting the impact our operations have on local communities and the environment.

STRATEGIC CONVERGENCE

RESOURCE SCARCITY CASE STUDY: SEVERE SERVICE

CCI IMPROVES PERFORMANCE AND REDUCES NOISE LEVELS AT SEA

IMI Company: CCI
Customer: Statoil
Location: Norwegian North Sea

Requirement

Statoil owns two oil and gas platforms in the Snorre field in the Norwegian North Sea. The Snorre B inlet gas separator pressure control system is used intermittently each month for periods ranging from as little as five minutes to as long as five hours. The control valve within the system regulates the transfer of fluid to a buffer tank. If the pressure within the tank rises above a set point, the system evacuates the gas.

When the gas separator pressure control system onboard Snorre B began experiencing excessive noise and higher than expected use, Statoil turned to CCI to evaluate the process and equipment. Referred to as the "organ" by platform employees, the existing valve's inadequate flow control created very high noise levels in excess of 130 decibels - louder than a 747 aeroplane. Additionally, the valve leakage and extensive production losses were causing frequent shutdowns.

Solution

The CCI Valve Doctors™ recommended a more advanced severe service valve to significantly reduce the noise and vibration. The custom-built 34-stage 100D control valve boasts a high flow 10" stroke. Offering one of the lowest outlet energies in the industry, the 100D is capable of achieving noise levels as low as 85 decibels - levels similar to that heard inside a car.

Employing CCI's patented DRAG® technology, the 100D incorporates experience and expertise drawn from over 40 years of preventing the development of high fluid velocities across all valve settings in multiple industries. By incorporating multiple disk stacks featuring varying numbers of pressure reducing stages, CCI DRAG® valves offer superior control that improves plant performance, prevents vibration damage, eliminates excessive noise and reduces maintenance and operational costs.

CCI's DRAG® technology solution

GROWTH DRIVERS

URBANISATION CASE STUDY: INDOOR CLIMATE

INNOVATIVE COOLING SYSTEM SOLUTION CUTS ENERGY CONSUMPTION BY 17% FOR SALVADOR'S NEWEST SHOPPING CENTRE

IMI Company: TA Hydronics
Customer: Grupo JCPM (Owner)
Interplan (HVAC Consultant)
Location: Salvador, Bahia, Brazil

Requirement

The Salvador Norte Shopping Centre in Salvador, Brazil, covers a total area of 107,000m^2, and spreads over four levels creating space for 229 shops.

From the project outset, energy efficiency through the use of state-of-the-art cooling technology, and a total system solution, were defined as key requirements for this new shopping complex. Key features of the cooling system included the use of thermal energy, decoupling of cooling and dehumidification processes, and the local production of cooling energy to avoid energy loss during transportation. All features are aimed at achieving optimum energy efficiency.

Following successful co-operation on previous projects with both the developer and the cooling system designer, TA Hydronics was involved right from the very beginning.

Solution

In the early design phase TA Hydronics supported the choice of design principles and cooling system technology, and was involved in hydronic calculations and component specification until project completion.

The required key features were implemented in TA Hydronics' system solution using products such as the Compresso to ensure a well pressurised system, and the STAD valve to provide accurate hydronic balancing. They not only help to meet the energy efficiency targets, but also provide the building's tenants with an accurate and controllable room temperature and offer visitors a comfortable shopping experience.

Salvador Norte Shopping Centre is the first building in Brazil to be awarded the "Procel Edifica", Brazil's classification scheme to evaluate energy efficiency in buildings, and it received an "A" rating!

Compresso precision pressurisation system

STAD valve for accurate hydronic balancing

AGEING POPULATION CASE STUDY: FLUID POWER

NORGREN SAVES MEDICAL MANUFACTURER TIME AND MONEY WITH NEW INTEGRATED VENTILATOR COMPONENT

IMI Company: Norgren
Customer: Shenzhen, Mindray Electronic Co. Ltd
Location: China

Requirement

Shenzhen Mindray Electronic Co. Ltd is a developer, manufacturer and exporter of medical devices for patient monitoring, diagnostics and ultrasound imaging systems. They required a pre-assembled regulator to control the inlet gas for a ventilator, which had to meet stringent dimensional requirements and critical performance specifications.

The regulator is at the core of the precise control of medical level gas for the ventilator, including the inlet pressure control, flow control and pressure monitoring to deliver a clean, safe, and stable flow of air and oxygen to the patient.

The unit had to be compatible with both the upstream and downstream pneumatic and electronic circuit of the ventilator, and make the machine more compact and power efficient. It also had to be user friendly, and easy to set up and test.

Solution

The customised Engineering Advantage solution was developed between the Mindray Research and Development team and the Norgren Asia Technical Centre (ATC). The Norgren ATC produced a fully integrated pneumatic sub-module in a compact size, with Norgren's cartridge components, including proportional valves and high precision regulators.

The Norgren regulator manifold can be installed directly into the ventilator - it is real plug and play. Each of the components, and the fully assembled regulators, are 100% pre-tested before they are delivered to the customer.

With the Norgren solution, the ventilator is 15% lighter and 20% smaller, making it much more portable and convenient. This solution also saves approximately 60% in assembly time, and 10% in cost, which is allowing Mindray to rapidly supply more ventilators across China, and the world, as the need grows for use with life support systems, due to the world's ageing population.

A0907 regulator manifold for ventilator

OUR PERFORMANCE

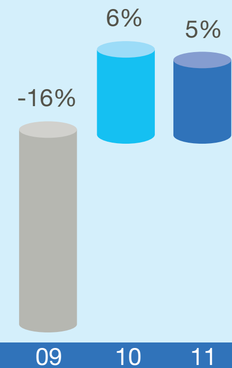
BUSINESS PERFORMANCE IS MEASURED AGAINST FIVE ELEMENTS OF OUR STRATEGY, THROUGH GROUPWIDE TARGETS AND IMPROVEMENT MEASURES.

Each business unit of IMI participates in an annual round of planning meetings with the Executive Committee of the Board, during which performance and future plans for that business are reviewed and updated. These business plans are all aligned with the Group business strategy and include specific local, regional and sector targets and Key Performance Indicators (KPIs) which measure business performance.

In addition, individual business reviews take place on a regular basis enabling the Board to review performance against tactical and strategic milestones and most importantly allowing informed decisions to be taken at each level of the organisation.

ORGANIC REVENUE GROWTH

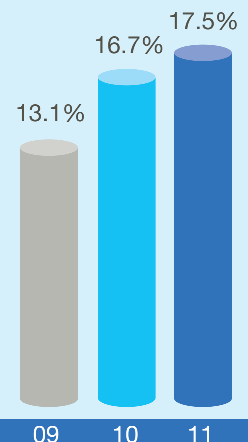
Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2011, the Group's revenue grew by 5% on an organic basis reflecting positive progress in most areas of the business despite an uncertain macro-economic environment.



OPERATING MARGINS

Operating margins are defined as the ratio of segmental operating profit as a percentage of segmental revenues. IMI has a strong track record of improving margins over the last decade. In March 2011, we raised our long-term objective for operating margins to 20% for each of our Fluid Controls businesses whilst retaining a 15% target for each of our Retail Dispense businesses.

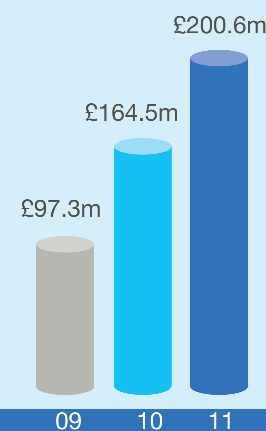
In 2011, we made good progress towards these targets with the Fluid Controls businesses achieving a margin of 18.7% (2010: 18.3%) and the Retail Dispense businesses a margin of 13.7% (2010: 11.8%). Overall, Group operating margins rose to 17.5% from 16.7% in 2010.



ECONOMIC VALUE ADDED

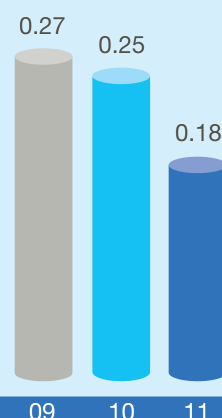
Economic value added (EVA) is defined as the segmental operating profit after tax less a capital charge. The capital charge is arrived at by applying the Group's after tax weighted average cost of capital of 8% to the average invested capital. Invested capital is net assets plus net debt and the IAS19 pension deficit (net of deferred tax), excluding exceptional items in the balance sheet (being restructuring provisions, net derivative liabilities and Severe Service investigation costs).

The 2011 EVA was £200.6m which is an increase of 22% over 2010.



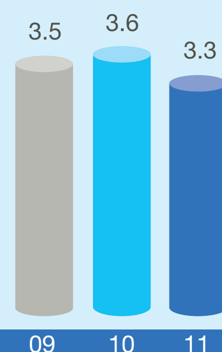
LOST TIME ACCIDENT RATES

The Group takes seriously its responsibility for the safety of all employees, contractors and visitors. Our three-day lost time accident (LTA) rate improved by 28% in 2011 to 0.18 accidents per 100,000 hours worked from 0.25 in 2010. This is ahead of our current health and safety target of no more than 0.22 accidents per 100,000 hours worked by 2012. Whilst we are proud of our achievements which enabled this improvement, we are maintaining the 2012 target of 0.22, recognising the importance of demonstrating this higher level of performance on a sustainable basis.



CO_2 EMISSIONS

Our CO_2 emissions in 2011 amounted to approximately 92,000 tonnes, a fall of 5% on last year (2010: 97,000 tonnes). Normalised against hours worked, our performance improved to 3.3 CO_2 tonnes/1,000 hours worked (2010: 3.6 CO_2 tonnes/1,000 hours worked). This resulted from a range of good initiatives across the Group including Project 20:20, where we identified 20 best practice projects to implement across our top 20 energy-using sites. We are now on track to meet our target to reduce this KPI to no more than 3.2 CO_2 tonnes/1,000 hours worked by 2012.



CHAIRMAN'S STATEMENT

CONFIDENCE IN THE FUTURE PROSPECTS OF THE GROUP LEAD THE BOARD TO RECOMMEND THAT THE FINAL DIVIDEND BE INCREASED BY 12% TO 19.0p. THIS MAKES A TOTAL DIVIDEND FOR THE YEAR OF 30.0p, AN INCREASE OF 15% OVER LAST YEAR'S 26.0p.

In my first set of results since taking over as Chairman in November, I am pleased to report a strong performance by IMI in 2011 with good organic growth and further margin improvement. Group revenues grew by 12% on a reported basis and by 5% on an organic basis, after adjusting for recent acquisitions and for exchange rate movements, reflecting improved trading conditions in most of our end markets. Segmental operating profit increased by 17% and the operating margin improved from 16.7% to 17.5%. Adjusted earnings per share increased by 23% to a record 81.5p.

These results together with our strong performance on cash conversion and confidence in the future prospects of the Group lead the Board to recommend that the final dividend be increased by 12% to 19.0p. This makes a total dividend for the year of 30.0p, an increase of 15% over last year's 26.0p.

Collectively, our three Fluid Controls businesses performed well, with a particularly strong performance by Fluid Power. Severe Service margins were impacted by an adverse sales mix and some operational challenges associated with the move to lower cost facilities. Overall, on an organic basis, Fluid Controls revenues grew by 6% with operating margins increasing to 18.7% from 18.3% last year.

In Retail Dispense, both Beverage Dispense and Merchandising continued to focus on improving the product mix and the quality of their businesses. Revenues grew by 3% on an organic basis despite the continued targeted exit from some lower margin product lines in the Beverage business. Operating margins have again benefited from this improving mix, increasing to 13.7% from 11.8% last year.

The IMI Way is our code of responsible business which targets the very highest standards of ethical business and compliance. The Group has been reinforcing the core values and messages of the IMI Way with regular training since its launch in 2009. In 2011, each of our main businesses held IMI Way days where, as well as receiving targeted training, employees engaged in a number of worthwhile projects in their local communities. In 2012, we have planned a single IMI Way day for the whole Group, encompassing over 15,000 employees.

I should like to recognise Norman Askew, who retired as Chairman of the Board on 1 November 2011. Norman led the Board for over six years, during which time IMI made great progress in its development into a leading global engineering business, with a clear focus on the precise control of fluids in critical applications. I would personally like to thank Norman for his major contribution to the Group and the invaluable help he provided me during the succession period.

We were pleased to announce in May 2011 that Sean Toomes, President of Indoor Climate, had been promoted to the Board and assumed the important additional responsibilities for developing IMI's key account management strategy and corporate responsibility agenda.

Since joining the Board I have had the opportunity to visit many of IMI's operations. I have been extremely impressed by the skills, expertise and energy displayed by my colleagues across the world and I am grateful for their continued efforts and enthusiasm in helping to deliver this year's strong results. We continue to invest in our people and have once again this year conducted an employee engagement survey to ensure that we continue to provide a

Roberto Quarta Chairman

working environment that allows them to contribute to their full potential.

IMI is a strong company, with market leading technology in many of its global niche markets. I believe that we are well placed for the future with a clearly defined strategy which should deliver further sustainable margin improvement and long term growth, notably through the acceleration of our new product agenda and increased exposure to the faster growing emerging markets.

Roberto Quarta
Chairman
1 March 2012

CHIEF EXECUTIVE'S REVIEW

2011 WAS ANOTHER YEAR OF GOOD PROGRESS FOR IMI, WITH ORGANIC REVENUE GROWTH OF OVER 5%, RECORD OPERATING MARGINS OF 17.5% AND ENCOURAGING DEVELOPMENTS ACROSS MOST AREAS OF THE GROUP.

Against a macro-economic background where uncertainty increased markedly in the second half, the results reflect the continued benefits that are being derived from the fundamental reshaping of the Group over the last decade. The consistency of approach has delivered a significant and sustainable improvement in the underlying quality and profitability of the Group.

The macro-economic environment remains uncertain with limited GDP growth forecast in developed Western economies in the medium term and with global growth being propelled largely through emerging economies. Within this context current trading patterns have nevertheless remained stable as we enter 2012, with no material changes in trends witnessed over the last few months.

We remain committed to our three pronged strategy of gradually increasing each year the proportion of our business in our favoured end market niches ('Strategic Convergence'); accelerating our growth through increased investment in new products and emerging markets; and maintaining a long established upward trend in margins through a process of pricing optimisation and year on year reductions in our manufacturing and supply chain costs.

Strategic convergence

During the year we continued to develop our long term thinking around strategic convergence, providing a route map for gradually increasing the percentage of our revenues in our sweetspot. For IMI, strategic convergence means prioritising both organic and acquisition investment in favour of differentiated fluid technologies, applied to global market niches where we already have, or can aspire to, a leadership position, and which benefit from a heightened exposure to attractive market trends. These trends include climate change, resource scarcity, urbanisation and an ageing population. We believe these trends are set to be with us for generations, surviving economic cycles and our increasing exposure to them will deliver a significantly higher level of growth over the long term.

Today just over half of IMI's operations are positioned within the sweetspot which is characterised by higher growth, higher margins and greater resilience.

Over time we would expect to increase significantly this proportion through disciplined choices around customer selection, new product development and acquisitions. To support this objective, each of our platform businesses has made an assessment of the current strategic sweetspot positioning, and has developed a set of plans for increasing convergence over the next few years.

Growth acceleration

Against the background of global macro-economic uncertainty with limited market growth expected in Western economies, IMI needs to allocate its resources carefully to drive future growth. In particular, we will focus on three principal areas:

- Acceleration of new product activity with the prioritisation of product applications with high exposure to favourable mega trends and to emerging markets.
- Significant expansion of our emerging markets presence, through accelerated investment in sales and engineering resource in the key targeted territories.
- Supplementing our organic initiatives through an active acquisition programme, prioritising businesses with high sweetspot exposure and a strong emerging markets presence. In this regard we were pleased to announce two Severe Service acquisitions, Remosa SpA and Grupo InterAtiva, in February 2012. These businesses significantly strengthen our isolation valve capabilities and our emerging market exposure, notably in South America. We retain a strong balance sheet and have a number of additional acquisition opportunities in the pipeline.

Margin sustainability

Funding for our increased investment in growth will be met through a continuation of our ongoing initiatives to improve margins which remains therefore a key focus for us. As we highlighted in the interim results we have built up a strong track record over many years of delivering price and value benefits comfortably in excess of any labour cost and supply chain inflation, the so called "inflation equation", irrespective of the macro-economic circumstances.

Martin Lamb Chief Executive

Looking forward we expect to continue winning the "inflation equation" over time through optimising prices, driving down supply chain costs and delivering substantial productivity gains. In addition, our long term programmes to move more manufacturing and procurement to lower cost countries is continuing and we are gaining traction on our initiatives around supplier rationalisation and value engineering.

Outlook

IMI has delivered another strong set of results in 2011 with good growth and record underlying profits, margins and earnings. In light of this performance, and our confidence in the future prospects for the business, we are pleased to propose an increase in the full year dividend of 15%.

Whilst the global macro-economic outlook remains uncertain, we are committed to our well defined plans to drive strategic convergence, accelerate future growth, deliver further margin improvement and make greater use of our strong balance sheet in delivering value enhancing acquisitions.

Based on current market conditions we remain optimistic that the Group will make further progress in 2012.

Martin Lamb
Chief Executive
1 March 2012

OUR FIVE PLATFORM BUSINESSES

FLUID CONTROLS

Severe Service

Our Severe Service business delivered revenue growth of 27% including the results of Zimmermann & Jansen (Z&J) and TH Jansen (THJ) since acquisition. Organic revenue increased 2% for the full year, reflecting a stronger second half performance with organic growth of 5%.

Shipments of valves continued to be strong into liquefied natural gas (LNG) applications, offsetting the weaker performance in the Fossil Power sector resulting from the softer order intake in the second half of 2010, and in Nuclear, where activity levels have been affected since the incident in Japan in March 2011.

Total order intake for Severe Service was up 2% for the year and the order book ended the year 16% higher than at the start of the year as order intake once again outpaced shipments. As previously indicated, margins were impacted by a combination of lower new valve margins, notably in the Nuclear sector, a less favourable aftermarket mix and higher operational costs in our new facility in Brno. Overall margins for the year were 15.5% compared to 17.3% in 2010.

Z&J performed well with both order intake and shipments showing good growth for the full year. We were pleased to announce the acquisition of THJ on 17 October 2011 for an enterprise value of £15.0m. THJ is highly complementary to Z&J and will significantly enhance Z&J's capabilities as a leading global provider of custom engineered valve, actuation and control solutions for critical in-plant processes in the Iron & Steel sector. The acquisitions of Remosa SpA and Grupo InterAtiva in February 2012 significantly strengthen our isolation valve capabilities and our emerging market exposure.

The strong order book at the year-end gives us confidence that the business will demonstrate good revenue growth in 2012. Margins in the first half of 2012 are expected to be at similar levels to the second half of 2011. Margins should improve in the second half with higher new valve margins and operational improvements at our facility in Brno.

Fluid Power

Fluid Power continued to perform strongly with end markets holding up well despite macro-economic uncertainty increasing as the year progressed. Whilst organic growth in revenues slowed to 6% in the second half of the year against tougher 2010 comparators, organic growth for the full year was 11%.

We have continued to see good momentum in our key global sector business, which focuses on bespoke solutions for key original equipment manufacturer (OEM) customers in global niche markets. This grew at 14% in the full year, compared to 9% for the rest of the Fluid Power business. Of the five key global sectors Commercial Vehicles, Energy and Rail grew strongly up 31%, 14% and 9% respectively with Life Sciences and Food & Beverage broadly unchanged. Overall our targeted sectors now represent 43% of total Fluid Power revenues.

Our internet, phone and catalogue based aftermarket solution, Norgren Express, continued to perform well, up nearly 10% globally, as we leveraged the proven business model in Europe across the wider Norgren global business. North America, in particular, showed strong growth with a number of initiatives to support the aftermarket including a new US webstore.

The business has continued to focus on margin improvement with ongoing programmes to transfer more manufacturing to low cost sites in China, the Czech Republic and Mexico, to optimise pricing, to drive new product development and to deliver further savings from value engineering and supplier rationalisation. This has resulted in a further improvement in margins with full year margins of 19.6% and margins in the second half reaching our new 20% objective for the first time.

We have again surveyed our key customers across all our markets to gauge their views on the demand outlook for 2012. Within the Commercial Vehicle sector we expect to see further weakening in Europe, partially offset by improved demand in North America. In Fluid Power markets more generally, demand in Europe would appear to have stabilised at levels similar to last year whilst customers are indicating reasonable growth in North America and good growth in Asia Pacific. Based on this and current demand patterns we expect the business to show some growth in 2012 with the potential for further progress on margins.

Indoor Climate

Indoor Climate revenues were up 2% on an organic basis for the full year with good growth in the first half offset by a weaker second half performance, which was impacted by wholesaler destocking and warmer weather across Europe during the important autumn heating season.

RETAIL DISPENSE

BEVERAGE DISPENSE

MERCHANDISING

The new construction market in Europe remained very subdued and performance continued to be underpinned by good refurbishment activity levels. Overall, refurbishment activity represented more than two thirds of sales in the year, reflecting the drive to improve energy efficiency within existing buildings to comply with ever more stringent legislation.

In line with IMI's aim to accelerate future growth, we increased investment in a number of key areas during the year. We continued to invest in educating the market to help drive demand for our energy efficient products and solutions with around 83,000 customers attending one of our seminars during the year with particular focus on North America, Germany and China. This is an increase of 25% on 2010. We also invested in a number of centres designed to demonstrate hydronic control to our customers and recruited 50 more hydronic sales engineers. During the year we have also made good progress in developing our new range of balancing and control valves which will expand our overall market opportunity.

Operating margins in the second half of 23.8% were broadly in line with the underlying margins achieved in the second half of the prior year. Full year margins were 22.0%, down from the 23.8% achieved in 2010. We were successful in recovering higher input costs and offsetting the impact of exchange rate movements on our businesses in Sweden and Switzerland which affected the first half margin performance.

Underlying new construction markets in Europe are expected to remain weak in 2012 and we are continuing to focus our efforts on refurbishment activity, growing the business in emerging markets and on new product development. The ongoing drive for improved energy efficiency positions us well for accelerating growth over time.

Beverage Dispense

Beverage Dispense continued to perform well during the year with overall organic revenue growth of 3% on 2010. We continued to exit a number of older, more commoditised, lower margin product lines which accounted for over 4% of revenue indicating an underlying organic growth of around 7% for the full year.

The strongest markets were in the Americas where revenues grew by 10%. This helped to offset more challenging market conditions in Europe and in Asia Pacific, where we continued to see lower levels of capital investment by the major brand owners, particularly in China.

We remain focused on improving the quality of the product mix in the business, accelerating growth of higher margin new products for dispensing healthier and indulgence beverages such as smoothies, water, juice and frozen beverages whilst continuing the product exits noted above. This continued focus delivered a 28% increase in operating profit to £41.1m and resulted in another strong uplift in returns with an overall operating margin for the year of 13.0% (2010: 10.2%). It is expected that margins will continue to improve in 2012 based on new product contributions, pricing optimisation, cost management initiatives and further low margin product exits.

Whilst North America continues to show signs of some improvement, European markets are likely to remain subdued in 2012. There are a number of major new product development opportunities which have the potential, in time, to both accelerate our growth and further enhance our margins.

Merchandising

Overall organic growth for the year was 3%. As expected, after strong growth in the first half, the second half was lower mainly due to the large automotive project that shipped in the second half of 2010. During the year we saw good growth in our cosmetics business and also won a number of major cosmetics contracts in Europe which will ship over the next two to three years. Our food and beverage business also performed well and the automotive sector, which whilst modestly down reflecting the aforementioned large contract, continues to show signs of improvement with dealers once again investing in their showrooms.

During the year we opened the InVision retail science laboratory in Milwaukee, US. This enables us to demonstrate to customers how we can deliver a sales uplift of their most profitable products in a state of the art facility using the latest immersive 3D technology. A number of customers have visited the site, feedback to date has been very positive and new product opportunities have emerged as a result.

Operating margins were sustained at last year's record levels. Whilst 2012 is likely to be a year of further consolidation with revenues and margins unchanged from 2011, the Group continues to focus on improving the overall quality of the business by targeting higher margin project opportunities.

FINANCIAL REVIEW

THE GROUP'S SEGMENTAL OPERATING PROFIT MARGIN WAS 17.5%, COMPARED TO 16.7% IN 2010. IN THE TRADITIONALLY STRONGER SECOND HALF, THE GROUP DELIVERED AN OPERATING MARGIN OF 18.0% (2010 H2: 17.6%). THE SEGMENTAL OPERATING PROFIT WAS UP 17.0% AT £374.1M (2010: £319.7M).

With effect from 1 January 2011, the Group has implemented the amendments to IAS24 *'Related Party Disclosures'*, IAS32 *'Financial Instruments: Presentation'* and IFRIC14 *'IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction'*. The amendments do not have a material impact on the financial statements. Following the finalisation of the goodwill relating to the Zimmermann and Jansen (Z&J) acquisition on 31 December 2010, the prior period balance sheet has been restated and full details of this restatement are included in the notes to the consolidated financial statements. The cash flow statement has also been restated to show settlement of currency derivatives hedging balance sheet as an investing activity. This was previously recognised as a currency fluctuation.

In all other respects, these financial statements have been prepared on a consistent basis using the accounting policies set out in the IMI Annual Report and financial statements for the year ended 31 December 2010.

On 17 February 2012, the Group acquired Grupo InterAtiva (InterAtiva), a Brazilian isolation valve business located in Sorocaba, near Sao Paolo, from its founding partners for an initial cash consideration of £22m and contingent consideration up to a maximum of £21.2m to be paid based on its performance over the next three years. The consideration is being funded out of IMI's existing resources and banking facilities. In the 2011 calendar year, InterAtiva's unaudited sales were £12m and underlying EBITDA was £3m. All of the 2011 sales were in the fast-growing South American markets.

On 16 February 2012, the Group acquired Remosa SpA and related companies (collectively Remosa), a leading engineering business specialising in valves and related flow control products for severe applications, primarily in the petrochemical market, for an enterprise value of approximately £84.7m (€100m), being cash consideration of £69.8m (€82.4m) and debt assumed of approximately £14.9m (€17.6m). The consideration was funded out of IMI's existing resources and banking facilities. The main Remosa manufacturing facility is located in Sardinia. In the 2011 calendar year, Remosa's unaudited sales were £40.7m (€48m) and underlying EBITDA was £6.8m (€8m).

On 17 October 2011, the Group acquired 100% of the share capital of TH Jansen Armaturen GmbH (THJ) for an enterprise value of £12.8m, net of £2.2m due from the vendor, which is subject to agreement through the completion accounts process. THJ designs, manufactures and sells isolation valves for the Iron & Steel industry from its manufacturing facility near Saarbrücken in Germany. The fair value of the net assets acquired was £7.7m, resulting in goodwill of £1.3m. The net assets comprised customer relationships of £6.4m, an order book of £1.1m, property, plant and equipment of £2.9m, working capital balances of £3.3m (including trade and other receivables of £3.7m) less £6.0m of net debt and deferred tax liabilities.

In 2011 the Group's revenues were up 12% on a reported basis. Excluding a favourable exchange impact of £19m and the contribution from acquisitions, organic sales growth was 5%. The following review of our business areas for 2011 compares the performance of our operations as reported under IFRS8: *'Operating Segments'* with 2010. In the below analysis, revenue growth has been stated on a constant currency basis.

In Fluid Controls, excluding both Z&J's first year contribution and THJ's contribution since its acquisition, Severe Service revenues returned to growth in the second half to increase by 2% in the year, with strong shipments in LNG offsetting the effects of a lower brought forward order book in Fossil Power and depressed demand in the Nuclear market. As expected, margins fell to 15.5% for the full year (2010: 17.3%) principally due to the adverse mix variance on lower volume new valve shipments and lower after-market activity. Z&J's contribution to the Group result was in line with expectations and it finished the year strongly.

Fluid Power continued to perform strongly in 2011, growing at 11% for the year reflecting a continuing improvement in its end markets with particularly strong growth from the Commercial Vehicle, Rail and Energy sectors. The key global sectors now represent 43% (2010: 41%) of Fluid Power revenues. Operating margins continued to show strong improvement at 19.6% for the year compared to 16.6% in 2010 due to the underlying quality of the business and its impetus in improving operational efficiencies, moving to lower cost manufacturing locations and securing procurement benefits.

The Indoor Climate business grew by 2% in the year as a result of strong levels of refurbishment activity more than offsetting subdued demand for new commercial construction builds and the strength of its customer relationships. Operating margins were 22.0% compared to 23.8%, partially driven by adverse transactional exchange rates.

Douglas Hurt Finance Director

In Retail Dispense, the Beverage Dispense business continued to recover and posted 3% growth in spite of the continuing impact of the exit of lower margin product lines. These product lines accounted for 4% of 2010 revenue indicating an underlying growth rate for the year of closer to 7%. Operating margins improved to 13.0% (2010: 10.2%) for the year helped by the favourable mix and further improvement in operational efficiencies. In Merchandising, sales growth was 3% for the year following a strong first half, particularly in the automotive and beverage sectors. Operating margins were held at 15.0% (2010: 15.0%) in spite of the prior year benefiting from a property disposal and insurance claim which improved the 2010 margin by one percentage point.

The Group's segmental operating profit margin was 17.5%, compared to 16.7% in 2010. In the traditionally stronger second half, the Group delivered an operating margin of 18.0% (2010 H2: 17.6%). The segmental operating profit was up 17.0% at £374.1m (2010: £319.7m).

Interest costs on net debt of £16.9m (2010: £15.3m) were covered 23 times (2010: 24 times) by earnings before interest, tax, depreciation, amortisation and impairment of £391.7m (2010: £369.2m).

A loss arose on the revaluation of financial instruments and derivatives under IAS39 of £2.1m (2010: gain of £12.3m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Profit from continuing operations before tax and exceptional items was up 19% at £363.4m (2010: £304.4m).

Restructuring costs in the year were £23.5m (2010: £16.0m) as the Group continued to seek operational efficiencies and move more activity to lower cost manufacturing locations. Of this amount the largest costs were in the Severe Service (£11.9m) and Fluid Power (£5.5m) businesses and principally relate to the costs of relocating manufacturing activities to low cost manufacturing locations and other value chain improvements. The Group expects to continue to incur restructuring costs in 2012 of approximately £20m as part of this ongoing initiative.

Acquired intangible amortisation increased to £32.3m (2010: £7.0m) following the acquisition of Z&J in 2010. The Z&J order book is now fully amortised, which will reduce the 2012 charge, but the charge will increase due to the amortisation of THJ, Remosa and InterAtiva intangible assets.

Profit before tax from continuing operations was £301.4m (2010: £306.1m).

FINANCIAL REVIEW

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

	Revenue £m	PBTE* £m	PBT £m
First half			
2010	925	136.4	133.5
Effects of currency translation	**(2)**	**2.0**	**2.0**
Acquisitions	**39**	**6.9**	**6.9**
Organic growth	**71**	**21.9**	**21.9**
Net interest cost		**0.1**	**0.1**
Other financing items		**4.0**	**4.0**
Financial instruments excluding economic hedge contract gains and losses			**(3.7)**
Restructuring costs			**(6.6)**
Acquired intangible amortisation			**(13.8)**
Reversal of economic hedge contract gains and losses	**(1)**		
2011	**1,032**	**171.3**	**144.3**
Second half			
2010	986	168.0	172.6
Effects of currency translation	**21**	**4.1**	**4.1**
Acquisitions	**57**	**11.7**	**11.7**
Organic growth	**32**	**7.8**	**7.8**
Net interest cost		**(1.7)**	**(1.7)**
Other financing items		**2.2**	**2.2**
Financial instruments excluding economic hedge contract gains and losses			**(12.1)**
Restructuring costs			**(0.9)**
Employee benefit curtailment - UK Scheme			**(15.1)**
Acquired intangible amortisation			**(11.5)**
Reversal of economic hedge contract gains and losses	**3**		
2011	**1,099**	**192.1**	**157.1**
Year	**2,131**	**363.4**	**301.4**

* Profit before tax and exceptional items.

Half year analysis

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

	Change %	2011 £m	2010 £m
Revenue			
First half	**+12**	**1,032**	925
Second half	**+11**	**1,099**	986
	+12	**2,131**	1,911
Segmental operating profit			
First half	**+21**	**176.4**	145.6
Second half	**+14**	**197.7**	174.1
	+17	**374.1**	319.7
PBTE*			
First half	**+26**	**171.3**	136.4
Second half	**+14**	**192.1**	168.0
	+19	**363.4**	304.4
Profit before tax			
First half	**+8**	**144.3**	133.5
Second half	**-9**	**157.1**	172.6
	-2	**301.4**	306.1
Restructuring costs			
First half		**(9.9)**	(3.3)
Second half		**(13.6)**	(12.7)
		(23.5)	(16.0)
Employee benefit curtailment - UK scheme			
Second half		**-**	15.1
		-	15.1
Acquired intangible amortisation and impairment			
First half		**(17.4)**	(3.6)
Second half		**(14.9)**	(3.4)
		(32.3)	(7.0)
Financial instruments excluding economic hedge contract gains and losses			
First half		**0.3**	4.0
Second half		**(6.5)**	5.6
		(6.2)	9.6

* Profit before tax and exceptional items.

Taxation

After the tax charge for the year of £97.7m (2010: £92.5m), the profit from continuing operations after tax was £203.7m (2010: £213.6m). The effective tax rate for the Group before exceptional items reduced to 28% (2010: 30%) during the year as a result of business re-organisations, together with a strong focus on global tax incentives and tax compliance management. These commercial initiatives are expected to continue to improve the Group's taxation profile. In addition, exceptional tax relief of £15.1m and exceptional tax charges of £11.0m, netting to a tax credit of £4.1m (2010: £1.2m charge), arose in connection with business restructuring and other exceptional costs. Taxes paid in the year of £90.9m (2010: £56.3m) have increased due to the significant growth in profits in the previous year, but remain below the level of the tax charge.

Discontinued operations

There were no operations that became classified as discontinued during 2011. In 2010 income of £12.8m was recognised in respect of discontinued operations, being a £5.4m partial rebate of a fine originally imposed on a business in 2005, which the Group disposed of in 2002 and £7.4m deferred contingent consideration received in respect of the Polypipe disposal in 2005.

Earnings per share (EPS)

Basic EPS reduced 10.2% to 63.2p (2010: 70.4p) and diluted EPS was 62.1p (2010: 69.4p). The Board considers that a more meaningful indication of the underlying performance of the Group is provided by earnings from continuing operations before charging/(crediting) exceptional items after tax. Details of this calculation are given in note 9 to the Group financial statements. On this basis the adjusted EPS from continuing operations was 81.5p, an increase of 23% over last year's 66.3p.

Cash flow

The Group's consolidated statement of cash flows is shown on page 74. The change in net debt is summarised in the table opposite.

The operating cash flow from continuing operations was £307m (2010: £335m). This represents a conversion rate of segmental operating profit after restructuring costs into operating cash flow of 88% (2010: 110%). Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £59m (2010: £51m) which was equivalent to 1.2 times (2010: 1.0 times) depreciation and amortisation thereon. Expenditure on research and development in the year was £43m (2010: £42m). Of this amount development costs capitalised in the year were £4m (2010: £5m).

After payment of interest and tax, the free cash flow generated from operations was £208m (2010: £264m). The additional pension contributions of £53m comprised £17m in accordance with the repayment plan agreed following the 2008 actuarial valuation of the UK Fund and an additional contribution of £36m agreed following completion of the 2011 actuarial valuation. After Severe Service investigation costs (and in 2010 the refund of the EU fine) free cash flow before corporate activity was £153m (2010: £200m). The cash outflow on acquisitions of £8.9m included a receipt of £3.6m in respect of the finalisation of the Z&J acquisition and £12.5m for THJ, of which £2.2m is subject to repayment through the completion process. Net debt of £2.5m was also taken on as part of the acquisition. Dividends paid to shareholders totalled £89m (2010: £71m) and there was a net cash outflow of £7m in respect of shares purchased and issued (2010: £28m). The net cash flow was £44m (2010: £27m) which reduced net debt to £108m (2010: £145m).

	2011 £m	Restated 2010 £m
EBITDA* from continuing operations	**391.7**	369.2
Working capital requirements	**(13.0)**	32.2
Capital expenditure (including development expenditure)	**(58.9)**	(50.8)
Other	**(13.0)**	(15.8)
Operating cash flow**	**306.8**	334.8
Tax paid	**(90.9)**	(56.3)
Interest/derivatives	**(8.3)**	(14.2)
Operating cash flow after interest and tax	**207.6**	264.3
Severe Service investigation costs and fine	**(2.1)**	(4.3)
Additional pension scheme funding	**(52.9)**	(65.4)
Refund of EU fine	**-**	5.4
Free cash flow before corporate activity	**152.6**	200.0
Acquisitions (including non-controlling interests)	**(8.9)**	(129.8)
Polypipe earnout recovery	**-**	7.4
Dividends paid to equity shareholders	**(88.8)**	(70.9)
Dividends paid to non-controlling interests	**-**	(0.5)
Payment to non-controlling interest	**(4.4)**	-
Net purchase of shares	**(6.6)**	(27.9)
Investment in pension partnership by UK Pension Fund	**-**	48.6
Net cash flow (excluding debt repaid/drawndown)	**43.9**	26.9
Opening net debt	**(145.4)**	(172.4)
Net debt acquired	**(2.5)**	-
Foreign exchange translation	**(4.2)**	0.1
Closing net debt	**(108.2)**	(145.4)

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

** 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.

FINANCIAL REVIEW

Balance sheet

Net debt at the year end was £108m compared to £145m at the end of the previous year. The year end net debt to EBITDA ratio was 0.3 times (2010: 0.4 times).

At the end of 2011 the US loan notes totalled £255m (2010: £252m), with a weighted average maturity of 5.8 years (2010: 6.8 years) and other loans totalled £1m (2010: £16m). Total committed bank loan facilities available to the Group at the year end were £250m (2010: £226m) of which £nil (2010: £13m) was drawn.

Intangible assets

The value of the Group's intangible assets decreased to £497m at 31 December 2011 (2010: £519m) because the amortisation of acquired intangibles (particularly the Z&J order book) exceeded the acquired intangibles and goodwill recognised on the THJ acquisition. The amortisation charge will reduce in 2012 as a consequence of the high first year charge on the Z&J acquisition in 2011, but will increase due to the impact of the THJ, Remosa and InterAtiva acquisitions.

Property, plant and equipment

The net book value of the Group's investment in property, plant and equipment at 31 December 2011 was £248m (2010: £241m). The increase arose because capital expenditures of £52m more than offset depreciation and the reversal of impairments of £41m whilst exchange differences reduced the balance by £4m.

Shareholders' equity

Shareholders' equity at the end of December was £565m, an increase of £39m since the end of 2010, which includes the profit attributable to the shareholders for the year of £200m, less an after-tax actuarial loss on the defined benefit pension plans of £69m and the 2010 final and 2011 interim dividends totalling £89m.

Share buybacks

No shares were repurchased by the Company during the year. 0.8m (2010: 3.6m) shares costing £8.0m (2010: £29.5m) were purchased by the IMI Employee Benefit Trust for potential use in relation to employee share schemes.

Dividends

The Board has recommended a final dividend in respect of 2011 of 19.0p per share, an increase of 12% over last year's level. This makes a total dividend for the year of 30.0p (2010: 26.0p). The cost of the final dividend is expected to be £60m, giving a total dividend cost of £95m in respect of the year ended 31 December 2011. Dividend cover based on adjusted earnings is 2.7 times.

Pensions

The Group has 75 (2010: 79) defined benefit obligations in operation as at 31 December 2011. It recognises there is a funding and investment risk inherent within defined benefit arrangements and has, therefore, continued to undertake a number of key initiatives to manage this risk, including the closure of one scheme to new entrants and one to future accrual. In addition, the Group has settled four pension arrangements, two of which were in Japan (replacing the defined benefit plans with a defined contribution scheme) resulting in a gain of £1.5m.

The net liability for defined benefit obligations at 31 December 2011 was £204m compared to £199m at the end of 2010. The increase principally arose from the use of a lower discount rate as a result of the reduction in corporate bond yields. The impact of this was offset by our adoption of a lower long-term inflation assumption, our liability management initiatives and cash contributions.

The IMI Pension Fund (the Fund) in the UK is the largest employee benefit obligation within the Group. The Fund was closed to new entrants at the end of 2005 and to future accrual on 31 December 2010. Also in 2010, the Group made a contribution of £48.6m to the Fund which was invested into a partnership as described in the 2010 Annual Report.

A payment of £16.8m was made to the Fund in July 2011. The latest actuarial valuation of the Fund as at 31 March 2011 has now been completed. This valuation showed a funding deficit at 31 March 2011 of £120m. A revised recovery plan has been agreed with the Fund Trustee and as a result a contribution of £36.1m was paid in December 2011. Thereafter contributions will revert to the previously agreed annual payments of £16.8m until 2016 or full funding if sooner. The next triennial valuation of the Fund will be conducted as at 31 March 2014.

During the year the Group offered certain members the opportunity to participate in an Enhanced Transfer Value exercise, which was finalised as at 31 December 2011. This exercise resulted in enhanced benefits for the members but a reduction in the liability of £11.7m which after accrual for the payment of the enhancements and national insurance resulted in a £2.1m gain in the 2011 income statement.

The Group continues to explore various options with the Trustee to reduce further the funding and investment risk in respect of the Fund and a similar Pensions Increase Exchange will be finalised early in 2012.

The Group will also continue its programme of closing overseas defined benefit plans where they are neither mandatory nor an operational necessity.

Treasury policy

IMI's centralised Treasury function provides treasury services to Group companies including funding liquidity, credit, foreign exchange, interest rate and base metal commodity management. It ensures that the Group operates within Board-approved guidelines in order to

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

Foreign exchange and interest rate risk

Further information on how the Group manages its exposure to these financial risks is shown in note 18 to the financial statements. The translation impact on the 2011 segmental operating profit was an improvement of £6.4m. The most important foreign currencies for the Group remain the Euro and the US Dollar and the relevant rates of exchange were:

	Average		At 31 December	
	2011	2010	**2011**	2010
Euro	**1.15**	1.17	**1.20**	1.17
US Dollar	**1.60**	1.54	**1.55**	1.57

If the exchange rates as at 28 February 2012 of US$1.59 and €1.18 had been applied to our 2011 results, it is estimated that revenue and segmental operating profit would both have been 1% lower.

Economic value added

Economic value added (EVA) is defined as the segmental operating profit after tax less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital to the average invested capital. Invested capital is defined as net assets plus net debt and the IAS19 pension deficit (net of deferred tax), excluding exceptional items in the balance sheet (being restructuring provisions, net derivative liabilities and Severe Service investigation costs). For 2011 the segmental operating profit was £374.1m and the Net Operating Profit after Tax (NOPAT) was £269.4m. The Group's invested capital at the end of 2011 was £880.9m comprising £772.7m of net assets excluding exceptional items and £108.2m of net debt. The average invested capital was £860.3m. Applying the 2011 WACC of 8.0% to the average invested capital gives a charge of £68.8m. The EVA in 2011 was £200.6m, representing an increase of 22% over the 2010 EVA of £164.5m. EVA has been calculated on a consistent basis with 2010.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Overview and the Group Operating Review on pages 4 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in this Financial Review. In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Note 19 to the financial statements addresses the management of the funding risks of the Group's employee benefit obligations.

The Group has considerable financial resources together with long-standing relationships with a number of customers, suppliers and funding providers across different geographic areas and industries. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its current bank facilities without needing to renew facilities expiring before March 2013. As a consequence, the directors believe that the Group is well-placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook. Additionally, as part of the Group's normal ongoing funding review, the Group has received indicative offers of additional funding facilities and has signed a new £25m facility since the year-end.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Share price and shareholder return

The share price at 31 December 2011 was 760p (2010: 945p), a decrease of 20% over the year. Based on the year-end share price, the proposed total dividend of 30.0p represents a yield of 3.9%.

Douglas Hurt
Finance Director
1 March 2012

RESPONSIBLE BUSINESS

THE IMI WAY

It is our desire to become the most admired and innovative engineering solutions business of our size anywhere in the world, and we believe that this admiration comes not only from great products and services but also from being a responsible business.

Our commitment to responsible business starts with the IMI Way, which sets out our core values.

Whenever you meet an IMI person you will find someone who:

- pursues excellence and delivers results
- innovates and provides value to our customers
- acts with integrity

As a reflection of these values, we take our responsibilities to the environment and the communities in which we operate very seriously. We put particular emphasis on ensuring that our management of people, social, environmental and economic issues is aligned and integrated with the overall management of the business. We strongly believe that high standards of responsibility impact positively on profitability, returns to shareholders, reputation and growth.

To support this commitment, IMI continues to be a signatory to the UN Global Compact, which establishes standards for human rights, labour practices and anti-corruption.

Our continued inclusion in both the FTSE4Good and Dow Jones Sustainability Europe indices is strong evidence of our responsible business progress and continued commitment.

All of our businesses are required to have their own responsible business objectives, which are fully aligned to the Group's four responsible business priorities. These key priorities are reviewed annually to ensure they remain relevant and appropriate, whilst the performance of our businesses is assessed through an annual audit, and quarterly reviews where best practice ideas are shared. All of our employees receive annual IMI Way face-to-face training.

RESPONSIBLE BUSINESS PRIORITIES – FOCUSING ON EXCELLENCE

The IMI Way is a driver for responsible growth and directly supports our responsible business priorities:

- Health and safety
- Supporting our customers' responsible business priorities
- Supply chain risk management
- Energy efficiency and carbon management

During 2011, we trained 436 IMI Way trainers to deliver face-to-face training to all our employees worldwide.

The IMI Way AND OUR BUSINESS STRATEGY

The IMI Way is part of our roadmap to success, guiding our decision making and our ability to bring about strategic convergence.

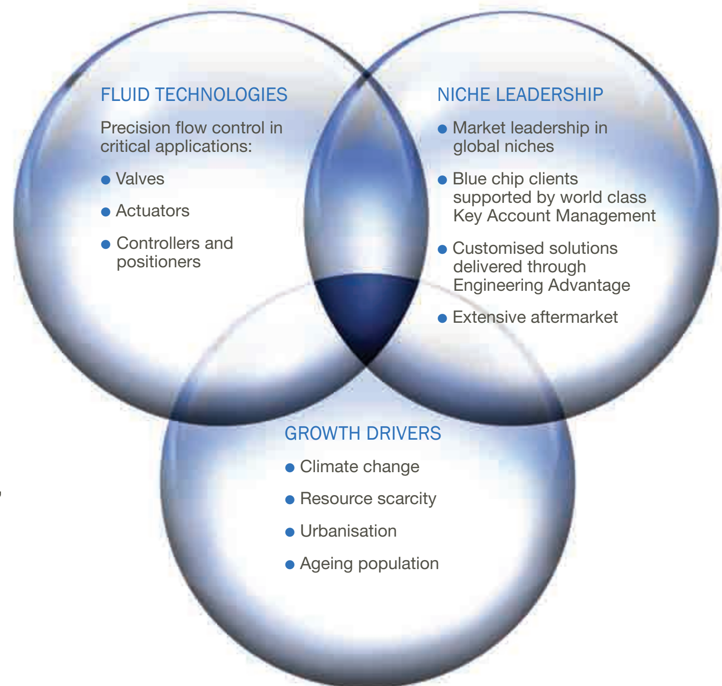
Our values underpin our responsible business priorities and we are focused not just on what we achieve, but on how we achieve it.

Health and safety promotes a strong culture to protect our people, the environment, adjacent communities and other stakeholders. In 2011, we continued to make good progress in our health and safety performance with a 28% improvement in our key lost time accident measure.

Supporting our customers' responsible business priorities is integral to our Key Account Management and to delivering Engineering Advantage. We place significant emphasis on helping our customers meet their own responsible business commitments recognising the opportunities for sustainability and developing our respective businesses.

Supply chain risk management is fundamental as we work in partnership with suppliers to develop our Engineering Advantage. IMI's manufacturing plants in emerging economies such as Mexico, China, the Czech Republic and India have all been developed with full attention to health, safety and environmental risks, energy efficiency, and lean manufacturing techniques.

Energy efficiency and carbon management supports our growth drivers of climate change, resource scarcity and urbanisation and is key to delivering responsible solutions. Integral to this is managing our own facilities and we have various programmes in place to reduce energy consumption and normalised CO_2 emissions across our locations around the world.



DOING BUSINESS THE IMI WAY IS THE RIGHT WAY

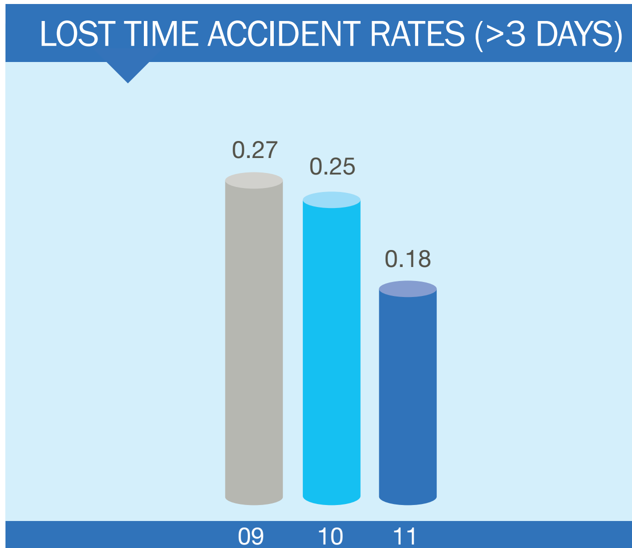
IMI is pleased to report that it is the first company in the world to be accredited by Investing in Integrity for its commitment to acting with integrity at all times. The accreditation process was an independent audit process which involved reviewing our policies and procedures, face-to-face interviews with many senior leaders of the worldwide businesses and extensive surveys of our employees in all of our key territories. The accreditation is a collaboration between the Institute of Business Ethics and the Chartered Institute for Securities & Investment.

RESPONSIBLE BUSINESS

HEALTH AND SAFETY / ENERGY EFFICIENCY

Health and safety

We promote a strong health and safety culture to minimise risk for our people, the enviroment, adjacent communities and other stakeholders. During 2011, we worked hard at building on the good performance of recent years. We now have 50 full-time health, safety and environmental professionals across the Group, up 11% on 2010. We also increased capital expenditure in this critical area. Our overall >3 day lost time accident rates per 100,000 hours worked have fallen by over 50% since 2008 and in 2011 a further improvement of 28% was achieved. This performance demonstrates the continued clear focus and commitment at all levels across the Group on health and safety matters.



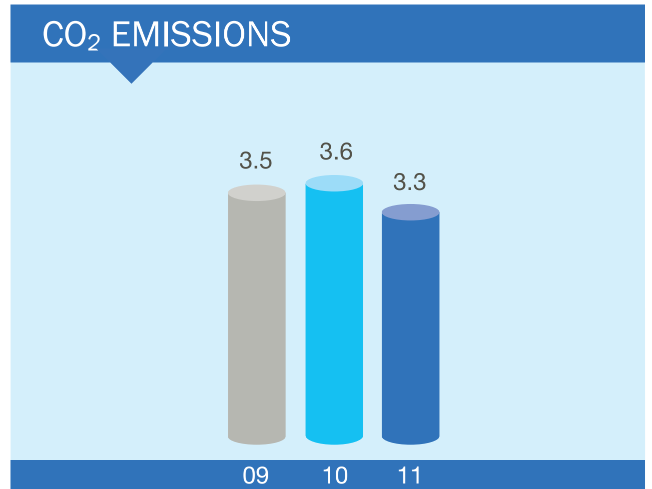
Whilst we are extremely proud of our achievements which enabled this improvement, we are maintaining the 2012 target of 0.22, recognising the importance of demonstrating this higher level of performance on a sustainable basis.

In achieving these results, we focused very strongly on communication of a positive approach to health and safety across IMI. This includes our twin initiatives 'Safety Alerts' and 'Safety Stand-downs'. The 'Safety Alerts' aim to document lessons learned from accidents to prevent other incidents across IMI and 'Safety Stand-downs' are site-focused briefings on the root causes and lessons learned from accidents.

Energy efficiency and carbon management

IMI has an ongoing commitment to reduce its CO_2 emissions and become more energy efficient in both our products and processes. This has both environmental and cost saving benefits and in 2011 we launched a major new initiatve called Project 20:20. This project involves our 20 largest energy-using sites, which account for more than 70% of our energy consumption. The aim of the project is to identify 20 best practice projects to implement across IMI and to push for 20% reduction in normalised CO_2 emissions at these key sites. The project has involved an intensive programme of energy surveys, best practice sharing, regular conference calls and tracking project implementation.

During 2011, we have seen an 8% reduction in our key carbon usage indicator to 3.3 CO_2 tonnes per 1,000 hours worked. Our target by the end of 2012 is 3.2 and as such we are now moving in the right direction. Undoubtedly, the milder winter weather in 2011 helped, but the implementation of our energy efficiency measures has had a strong impact and will continue to do so into 2012 and beyond.



OUR CUSTOMERS' RESPONSIBLE BUSINESS PRIORITIES

Supporting our customers' responsible business priorities is integral to our continued success and in particular to our Key Account Management and to delivering Engineering Advantage. Our focus on market leadership in global niches is reinforced by our ability to deliver on our customers' need to demonstrate responsibility. We place significant emphasis on helping our customers to meet their responsible business commitments – from diversity targets to carbon emissions – ensuring superior long term value for our customers and inspiring their trust.

Global concerns relating to energy issues and climate change, whether driven by legislation or not, have a positive impact on customer demand for our products and services – many of which are clearly dedicated to energy efficient operation. Our customers also value the high standard of ethical business practices set out in the IMI Way, which is particularly relevant in emerging markets where responsible business risks can be higher.

France's first energy-positive building actually produces more energy than it consumes. It was designed to cut back on consumption by 65% compared to those built to RT 2005 standards, France's most recent energy regulation for buildings. The TA Hydronics team in France were able to provide a complete system solution for the building's pressurisation, balancing and thermostatic control requirements thereby maximising comfort, whilst minimising energy usage.

"Reducing climate change can start with effective indoor climate control. TA Hydronics is the industry leader in green solutions for indoor climate control." Sean Toomes, Executive Director

"CCI supports our customers' responsible business priorities. We work with our customers proactively to identify and manage issues that are beneficial to all parties."
Mike Semens-Flanagan, President CCI

One of the largest LNG projects in the world, focused on energy optimisation and the environment, turned to our Severe Service business to provide critical ball valves that can meet cryogenic temperatures (below -162°C) and provide 100% shut-off with proven reliability. In total, 2,700 valves were ordered for the Gorgon LNG plant in Australia, ensuring optimal plant efficiency and energy consumption.

RESPONSIBLE BUSINESS

SUPPLY CHAIN AND MANUFACTURING

IMI sources components, materials and services for its manufacturing and sales operations from many countries around the world. We recognise that there are local and national differences in business standards, but we will only procure from suppliers who have the same commitment to a set of minimum standards.

IMI has set out these standards in the IMI Supply Chain Policy. It is our stated objective that IMI will only trade with suppliers that meet or exceed these minimum standards, or with suppliers that can demonstrate progression towards these standards over an agreed and suitable timescale and who act according to the published IMI Way guidelines in relation to supply chain and procurement activities.

Responsibly sourcing aluminium from suppliers is fundamental to our manufacturing operations.

Each IMI Company must therefore ensure that suppliers comply with or exceed the following minimum requirements:

- Suppliers will comply with all appropriate legislative requirements
- No forced, bonded or involuntary prison labour will be used
- No children are to be employed by IMI's suppliers
- Employees of our suppliers shall be paid wages and benefits that meet or exceed minimum national requirements
- Employees of our suppliers shall work hours that comply with national laws
- Our suppliers shall protect the health and safety of their employees to standards in keeping with local expectations of good practice
- Our suppliers shall protect the environment to standards in keeping with local expectations of good practice

To ensure compliance with these requirements, IMI developed a 3-step audit process which resulted in 140 supplier audits in 2010 and 124 supplier audits in 2011. The audits in 2011 covered the following regions:

- Asia (China, India and Korea) 40 audits
- Central & South America (Mexico and Brazil) 64 audits
- Central & Eastern Europe (Poland, Ukraine and the Czech Republic) 20 audits

The audits challenge the suppliers on labour standards, ethics, health and safety and the environment in keeping with the IMI Way. As a result of the audit process, we identified 59 suppliers as a priority for additional review, following which we exited agreements with five suppliers due to responsible business and performance issues. However, the majority of the suppliers were totally committed to the IMI Way message and are working with us to improve their operations and businesses. In addition, in 2011, 62 of our supplier auditors across the world received additional training. In 2012, we will continue our audits of suppliers, invest in auditor training and complete our "audit-the-auditor" programme to ensure that all IMI supplier auditors have a consistently high standard when reviewing the supply base.

In the UK, Artform made a donation to The Water Project helping a community in Sierra Leone. The charity focuses on building long-term, truly sustainable water projects. The donation resulted in the purchase of a hand well pump alongside supplying two school classrooms with safe water.

Clean water doesn't just save lives, it changes them forever.

OTHER IMI ACTIVITIES

Community engagement

The communities where we operate are crucial to the success of IMI. We have a duty to be a responsible business citizen and to meet our commitments to these communities. Although our projects and facilities can bring benefits to local communities by creating jobs and investment in the surrounding area, they can also give rise to concerns.

Consequently, IMI works to be a good neighbour and demonstrates high economic, social and environmental standards. We also remain respectful of human rights and assist our local communities through charitable activities and community volunteering.

Employee investment and talent development

We continue to focus on the development and engagement of our employees to ensure we have the right skills and expertise to fulfil our ambitions as a company.

In 2011, we conducted our second Employee Engagement Survey. Our response rate increased by 3% from 2009 and our employees reported even higher levels of commitment and engagement, indicating that the actions we had taken in response to the 2009 survey had been to good effect. To directly address the employee concerns from 2011, we will launch a new global performance management programme in 2012.

As well as local training within business units to support our employees, we continued to invest in our leadership talent in 2011 via our IMI Leaders Boot Camp programme, delivering high quality training and on-going development to our top talent. We also launched our Management Fundamentals programme which provided training and development to around 100 managers globally, developing our future leaders. Finally, we developed job families for our specialist areas (including finance, health and safety and Key Account Management) to ensure development of this key talent and to create visible career paths for these employees.

The IMI graduate programme continues to provide high-quality engineering and future leadership talent into the business.

All of the investment in our development programmes has the aim of ensuring that we have a diverse pipeline of employees for future senior leadership and specialist roles in the business.

The Reynosa team at IMI Cornelius, Mexico, was able to purchase, deliver and present new equipment to three local charities. Through these donations, over 500 children will enjoy the benefit of new advanced equipment to support their treatment, help their therapy and improve their lifestyles.

In Germany, Norgren Alpen works alongside Spix, a non-profit community organisation, to help people with learning disabilities become active members of the labour market. In this win-win situation, Norgren can relieve its regular employees of some of the simpler tasks whilst Spix clients, who identify enthusiastically with Norgren, enjoy the protection of attending a sheltered workshop, increasing their living standards and self-esteem.

PRINCIPAL RISKS & UNCERTAINTIES

In common with all businesses, there are a number of risks and uncertainties which could have a material impact on the Group's long-term performance. The Group has in place an established risk management structure and internal controls framework which together are designed to identify, manage and mitigate business risk. A summary of the Group's risk management processes is given on page 46 and the Group's approach to corporate social responsibility and associated risks is described on pages 28 to 33. In addition to the risks described here, the Group is also exposed to a number of financial market risks including credit risk, liquidity risk, counterparty risk, fluctuations in foreign exchange rates, interest rates and commodity prices. A description of these risks and the Group's centralised approach to managing them is described in note 18 to the financial statements. Further information about pension liabilities is given in note 19 to the financial statements.

RISK	DESCRIPTION OF RISK AND POTENTIAL IMPACT	EXAMPLES OF MITIGATING ACTIONS
Economic and market environment	The Group's European revenues are principally derived from Northern and Central Europe, however, the status of the global economy and in particular the uncertainties in the Eurozone could adversely affect the Group's revenues. The Group's cost base includes many costs that cannot be reduced in the short-term in line with reductions in profitability. The Group may also be required to reassess the carrying value of acquired goodwill and other assets if certain end-markets deteriorate further or for longer, which may result in impairment charges.	• Diverse business portfolio serving different customers and markets • Accelerate growth agenda: investment in new product development and emerging markets • Monitoring of customer and supplier financial security • Cost base reduction initiatives • Regular updating of contingency plans • Effective cash management • Allocation of resource to more resilient customers, markets and geographies and focus on global growth trends (climate change, resource scarcity, urbanisation and ageing population)
Legal and regulatory risks	The Group's worldwide operations and expansion in emerging markets expose it to different legal and regulatory requirements and standards in each of the jurisdictions in which it operates including those for financial reporting, taxation, environmental, operational, anti-corruption, fraud and competition matters. The Group is also exposed to the potential for litigation from third parties which may arise in the ordinary course of business. The Company operates various corporate governance, compliance and internal control frameworks which are essential for the effective management of such geographically diverse businesses. Failures in these controls might have a material impact on the Group.	• Commitment to good governance practices which are embodied in The IMI Way providing a guiding set of values that exemplify how IMI employees should behave • IMI Way days held in all businesses which includes face-to-face training for all employees • Policies, manuals, training, business processes and monitoring of key compliance and legal risks • Increase in resources dedicated to legal and regulatory compliance • Training of employees on The IMI Way and key risk areas such as competition law and anti-corruption • Enhanced version of The IMI Way to be published in 2012 • Availability and promotion of the IMI Hotline to report concerns anonymously • Internal financial control audits by IMI Group Assurance • Anti-bribery, corruption and fraud workshops carried out
Health, safety and environ-mental	The Group recognises that it has a duty of care to all of its employees and to others with whom the Group interacts through its products and operations. In the event of any failure in the Group's health, safety and environmental procedures, there is a potential risk of injury or death to IMI's employees or others; or environmental damage, with the consequential impact on the operations and the risk of regulatory action against the Group.	• Established systems in place under the IMI Safety First, Safety Always slogan, to ensure that health, safety and environmental matters are appropriately addressed and any such risks are minimised including monthly reporting to, and review at, the Executive and quarterly review at the IMI Board • Increase of full-time health, safety and environmental officers across the Group to ensure policies are embedded and measured • Introduction of a new travel risk management programme providing appropriate advice and support to all of the Group's international travellers • Regular review of Group safety performance • Group Environment, Health and Safety function with experienced specialist employees to provide support and guidance to businesses - including the conduct of regular risk control and health and safety audits • Maintenance of insurance for costs associated with any employers' liability, workers' compensation or equivalent claims and also certain environmental incidents
Pension funding	The Group's defined benefit pension arrangements are exposed to the risk of changes in interest rates and the market values of investments as well as inflation, increased longevity of members and statutory requirements. This may result in the cost of funding defined benefit pension arrangements becoming an increasingly significant burden on the Group's financial resources.	• Deficit reduction plans implemented where appropriate • Liability management exercises implemented to remove risk from the IMI Pension Fund • Closure of overseas defined benefit plans to new members and future accrual where permissible • Active management of pension scheme assets and long-term view of liability assumptions

RISK	DESCRIPTION OF RISK AND POTENTIAL IMPACT	EXAMPLES OF MITIGATING ACTIONS
Products and technology	The Group is exposed to risks associated with the commercial failure of products, projects and technologies such as product liability and warranty claims. The quality and safety of our products is of the highest importance and there is an associated risk if they are below standard. For product claims not covered by insurance, the costs that cannot otherwise be recovered may be material to the Group.	• Continued focus on quality and safety, including audits to appropriate quality standards • Processes to mitigate the reputational and legal implications of any failure • Maintenance of insurance cover for product liability claims • Upgrade of talent and focus on functional excellence in quality and product development • Contract management resources for both sales and purchases
Key customers	Certain of the Group's businesses benefit from close commercial relationships with key customers. The loss of certain of these key relationships whether through competition, consolidation or insolvency could have a material impact on the Group's results. The Group's top ten customers represent approximately 15% of total Group revenues. Onerous contract conditions with key customers could impact the Group's financial performance.	• Collaborative development of bespoke new products • Development of strong relationships with new accounts to maintain a diverse portfolio across business sectors and geographic regions • Monitoring of markets for advance warning of negative commercial developments • Further investment in and development of Key Account Management and Engineering Advantage • Increase in resources dedicated to legal contract review and enhanced contract sign off procedures
Supply chain	The Group has a significant number of contracts with a broad base of suppliers. In the current economic environment there is a risk that their access to credit or adverse trading conditions could lead to an inability to meet their contractual commitments to the Group. In addition, upward price pressure from the supply chain could erode profits. The increasing use of suppliers in low cost economies could introduce risks related to quality or responsible business practices. All this could have a material impact on the Group's results.	• Monitoring of risk and development of contingency plans to mitigate the impact of any supplier failure or increased prices • Review of supply base to reduce over-reliance on key suppliers • Moves to new lower cost manufacturing facilities, ongoing review of alternative low cost economy based suppliers and, where appropriate, supplier consolidation • Training and audit programme to validate suppliers' business processes, quality and standards
Competitive markets	The Group operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the Group's results. The Group's continued success depends upon its ability to continue to develop and produce new and enhanced products and services on a cost-effective and timely basis in accordance with customer demands.	• Initiatives and investment in research and development targeted to sustain the Group's Engineering Advantage • Monitoring of competing markets and products, including adjacent technologies, to facilitate early identification of potential threats and development of contingency plans • Cost base reduction initiatives, including supplier rationalisation and value engineering • Processes for managing investment in research and development including appropriate stage gates for reviewing progress against clearly-defined, often customer-driven, technical and commercial objectives
M&A activity	IMI's growth strategy is in part dependent on acquisitions. The execution and integration of acquisitions involves a number of risks, including diversion of management's attention, failure to retain key personnel of the acquired business and risks associated with unanticipated events or liabilities. The Group may also be subject to liabilities as a result of past or future disposals.	• Rigorous due diligence process with clear financial targets • Formal internal approval requirements • Appropriate business integration processes to ensure that the Group's policies, values, compliance and control framework are adopted and embedded • Investment in M&A skills and resources to support the growth strategy
Talent acquisition and retention	A loss of key personnel or the inability of the Group to recruit and retain high calibre managers and engineering talent may lead to the Group not being able to implement its business plans and strategy effectively and experiencing delays, or increased difficulty, in the strategic development of the Group, including in developing and selling its products and services.	• Succession plans in place and regularly reviewed • Group-wide training and development programmes • Increased resources in emerging markets • Regular employee-wide surveys and action plans targeted by company or geography
Major change projects	The achievement of IMI's strategic objectives will require a number of major change projects in areas of manufacturing realignment, information technology improvements and business reorganisations. Failure to deliver successful major change projects in a timely manner could impact the Group's financial performance.	• Upgrade of resources and talent in project management • Regular review of project progression by Executive • Enhanced risk assessment process including full mitigation action plans for all major change projects

Risk Appetite

The Board has considered the Group's risk appetite and it is considered appropriate to achieve the Group's strategic objectives. The level of risk appetite varies according to the rewards associated with each of the above risk categories. Risk appetite is higher for new product development, emerging market growth and bolt-on acquisitions, in keeping with our objective for further strategic convergence and is lower for employee safety and compliance with regulatory and business ethics. The degree of risk to be accepted on an operational basis is managed through delegation of authority levels and ensuring consistency with The IMI Way.

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

Roberto Quarta

ROBERTO QUARTA Chairman
Age 62; non-executive; joined the IMI Board in 2011.

Roberto Quarta has significant management experience spanning a broad range of manufacturing and service businesses with global operations. Roberto is currently a partner and Chairman Europe of Clayton, Dubilier & Rice, where he has worked since 2000. He is Chairman of the Supervisory Board of Rexel SA, a non-executive director of Foster Wheeler AG and Spie SA, and recently stepped down from the Board of BAE Systems plc. Roberto is the head of the Nominations Committee.

TERRY GATELEY
Age 58; non-executive; joined the IMI Board in 2003.

Terry Gateley began his career as a Chartered Accountant and was in private practice with KPMG until 1999, and since then he has chaired eight private equity businesses. He chairs the IMI Audit Committee and is IMI's senior independent director.

KEVIN BEESTON
Age 49; non-executive; joined the IMI Board in 2005.

Kevin Beeston is Chairman of Taylor Wimpey plc and also chairs three private businesses, Partnerships in Care Limited, Domestic and General Limited and Equiniti Group. He is also an Operating Partner with the global private equity firm Advent International.

ANITA FREW
Age 54; non-executive; joined the IMI Board in 2006.

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

BOB STACK
Age 61; non-executive; joined the IMI Board in 2008.

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

Terry Gateley

Kevin Beeston

Anita Frew

Bob Stack

EXECUTIVE DIRECTORS

Martin Lamb

MARTIN LAMB Chief Executive
Age 52; joined IMI in 1986.

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

DOUGLAS HURT
Finance Director
Age 55; joined IMI and the Board in 2006.

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

ROY TWITE
Executive Director
Age 44; joined IMI in 1988.

Roy Twite was appointed to the Board in February 2007. During his career with IMI, Roy has held a number of senior roles in all five of IMI's platform businesses. In 2011, Roy retained responsibility for Fluid Power, whilst accepting the additional management accountability for the Severe Service business.

IAN WHITING
Executive Director
Age 48; joined IMI in 2005.

Ian Whiting was appointed to the Board in 2010. He joined Control Components Inc in 2005 from Novar plc where he was President of Novar Systems Americas. Ian was previously President of Severe Service and is now responsible for leading IMI's emerging markets business, corporate development, the mergers and acquisitions agenda and the Group supply chain function.

SEAN TOOMES
Executive Director
Age 43; joined IMI in 1985.

Sean Toomes was appointed to the Board in 2011. He joined IMI on a trainee programme at Watson Smith, part of the Fluid Power business. Sean is President of IMI's Indoor Climate division, and is accountable for IMI's responsible business portfolio of compliance, health, safety and environment, as well as the continuing development and promotion of our Key Account Management capabilities.

Douglas Hurt Roy Twite Ian Whiting Sean Toomes

DIRECTORS' REPORT

The directors present their report, together with the audited financial statements for the year ended 31 December 2011.

Business review

The Companies Act 2006 requires the Company to present a business review in this report. The information that fulfils the business review requirements can be found on pages 4 to 33 and page 46, which are incorporated into this report by reference. This includes a review of the development and performance of the business of the IMI group of companies (the Group), including the financial performance during the financial year ended 31 December 2011, key performance indicators, the principal risks and uncertainties facing the Group and our risk management processes.

Principal activities

IMI plc is a global engineering group focused on the precise control and movement of fluids in critical applications. IMI plc is the holding company of the Group. The Group's businesses comprise five platforms organised into two principal activities: Fluid Controls, comprising Severe Service, Fluid Power and Indoor Climate; and Retail Dispense, comprising Beverage Dispense and Merchandising. The main subsidiary companies operating within these two principal activities are listed on pages 130 and 131. The revenue, profit and capital employed attributable to each of these businesses is shown in note 2 on pages 85 to 87.

Results and dividend

The Group consolidated income statement is shown on page 70. Segmental operating profit amounted to £374.1m (2010: £319.7m) and profit before taxation amounted to £301.4m (2010: £306.1m).

The directors recommend a final dividend of 19.0p per share (2010: 17.0p per share) on the ordinary share capital payable, subject to shareholder approval, on 21 May 2012 to shareholders on the register at the close of business on 13 April 2012. Together with the interim dividend of 11.0p per share paid on 14 October 2011, this final dividend will bring the total distribution for the year to 30.0p per share (2010: 26.0p per share).

Research and development

Expenditure on research and development in the year was £43.2m (2010: £41.9m), of this amount £4.4m (2010: £5.0m) has been capitalised.

Shareholders' funds

Shareholders' funds increased from £525.7m at the end of 2010 to £564.8m at 31 December 2011.

Share capital

As at 31 December 2011, the Company's share capital comprised a single class of share capital which is divided into ordinary shares of 25p each. Details of the share capital of the Company are set out in note 22 to the financial statements on pages 119 and 120. The 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 2011, 3,831,120 shares are held in an employee trust for use in relation to certain executive incentive plans representing 1.2% of the issued share capital (excluding treasury shares) at that time. The voting rights attached to shares held in the employee trust were not exercised during the year.

During the year, 310,310 new ordinary shares were issued under employee share schemes: 150,563 under the all employee share ownership scheme and save as you earn plans and 159,747 under executive share plans. Shares acquired through Company share schemes and plans rank equally with the shares in issue and have no special rights.

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

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

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

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

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

Own shares acquired by the Company

At the annual general meeting of the Company held on 6 May 2011 authority was given for the Company to purchase up to 48,116,000 of its ordinary shares of 25p each. The Company did not use this authority to make any purchases of its own shares during the period. At the next annual general meeting of the Company, shareholders will be asked to give a similar authority, details of which are contained in the separate circular.

As at 31 December 2011, 19,124,700 ordinary shares (nominal value £4,781,175) were held in treasury representing 6% of the issued share capital (excluding treasury shares) at that time.

Substantial shareholdings

Information provided to the Company pursuant to the FSA's Disclosure and Transparency Rules is published on a regulatory information service. As at 31 December 2011, 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:

BlackRock, Inc.	10.81%
Standard Life Investments Limited	9.02%
Ameriprise Financial, Inc.	4.99%
AXA Investment Managers UK Limited	4.86%
Newton Investment Management Limited	3.96%
Legal and General Group plc	3.86%

During the period from 31 December 2011 to 1 March 2012 the Company was notified that the interests of BlackRock, Inc. had changed to 9.97%, Standard Life Investments Limited had changed to 8.92% and Ameriprise Financial, Inc. had changed to 5.02%.

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

Statement on corporate governance

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

Employment policies

The Group continues to support employee involvement at all levels in the organisation and strongly encourages each of its businesses to keep its employees informed on Group and individual business developments and to make its employees aware of the financial and economic factors affecting the performance of the business in which they work, using their own consultation and communication methods. A European Works Council has been in operation since 2003 and meets at least once a year to exchange views on pan-European issues facing the Group. At the date of this Annual Report, there are 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.

Share schemes are a long established and successful part of our total reward package, encouraging and supporting employee share ownership. Full details of employee share schemes are set out in the Remuneration Report on pages 48 to 67 and in note 20 to the financial statements on pages 115 to 118.

A number of people development initiatives are co-ordinated across the Group, which are based on the Company's values of excellence, innovation and integrity. These initiatives include succession and development planning, leadership development programmes, the IMI graduate programme and the embedding of the 'Leadership Blueprint', our competency model, in recruitment and selection, performance management processes, and training programmes. These initiatives and the Company's approach to employee investment and talent development are explained on page 33.

DIRECTORS' REPORT

Our policy on employee diversity and equal opportunity 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. We ensure that our talent pipelines are diverse, for example our Global Graduate Programme includes people from more than 20 countries, with, in recent years, over 40% of our graduate intake being female. At all levels we are focused on increasing our diversity as reflected in the appointment of our new Chairman, Roberto Quarta and our long-standing female non-executive director, Anita Frew. When recruiting we strive to ensure that our shortlists of candidates are diverse and that our people are trained to avoid bias in the process in order to ensure fair selection criteria. Our training programmes for senior and middle management (the IMI Academy, Management Fundamentals and the IMI Leaders Boot Camp) include selection and interview training. One way we measure progress is through the Employee Engagement Survey. The 2011 survey confirmed that over 80% of our employees feel highly valued and respected for the diversity they bring to the business and the opportunities they have within our meritocracy.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment. Information on our key performance indicators in this area is given on pages 15 and 30 and further information is available on page 29 and on our website www.imiplc.com.

Policy and practice on the payment of trade creditors

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

Donations

£214,000 was given during 2011 (2010: £180,000) for charitable purposes. The Group supports a range of selected national charities and smaller charitable organisations operating in communities where the Group has a presence. Our approach to charitable and other donations is explained on pages 32 and 33. No political donations were made during the year.

Directors

The membership of the Board and biographical details of the directors are given on pages 36 and 37 and are incorporated into this report by reference. Roberto Quarta was appointed to the Board initially as a non-executive director with effect from 1 June 2011, before taking over as Chairman from Norman Askew who retired from the Board on 31 October 2011. Sean Toomes was also appointed to the Board as an executive director on 1 June 2011.

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 and Roberto Quarta and Sean Toomes will seek election having been appointed to the Board during the year. In addition, the Company's articles of association require each director to stand for re-election at least once every three years. However, in accordance with the new provision contained in the UK Corporate Governance Code, all continuing directors will submit themselves for re-election at the next annual general meeting and are recommended for re-election. Changes to the articles of association must be approved by a special resolution of the shareholders (75% majority required) in accordance with the legislation in force at the time.

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

Directors' powers

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

Directors' interests

The interests of the persons (including the interests of any connected persons) who were directors at the end of the year, in the share capital of the Company, and their interests under share option and incentive schemes, are shown on pages 64 to 65 and on page 67.

Essential contracts and change of control

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

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

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

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

Going concern

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

Disclosure of information to auditor

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

Cautionary statements

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

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

Annual general meeting

The annual general meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Friday 4 May 2012, commencing at noon. Notice of the meeting will be sent to shareholders as a separate circular.

Auditor

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

By order of the Board

John O'Shea

Company Secretary

1 March 2012

IMI plc is registered in England No. 714275

CHAIRMAN'S GOVERNANCE INTRODUCTION

I became Chairman in November 2011, following the retirement of Norman Askew. As Chairman, I intend to play a leading role in shaping the governance agenda and taking the Company forward.

First, I would like to pay tribute to Norman Askew for his excellent stewardship of the Company during his six years as Chairman. His legacy includes an open and engaged Board working within a well developed corporate governance structure, all of which together provide firm foundations to build on for the future.

To help me assess and find ways to improve Board effectiveness, I arranged workshops with the non-executive directors and with the executives, both of which were facilitated by an external consultant. I will be using this input to develop some changes in practice aimed at enhancing the role of the Board. A full, externally facilitated Board evaluation exercise will be conducted later in the year.

On the non-executive side of the Board, we have a strong team of four independent directors with varied backgrounds and experience. They have all been IMI directors for several years and all are familiar with the businesses and enjoy opportunities for contact with the wider management group at formal Board meetings, management conferences and visits to IMI facilities. In 2011 the non-executives and I have each visited a number of facilities around the Group. In January 2012 most of the non-executive team again joined the top senior managers at IMI's annual senior management conference, which was held in Milan and combined with visits to IMI operations in Italy.

I am keen to engage with shareholders and have already met with a number of larger institutional investors since my appointment in the autumn. I look forward to meeting many more shareholders at the forthcoming annual general meeting.

Roberto Quarta

Chairman

1 March 2012

THE BOARD'S CORPORATE GOVERNANCE REPORT

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

Compliance Statement

The Board is committed to high standards of corporate governance and confirms that throughout the year ended 31 December 2011 the Company has applied the principles of good governance contained in the UK Corporate Governance Code (the Code) and complied with its best practice provisions as set out below in the Board's report on corporate governance and in its Remuneration Report on pages 48 to 67. The Board is able to report compliance with the Code throughout 2011, subject to the need to fill one vacancy for a non-executive director which arose in November 2011.

The Board

At the end of the year the Board comprised ten directors: the Chairman; Chief Executive; four independent non-executive directors; the Finance Director and three operational executive directors. Changes in the composition of the Board during the year are noted below and in the Directors' Report. In order to balance the mix of non-executive and executive directors, at least one additional non-executive director is to be appointed and a search is underway.

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

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

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

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

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

The five executive directors are: the Chief Executive, Martin Lamb; Finance Director, Douglas Hurt; and three operational executives, Sean Toomes, Roy Twite and Ian Whiting. Changes in executive responsibilities were announced effective from 1 September 2011. Roy Twite, in addition to continuing in his role as President of Fluid Power, assumed responsibility for the Severe Service businesses. Ian Whiting, has responsibilities for corporate development, including M&A and developing IMI's interests in the emerging markets, and for the Group procurement function. Sean Toomes runs the Indoor Climate business and has functional responsibility for compliance, environmental, health and safety matters.

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

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

THE BOARD'S CORPORATE GOVERNANCE REPORT

The Board (continued)

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

Board induction, continuing professional development and evaluation

A formal induction process for new directors has been well established for several years and is the responsibility of the Chairman with support from the Chief Executive, Company Secretary and the Group Human Resources Director. A revised, standard induction programme for new directors has been set by the Chairman following his own experience of joining the Board in 2011. During and after induction directors are expected to visit business units around the Group and to meet with operating management and corporate staff. Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in some appropriate training during the year at Board meetings.

In line with the Code, the Board has agreed that the Chairman should arrange an externally facilitated evaluation process at least once every three years starting from 2012. An internal evaluation of the Board and its committees was completed in 2011, the results of which the Chairman reported to the Board. This process included questionnaires and appropriate face to face discussions including individual meetings between the Chairman and the non-executive directors. In addition, the other directors met with the senior independent director regarding the performance of the Chairman. The Board received the findings of the evaluation in March 2011 and the directors confirmed that the Board is fulfilling its responsibilities appropriately. The evaluation concluded that the Board and its committees were effective and that each director demonstrated a valuable contribution. The contribution and performance of the directors, all of whom are standing for election or re-election at the 2012 annual general meeting, is further commented on in the notice of the annual general meeting.

Following his appointment as Chairman in November 2011, Roberto Quarta held Board effectiveness workshops with an external facilitator as mentioned in the introduction on page 42.

Standing committees of the Board

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

Audit Committee

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

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

The committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor and believes the work has been satisfactory. The committee recommended and the Board approved the proposal to reappoint Ernst & Young as the external auditor at the forthcoming annual general meeting. Ernst & Young was first appointed as auditor in 2009 following a formal selection process. The term of appointment is annual and there are no contractual restrictions on the committee's choice of auditor.

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

Remuneration Committee

The Remuneration Committee is chaired by Bob Stack and he, Kevin Beeston, Anita Frew and Terry Gateley were all members of the Remuneration Committee throughout the year. Norman Askew was a member until his retirement on 31 October 2011 and Roberto Quarta joined the committee on 1 June 2011. The committee's main responsibilities are to determine the remuneration policy and individual terms and conditions in respect of the executive directors including new appointments and to set the Chairman's remuneration. As well as salary and annual bonuses, the committee is responsible for the structure and level of the performance related elements of executive remuneration and other benefits. The committee also reviews the packages of those at the next most senior level of management and has regard to pay for employees across the Group when determining executive remuneration. The committee met on six occasions during the year with all members in attendance. External consultants are engaged by the committee to provide independent advice and the Chief Executive, Finance Director and the Group Human Resources Director attended its meetings when required. The committee reviewed its own performance and terms of reference and approved the foregoing summary report on its work. More details in respect of remuneration matters are given in the Remuneration Report.

Nominations Committee

The Nominations Committee comprises the Chairman, Roberto Quarta who chairs the committee, all of the independent non-executive directors and the Chief Executive. Norman Askew was committee chairman until he retired on 31 October 2011 and was succeeded by Roberto Quarta, who joined the committee on 1 June 2011. During the year the committee reviewed the composition of the Board and its committees and made nominations for appointments to the Board and its committees. External consultants are engaged by the committee in relation to any search for successor non-executives. Appointments of non-executives are made on the basis of a standard form of appointment letter. Each non-executive director and the Chairman were appointed on the basis of a stated minimum time commitment judged appropriate by the committee. The committee considers that the time given by each non-executive was sufficient. The committee also reviewed the roles of the non-executive directors and during the year it made recommendations, which were approved by the Board, concerning the appointment of Sean Toomes as an executive director. The committee met on six occasions during the year with all members in attendance. During the year the committee spent a substantial part of its time on executive talent development and succession planning. The senior independent non-executive director, Terry Gateley, led the search for the new Company Chairman along with the other members of the committee, excluding the outgoing Chairman, and external search consultants were engaged for this purpose.

In response to Lord Davies' report on Boardroom Diversity, the Company issued a policy statement, approved by the committee and the Board, which appears on the corporate website. Our policy is to recruit the very best people to execute our strategic priorities and to reflect the diverse nature of the global footprint of our businesses, reflecting the location of our customers and markets. We will continue to review the composition of our management teams and Board to ensure that we have the right mix of skills and experience while maintaining our effectiveness and execution capabilities. We will seek a diverse pool of the best quality candidates to draw from, both internally and when recruiting externally, to maximise the continuing effectiveness of the Company. At Board level, there are three nationalities, one of four non-executives is female and there is a broad mix of backgrounds and experience.

The committee reviewed its own performance and terms of reference and approved the foregoing report on its work.

Executive Committee

The Executive Committee of the Board is chaired by the Chief Executive and consists of all the executive directors and the Group Human Resources Director. The secretary to the committee is the Company Secretary. Senior executives and line managers from around the Group are regularly called upon to attend meetings of the Executive Committee. It normally meets monthly and more often as may be required and all members attended at least ten of the twelve meetings in the year, several of which were held over two days. The committee is the senior management body and as part of its broad remit it will monitor performance, review progress against strategic objectives, consider business management issues and formulate budgets and proposals on strategy, policy and resource allocation for consideration by the Board. It also acts as the risk committee of the Board and receives regular reports on health and safety, compliance and legal and corporate affairs. Its minutes are circulated to all members of the Board. The committee reviewed its own performance and terms of reference and approved the foregoing report on its work.

Investor relations

The annual general meeting is regarded by the Board as an important opportunity to meet and communicate with shareholders, particularly private investors. The 2011 annual general meeting was chaired by the Chairman, and attended by the chairmen of the standing committees of the Board and all of the other directors. The Chairman encouraged debate and questions at the formal meeting and informally during refreshments afterwards.

THE BOARD'S CORPORATE GOVERNANCE REPORT

Investor relations (continued)

Each substantially separate issue was put to the 2011 annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the Directors' Report for 2010. A separate resolution for the approval of the Remuneration Report was also put to the meeting. Notice of the 2011 annual general meeting was issued more than twenty working days in advance and the level of proxy votes lodged for and against each resolution, together with details of abstentions, were disclosed at the meeting and are shown on the Company's website. The Board values its good relations with shareholders and resolutions proposed at the 2011 annual general meeting received great support.

In addition to the Annual Report, the Company issues preliminary results and interim results announcements in March and August, respectively, as well as, interim management statements. The Company website includes recordings of certain key presentations made by senior management, recent annual and interim reports, interim management statements, other corporate announcements and links to the websites of Group businesses. The Company has arranged a dealing service for the convenience of shareholders with Equiniti (details are shown on page 134). A sponsored Level 1 American Depositary Receipt programme was established on 16 February 2011 for which Citibank, N.A. acts as depositary (details on page 134).

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

In addition, financial analysts' notes are circulated to the directors and regular feedback reports from the Company's brokers are supplemented by periodic, independent surveys of major investors' views. The Chairman, senior independent director and other non-executives do meet with major shareholders upon request, and will do so if any of them considers it appropriate: informal meetings of this type did take place in 2011 and there were also consultations with the larger shareholders and institutional shareholder representative bodies in respect of remuneration matters.

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

Risk management processes

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

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

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

Through these processes significant risks are identified, assessed and ranked according to their probability and materiality and, following Executive Committee review, the Board considers what measures are appropriate in order to mitigate, transfer or avoid such risks. Risk appetite across the range of strategic objectives of the Group was also reviewed by the Board. Principal risks and uncertainties are described on pages 34 to 35.

Financial reporting processes

The use of the Group accounting manual and prescribed reporting requirements by finance teams throughout the Group are important in ensuring that the Group's accounting policies are clearly established and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting package by

all entities in the Group ensures that information is presented in a consistent way that facilitates the production of the consolidated financial statements.

Internal control

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

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

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

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

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

Through the procedures outlined above the Board has considered the effectiveness of all significant aspects of internal control for the year 2011 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.

Business model

A description of how the Group preserves and generates value and the strategy for delivering its long-term objectives is given in the Business Overview section on pages 4 to 5 and 10 to 15.

Responsible business

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

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

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

By order of the Board

John O'Shea

Company Secretary

1 March 2012

REMUNERATION REPORT

1. Overview

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

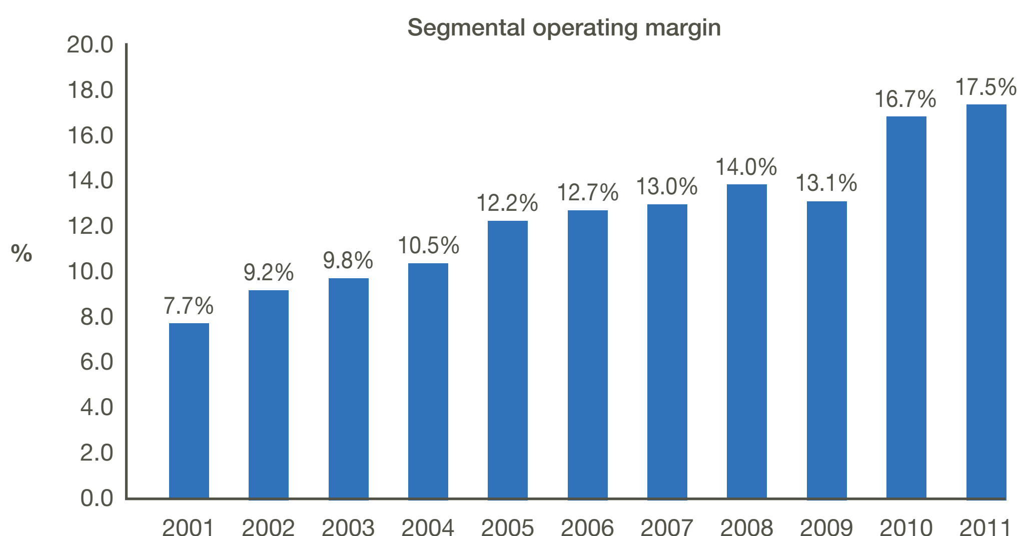
In its 2011 annual review the Remuneration Committee concluded that the current remuneration strategy and structure remain appropriate and provide strong alignment with the creation of shareholder value and an appropriate balance between long-term and short-term reward. The reward programme is compatible with the Company's approach to risk, and reinforces the Company's values and behaviours defined in The IMI Way. The committee is encouraged by the excellent results achieved by the business and regards performance related pay as a critical element of remuneration and a driver of success.

Against a global backdrop of political, economic and market instability, IMI management has achieved a record segmental operating performance and adjusted earnings per share growth and upper quartile relative shareholder returns.

Achievements in 2011

	2011	Year on year growth %
Segmental revenue	**£2,135m**	**5%***
Segmental operating profit	**£374.1m**	**9%***
Segmental margin	**17.5%**	**n/a**
Cash conversion	**88%**	**n/a**
EVA	**£200.6m**	**22%**
Adjusted EPS	**81.5p**	**23%**

*on an organic basis



The committee is confident that the rewards for this success are appropriate and well-deserved. A review of remuneration decisions and proposals is set out below:

- **Base salaries:** modest increases of up to 2.8% in executive salaries have been made for 2012 taking into account in particular the financial performance of the businesses, economic uncertainties in some of our markets, external benchmarking and internal relativities within the wider senior management team and general employee population.
- **Annual Incentive Plan:** 2011 Annual Incentive Plan weighted as 85% on financial performance and 15% on a range of non-financial measures including personal objectives. The 2012 bonus metrics are confirmed as profit before tax and exceptional items, Group adjusted EPS, organic revenue growth percentage, cash conversion percentage and some non-financial measures, based on health and safety, ethics and compliance and personal objectives.
- **Risk review:** a remuneration strategy and structure risk review was carried out in 2011 with the Independent Advisor to the committee. This review will continue on an annual basis to ensure alignment with strategy and performance drivers.

- **New all-employee global share plans:** at the 2011 Annual General Meeting shareholder approval was given for new share plans that will enable employees outside the UK to choose to make regular savings that can be used to buy IMI plc shares at a discounted price. This ability will reinforce the IMI culture across our businesses and emphasise the Group's combined value. In 2011 the new plans were operated in the USA and Germany and it is planned to expand them into China in 2012.
- **Renewal of AESOP:** approval provided by the committee for a twenty-ninth invitation to be issued to apply for options to be granted in April 2012 under the SAYE.
- **Renewal of the IMI Share Incentive Plan:** following the expiry of the authority to satisfy awards under the IMI Employee Share Ownership Plan using new issue shares (following the tenth anniversary of the plan), the committee recommend renewing the plan and refreshing this authority at the 2012 Annual General Meeting.

2. The Remuneration Committee

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

2.1 Remuneration Committee's composition

The members of the Remuneration Committee during the year were Bob Stack (Chairman), Kevin Beeston, Terry Gateley, Anita Frew and Norman Askew, the Company's non-executive Chairman until his retirement on 31 October 2011, and from 1 June 2011, Roberto Quarta, who became non-executive Chairman on 1 November 2011. In accordance with the UK Corporate Governance Code, all of the foregoing non-executive directors were regarded by the Board as independent and both Norman Askew and Roberto Quarta were both considered independent on their respective appointment as Chairman of the Company.

2.2 Remuneration Committee's role

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

2.3 Advice received by the Remuneration Committee

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

Independent remuneration advisors, New Bridge Street, were again engaged by the committee to provide advice on directors' remuneration to the committee during 2011. These advisors also attended certain meetings at the request of the committee. During the year, New Bridge Street also provided advice to the Group Human Resources Director in relation to the implementation of the committee's decisions. The terms of engagement with the committee's advisors are available on request from the Company Secretary.

2.4 Remuneration advisor tender process

During 2011, a tender process was undertaken to select a new advisor for the Remuneration Committee. Invitations to tender were issued to five leading advisory institutions. The tender process consisted of three stages including written submissions, a formal presentation and shortlist discussions with the Remuneration Committee Chairman, the Chairman of the Board and the Chief Executive. The new advisor appointed in February 2012 was confirmed as PwC.

2.5 Chairman's remuneration

The Chairman's sole remuneration consists of fees of £250,000 per annum inclusive of all committee and other work. The level of fees was set in connection with the appointment of Roberto Quarta as Chairman, which was effective on 1 November 2011, and no increase for 2012 is proposed. The Chairman is non-executive.

REMUNERATION REPORT

2. The Remuneration Committee (continued)

2.6 Non-executive directors' remuneration

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

The policy on non-executive remuneration is to pay an appropriate level on a comparative basis for their time and work on the Board and its committees. They do not participate in any bonus or employee share schemes of the Company and no part of their remuneration is conditional upon the performance of the Company. The remuneration of the non-executive directors is shown in the table on page 63. Annual remuneration in 2011 was as follows:

- Non-executive director's fee £52,500.
- Additional fee for chairing a committee £10,000.
- Additional fee for the senior non-executive director £5,000.
- Non-executive director's fees are reviewed annually but were not increased in 2012.

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

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

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

	Date of letter of appointment	Unexpired term at 01.01.12	Date of appointment as a director
K S Beeston	07.01.12	1 year 2 months	08.03.05
A M Frew	07.01.12	1 year 2 months	02.03.06
T M Gateley	01.09.11	1 year 5 months	01.11.03
R Quarta	01.09.11	2 years 5 months	01.06.11
R J Stack	01.09.11	2 years 5 months	13.06.08

The normal period for initial appointment and first renewal is three years. After six years, renewal is usually considered on an annual basis and this currently applies to Kevin Beeston. However, in 2011 Terry Gateley's term was extended until the Annual General Meeting in 2013, to ensure he continues to be available as senior independent director to support the new Chairman. Appointments are made under a letter of agreement subject to removal under the Company's articles of association, and all directors will be submitting themselves for annual re-election at the Annual General Meeting in accordance with the new UK Corporate Governance Code. There are no provisions for the Company to give notice or pay compensation in relation to the early termination of the appointment of the Chairman or any non-executive director. There is a provision in the appointment letters to the effect that a non-executive director is normally expected to give at least one month's prior notice of termination to the Company and, in the case of the Chairman, three months' notice.

3.0 Executive directors' remuneration and terms of appointment

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

3.1 Statement of policy

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

The policy is to provide competitive remuneration packages to attract, motivate, reward and retain executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to performance. During 2011 the committee reviewed the structure and metrics of the incentive arrangements for the executive directors from a risk perspective and concluded that they were aligned with appropriate risk-taking and shareholders' interests.

The Remuneration Committee considers it to be important to maintain the flexibility to respond to individual circumstances. However, its normal approach has been to pay salaries within appropriate market competitive ranges, combined with realistic potential for above-market total compensation if performance is outstanding.

In setting the remuneration of each executive director, the Remuneration Committee takes into account their role and responsibilities, skills and individual performance and makes reference to market rates as evidenced by published studies and comparisons with international UK-based groups of a similar size and complexity. In connection with this the committee considered benchmarking data prepared by New Bridge Street. The committee uses such data with caution in view of the risk of an upward ratchet of remuneration levels.

The Remuneration Committee also has received information about and had regard to pay and conditions of employees throughout the Group. The committee has the discretion to take account of environmental, social and corporate governance matters when setting the remuneration of the executive directors.

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

3.2 Key elements of executive packages

The key elements of the executive packages and their purposes are set out in the table below.

Elements of executive packages	Purpose
Base salary	Recognise value of the role and the individual.
Annual incentive bonus	Performance-based reward for annual performance across a range of financial and non-financial measures.
Share Matching Plan	Drive share ownership and co-investment of bonus into shares to increase alignment with shareholders' interests.
Performance Share Plan	Encourage and reward long-term performance and shareholder value.
Pension provision or allowance	Allowance or long-term savings arrangement.
Benefit in kind and allowances	Medical, company car and fuel or allowances, relocation allowances and an allowance for tax advice.

3.3 Base salary

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

The salaries for the 2011 financial year were reviewed in December 2010 and the committee decided that it was no longer appropriate to continue the freeze adopted since the 2008 review. Increases for January 2012 were agreed in December 2011 to reflect the outstanding financial performance of the Group, uncertain economic conditions, comparative market data and the need to balance internal relativities. The committee made the following changes to take effect from 1 January 2012 as shown in Table A on page 52. In making these decisions the committee took account of the salary increases that have been and will be awarded to employees across all levels and in all parts of the IMI Group.

REMUNERATION REPORT

3. Executive directors' remuneration and terms of appointment (continued)

3.3 Base salary (continued)

Table A: Executive Remuneration 2011 and 2012

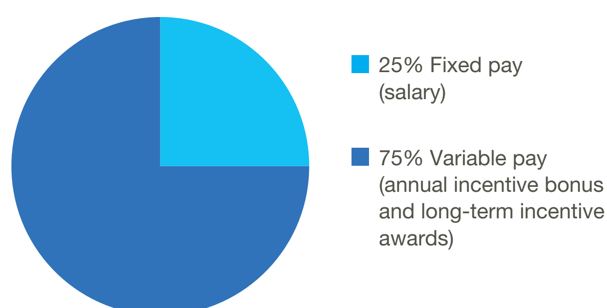
Element of Remuneration	How this supports the strategy	Name/Position	Level 31/12/11	Level 1/1/12	Performance measures and vesting schedule	Changes for 2012
Base Salary	Takes account in particular the financial performance of the business, economic uncertainties and internal relativities within the wider senior management team, as well as the individual performance and personal contribution to delivering the Group strategy.	Chief Executive M J Lamb	£720,000	£740,000	• Benchmarked against companies of a similar size and complexity and other companies in the same industry sector. • Reviewed annually from 1 January.	• Base salary increased by 2.8% from 1 January 2012
		Finance Director D M Hurt	£395,000	£405,000		• Base salary increased by 2.5% from 1 January 2012
		Executive Director S Toomes	£330,000	£330,000		• Appointed to new position on 1 June 2011
		Executive Director R M Twite	£395,000	£405,000		• Base salary increased by 2.5% from 1 January 2012
		Executive Director I W Whiting	£345,000	£345,000		• Appointed to new position on 1 September 2010
Annual Incentive Bonus	Drives and rewards performance against annual financial, strategic and operational goals which are consistent with the medium to long term strategic needs of the business also taking into account individual behaviour and contribution.	Chief Executive	Maximum of 150% of salary (on target performance results in a payment of 50% of the maximum bonus).		• 2011 bonus metrics were based on 85% financial performance and 15% on a range of non-financial measures including personal objectives. • 55% Profit before tax and exceptionals, 15% Return on Sales, 15% Cash Conversion, 5% IMI Way, 5% Health & Safety and 5% Personal Objectives. • Bonus award payments subject to 'Share Ownership Guidelines' (see Section 3.6 for explanation).	• No change in the maximum award for 2012. • For 2012 the performance measures will encourage focus on organic growth (15%), in place of RoS measure which is now an embedded discipline. In addition an element of IMI Group bonus will be based on EPS (15%). Non-financial metrics will increase from 15% to 20%.
		Finance Director	Maximum of 125% of salary (on target performance results in a payment of 50% of the maximum bonus).			
		Executive Directors	Maximum of 115% of salary (on target performance results in a payment of 50% of the maximum bonus).			
Share Ownership Guidelines (SOG)	Incentivise long term value creation and alignment with shareholder interests.	All Executives	Shareholding guidelines 125% of salary for all Executive Directors.		• All executives met the guidelines at the year end.	• No change to the shareholding guidelines for Executives for 2012.
Share Matching Plan (SMP)	Aligns the interest of executives and shareholders through the delivery of awards in shares and provides a retention tool for key executives as matching awards and performance share awards are forfeitable on cessation of employment.	Chief Executive	Investment to maximum 100% of annual incentive opportunity. Matching awards for voluntarily invested shares is 200% and lower level of match is 125%.		• 100% EVA • 3-year vesting period subject to continued employment and achievement of performance conditions.	• No proposed changes for 2012 to maximum investment levels or level of Company matching. • EVA will be retained for 100% of the 2012-14 award.
		Finance Director Executive Directors	Investment to maximum 100% of annual incentive opportunity. Matching awards for voluntarily invested shares is 200% and lower level of match is 100%.			
Performance Share Plan (PSP)		All Executives	The PSP allows for share-based awards worth up to the maximum of 100% of annual salary.		• 50% Adjusted EPS CAGR % • 25% TSR (39 member international peer group) • 25% Return on Operating Capital Employed (RoOCE) 3 year average. • 3-year vesting period subject to continued employment and performance conditions.	Given the focus on organic revenue growth, and the acceptance that strong margin discipline is firmly embedded, in 2012 there will be the following changes to the performance measures: • 25% RoOCE will be replaced with 25% Organic revenue growth CAGR %. • There are no further changes to the 2012 performance conditions.

3.4 Chief Executive's remuneration

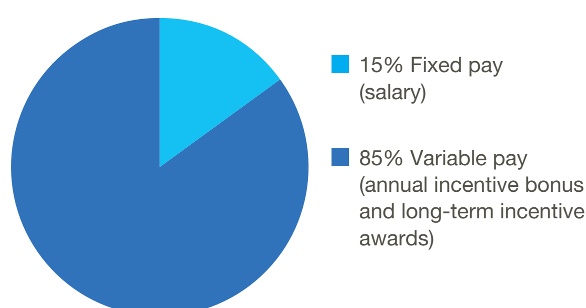
The following charts show the fixed and performance-related elements of the Chief Executive's remuneration at both target and maximum based on the proposed 2012 incentive arrangements (assuming maximum personal investment in the Share Matching Plan and excluding the impact of changes in share price). This supports the committee's policy that a significant proportion of remuneration should be performance-related and that the Company rewards Executives for investing in and retaining shares within IMI. The mix of remuneration for the other executive directors is broadly comparable, although their maximum bonus potentials are lower.

The Remuneration Committee considers the quantum of the Chief Executive's remuneration to be appropriate and commensurate with the growing performance of the Company, changes to the pay and conditions of employees throughout the Group and strong alignment with the creation of shareholder value.

Chief Executive's target remuneration



Chief Executive's maximum remuneration

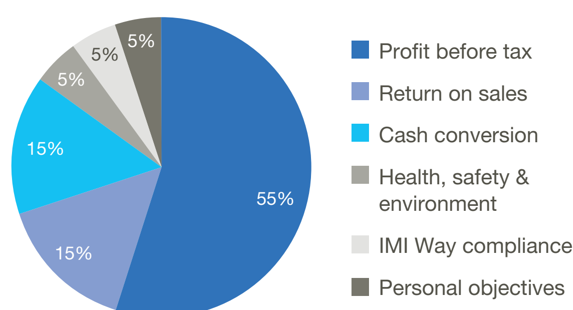


3.5 Annual Incentive Bonus

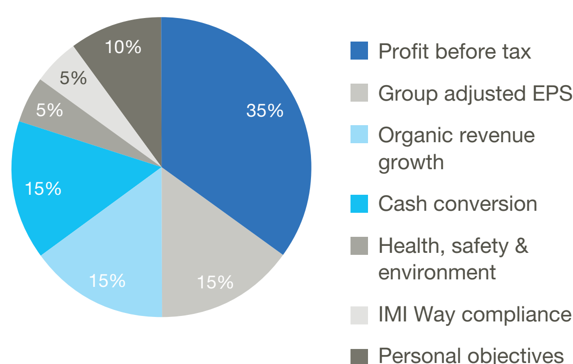
Executive directors participate in an Annual Incentive Bonus (see Table B on page 54). The Annual Incentive Bonus supports the business strategy by driving and rewarding performance against annual financial, strategic and operational goals which are consistent with the medium to long term strategic needs of the business also taking into account individual behaviour and contribution.

The 2011 Annual Incentive Bonus metrics were weighted as follows: 85% on financial performance and 15% on a range of non-financial measures including personal objectives. Achievement of the 2011 Annual Incentive Bonus can be seen in Table B on page 54. The structure for the 2012 Annual Incentive Bonus will remain similar to 2011, which has now been in place for several years. However, now that Return on Sales is an embedded discipline and to encourage focus on organic growth, the Return on Sales metric has been replaced with an Organic Revenue Growth metric. A further additional feature for 2012 is the inclusion of Group adjusted EPS within the financial measures. EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings. The 2012 Annual Incentive Bonus will be weighted as follows; 80% on financial performance and 20% on a range of non-financial measures including personal objectives.

Weighting of Annual Incentive Bonus metrics 2011



Weighting of Annual Incentive Bonus metrics 2012



REMUNERATION REPORT

3. Executive directors' remuneration and terms of appointment (continued)

3.5 Annual Incentive Bonus (continued)

Maximum bonus is only payable if the stretching targets set by the Remuneration Committee are met. All the bonus metrics have a sliding scale calibration and on-target performance will result in a payment of 50% of the maximum bonus. The Annual Incentive Bonus maximum is shown in Table B below.

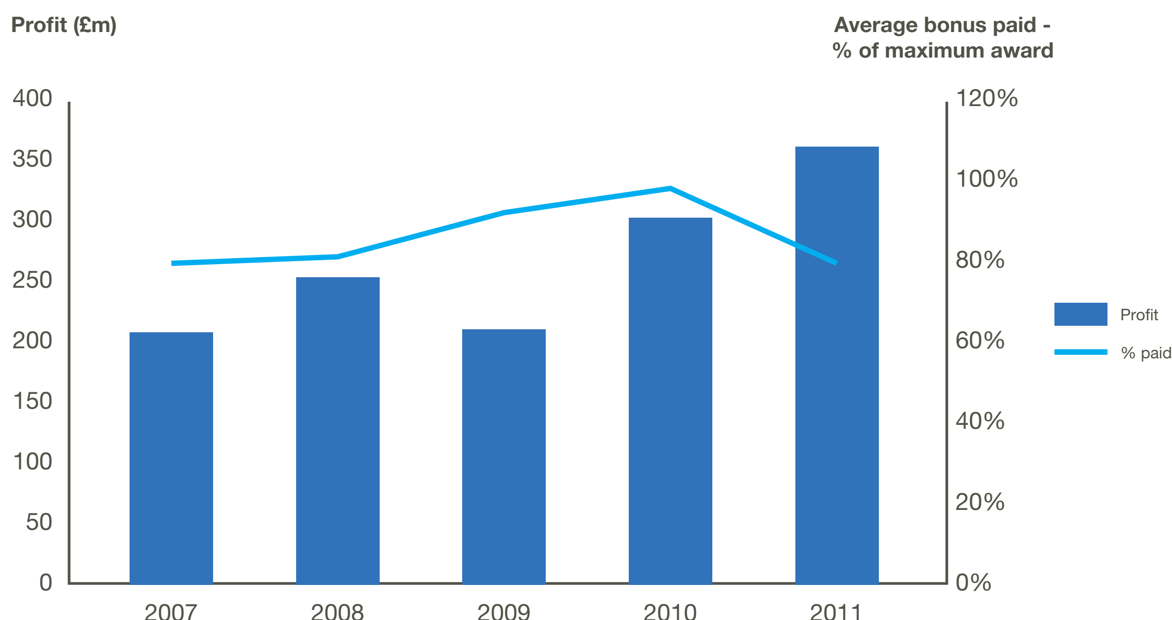
Table B: Annual Incentive Bonus maximum

Annual bonus	Maximum bonus (% of salary)			Actual bonus (% of salary)			Actual bonus (% of max)		
	CEO	FD	Executives	CEO	FD	Executives[1]	CEO	FD	Executives[1]
2011	150%	125%	115%	127%	105%	86%	85%	84%	75%
2010	150%	125%	115%	143%	119%	110%	95%	95%	96%
2009	130%	115%	100%	118%	105%	92%	91%	91%	92%
2008	150%	125%	100%	116%	101%	85%	77%	81%	85%
2007	100%	100%	100%	80%	80%	80%	80%	80%	80%

[1]This is the average achievement across all executive directors, excluding the CEO and FD.

There are no changes proposed for the 2012 Annual Incentive Bonus maximum.

The alignment of Annual Incentive Bonus payments to the executive directors with Group profit before tax is illustrated in the chart below.



Under the rules of the Executive Retirement Plan (ERP), introduced in 2010, UK-based directors and senior managers were able to waive their bonus entitlement. The Remuneration Committee was then able to choose, at its discretion, to make a contribution into the ERP on their behalf. Following changes to UK tax legislation during 2011, no further contributions will be made.

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

The committee retains power to reduce or withhold annual bonus payments in exceptional circumstances and in line with best practice it has reserved the power to seek claw-back of bonuses in certain cases where the bonus should not have been paid in the first place (see section 7.1 for further details on discretionary powers).

3.6 Share Ownership Guidelines

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

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

All of the executive directors met the guidelines at the year end. The levels of holdings at the end of 2011 relative to basic salaries (calculated using the average share price in December 2011) were as follows:

Executive director	Level of share ownership
M J Lamb	402%
D M Hurt	362%
S Toomes	153%
R M Twite	226%
I W Whiting	633%

3.7 Long-Term Incentive Plans

The Company operates two long-term share incentive plans for executive directors:

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

3.7.1 Share Matching Plan

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

Under the SMP individuals may invest up to 100% of their maximum annual bonus potential into shares; the limit being set on an annual basis by the Remuneration Committee. The committee intends to allow such a level of investment in 2012. By investing in the SMP, matching shares may be earned, which vest after three years, subject to the achievement of stretching performance conditions. Current policy is that awards made under the share matching arrangements, where settled in shares, will be satisfied through shares purchased in the market but the committee retains the flexibility to use new issue and treasury shares.

Matching awards allow for a higher level of match up to 200% for shares that are purchased through the voluntary investment of bonus or other monies. The lower levels of match up to 125% for the Chief Executive and 100% for other executive directors apply to annual bonus that is to be compulsorily paid in shares, being up to 50% of the bonus according to whether, and if so, the extent to which, an executive has not met their share ownership guideline.

The matching share awards are subject to improvement in Economic Value Added (EVA) over a three year period. The calculation of EVA is based on segmental operating profit after tax with appropriate adjustments, less a capital charge on the invested capital in the business reflecting IMI's cost of capital. Further details of the performance conditions attaching to existing awards are set out in the notes to the table on page 65.

The 2008 Deferred Bonus Plan (DBP) awards vested in 2011 at 97% of maximum. 2009 SMP awards are due to vest in March 2012 at 95% of maximum. Economic uncertainties at the time of commencing the 2009 plan made it difficult to forecast EVA and led to the 2009 SMP awards being made based on exceptional metrics which included one third total shareholder return (on the same relative basis as for the 2009 Performance Share Plan awards), one third profit before tax (measured annually) and one third annual priority targets aligned to annual incentive targets (measured annually). The level of vesting reflects the excellent operational performance over the period and the upper quartile relative total shareholder return against the comparator group.

In line with best practice, the committee retains power to claw-back awards in exceptional circumstances (see section 7.1 for further details on discretionary powers).

REMUNERATION REPORT

3. Executive directors' remuneration and terms of appointment (continued)

3.7 Long-Term Incentive Plans (continued)

3.7.2 Performance Share Plan

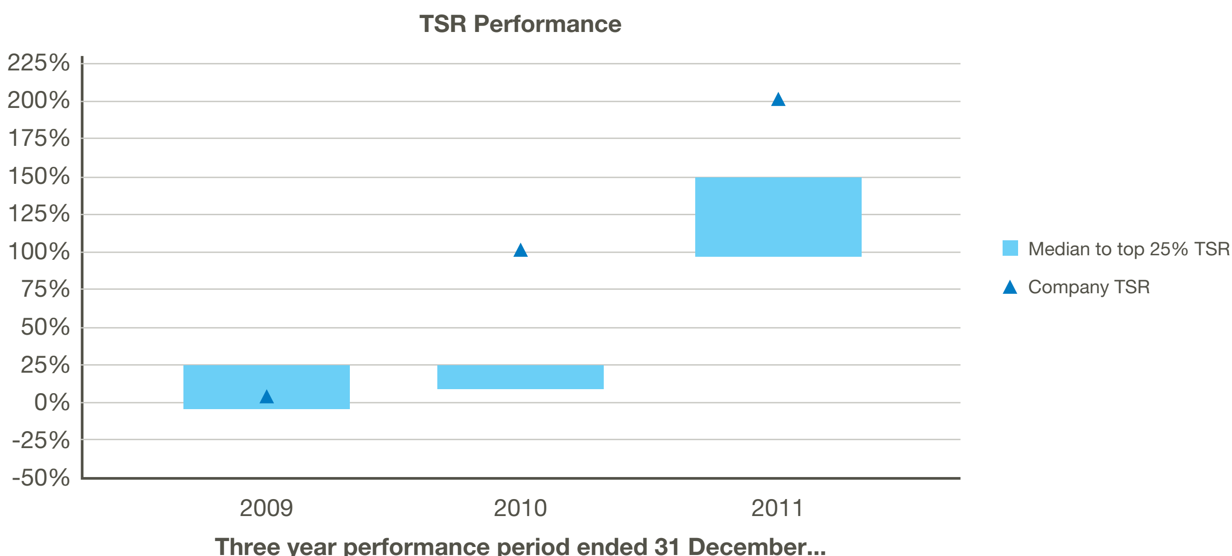
The Performance Share Plan (PSP) aligns the interest of executives and shareholders through the delivery of awards in shares and provides a retention tool for key executives. The PSP allows for share-based awards worth up to a maximum of 100% of annual salary. The vesting of awards is subject to the satisfaction of stretching performance conditions over a three year period. The current policy is for PSP awards, where settled in shares, to be satisfied through shares purchased in the market but the committee retains the flexibility to use new issue and treasury shares. The 2009 PSP awards are due to vest in March 2012 at 100% of maximum.

The performance conditions for the PSP awards are shown below:

Grant	Vest	Performance Conditions	Maximum
2007	2010	earnings per share (EPS) relative total shareholder return (TSR)	50% 50%
2008	2011	earnings per share (EPS) relative total shareholder return (TSR)	50% 50%
2009	2012	relative total shareholder return (TSR)	100%
2010	2013	return on operating capital employed (RoOCE) earnings per share (EPS) relative total shareholder return (TSR)	25% 50% 25%
2011	2014	return on operating capital employed (RoOCE) earnings per share (EPS) relative total shareholder return (TSR)	25% 50% 25%
2012	2015	organic revenue growth (CAGR) earnings per share (EPS) relative total shareholder return (TSR)	25% 50% 25%

3.7.2.1 Total Shareholder Return performance condition

Total Shareholder Return (TSR) is well understood and accepted as a performance measure for long-term incentives and links rewards to shareholder value. PSP awards granted under the plan in 2009 were also subject to a single performance condition in respect of relative TSR because economic uncertainties made it difficult to set a realistic three year earnings per share target. IMI's relative TSR performance at the end of the three year performance period ended 31 December 2011 placed it at the top end of the upper quartile of the comparator group and as a result the 2009 PSP awards will vest in full in March 2012.



25% of the 2011 and intended 2012 PSP awards are subject to a TSR performance condition. TSR is defined as the movement in the share price during the performance period on a local currency basis with adjustments to take into account changes in capital structure and dividends (which are assumed to be reinvested in shares on the ex-dividend date). The vesting schedule for the element of awards subject to the TSR performance condition is as follows:

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

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

The TSR comparator groups for awards made in 2008 to 2011 are shown below:

Name	Country*
Amada	Japan
Atlas Copco A	Sweden
BBA Aviation	United Kingdom
Bodycote International	United Kingdom
Borgwarner	United States
Cobham	United Kingdom
Cookson Group	United Kingdom
Eaton	United States
Emerson Electric	United States
Fanuc	Japan
Flowserve Corp	United States
GKN	United Kingdom
Halma	United Kingdom
Heidelberg Druck	Germany
Honeywell	United States
IDEX Corp	United States
Illinois Tool Works	United States
Ingersoll-Rand	United States
Invensys	United Kingdom

Name	Country*
Johnson Matthey	United Kingdom
Manitowoc	United States
Meggitt	United Kingdom
Metso Corporation	Finland
NSK	Japan
Parker-Hannifin	United States
Pentair	United States
Rotork	United Kingdom
Sandvik	Sweden
Seco Tools B	Sweden
SKF B	Sweden
SMC	Japan
Spectris	United Kingdom
Spirax-Sarco Engineering	United Kingdom
Sulzer AG	Switzerland
THK	Japan
Tyco International	United States
Weir Group	United Kingdom
Yaskawa Electric	Japan

* Country is shown as country of primary listing.

Note: Enodis, Tomkins, FKI and Charter had been included in the comparator group but delisted between 2008 and 2011.

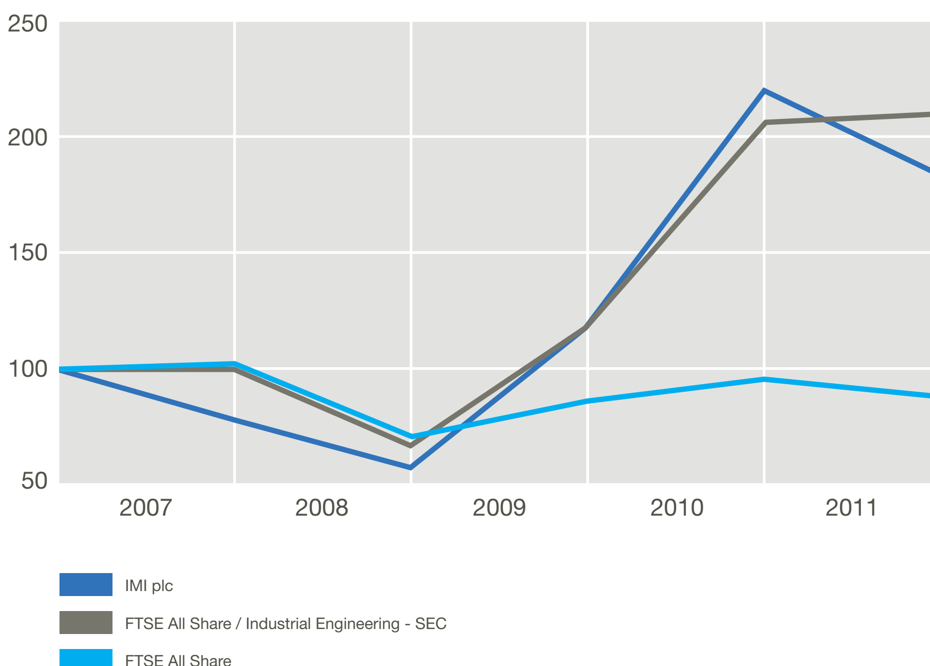
The 2012 comparator group will be the same as it was in 2011 subject to any delisting.

REMUNERATION REPORT

3. Executive directors' remuneration and terms of appointment (continued)

3.7.2.1 Total Shareholder Return performance condition (continued)

The graph below compares the Company's total shareholder return over the five years ended 31 December 2011 with that of the FTSE All Share Industrial Engineering Index and the FTSE All Share Index. The FTSE All Share Industrial Engineering Index was chosen as a comparator index because it is the industry share index in which the Company is classified and provides a reasonable benchmark for assessment of its relative performance. The FTSE All Share Index was chosen as it is a relevant broad equity market index. Over the past five years the total shareholder return has underperformed the FTSE All Share Industrial Engineering Sector Index by 24.6% and outperformed the FTSE All Share Index by 94.4%.



3.7.2.2 EPS performance condition

EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings and because the Remuneration Committee believed it worked well in combination with TSR which is a comparative measure. The performance condition for one half of the 2011 PSP awards and the intended 2012 PSP awards will be based on the Company's compound annual earnings per share growth over a three-year period. The Remuneration Committee sets the EPS targets in respect of each annual award at the level it considers appropriately stretching given the conditions in which the Company is operating. The vesting schedule for the awards subject to the EPS performance condition proposed to be granted in 2012, which is the same as for the 2011 awards, is as follows:

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

As for 2011 awards, the EPS measure for intended 2012 PSP awards will be based on adjusted basic earnings per share which includes adjustment for the elimination of the after tax cost of restructuring, acquired intangible amortisation and impairment, financial instruments, but including economic hedge contract gains and losses, and excluding any other items meeting the definition of an exceptional item as defined in the Group Accounting Policies.

3.7.2.3 Return on Operating Capital Employed performance condition

Return on Operating Capital Employed (RoOCE) was adopted as a performance measure for a portion of PSP awards in 2010 to incentivise sustained working capital improvement. The vesting of the other 25% of the 2011 PSP award will depend on IMI's average RoOCE over the three years from the year of grant. For 2011 awards RoOCE has been defined to exclude intangible assets and calibrated as follows:

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

Given the focus on organic revenue growth, and the acceptance that strong margin discipline is firmly embedded across the Company for the 2012 PSP grant the RoOCE element will be replaced with a 3-year compound growth in organic revenue.

3.7.2.4 Organic revenue growth % (2012 PSP performance condition)

Organic revenue growth % (CAGR) is being adopted for the 2012 PSP to encourage focus on organic growth.

Average CAGR %	Vesting
+8%	100%
Between +2.7% and +8%	Pro-rata between 25% and 100%
+2.7%	25%
Less than 2.7%	0%

Details of the awards made under the PSP are contained in the table of directors' awards on page 64.

In line with best practice, the committee retains power to claw-back awards in exceptional circumstances (see section 7.1 for further details on discretionary powers).

4. All Employee Share Plans

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

4.1 UK SAYE plan

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

4.2 Share Incentive Plan (SIP)

UK executive directors also participate in an All Employee Share Ownership Plan which is open to the majority of the Group's UK employees. Subject to shareholder approval at the forthcoming Annual General Meeting of a new plan to replace the expired original, shares to a value equal to the lesser of £3,000 and 0.6% of each participant's basic salary will be acquired in 2012 at market value by the Trustee of the plan in respect of their participation during 2011. The plan is not operated subject to specific performance conditions. Eligible employees are able to invest up to £1,500 annually in a tax-efficient manner in purchasing partnership shares under the plan. Each of the UK executive directors makes the maximum contribution from their salary towards partnership shares under the plan. Matching shares may be awarded in respect of partnership shares acquired under the plan although the policy to date has been not to award any matching shares.

REMUNERATION REPORT

4. All Employee Share Plans (continued)

4.3 Global Employee Share Purchase Plans

New 'all-employee' share plans intended to encourage employee investment in IMI shares were approved by shareholders at the 2011 Annual General Meeting and save as you earn type plans were launched in the USA and Germany with extension into China planned for 2012.

4.4 Share Option Plan

A share option plan for senior employees was established in 2009 and shareholder approval of this plan was given at the 2011 Annual General Meeting in order to introduce the flexibility to satisfy awards using new issue and treasury shares. No directors or others who receive PSP awards receive such share options.

5. Share dilution

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

The Association of British Insurers has set recommended guidelines on the number of new issue and treasury shares that can be used under a company's share plans. The guidelines are 10% of the issued share capital in any 10 year period for all share plans, with an inner limit of 5% in 10 years for executive schemes. IMI operates within these limits and its standing as at 31 December 2011 was 2.90% and 1.79% respectively.

6. Pension entitlement

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

The IMI Pension Fund was closed to all employees in respect of future service from 31 December 2010 and alternative pension arrangements were established including an Executive Retirement Plan (ERP), which was intended to be a tax efficient long-term savings vehicle for UK senior managers to save for retirement outside the registered pensions regime. Discretionary contributions were made to the ERP in 2010 and 2011 but it has been rendered tax ineffective for future contributions and possible alternative provisions are being kept under review.

6.1 Pension benefits provided for 2011 service

Under the rules of the ERP which was introduced in 2010, UK based directors and senior managers were able to waive their pension benefits and bonus entitlements. The Remuneration Committee was then able to choose, at its discretion, to make a contribution into the ERP on their behalf, which is an unregistered defined contribution arrangement structured as an offshore trust. Such contributions to the ERP in respect of executive directors are determined on a basis that is intended to be cost neutral to the Company. At the 2010 AGM shareholders approved changes to the rules of the SMP and PSP that permit these awards to be settled in the form of employer contributions to the ERP. Following changes to UK tax legislation during 2011, no further contributions will be made.

Executive directors are entitled to receive a taxable cash allowance instead of pension benefits. With the Remuneration 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. The value of the pension allowance for 2011 can be viewed below.

	Value of pension allowance	
M J Lamb	£252,000	(35% of salary)
D M Hurt	£138,250	(35% of salary)
R M Twite	£133,117	(35% of salary)
I W Whiting	£120,750	(35% of salary)
S Toomes	£67,375	(35% of salary since appointment)

To reflect particular requirements in Switzerland, the Company is establishing a pension arrangement there for S Toomes. The details of this arrangement are being finalised, but it is expected to be mainly defined-contribution in nature, although there will be a defined benefit element as is required by law in Switzerland. The Company contributions to this arrangement will be deducted from the pension allowance described above (and the contributions will be less than the

pension allowance), it is expected the arrangement will be backdated to 1 June 2011 and further details will be included in next year's report.

6.2 Pension benefits for past service

M J Lamb, R M Twite and S Toomes were previously active members of the defined benefit IMI Pension Fund. M J Lamb opted out with effect from 6 April 2006; R M Twite opted out with effect from 1 February 2007 and S Toomes from 31 August 2010. As a result they retain past pensionable service up to these dates and the value of this is shown in the table on page 66. The nature of these benefits is more complicated than the pension benefits provided in respect of 2011, but the key elements are summarised below:

- The normal retirement age under the Fund is 60 for M J Lamb, and 62 for R M Twite and S Toomes. M J Lamb may elect to retire from employment with IMI and receive a pension at any time after age 57 without any actuarial discount, and R M Twite and S Toomes may retire from employment with IMI any time after age 60 without actuarial discount.
- On death after retirement, a dependant's pension is provided equal to two-thirds of the member's pension for M J Lamb and 50% of the member's pension for R M Twite and S Toomes.
- Should M J Lamb die within the first five years of retirement, a lump sum is also paid equal to the balance of five years' pension payments. For R M Twite and S Toomes, 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.
- M J Lamb's past pension benefits generally continue to be linked to final salary inflation (averaged over the past three years) and equivalent benefits to those provided for under the Fund rules immediately prior to closure are preserved in relation to ill-health retirement, death in service and early retirement at the Company's instance. The difference between these benefits and those automatically provided under the Fund, the EPM benefits, will be assessed as at 31 December 2011 and each subsequent year end until death in service, retirement on ill-health grounds or retirement at the Company's instance and there may be a payment to the Fund (to augment Fund benefits) or a payment in lieu to M J Lamb (or his estate) or by way of contribution to the ERP or another pension arrangement shortly after each year end until a final augmentation or payment is made following death in service or relevant early retirement event. As at 31 December 2011 no EPM benefits were payable.

I W Whiting is eligible for benefits under three arrangements in the USA. The first is a defined contribution arrangement, the IMI 401(k) Plan. The second is a defined benefit arrangement, the Control Components Inc Employees' Pension Plan. His pension from this plan is payable from age 65 without further increase. The third is also a defined benefit arrangement, the IMI Americas Supplemental Executive Retirement Plan. His pension from this plan is payable from age 65, subject to completion of 10 years' service with the Group, without further increase. On retirement I W Whiting has the option of exchanging part of his pension to provide for a spouse's pension payable on his death after retirement.

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

7. Termination Clauses

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

Consistent with the policy on service contracts, the executive directors' service contracts are subject to termination on one year's notice by the Company or the executive directors. Contractual retirement age for UK-based executive directors is 65 and for Switzerland-based executive directors, 60.

These contracts do not include any specific provision for compensation payable upon early termination save that, as a consequence of the closure of the IMI Pension Fund on 31 December 2010, the Company has made alternative contractual arrangements in lieu of certain contractual entitlements to pension benefits, which, but for the closure, would have been provided through the IMI Pension Fund to all members in the same membership category as the Chief Executive. The alternative contractual arrangements for all these members include augmentation of Fund benefits (to the level that would have been provided save for the closure) or payment in lieu in respect of benefits arising on early

7. Termination Clauses (continued)

retirement by reason of redundancy or other termination at the Company's instance. Had such benefits arisen for the Chief Executive as at 31 December 2011, the estimated cash cost to the Company would have been approximately £5.1m. The payment in lieu computation is designed to be neutral to the Company on a net of tax basis and compared with the cash contributions that would otherwise have been expected to provide the benefits through the Fund.

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

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

	Date joined Group	Date of appointment to Board	Date of service contract	Notice period	Period to legal retirement age as at 31.12.11
M J Lamb	31.10.86	18.07.96	01.01.11	12 months	13 years
D M Hurt	01.05.06	01.07.06	01.10.06	12 months	9 years 5 months
S Toomes	18.02.85	01.06.11	01.09.11	12 months	21 years 5 months
R M Twite	26.09.88	01.02.07	01.02.07	12 months	20 years 5 months
I W Whiting	18.07.05	01.09.10	01.01.10	12 months	17 years

7.1 Discretionary Powers

The committee retains power to reduce or withhold Annual Incentive Bonus payments and awards under the long-term incentive share plans in exceptional circumstances (as described below). In line with best practice it has also reserved the power to seek claw-back of bonuses in certain cases where the bonus should not have been paid in the first place. Claw-back conditions feature in all incentive share plan schemes and annual incentive bonus rules.

Exceptional circumstances would include the requirement to restate the accounts of the Company's group, for example, for a correction of an error as defined by IAS8 '*Accounting policies, changes in accounting estimates and errors*', in circumstances where, in the opinion of the Remuneration Committee, the original overstatement in the accounts has resulted, or would result, either directly or indirectly, in either a participant's awards vesting or Annual Incentive Bonus result, to a greater degree than would have been the case had that misstatement not been made; or where a participant is found guilty of any serious criminal offence (as determined in the opinion of the Remuneration Committee) arising out of or in connection with the participant's office or employment with a participating company.

8. External appointments

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

Executive directors may accept one external appointment with the consent of the Board, and are normally allowed to retain fees from external non-executive directorships. M J Lamb was appointed a non-executive director of Severn Trent Water plc on 29 February 2008 and received fees in the year to 31 December 2011 of £46,350 (2010: £42,500).
D M Hurt was appointed as a non-executive director of Tate & Lyle plc on 10 March 2010 and received fees in the year to 31 December 2011 of £55,800 (2010: £39,682).

9. Summary of directors' remuneration

This section of the Remuneration Report is required to be audited.

	Salary and fees £000	Non-cash benefits £000	Sums by way of taxable allowances £000	Bonus 2011 £000	Total 2011 £000	Total 2010 £000	Bonus and pension allowance waived 2010[2] £000
Non-executive							
N B M Askew[1]	**163**	-	-	-	**163**	195	-
K S Beeston	**53**	-	-	-	**53**	45	-
A M Frew	**53**	-	-	-	**53**	45	-
T M Gateley	**68**	-	-	-	**68**	60	-
R Quarta[1]	**64**	-	-	-	**64**		
R J Stack	**63**	-	-	-	**63**	55	-
Executive							
D M Hurt	**395**	**4**	**157**	**416**	**972**	403	534
M J Lamb	**720**	**5**	**273**	**914**	**1,912**	830	1,020
S Toomes[1]	**193**	**5**	**172**	**187**	**557**	-	-
R M Twite[3]	**380**	**4**	**150**	**387**	**921**	530	325
I W Whiting	**345**	**13**	**267**	**216**	**841**	304	-
Total	**2,497**	**31**	**1,019**	**2,120**	**5,667**	2,467	1,879

[1] S Toomes became a director on 1 June 2011. N B M Askew retired as a director on 31 October 2011. R Quarta was appointed as a non-executive director on 1 June 2011 and as Chairman from 1 November 2011.

[2] M J Lamb, D M Hurt and R M Twite waived all or part of their 2010 bonus entitlement and pension allowance. The Company made discretionary contributions into the Executive Retirement Plan as disclosed in last year's annual report.

[3] R M Twite's salary increased from £373,000 to £395,000 on 1 September 2011.

Non-executive remuneration shown above of £464,000 (2010: £400,000) represents fees rather than salary.
No compensation for loss of office was paid to or receivable by any director in 2011.

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

All executive directors elected for a cash alternative, instead of a company car. Sums paid by way of taxable allowances in the above table include cash allowances in lieu of company car, certain pension benefits and tax assistance. Relocation allowances were provided to S Toomes and I W Whiting in respect of their moves to Switzerland.

10. Directors' share awards

This section of the Remuneration Report is required to be audited.

Share awards/options are outstanding under the following schemes:

UK SAYE - IMI Savings-Related Share Option Scheme

SMP - Share Matching Plan (formerly DBP)

US SAYE - IMI US Stock Purchase Plan 2011

PSP - Performance Share Plan

SOP - Share Option Plan

REMUNERATION REPORT

10. Directors' share awards (continued)

10.1 Table of SAYE, PSP and SOP awards

Director	Scheme	Performance condition	Date of grant/ award	Award price*	As at 01.01.11 (or date of appointment if later)	During the year Granted	During the year Exercised / vested	During the year Lapsed	As at 31.12.11 (or date of retirement if earlier)	Date from which exercisable/ vesting date	Expiry date	Date of exercise	Mid market price at date of exercise
M J Lamb	UK SAYE	a)	09.04.09	201.36p	4,544				4,544	01.08.12	31.01.13		
	PSP	b)	04.04.08	473.58p	138,500		158,977+		Nil	28.03.11	04.04.18	28.03.11	1016.00p
		c)	11.03.09	229.50p	285,800				285,800	11.03.12	11.03.19		
		d)	07.05.10	679.00p	96,600				96,600	22.03.13	22.03.20		
		d)	10.03.11	956.17p	Nil	75,300			75,300	10.03.14	10.03.21		
D M Hurt	UK SAYE	a)	09.04.09	201.36p	7,772				7,772	01.08.14	31.01.15		
	PSP	b)	04.04.08	473.58p	76,000		87,235+		Nil	28.03.11	04.04.18	28.03.11	1016.00p
		c)	11.03.09	229.50p	156,800				156,800	11.03.12	11.03.19		
		d)	07.05.10	679.00p	53,000				53,000	22.03.13	22.03.20		
		d)	10.03.11	956.17p	Nil	41,300			41,300	10.03.14	10.03.21		
R M Twite	UK SAYE	a)	09.04.09	201.36p	4,544				4,544	01.08.12	31.01.13		
	PSP	b)	04.04.08	473.58p	71,500		82,069+		Nil	28.03.11	04.04.18	28.03.11	1016.00p
		c)	11.03.09	229.50p	148,100				148,100	11.03.12	11.03.19		
		d)	07.05.10	679.00p	50,100				50,100	22.03.13	22.03.20		
		d)	10.03.11	956.17p	Nil	39,000			39,000	10.03.14	10.03.21		
I W Whiting	US SAYE	a)	19.12.11	631.85p	Nil	977			977	25.08.13	18.03.14		
	PSP	b)	04.04.08	473.58p	30,000		34,434+		Nil	28.03.11	04.04.18	28.03.11	1016.00p
		b)	03.10.08	376.25p	9,900		11,276+		Nil	03.10.11	03.10.18	23.12.11	746.50p
		d)	10.03.11	956.17p	Nil	36,000			36,000	10.03.14	10.03.21		
	SOP	e)	03.09.09	440.93p	120,000				120,000	03.09.12	03.09.19		
		e)	22.03.10	645.00p	75,000				75,000	22.03.13	22.03.20		
S Toomes	PSP	d)	10.03.11	956.17p	21,100				21,100	10.03.14	10.03.21		
	SOP	e)	03.09.09	440.93p	90,000				90,000	03.09.12	03.09.19		
		e)	22.03.10	645.00p	57,500				57,500	22.03.13	22.03.20		

During the year

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

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

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

c) 2009 awards were entirely based on comparative TSR with the vesting scale as described in b) above and will vest in 2012 at maximum.

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

e) SOP awards shown were made to I W Whiting and S Toomes prior to their appointment as executive directors and are not subject to performance conditions. Executive directors are not eligible to participate in the SOP.

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

The closing price of the Company's ordinary shares at 31 December 2011 was £7.60 per share and the closing price range during the year was £6.36 to £11.19.

10.2 Table of SMP awards

Director	Perform-ance condition	Date of grant/award	Mid market price at date of award	As at 01.01.11 (or date of app-ointment if later)	During the year Granted	During the year Exercised/vested	Lapsed	As at 31.12.11 (or date of retirement if earlier)	Date from which exercisable/vesting date	Date of exercise/vesting	Mid market price at date of exercise
M J Lamb	a)	04.04.08	461.75p	66,100		78,174+	1,983	Nil	28.03.11	28.03.11	1016.00p
	b)	01.06.09	357.75p	690,359				690,359	26.03.12		
	c)	07.05.10	640.50p	330,090				330,090	22.03.13		
	d)	28.03.11	1016.00p	Nil	212,530			212,530	28.03.14		
D M Hurt	a)	04.04.08	461.75p	28,300		33,956+	849	Nil	28.03.11	28.03.11	1016.00p
	b)	01.06.09	357.75p	174,917				174,917	26.03.12		
	c)	07.05.10	640.50p	160,246				160,246	22.03.13		
	d)	28.03.11	1016.00p	Nil	97,190			97,190	28.03.14		
R M Twite	a)	04.04.08	461.75p	49,702		61,158+	1,491	Nil	28.03.11	28.03.11	1016.00p
	b)	01.06.09	357.75p	146,645				146,645	26.03.12		
	c)	07.05.10	640.50p	131,602				131,602	22.03.13		
	d)	28.03.11	1016.00p	Nil	84,448			84,448	28.03.14		
I W Whiting	a)	04.04.08	461.75p	24,446		31,672+	733	Nil	28.03.11	28.03.11	1016.00p
	b)	01.06.09	357.75p	122,370				122,370	26.03.12		
	c)	07.05.10	640.50p	63,729				63,729	22.03.13		
	d)	28.03.11	1016.00p	Nil	72,238			72,238	28.03.14		
S Toomes	b)	01.06.09	357.75p	62,367				62,367	26.03.12		
	c)	07.05.10	640.50p	34,487				34,487	22.03.13		
	d)	28.03.11	1016.00p	35,109				35,109	28.03.14		

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

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

b) Performance measures for 2009 SMP awards were exceptional, and included one third TSR (on the same basis as for the 2009 PSP awards), one third profit before tax (measured annually) and one third annual priority targets (measured annually). The annual priority targets were weighted equally, in 2009 between cash conversion and profit drop through and, in 2010 and 2011, between cash conversion and return on sales. 2009 SMP awards will vest in 2012 at 95% of maximum.

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

d) The performance measure for 2011 SMP awards was compound annual growth in EVA over the years 2011 to 2013 compared to EVA in the preceding 3 years. No awards will vest if compound annual growth in EVA is negative. 10% of awards vest for positive compound annual growth over the period, with subsequent vesting being tiered (with linear progression in each band) as follows: 10% to 25% vesting for compound annual growth between 0% and 6% and 25% to 100% vesting for compound annual growth of between 6% and 17%.

10.3 Awards under the legacy IMI Deferred Share Plan 2002

Director	* Date of DSP award	Purchase price for initial shares (per share)	Number of initial shares purchased	Matching award	Release date	Mid-market price at release date
M J Lamb	04.04.08	465.37p	37,225	9,306	28.03.11	1016.00p
R M Twite	04.04.08	465.37p	16,872	4,218	28.03.11	1016.00p

* No performance conditions were attached to DSP awards which were made following mandatory reinvestments into the DSP of cash payments under a defunct long-term incentive scheme under which no other awards remain outstanding. The final 2008 awards vested in March 2011.

REMUNERATION REPORT

11. Summary of directors' pension arrangements

This section of the Remuneration Report is required to be audited.

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

Director	Age at 31.12.11 Years	Pensionable service to 31.12.11[1] Years	Accrued pension at 31.12.11[2] £000 pa	Transfer value of accrued pension at 31.12.11 £000	Transfer value of accrued pension at 31.12.10[3] £000	Difference between transfer values at 31.12.10[3] and 31.12.11 £000	Increase in accrued pension over the year[2] £000 pa	Increase in accrued pension over the year (net of inflation) £000 pa	Value of increase in accrued pension at 31.12.11 (net of inflation) £000
M J Lamb	51	20	310	6,424	5,290	1,134	15	-	-
S Toomes [4]	43	24	69	849	746	103	1	n/a	n/a
R M Twite	44	18	61	786	650	136	3	-	-
I W Whiting [5]	47	5	38	187	137	50	-	-	-

1 Pensionable service ceased with effect from 6 April 2006 for M J Lamb, 1 February 2007 for R M Twite, 31 August 2010 for S Toomes and 1 September 2010 for I W Whiting.

2 For M J Lamb and R M Twite the increase in the accrued pension during the year reflects the increase under the IMI Pension Fund, which is generally in line with inflation. No allowance has been made for the value of benefits that may be derived by the payment of additional voluntary contributions.

3 Or as at date of appointment if later.

4 S Toomes was appointed as a director on 1 June 2011 and the figures shown in the table relate to the period from 1 June 2011 to 31 December 2011. As S Toomes has been a director for less than one year the increase in accrued pension relative to (annual) inflation and the value of this increase relative to (annual) inflation is not applicable.

5 Figures have been converted using exchange rates of £1:$1.55 as at 31 December 2011 (£1:$1.57 as at 31 December 2010). Due to rounding the pension shown as at 31 December 2011 is £1,000 pa higher than that previously shown at 31 December 2010. The actual increase is less than £500 pa and this is entirely due to the change in exchange rates over the year as in $ terms I W Whiting's pension has not changed over the year.

The transfer values that would be payable from the IMI Pension Fund at the relevant date are also shown in the table, together with the transfer value (at the end of the year) of the increase in the accrued pension over the year (net of inflation). The transfer value shown is the estimated capital value of the future pension payments in retirement, determined by the Fund's Trustee in accordance with the appropriate statutory requirements. In respect of I W Whiting's benefits under US pension arrangements, the transfer value quoted is based on the method and assumptions used by the Company to account for the costs associated with its US defined benefit pension schemes (see note 19 to the financial statements on pages 108 to 114).

Under the method and assumptions used by the Company to account for the costs associated with its defined benefit pension schemes, the aggregate value of the accrued benefits as at 31 December 2011 for the executive directors was £11.77m (2010: £8.96m).

12. Directors' interests

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

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

Director during 2011	Shares held	Interest as at 31.12.11 or date of retirement if earlier	Interest as at 01.01.11 or date of appointment if later
N B M Askew	Ordinary shares	10,000	10,000
K S Beeston	Ordinary shares	20,000	20,000
A M Frew	Ordinary shares	7,500	7,500
T M Gateley	Ordinary shares	7,500	7,500
D M Hurt	Ordinary shares+	193,928	186,243
M J Lamb	Ordinary shares+	390,834	411,574
R Quarta*	Ordinary shares	-	-
R J Stack	Ordinary shares	15,000	15,000
S Toomes*	Ordinary shares	68,049	68,049
R M Twite	Ordinary shares+	121,757	146,605
I W Whiting	Ordinary shares+	292,033	214,651

+ Including shares held within company share plans.

* R Quarta and S Toomes became directors on 1 June 2011.

During the period 31 December 2011 to 1 March 2012 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 10 January 2012 of 15 shares on behalf of each of M J Lamb and R M Twite and 16 shares on behalf of D M Hurt at 808.5p per share and 14 February 2012 of 14 shares on behalf of M J Lamb and R M Twite and 13 shares on behalf of D M Hurt at 916p per share.

Approved by the Board on 1 March 2012 and signed on its behalf by:

Bob J Stack

Chairman of the Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

- select suitable accounting policies in accordance with IAS8 *'Accounting Policies, Changes in Accounting Estimates and Errors'* and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Company has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

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

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

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

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

Directors' responsibility statement under the Disclosure and Transparency Rules

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

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

By order of the Board

John O'Shea
Company Secretary
1 March 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

for the year ended 31 December 2011

We have audited the Group financial statements of IMI plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 27, in relation to going concern; and
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of IMI plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

John C Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
1 March 2012

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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

	Notes	2011			2010		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2,3,4	**2,135**	**(4)**	**2,131**	1,917	(6)	1,911
Segmental operating profit	2	**374.1**		**374.1**	319.7		319.7
Reversal of economic hedge contract gains	2		**(4.1)**	**(4.1)**		(2.7)	(2.7)
Restructuring costs	2,4		**(23.5)**	**(23.5)**		(16.0)	(16.0)
Acquired intangible amortisation	11		**(32.3)**	**(32.3)**		(7.0)	(7.0)
Employee benefit curtailment - UK scheme	19		**-**	**-**		15.1	15.1
Operating profit	2,3,4	**374.1**	**(59.9)**	**314.2**	319.7	(10.6)	309.1
Financial income	6	**3.3**	**13.9**	**17.2**	5.2	20.5	25.7
Financial expense	6	**(20.2)**	**(16.0)**	**(36.2)**	(20.5)	(8.2)	(28.7)
Net finance credit relating to defined benefit pension schemes	19	**6.2**		**6.2**	-		-
Net financial (expense)/income	6	**(10.7)**	**(2.1)**	**(12.8)**	(15.3)	12.3	(3.0)
Profit before tax	7	**363.4**	**(62.0)**	**301.4**	304.4	1.7	306.1
Taxation	8	**(101.8)**	**4.1**	**(97.7)**	(91.3)	(1.2)	(92.5)
Profit for the year from continuing operations		**261.6**	**(57.9)**	**203.7**	213.1	0.5	213.6
Profit from operations discontinued in prior years	5		**-**	**-**		12.8	12.8
Total profit for the year		**261.6**	**(57.9)**	**203.7**	213.1	13.3	226.4
Attributable to:							
Owners of the parent				**200.4**			224.7
Non-controlling interests				**3.3**			1.7
Profit for the year				**203.7**			226.4
Earnings per share	9						
Basic - from profit for the year				**63.2p**			70.4p
Diluted - from profit for the year				**62.1p**			69.4p
Basic - from continuing operations				**63.2p**			66.4p
Diluted - from continuing operations				**62.1p**			65.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	2011		2010	
	£m	£m	£m	£m
Profit for the year		**203.7**		226.4
Other comprehensive income/(expense)				
Change in fair value of effective net investment hedge derivatives	**1.9**		(6.5)	
Income tax effect on above	**(0.5)**		1.8	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(9.7)**		16.9	
Income tax effect on above	**0.3**		(0.9)	
		(8.0)		11.3
Fair value gain/(loss) on available for sale financial assets		**1.2**		(2.5)
Actuarial loss on defined benefit plans	**(84.8)**		(22.2)	
Income tax effect on above	**15.5**		3.4	
		(69.3)		(18.8)
Other comprehensive income/(expense) for the year, net of tax		**(76.1)**		(10.0)
Total comprehensive income for the year, net of tax		**127.6**		216.4
Attributable to:				
Owners of the parent		**123.9**		214.4
Non-controlling interests		**3.7**		2.0
Total comprehensive income for the year, net of tax		**127.6**		216.4

CONSOLIDATED BALANCE SHEET

at 31 December 2011

	Notes	2011 £m	Restated (note 1) 2010 £m
Assets			
Intangible assets	11	**497.2**	519.3
Property, plant and equipment	12	**248.3**	241.3
Employee benefit assets	19	**1.9**	1.6
Deferred tax assets	13	**75.7**	56.3
Other receivables		**5.5**	4.9
Other financial assets	18	**4.9**	7.0
Total non-current assets		**833.5**	830.4
Inventories	14	**323.6**	288.0
Trade and other receivables	15	**388.1**	345.2
Other current financial assets	18	**7.2**	12.3
Current tax		**12.1**	4.8
Investments	18	**20.4**	19.2
Cash and cash equivalents	18	**147.9**	122.9
Total current assets		**899.3**	792.4
Total assets		**1,732.8**	1,622.8
Liabilities			
Bank overdraft	18	**(0.4)**	(2.5)
Interest-bearing loans and borrowings	16, 18	**(13.3)**	(13.2)
Provisions	21	**(21.6)**	(13.9)
Current tax		**(31.4)**	(36.8)
Trade and other payables	17	**(484.1)**	(422.8)
Other current financial liabilities	18	**(7.1)**	(4.6)
Total current liabilities		**(557.9)**	(493.8)
Interest-bearing loans and borrowings	16, 18	**(242.4)**	(252.6)
Employee benefit obligations	19	**(205.7)**	(201.0)
Provisions	21	**(33.2)**	(47.4)
Deferred tax liabilities	13	**(39.6)**	(20.5)
Other payables		**(39.8)**	(31.7)
Total non-current liabilities		**(560.7)**	(553.2)
Total liabilities		**(1,118.6)**	(1,047.0)
Net assets		**614.2**	575.8
Equity			
Share capital	22	**85.0**	85.0
Share premium		**169.3**	168.1
Other reserves		**59.0**	67.4
Retained earnings		**251.5**	205.2
Equity attributable to owners of the parent		**564.8**	525.7
Non-controlling interests		**49.4**	50.1
Total equity		**614.2**	575.8

Approved by the Board of Directors on 1 March 2012 and signed on its behalf by:
Roberto Quarta
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	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 2010	84.9	166.6	7.9	7.4	41.1	91.9	399.8	2.2	402.0
Profit for the year						224.7	224.7	1.7	226.4
Other comprehensive income				(4.7)	15.7	(21.3)	(10.3)	0.3	(10.0)
Total comprehensive income				(4.7)	15.7	203.4	214.4	2.0	216.4
Issue of share capital	0.1	1.5					1.6		1.6
Dividends paid						(70.9)	(70.9)	(0.5)	(71.4)
Share based payments (net of tax)						10.3	10.3		10.3
Shares acquired for employee share scheme trust						(29.5)	(29.5)		(29.5)
Investment in partnership by UK Pension Fund								48.6	48.6
Income earned by partnership								(2.2)	(2.2)
At 31 December 2010	85.0	168.1	7.9	2.7	56.8	205.2	525.7	50.1	575.8
Changes in equity in 2011									
Profit for the year						**200.4**	**200.4**	**3.3**	**203.7**
Other comprehensive income				**1.4**	**(9.8)**	**(68.1)**	**(76.5)**	**0.4**	**(76.1)**
Total comprehensive income				**1.4**	**(9.8)**	**132.3**	**123.9**	**3.7**	**127.6**
Issue of share capital	**-**	**1.2**					**1.2**		**1.2**
Dividends paid						**(88.8)**	**(88.8)**		**(88.8)**
Share based payments (net of tax)						**10.6**	**10.6**		**10.6**
Shares acquired for employee share scheme trust						**(7.8)**	**(7.8)**		**(7.8)**
Income earned by partnership								**(4.4)**	**(4.4)**
At 31 December 2011	**85.0**	**169.3**	**7.9**	**4.1**	**47.0**	**251.5**	**564.8**	**49.4**	**614.2**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

	2011 £m	Restated 2010 £m
Cash flows from operating activities		
Profit for the year from continuing operations	**203.7**	213.6
Adjustments for:		
Depreciation	**43.6**	44.8
(Reversal of impairment)/impairment of property, plant and equipment	**(2.5)**	3.4
Amortisation	**36.4**	11.4
Impairment of intangible assets	**-**	0.4
Loss/(gain) on sale of property, plant and equipment	**0.2**	(2.9)
Loss on disposal of investments	**-**	0.1
Financial income	**(17.2)**	(25.7)
Financial expense	**36.2**	28.7
Net finance income relating to defined benefit pension scheme	**(6.2)**	-
Equity-settled share-based payment expenses	**8.9**	5.5
Income tax expense	**97.7**	92.5
Increase in trade and other receivables	**(45.1)**	(13.3)
Increase in inventories	**(35.7)**	(7.8)
Increase in trade and other payables	**67.8**	53.3
Decrease in provisions and employee benefits	**(25.3)**	(26.0)
Cash generated from the operations	**362.5**	378.0
Income taxes paid	**(90.9)**	(56.3)
	271.6	321.7
CCI investigation costs	**(2.1)**	(4.3)
Refund of EU fine *	**-**	5.4
Additional pension scheme funding	**(52.9)**	(16.8)
Special contribution to the UK Pension Fund	**-**	(48.6)
Net cash from operating activities	**216.6**	257.4
Cash flows from investing activities		
Interest received	**3.3**	5.2
Proceeds from sale of property, plant and equipment	**2.8**	7.1
Sale of investments	**1.1**	0.8
Purchase of investments	**(0.7)**	(0.3)
Settlement of transactional derivatives	**3.0**	4.0
Settlement of currency derivatives hedging balance sheet	**5.6**	(2.7)
Income from discontinued business (Polypipe) *	**-**	7.4
Acquisitions of controlling interests	**(8.9)**	(117.4)
Acquisition of property, plant and equipment	**(52.1)**	(45.8)
Capitalised non-acquired intangibles	**(6.8)**	(5.0)
Net cash from investing activities	**(52.7)**	(146.7)
Cash flows from financing activities		
Interest paid	**(20.2)**	(20.7)
Investment in pension partnership by UK Pension Fund	**-**	48.6
Acquisition of non-controlling interests	**-**	(12.4)
Payment to non-controlling interest	**(4.4)**	-
Purchase of own shares	**(7.8)**	(29.5)
Proceeds from the issue of share capital for employee share schemes	**1.2**	1.6
Net (repayment)/drawdown of borrowings	**(16.0)**	14.2
Dividends paid to non-controlling interest	**-**	(0.5)
Dividends paid to equity shareholders	**(88.8)**	(70.9)
Net cash from financing activities	**(136.0)**	(69.6)
Net increase in cash and cash equivalents	**27.9**	41.1
Cash and cash equivalents at the start of the year	**120.4**	75.7
Effect of exchange rate fluctuations on cash held	**(0.8)**	3.6
Cash and cash equivalents at the end of the year**	**147.5**	120.4

* Representing profit from operations discontinued in prior years (2010: £12.8m)
** Net of bank overdrafts of £0.4m (2010: £2.5m)
Notes to the cash flow appear in note 23

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

IMI plc (the 'Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company financial statements present information about the company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRSs). The Company has elected to prepare its Parent Company Financial Statements in accordance with UK GAAP and these are presented on pages 124 to 129. The financial statements were approved by the Board of Directors on 1 March 2012.

The following relevant standards and interpretations were adopted by the Group during 2011:

- IAS24 *'Related Party Disclosures'* (Amendment adopted from 1 January 2011)

The IASB issued an amendment to IAS24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The adoption of the amendment had no impact on the financial position or performance of the Group.

- IAS32 *'Financial Instruments: Presentation'* (Amendment adopted from 1 February 2011)

The IASB issued an amendment that alters the definition of a financial liability in IAS32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of the amendment had no effect on the financial position or performance of the Group.

- IFRIC14 *'IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction'* (Amendment adopted from 1 January 2011)

The amendment removes an unintended consequence of the interpretation when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The adoption of the amendment had no effect on the financial position or performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS3 '*Business combinations':* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation are entitled to the choice of measurement basis; namely at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. This amendment was effective for annual periods beginning on or after 1 July 2011 but the Group adopted it from 1 January 2011 and changed its accounting policy accordingly.
- IFRS7 '*Financial Instruments – Disclosures':* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in note 18.
- IAS1 '*Presentation of Financial Statements':* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

Other amendments, resulting from improvements to IFRSs, to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS3 *'Business Combinations'* (Contingent consideration arising from business combinations prior to the adoption of IFRS3 (as revised in 2008))
- IFRS3 *'Business Combinations'* (Unreplaced and voluntarily replaced share-based payment awards)
- IAS27 *'Consolidated and Separate Financial Statements'*
- IAS34 *'Interim Financial Statements'*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC13 *'Customer Loyalty Programmes'* (Amendment - determining the fair value of award credits)
- IFRIC19 *'Extinguishing Financial Liabilities and Equity Instruments'*

The following relevant standards and interpretations were issued but are not effective for the year ended 31 December 2011:

- IAS1 *'Financial Statement Presentation'* – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- IAS19 *'Employee Benefits'* (Amendment)

The IASB has issued numerous amendments to IAS19. These include a fundamental change which will affect the basis by which the Group apportions finance income between the income statement and other comprehensive income from 1 January 2013. Had this change been effective for 2011 we estimate that the financing cost would have increased by around £16m. The main impact on the Group of the other changes to IAS19 is to increase the information required to be disclosed.

- IFRS9 *'Financial Instruments: Classification and Measurement'*

IFRS9 as issued reflects the first phase of the IASB's work on the replacement of IAS39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS39. The effective date of the standard has recently been revised so that it will now only apply for annual periods beginning on or after 1 January 2015, although earlier adoption is encouraged. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- IFRS10 *'Consolidated Financial Statements'*

IFRS10 replaces the portion of IAS27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Restatement

In accordance with IFRS3, following the finalisation of the balances relating to the Zimmermann & Jansen acquisition reported in the 2010 consolidated financial statements, the 2010 balance sheet has been restated. The details of this restatement are set out in note 3.

In the consolidated statement of cash flows, comparatives have been restated to reclassify a £2.7m outflow for settlement of currency derivatives as an investing activity. This was previously included in the line item for the effect of exchange rate fluctuations on cash held, which has been increased by an equivalent amount.

a) Basis of accounting

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

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

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

b) Use of estimates and judgements

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

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

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

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

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

c) Basis of consolidation

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

Subsidiaries

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

c) Basis of consolidation (continued)

Non-controlling interests

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

d) Revenue

i) Sale of products

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

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 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 of Incoterms 2010 are generally recognised on delivery to the customer.

ii) Services

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

iii) Construction contracts

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

e) Exceptional items

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

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

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

The tax impact of the above items is also shown within exceptional items, together with the exceptional tax charge in connection with the restructuring.

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 difference between the assumed interest on employee benefit plan liabilities and the assumed returns on employee benefit plan assets.

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

g) Income tax

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

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

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

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.

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 profit before taxation in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

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, comprising principally funds held with banks and other financial institutions are classified as 'available for sale assets' under IAS39, and held at fair value. Short term borrowings and overdrafts are classified as financial liabilities at amortised cost.
- Derivatives, comprising interest rate swaps, foreign exchange contracts and options, metals futures contracts and any embedded derivatives, are classified as 'fair value through profit or loss' under IAS39, unless designated as hedges. Derivatives not designated as hedges are 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 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, or financial commitment or a forecast transaction, no hedge accounting is applied and any gain or loss resulting from changes in fair value of the hedging instrument is recognised in net financial income or expense.

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

ii) Hedge of net investment in foreign operation

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

l) 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 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 (e) above.

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

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

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

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

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

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

m) 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 note (e) of these accounting policies, because of its inherent volatility. The accounting policy for goodwill is described in note 1 above.

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.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

m) Intangible assets (continued)

ii) Software development costs

Software applications and systems that are not an integral part of their host computer equipment are capitalised on initial recognition as intangible assets at cost. Cost comprises the purchase price plus external costs incurred on development of the asset to bring it into use. Following initial recognition, software development costs are carried at cost less any accumulated amortisation (see below) and accumulated impairment losses (see accounting policy 'Impairment') and are included in the other acquired or other non-acquired category of intangible assets depending on their origin.

iii) Customer relationships and other acquired intangible assets

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

iv) Amortisation of intangible assets other than goodwill

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

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

n) 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

o) 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.

p) Inventories

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

q) 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.

r) 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 three year plan and extrapolated using an appropriate long term growth rate for each cash generating unit in perpetuity consistent with long term GDP growth). 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.

s) Dividends

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

t) Employee benefits

i) Defined contribution pension plans

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

ii) Defined benefit pension plans

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

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

iii) Long-term service 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 note 20. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options is determined based on the Black-Scholes option-pricing model.

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

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

u) 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.

2. Segmental information

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

The Group includes the following five operating segments and activities:

Fluid Controls

Severe Service

Design, manufacture, supply and service of high performance critical control valves and associated equipment for power generation plants, oil & gas producers, petrochemical, iron & steel plants, and other process industries.

Fluid Power

Design, manufacture and supply of motion and fluid control systems, principally pneumatic devices, for original equipment manufacturers in commercial vehicle, life science, rail, energy, food and beverage and other industries.

Indoor Climate

Design, manufacture and supply of indoor climate control systems, principally balancing valves for large commercial buildings, thermostatic radiator valves for residential buildings and water conditioning equipment.

Retail Dispense

Beverage Dispense

Design, manufacture and supply of still and carbonated beverage dispense systems and associated merchandising equipment for brand owners and retailers.

Merchandising

Design, manufacture and supply of point of purchase display systems for brand owners and retailers.

Information regarding the performance of each operating segment is included below. Performance is measured based on segmental operating profit which is the profit reported by the businesses, stated before exceptional items including restructuring, acquired intangible amortisation, reversal of economic hedge contract gains and losses and the employee benefit curtailment on the UK scheme. Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. These contracts do not meet the technical provisions required under IAS39 for hedge accounting therefore gains and losses are reversed out of segmental profit and are recorded in net financial income and expense for the purposes of the statutory consolidated income statement.

	Segmental revenue		**Segmental operating profit**	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Fluid Controls	**1,649**	1,433	**307.6**	262.4
Severe Service	**572**	452	**88.9**	78.4
Fluid Power	**767**	685	**150.5**	113.7
Indoor Climate	**310**	296	**68.2**	70.3
Retail Dispense	**486**	484	**66.5**	57.3
Beverage Dispense	**317**	315	**41.1**	32.0
Merchandising	**169**	169	**25.4**	25.3
Total	**2,135**	1,917	**374.1**	319.7

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental information (continued)

Reconciliation of reported segmental revenue and operating profit

	Revenue		Profit	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Segmental result	**2,135**	1,917	**374.1**	319.7
Reversal of economic hedge contract gains	**(4)**	(6)	**(4.1)**	(2.7)
Restructuring costs			**(23.5)**	(16.0)
Acquired intangible amortisation			**(32.3)**	(7.0)
Employee benefit curtailment - UK scheme			**-**	15.1
Total revenue/operating profit reported	**2,131**	1,911	**314.2**	309.1
Net financial expense			**(12.8)**	(3.0)
Profit before tax - continuing operations			**301.4**	306.1

Balance sheet

	Segment assets		Segment liabilities	
	2011 £m	Restated 2010 £m	**2011 £m**	Restated 2010 £m
Fluid Controls	**1,183.4**	1,130.9	**377.9**	337.1
Severe Service	**595.5**	556.6	**201.6**	167.6
Fluid Power	**436.0**	426.5	**114.9**	106.1
Indoor Climate	**151.9**	147.8	**61.4**	63.4
Retail Dispense	**283.4**	275.0	**91.4**	80.9
Beverage Dispense	**137.3**	137.1	**58.6**	53.0
Merchandising	**146.1**	137.9	**32.8**	27.9
Total	**1,466.8**	1,405.9	**469.3**	418.0

Reconciliation of segment assets and liabilities to Group balance sheet

	Assets		Liabilities	
	2011 £m	Restated 2010 £m	**2011 £m**	Restated 2010 £m
Segment assets and liabilities	**1,466.8**	1,405.9	**469.3**	418.0
Corporate items	**8.0**	12.1	**87.6**	77.7
Employee benefits	**1.9**	1.6	**205.7**	201.0
Investments	**20.4**	19.2		
Funds/borrowings	**147.9**	122.9	**256.1**	268.3
Net taxation and others	**87.8**	61.1	**99.9**	82.0
Per Group balance sheet	**1,732.8**	1,622.8	**1,118.6**	1,047.0

Other information

	Restructuring costs		Capital expenditure		Depreciation & amortisation*	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Fluid Controls	**21.4**	10.7	**50.7**	41.9	**70.7**	44.4
Severe Service	**11.9**	4.8	**11.4**	20.0	**39.2**	11.2
Fluid Power	**5.5**	3.1	**26.2**	15.0	**23.3**	25.9
Indoor Climate	**4.0**	2.8	**13.1**	6.9	**8.2**	7.3
Retail Dispense	**2.1**	5.3	**8.0**	8.7	**8.8**	11.3
Beverage Dispense	**2.1**	5.0	**5.3**	4.9	**6.3**	8.3
Merchandising	**-**	0.3	**2.7**	3.8	**2.5**	3.0
Subtotal	**23.5**	16.0	**58.7**	50.6	**79.5**	55.7
Corporate	**-**	-	**0.2**	0.2	**0.5**	0.5
Total	**23.5**	16.0	**58.9**	50.8	**80.0**	56.2

* Included within depreciation and amortisation for Severe Service is £28.9m (2010: £3.1m) amortisation of acquired intangibles
Included within depreciation and amortisation for Fluid Power is £3.1m (2010: £3.4m) amortisation of acquired intangibles
Included within depreciation and amortisation for Indoor Climate is £0.3m (2010: £0.2m) amortisation of acquired intangibles
Included within depreciation and amortisation for Beverage Dispense is £nil (2010: £0.3m) amortisation of acquired intangibles

Revenue by geographical destination

	2011 £m	2010 £m
UK	**136**	141
Germany	**296**	261
Rest of Europe	**577**	542
USA	**580**	543
Asia/Pacific	**319**	285
Rest of World	**227**	145
Total segmental revenue	**2,135**	1,917
Reversal of economic hedge contract gains	**(4)**	(6)
Total	**2,131**	1,911

No individual customer, or group of customers under common control, represents more than 10% of Group revenue (2010: none).

Segmental analysis of intangible assets and property, plant and equipment

	2011 £m	Restated 2010 £m
UK	**103.7**	99.4
Germany	**164.2**	181.0
Rest of Europe	**187.2**	186.5
USA	**232.1**	232.5
Asia/Pacific	**46.6**	47.2
Rest of World	**11.7**	14.0
Total	**745.5**	760.6

NOTES TO THE FINANCIAL STATEMENTS

3. Acquisitions

3.1 Acquisitions subsequent to the year-end

Remosa

On 16 February 2012, the Group acquired Remosa SpA and related companies (collectively Remosa), a leading engineering business specialising in valves and related flow control products for severe applications, for an enterprise value of approximately £84.7m (€100m), being cash consideration of £69.8m (€82.4m) and debt assumed of approximately £14.9m (€17.6m). The consideration was funded out of IMI's existing resources and banking facilities.

Founded in 1955 by Giulio Mambrini, Remosa is a severe service valve business based in Sardinia, Italy and was privately-owned prior to acquisition. Remosa makes specialist valves used in critical applications in the downstream petrochemical sector and also has an established valve servicing business.

The main Remosa manufacturing facility is located in Sardinia. The senior management and all of its 360 employees will be transferring with the business. In the 2011 calendar year, Remosa's unaudited sales were £40.7m (€48m) and underlying EBITDA was £6.8m (€8m).

Remosa will join IMI's Severe Service division and is highly complementary with Zimmermann & Jansen, which IMI acquired at the end of 2010, and will strengthen the Group's presence in the downstream petrochemical market. The use of IMI's global sales and aftermarket infrastructure is expected to improve Remosa's geographic penetration, notably in North America, and develop its aftermarket offering. Remosa already has a strong presence in emerging markets, including South America and Asia, with over 50% of sales coming from those markets.

InterAtiva

On 17 February 2012, the Group acquired Grupo InterAtiva (InterAtiva), a Brazilian isolation valve business, from its founding partners for an initial cash consideration of £22m and contingent consideration up to a maximum of £21.2m to be paid based on its performance over the next three years. The consideration is being funded out of IMI's existing resources and banking facilities.

Founded in 1992 by Wilson Gabriel and Mauro Bilbao, InterAtiva was privately-owned and designs, assembles and distributes isolation valves to various end-markets including oil and gas, sugar and ethanol production, and water treatment. It currently leases a 9,000sq metre facility located in Sorocaba, near Sao Paolo and employs 70 people who are all transferring with the business. In the 2011 calendar year, InterAtiva's unaudited sales were £12m and underlying EBITDA was £3m. All of the 2011 sales were in the fast-growing South American markets.

InterAtiva will join IMI's Severe Service division and has existing strong customer relationships and approvals in Brazil with the major engineering, procurement and construction firms and also with the major oil and gas companies. With an experienced management team, and capacity for final assembly, it will be a strong platform for IMI's existing severe service isolation valve brands, including Orton and TruFlo Rona, to enter this market.

Given the proximity of these acquisitions to the date of approval of these financial statements, the initial accounting for them is not yet complete and consequently disclosures regarding, inter alia, the fair value of the assets and liabilities acquired, the fair value of the consideration and the amounts allocated to goodwill and intangible assets have not been given, but will be included in the Group's 2012 Interim Report.

3.2 Acquisitions during the year

TH Jansen

The Group acquired 100% of the share capital of TH Jansen Armaturen GmbH (THJ) on 17 October 2011. Consideration of £10.3m, including the overdraft acquired of £1.3m, is net of £2.2m due from the vendor, which is subject to agreement through the completion accounts process. Net debt of £2.5m was taken on as part of the acquisition. Assuming that the acquisition of THJ had been completed on 1 January 2011, it is estimated that the Group segmental revenue and segmental operating profit would have been £2,150m and £375.4m respectively. Segmental revenue of £3.4m and segmental operating profit of £0.3m for the period since acquisition has been reported within the Severe Service segment.

THJ designs, manufactures and sells isolation valves for the iron & steel industry from its manufacturing facility near Saarbrücken in Germany. Similar to IMI's existing Severe Service businesses, THJ's products are typically custom-engineered for specific, critical, severe service applications with significant ongoing aftermarket requirements.

The fair value of the net assets acquired was £7.7m, resulting in goodwill of £1.3m. The net assets comprised customer relationships of £6.4m, an order book of £1.1m, property, plant and equipment of £2.9m, working capital balances of £3.3m (including trade and other receivables of £3.7m) less £6.0m of net debt and deferred tax liabilities.

The methodology for arriving at fair values, intangible asset values and residual goodwill is described in the accounting policies in note 1 to these financial statements. The goodwill recognised on acquisition principally relates to skills present within the assembled workforce, customer service capability and an element of the synergies available when the business is integrated with the Zimmermann & Jansen (Z&J) business acquired in 2010.

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

Transaction costs of £0.5m have been expensed and are included within administrative expenses.

The fair values of the assets and liabilities acquired and the consideration for THJ have been provisionally determined at 31 December 2011. Completion accounts have been prepared and adjustments to both consideration and the fair value of assets acquired may arise when these are finalised.

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

	Cash flows from acquisition of controlling interests £m
Purchase consideration:	
Cash	11.2
Receivable from vendor	(2.2)
Total purchase consideration for THJ	**9.0**
Overdraft acquired	1.3
Receivable from vendor	2.2
Gross amount paid on acquisition of THJ	**12.5**
Finalisation of consideration for acquisition of Z&J	(3.6)
Included in cash flow from investing activities	**8.9**
Transaction costs of the acquisition (included in cash flows from operating activities)	0.5
Total cash flow on acquisition of controlling interests	**9.4**

3.3 Prior year acquisitions

On 31 December 2010 the Group acquired Z&J for total purchase consideration of £124.4m, net of a £6.3m receivable (subsequently £6.4m due to exchange rate movements) from the vendor for amounts to be finalised in the completion accounts. Total identifiable net assets were £75.0m, resulting in goodwill of £49.4m. These amounts were deemed provisional at this date. During the first half of this year, these provisional amounts were finalised, resulting in an increase to consideration of £2.8m, represented by increases to trade and other receivables of £0.4m, decreases in trade and other payables of £0.4m, an increase in the associated deferred tax liabilities of £0.2m and an increase to goodwill of £2.2m. The 2010 balance sheet has been restated accordingly.

During 2010 the Group also paid £1.6m in deferred consideration in respect of the acquisition of 70% of Pneumatex AG originally completed on 28 December 2007.

3.4 Non-controlling interests

The IMI Scottish Limited Partnership (the partnership) was established during the year ended 31 December 2010. The IMI Pension Fund agreed to invest a special contribution of £48.6m made by the Group into the partnership, giving them rights to receive income of £4.4m per year for twenty years. The partnership is fully consolidated in these accounts with the pension fund's interest presented within equity in the Group's consolidated balance sheet, separately from equity attributable to the owners of the parent. The investment valuation at 31 December 2011 was provided by the Trustee, based on an independent valuation prepared for the Trustee in June 2011.

NOTES TO THE FINANCIAL STATEMENTS

4. Operating profit

	2011 £m	2010 £m
Revenue (i)	**2,130.5**	1,911.3
Cost of sales (ii)	**(1,228.4)**	(1,097.4)
Gross profit	**902.1**	813.9
Selling and distribution costs (iii)	**(245.4)**	(234.0)
Administrative expenses (iv)	**(342.5)**	(270.8)
Operating profit	**314.2**	309.1

i) includes reversal of £4.4m economic hedge contract gains (2010: gain £5.8m)
ii) includes £9.1m restructuring costs (2010: £1.9m) and a reversal of £0.3m economic hedge contract gains (2010: £3.1m)
iii) includes £1.0m restructuring costs (2010: £2.7m)
iv) includes £13.4m restructuring costs (2010: £11.4m), £32.3m of acquired intangible amortisation (2010: £7.0m) and £nil in respect of the closure of the UK pension scheme to future accrual (2010: £15.1m credit).

Total restructuring costs of £23.5m (2010: £16.0m) were incurred during the year, which are analysed by division in note 2. These costs principally related to the relocation of fluid controls manufacturing activities to low-cost manufacturing locations, particularly within the Severe Service division.

5. Discontinued operations

There was no income or expense in respect of discontinued operations during 2011.

In 2010 the General Court of the European Union issued its judgement on the Group's appeal against the fine levied in 2005 in respect of allegations of anti-competitive behaviour among certain manufacturers of copper tube. The result of the appeal was a reduction in the fine of £5.4m. This income was shown as discontinued operations as it related to a business that was sold in 2002.

Also in 2010, consideration of £7.4m was received in relation to the disposal of Polypipe during 2005 and was credited within profit from discontinued operations. No tax was chargeable on the discontinued items in 2010. The basic and diluted earnings per share from discontinued operations in 2010 was 4.0p.

6. Net financial income and expense

Recognised in the income statement	2011 Interest £m	2011 Financial instruments £m	2011 Total £m	2010 Interest £m	2010 Financial instruments £m	2010 Total £m
Interest income on bank deposits	**3.3**		**3.3**	5.2		5.2
Financial instruments at fair value through profit or loss:						
Designated hedges		**0.7**	**0.7**		0.5	0.5
Other economic hedges						
- current year trading		**8.1**	**8.1**		9.6	9.6
- future year transactions		**5.1**	**5.1**		10.4	10.4
Financial income	**3.3**	**13.9**	**17.2**	5.2	20.5	25.7
Interest expense on interest bearing loans and borrowings	**(20.4)**		**(20.4)**	(20.7)		(20.7)
Interest cost capitalised	**0.2**		**0.2**	0.2		0.2
Financial instruments at fair value through profit or loss:						
Designated hedges		**(0.8)**	**(0.8)**		(0.4)	(0.4)
Other economic hedges						
- current year trading		**(9.0)**	**(9.0)**		(7.3)	(7.3)
- future year transactions		**(6.2)**	**(6.2)**		(0.5)	(0.5)
Financial expense	**(20.2)**	**(16.0)**	**(36.2)**	(20.5)	(8.2)	(28.7)
Net finance expense relating to defined benefit pension schemes	**6.2**		**6.2**	-		-
Net financial (expense)/income	**(10.7)**	**(2.1)**	**(12.8)**	(15.3)	12.3	(3.0)

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

NOTES TO THE FINANCIAL STATEMENTS

6. Net financial income and expense (continued)

Recognised in other comprehensive income	2011 £m	2010 £m
Foreign currency translation differences	**(9.7)**	16.9
Change in fair value of other financial assets	**1.2**	(2.5)
Change in fair value of effective portion of net investment hedges	**1.9**	(6.5)
Income tax on financial income/(expense) recognised directly in equity	**(0.2)**	0.9
Financial income/(expense) recognised directly in equity (net of tax)	**(6.8)**	8.8
Recognised in:		
Hedging reserve	**1.4**	(4.7)
Translation reserve	**(9.8)**	15.7
Retained earnings	**1.2**	(2.5)
Non-controlling interests	**0.4**	0.3
	(6.8)	8.8

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

	2011 £m	2010 £m
Depreciation of property, plant and equipment	**43.6**	44.8
Amortisation of acquired intangible fixed assets	**32.3**	7.0
Amortisation of non-acquired intangible fixed assets	**4.1**	4.4
Research and development *	**38.8**	36.9
Impairment of property, plant and equipment and intangible assets	**(2.5)**	3.8
Loss on disposal of investments	**-**	0.1
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**2.7**	2.4
Other services pursuant to legislation	**-**	0.1
Tax services	**0.2**	0.1
Other services	**0.1**	0.2
Rentals under operating leases:		
Property rents	**21.4**	20.7
Hire of plant and machinery	**9.1**	8.0
Exchange (gains)/losses on operating activities net of hedging arrangements	**(1.3)**	1.0

* In addition to the research and development costs above, £4.4m (2010: £5.0m) has been capitalised in respect of development costs and is included in other non-acquired intangible assets in note 11.

8. Taxation

	2011		2010	
	£m	**£m**	£m	£m
a) Recognised in the income statement:				
Current tax expense				
UK corporation tax:				
Current tax on income for the year	**(0.4)**		9.3	
Adjustments in respect of prior years	**(1.2)**		0.2	
		(1.6)		9.5
Overseas tax:				
Current tax on income for the year	**86.7**		58.2	
Adjustments in respect of prior years	**0.1**		0.1	
		86.8		58.3
Total current tax		**85.2**		67.8
Deferred tax				
Origination and reversal of temporary differences		**12.5**		24.7
Total income tax expense		**97.7**		92.5
b) Total current and deferred tax recognised directly in equity:				
On equity-settled transactions		**(1.6)**		(4.8)
On gains and losses of financial instruments		**0.5**		(1.8)
On actuarial losses		**(15.5)**		(3.4)
On foreign currency translation differences		**(0.3)**		0.9
		(16.9)		(9.1)

c) Reconciliation of effective tax rate

	2011			2010		
	Before exceptionals £m	**Exceptional items £m**	**Total £m**	Before exceptionals £m	Exceptional items £m	Total £m
Profit before tax from continuing operations	**363.4**	**(62.0)**	**301.4**	304.4	1.7	306.1
Income tax using the Company's domestic rate of tax of 26.5% (2010: 28.0%)	**96.3**	**(16.4)**	**79.9**	85.2	0.5	85.7
Effects of:						
Non-deductible items	**1.3**	**1.2**	**2.5**	0.1	1.7	1.8
Exceptional tax charge on restructuring	**-**	**11.0**	**11.0**	-	-	-
Utilisation of tax losses	**(1.0)**	**-**	**(1.0)**	(0.1)	-	(0.1)
Current year losses for which no deferred tax asset has been recognised	**0.4**	**-**	**0.4**	1.8	-	1.8
Differing tax rates in different jurisdictions	**6.1**	**0.1**	**6.2**	4.7	(1.0)	3.7
Over provided in prior years	**(1.3)**	**-**	**(1.3)**	(0.4)	-	(0.4)
Total tax in income statement on continuing operations	**101.8**	**(4.1)**	**97.7**	91.3	1.2	92.5
Effective rate of tax	**28.0%**	**6.6%**	**32.4%**	30.0%	70.6%	30.2%

The weighted average rate of corporation tax for the calendar year in the UK is 26.5% (2010: 28.0%). As the Group operates worldwide it is subject to several factors which may affect future tax charges, principally the levels and mix of profitability in different jurisdictions in which the Group may or may not have offsetting tax losses and the various tax rates imposed in those jurisdictions.

The tax credit on exceptional items of £4.1m (2010: charge of £1.2m) includes a tax credit of £15.1m on the exceptional costs of £62.0m together with a tax charge of £11.0m in connection with certain of the restructuring activities.

Changes to the main rate of UK Corporation Tax were proposed in the Budget of 23 March 2011 to reduce the main rate of UK Corporation Tax to 26% from 1 April 2011 and by 1% per annum to 23% by 1 April 2014. The further reduction of the main rate to 25% from 1 April 2012 was substantively enacted on 19 July 2011. The other proposed reductions had not been substantively enacted at the balance sheet date and consequently are not reflected in these financial statements.

No tax was chargeable on the discontinued operations in 2010.

NOTES TO THE FINANCIAL STATEMENTS

9. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares held as treasury shares or held in trust to satisfy employee share schemes, was 317.0m, 322.5m diluted for the effect of outstanding share options (2010: 319.0m, 323.8m diluted). Basic and diluted earnings per share have been calculated on earnings of £200.4m (2010: £224.7m). As there is no income from discontinued operations in 2011, the basic and diluted earnings per share from continuing operations have also been calculated on earnings of £200.4m (2010: £211.9m).

The directors consider that adjusted earnings per share figures, using earnings as calculated below, give a more meaningful indication of the underlying performance because the quantum, the one-off nature, or the volatility of the items adjusted would otherwise distort it.

	2011 £m	2010 £m
Profit for the year from continuing operations	**203.7**	213.6
Non-controlling interests	**(3.3)**	(1.7)
	200.4	211.9
Charges/(credits) included in profit for the year:		
Restructuring costs	**23.5**	16.0
Employee benefit curtailment - UK scheme	**-**	(15.1)
Acquired intangible amortisation	**32.3**	7.0
Financial instruments excluding economic hedge contract gains and losses	**6.2**	(9.6)
	262.4	210.2
Taxation (credit)/charge on exceptional items	**(4.1)**	1.2
Earnings for adjusted EPS	**258.3**	211.4
Weighted average number of shares	**317.0m**	319.0m
Adjusted EPS	**81.5p**	66.3p
Diluted adjusted EPS	**80.1p**	65.3p

10. Employee information

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

	2011	2010
Fluid Controls	**11,251**	9,992
Retail Dispense	**2,970**	2,988
Corporate	**182**	184
Total	**14,403**	13,164

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

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

	£m	£m
Wages and salaries	**498.8**	456.3
Share-based payments (see note 20)	**8.9**	5.5
Social security costs	**83.1**	70.9
Pension costs *	**12.8**	0.8
Total	**603.6**	533.5

* In 2011, pension costs above exclude £9.6m (including £1.2m National Insurance contributions) for committed payments to be made to deferred members in respect of the enhanced transfer value exercise and the associated settlement gain of £11.7m (both included in note 19) because these amounts are in respect of former employees. In 2010, pension costs include the curtailment benefit of £15.1m relating to the closure of the UK pension scheme as this related to current employees.

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

11. Intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Sub total £m	Other non-acquired intangibles £m	Total £m
Cost						
As at 1 January 2010	341.3	44.6	38.3	424.2	41.0	465.2
Exchange adjustments	9.9	0.1	1.9	11.9	1.3	13.2
Acquisitions (restated)	51.6	54.5	22.8	128.9	-	128.9
Additions	-	-	-	-	5.0	5.0
As at 31 December 2010 (restated)	402.8	99.2	63.0	565.0	47.3	612.3
Exchange adjustments	**0.1**	**(1.8)**	**(0.5)**	**(2.2)**	**(0.1)**	**(2.3)**
Acquisitions	**1.3**	**6.4**	**1.1**	**8.8**	-	**8.8**
Additions	-	-	-	-	**6.8**	**6.8**
As at 31 December 2011	**404.2**	**103.8**	**63.6**	**571.6**	**54.0**	**625.6**
Amortisation						
As at 1 January 2010		21.0	33.1	54.1	24.7	78.8
Exchange adjustments		-	1.7	1.7	0.7	2.4
Impairment		-	-	-	0.4	0.4
Amortisation for year		5.8	1.2	7.0	4.4	11.4
As at 31 December 2010		26.8	36.0	62.8	30.2	93.0
Exchange adjustments		**(0.4)**	**(0.5)**	**(0.9)**	**(0.1)**	**(1.0)**
Amortisation for year		**10.6**	**21.7**	**32.3**	**4.1**	**36.4**
As at 31 December 2011		**37.0**	**57.2**	**94.2**	**34.2**	**128.4**
NBV at 31 December 2010 (restated)	402.8	72.4	27.0	502.2	17.1	519.3
NBV at 31 December 2011	**404.2**	**66.8**	**6.4**	**477.4**	**19.8**	**497.2**

Cumulative impairment recognised in relation to goodwill is £6m (2010: £6m).

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

Goodwill is allocated to cash generating units based on the synergies expected to be derived from the acquisition on which the goodwill arose. The Group has 34 cash generating units to which goodwill is allocated but these cash generating units neither have a significant proportion of the total goodwill allocated to them, nor is this the case after any aggregations of cash generating units for the purpose of impairment testing.

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

The Group’s estimates of impairments of goodwill are most sensitive to the increases in the discount rate used and the long term growth rates used in the forecast cash flows in addition to the achievement of the forecasts themselves. These growth rates vary significantly depending on the circumstances of each cash generating unit and have been based on the business reviews carried out in the year.

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

NOTES TO THE FINANCIAL STATEMENTS

12. Property, plant and equipment

Cost	Land & buildings £m	Plant & equipment £m	Assets in the course of construction £m	Total £m
As at 1 January 2010	186.5	671.2	14.9	872.6
Exchange adjustments	2.0	11.3	-	13.3
Acquisitions	6.0	5.2	0.3	11.5
Additions	3.3	28.2	14.3	45.8
Disposals	(9.2)	(35.6)	-	(44.8)
Transfers	1.0	8.9	(9.9)	-
As at 31 December 2010	189.6	689.2	19.6	898.4
Exchange adjustments	**(1.6)**	**(9.6)**	**(0.3)**	**(11.5)**
Acquisitions	**1.9**	**1.0**	**-**	**2.9**
Additions	**7.4**	**35.0**	**9.7**	**52.1**
Disposals	**(2.0)**	**(55.2)**	**-**	**(57.2)**
Transfers	**0.9**	**10.0**	**(10.9)**	**-**
As at 31 December 2011	**196.2**	**670.4**	**18.1**	**884.7**
Depreciation				
As at 1 January 2010	90.1	549.5	-	639.6
Exchange adjustments	1.0	8.8	-	9.8
Disposals	(6.3)	(34.2)	-	(40.5)
Impairment	-	3.3	0.1	3.4
Depreciation	5.1	39.7	-	44.8
As at 31 December 2010	89.9	567.1	0.1	657.1
Exchange adjustments	**(0.9)**	**(6.7)**	**-**	**(7.6)**
Disposals	**(0.4)**	**(53.8)**	**-**	**(54.2)**
Impairment reversal	**(1.0)**	**(1.5)**	**-**	**(2.5)**
Depreciation	**5.0**	**38.6**	**-**	**43.6**
As at 31 December 2011	**92.6**	**543.7**	**0.1**	**636.4**
NBV at 31 December 2010	99.7	122.1	19.5	241.3
NBV at 31 December 2011	**103.6**	**126.7**	**18.0**	**248.3**

Included in the total net book value of plant and machinery is £1.0m (2010: £1.0m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.6m (2010: £0.6m).

13. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2011 £m	2010 £m Restated	**2011 £m**	2010 £m Restated	**2011 £m**	2010 £m Restated
Non-current assets	**2.7**	9.5	**(53.2)**	(63.3)	**(50.5)**	(53.8)
Inventories	**8.3**	6.5	**(5.6)**	(5.5)	**2.7**	1.0
Revaluation of derivatives	**0.9**	1.1	**(1.2)**	(2.7)	**(0.3)**	(1.6)
Employee benefits and provisions	**83.1**	92.3	**(4.7)**	(5.0)	**78.4**	87.3
Tax assets	**5.8**	2.9	**-**	-	**5.8**	2.9
	100.8	112.3	**(64.7)**	(76.5)	**36.1**	35.8
Set-off of tax	**(25.1)**	(56.0)	**25.1**	56.0	**-**	-
	75.7	56.3	**(39.6)**	(20.5)	**36.1**	35.8

Unrecognised deferred tax assets and liabilities

Deferred tax assets of £25.4m (2010: £25.7m) have not been recognised in respect of tax losses of £99.4m (2010: £97.5m). The majority of the tax losses have no expiry date, and the assets have not been recognised due to uncertainty over their recoverability.

It is likely that the majority of unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption. However £59.9m (2010: £48.7m) of those earnings may still result in a tax liability principally as a result of the dividend withholding taxes levied by the overseas taxes jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £5.7m (2010: £5.2m) of which only £1.5m (2010: £1.0m) has been provided as the Group is able to control the timing of the dividends. It is not expected that further amounts will crystallise in the foreseeable future.

Movement in net deferred tax assets and liabilities during the year

	Restated Balance at 1 Jan 11 £m	**Recognised in income £m**	**Recognised directly in equity £m**	**Exchange £m**	**Acquisitions/ disposals £m**	**Balance at 31 Dec 11 £m**
Non-current assets	(53.8)	**4.8**	**-**	**0.8**	**(2.3)**	**(50.5)**
Inventories	1.0	**1.8**	**-**	**(0.1)**	**-**	**2.7**
Revaluation of derivatives	(1.6)	**1.4**	**-**	**(0.1)**	**-**	**(0.3)**
Employee benefits and provisions	87.3	**(23.4)**	**14.4**	**0.1**	**-**	**78.4**
Tax assets	2.9	**2.9**	**-**	**(0.1)**	**0.1**	**5.8**
	35.8	**(12.5)**	**14.4**	**0.6**	**(2.2)**	**36.1**

	Balance at 1 Jan 10 £m	Recognised in income £m	Recognised directly in equity £m	Exchange £m	Restated Acquisitions/ disposals £m	Restated Balance at 31 Dec 10 £m
Non-current assets	(28.0)	(0.6)	-	(0.5)	(24.7)	(53.8)
Inventories	1.3	(0.6)	-	-	0.3	1.0
Revaluation of derivatives	(1.0)	(0.3)	-	(0.3)	-	(1.6)
Employee benefits	94.8	(18.5)	8.5	0.4	2.1	87.3
Tax assets	7.5	(4.7)	-	0.1	-	2.9
	74.6	(24.7)	8.5	(0.3)	(22.3)	35.8

All exchange movements are taken through the translation reserve. Of the £14.4m (2010: £8.5m) recognised directly in equity £15.3m (2010: £4.3m) was credited in the consolidated statement of comprehensive income and £0.9m (2010: £4.2m) was charged directly in the consolidated statement of changes in equity.

14. Inventories

	2011 £m	2010 £m
Raw materials and consumables	**108.6**	101.4
Work in progress	**117.4**	94.0
Finished goods	**97.6**	92.6
	323.6	288.0

In 2011 the cost of inventories recognised as an expense within cost of sales amounted to £1,213.6m (2010: £1,095.5m). In 2011 the write-down of inventories to net realisable value amounted to £10.0m (2010: £5.1m). The reversal of write-downs amounted to £0.6m (2010: £0.7m). The write-down and reversal are included in cost of sales. Write-downs and reversals in both years relate to ongoing assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other receivables

Falling due for payment within one year	**2011 £m**	Restated 2010 £m
Trade receivables	**344.9**	314.9
Other receivables	**21.9**	16.2
Prepayments and accrued income	**21.3**	14.1
	388.1	345.2
Receivables are stated after:		
Allowance for impairment	**18.2**	17.4

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

16. Interest-bearing loans and borrowings

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

	2011 £m	2010 £m
Current liabilities		
Unsecured loan notes and other loans	**13.0**	12.9
Current portion of finance lease liabilities	**0.3**	0.3
	13.3	13.2
Non-current liabilities		
Unsecured loan notes and other loans	**241.8**	252.2
Finance lease liabilities	**0.6**	0.4
	242.4	252.6

17. Trade and other payables

Current	**2011 £m**	Restated 2010 £m
Trade payables	**298.0**	231.7
Bills of exchange payable	**5.1**	5.1
Other taxation	**17.4**	15.5
Social security	**6.3**	4.5
Other payables	**0.4**	1.1
Accruals and deferred income	**156.9**	164.9
	484.1	422.8

18. Financial risk management

Overview

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance Report on page 45, this responsibility has been assigned to the Executive Committee with support and feedback from the Audit Committee and the IMI Group Assurance Department as described below.

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

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

- Credit risk
- Market risk
- Liquidity risk

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents held by the Group's banks and other financial assets. At the end of 2011 these totalled £525.4m (2010: Restated £476.3m).

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. 4% (2010: 4%) of the Group's revenue is attributable to sales transactions with our largest single customer. Geographically there is no unusual concentration of credit risk. The Group's contract approval procedure ensures that large contracts are signed off at executive director level at which time the risk profile of the contract, including potential credit risks, is reviewed. Credit risk is minimised through due diligence on potential customers, appropriate credit limits, cash flow management and the use of documentary credits where appropriate.

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2011 credit exposure including cash deposited did not exceed £20m with any single institution (2010: £22m).

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 holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

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

Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

Currency risk (continued)

Transactions

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

Profit translation

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

Asset translation

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. The ineffective portion is recognised immediately in the income statement. Detail of the quantum and management of this exposure is provided in note 18.2.

Southern European risk

The Group has reviewed its risks from a potential break-up of the Euro affecting Southern European countries. Local cash deposits are already minimised through the use of existing cash pooling and intercompany loan arrangements. There are regular reviews of exposure to and reliance on local banking partners, receivables management and terms of significant contracts. In 2011 Southern Europe represented around 5% of the Group's revenues and a similar proportion of its costs and assets - with the majority being in Italy and Spain.

Interest rate risk

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

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

The fair value of these interest rate swaps is included in the balance sheet at £3.1m (2010: £3.8m). The hedged item is included in the value of the debt as an increase in liability of £3.1m (2010: increase £3.8m).

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

Commodity risk

The Group's operating companies purchase metal and metal components with an annual base metal material value of approximately £36m (2010: £26m). The Group manages this exposure through a centralised process hedging copper, zinc, aluminium and nickel using a combination of financial contracts and local supply agreements designed to minimise the volatility of short term margins.

Liquidity risk

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

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US Loan Note issues. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12 month view by an appropriate amount taking into account market conditions and corporate activity, including acquisitions and organic growth plans. At the end of 2011 the Group had undrawn committed facilities totalling £250m (2010: £213m) and was holding cash and cash equivalents of £148m (2010: £123m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

Capital management

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

18.1 Capital base

	2011 £m	2010 £m
Total equity	**614**	576
Gross debt	**256**	268
Cash	**(148)**	(123)
Capital base	**722**	721
Employee benefits and deferred tax assets	**155**	143
Extended capital base	**877**	864
Undrawn funding facilities	**250**	213
Available capital base	**1,127**	1,077

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

The balance between debt and equity in the capital base of the company is considered regularly by the Board in the light of market conditions, business forecasts, growth opportunities and the ratio of net debt to EBITDA. Funding covenants currently limit net debt to a maximum of 3 times EBITDA (note that the net debt to EBITDA ratio at the end of 2011 was x 0.3 (2010: x 0.4). The Board would consider appropriate acquisitions which might take net debt to EBITDA to an internal limit of up to 2 to 2.5 times EBITDA as long as prevailing market conditions and the outlook for our existing businesses supported such a move. It is expected that at these levels our debt would still be perceived as investment grade. The potential benefits to equity shareholders of greater leverage are offset by higher risk and the cost and availability of funding.

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 buy-back programme.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.2 Currency profile of assets and liabilities

	Net assets / (liabilities) excluding cash & debt 2011 £m	Cash 2011 £m	Debt 2011 £m	Exchange contracts 2011 £m	Net assets 2011 £m	Net assets 2010 £m
Sterling	(12)	51	-	373	412	336
US Dollar	265	17	(255)	-	27	32
Euro	228	16	-	(234)	10	55
Other	241	64	(1)	(139)	165	153
Total	**722**	**148**	**(256)**	**-**	**614**	576

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

18.3 Interest rate risk profile

	Debt and exchange contracts 2011 £m	Cash and exchange contracts 2011 £m	Floating rate 2011 £m	Fixed rate 2011 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	424	424	-		
US Dollar	(255)	17	(6)	(232)	6.8	6.1
Euro	(234)	16	(218)	-		
Other	(140)	64	(76)	-		
Total	**(629)**	**521**	**124**	**(232)**		

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

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

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

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

18.4 Undrawn committed facilities

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

	2011 £m	2010 £m
Expiring within one year	**50**	112
Expiring between one and two years	**-**	101
Expiring after more than two years	**200**	-
	250	213

The weighted average life of these facilities is 2.7 years (2010: 0.7 years).

18.5 Terms and debt repayments schedule

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

	Effective interest rate %	**Carrying value £m**	**Contractual cash flows £m**	**0 to <1 year £m**	**1 to <2 years £m**	**2 to <3 years £m**	**3 to <4 years £m**	**4 to <5 years £m**	**5 years and over £m**
2011									
Cash and cash equivalents	**Floating**	**147.9**	**147.9**	**147.9**					
US Loan Notes 2012 - 2022	**6.93-7.17%**	**(22.6)**	**(31.0)**	**(14.4)**	**(0.7)**	**(0.7)**	**(0.7)**	**(0.7)**	**(13.8)**
US Loan Notes 2014	**Floating**	**(22.4)**	**(23.6)**	**(0.4)**	**(0.4)**	**(22.8)**			
US Loan Notes 2016	**7.26%**	**(48.4)**	**(64.4)**	**(3.5)**	**(3.5)**	**(3.5)**	**(3.5)**	**(50.4)**	
US Loan Notes 2018	**5.98%**	**(96.8)**	**(132.4)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(103.4)**
US Loan Notes 2019	**7.61%**	**(64.5)**	**(101.6)**	**(4.9)**	**(4.9)**	**(4.9)**	**(4.9)**	**(4.9)**	**(77.1)**
Finance leases	**Various**	**(0.9)**	**(0.9)**	**(0.3)**	**(0.2)**	**(0.3)**	**(0.1)**		
Bank overdrafts	**Floating**	**(0.4)**	**(0.4)**	**(0.4)**					
Unsecured bank loans	**Floating**	**(0.1)**	**(0.1)**	**(0.1)**					
Total		**(108.2)**	**(206.5)**	**118.1**	**(15.5)**	**(38.0)**	**(15.0)**	**(61.8)**	**(194.3)**

	Effective interest rate %	Carrying value £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	5 years and over £m
2010									
Cash and cash equivalents	Floating	122.9	122.9	122.9					
US Loan Notes 2012 - 2022	6.93-7.17%	(22.3)	(32.2)	(1.6)	(14.2)	(0.7)	(0.7)	(0.7)	(14.3)
US Loan Notes 2014	Floating	(22.9)	(24.0)	(0.3)	(0.3)	(0.3)	(23.1)		
US Loan Notes 2016	7.26%	(47.8)	(67.3)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(49.8)
US Loan Notes 2018	5.98%	(95.5)	(136.2)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(107.7)
US Loan Notes 2019	7.61%	(63.7)	(105.0)	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)	(81.0)
Finance leases	Various	(0.7)	(0.7)	(0.3)	(0.2)	(0.2)			
Bank overdrafts	Floating	(2.5)	(2.5)	(2.5)					
Unsecured bank loans	Floating	(12.9)	(12.9)	(12.9)					
Total		(145.4)	(257.9)	91.3	(28.7)	(15.2)	(37.8)	(14.7)	(252.8)

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

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.6 Total financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2011 and 31 December 2010. Under IAS39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes and transacts all derivatives with suitable investment grade counterparties. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets £m	Amortised cost £m	Total carrying value £m	Fair value £m
2011						
Cash and cash equivalents	-	-	**147.9**	-	**147.9**	**147.9**
Bank overdrafts	-	-	-	**(0.4)**	**(0.4)**	**(0.4)**
Borrowings due within one year	-	-	-	**(13.3)**	**(13.3)**	**(13.3)**
Borrowings due after one year	**(22.4)**	-	-	**(220.0)**	**(242.4)**	**(285.5)**
Trade payables	-	-	-	**(298.0)**	**(298.0)**	**(298.0)**
Trade receivables	-	-	-	**344.9**	**344.9**	**344.9**
Investments	-	-	**20.4**	-	**20.4**	**20.4**
Other current financial assets/(liabilities)						
Derivative assets *	**3.1**	**9.0**	-	-	**12.1**	**12.1**
Derivative liabilities **	**(0.2)**	**(6.9)**	-	-	**(7.1)**	**(7.1)**
Total	**(19.5)**	**2.1**	**168.3**	**(186.8)**	**(35.9)**	**(79.0)**

* Includes £4.9m falling due after more than one year (2010: £7.0m).

** Derivative liabilities include liabilities of £1.0m falling due after more than one year (£0.8m in 1-2 years and £0.2m in 2-3 years). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The increase in value of net investment hedge derivatives in the year of £1.9m is shown in the consolidated statement of comprehensive income.

Trade payables are all due within one year.

	Designated at fair value £m	Other derivatives at fair value £m	Restated Available for sale assets £m	Amortised cost £m	Restated Total carrying value £m	Restated Fair value £m
2010						
Cash and cash equivalents	-	-	122.9	-	122.9	122.9
Bank overdrafts	-	-	-	(2.5)	(2.5)	(2.5)
Borrowings due within one year	-	-	-	(13.2)	(13.2)	(13.2)
Borrowings due after one year	(22.9)	-	-	(229.7)	(252.6)	(277.8)
Trade payables	-	-	-	(231.7)	(231.7)	(231.7)
Trade receivables	-	-	-	314.9	314.9	314.9
Investments	-	-	19.2	-	19.2	19.2
Other current financial assets/(liabilities)						
Derivative assets *	3.8	12.0	3.5	-	19.3	19.3
Derivative liabilities **	(2.1)	(2.5)	-	-	(4.6)	(4.6)
Total	(21.2)	9.5	145.6	(162.2)	(28.3)	(53.5)

* Includes £7.0m falling due after more than one year.

** Derivative liabilities include liabilities of £0.6m falling due after more than one year (£0.2m in 1-2 years, £0.2m in 2-3 years and £0.2m in 3-4 years).

Trade payables are all due within one year.

Valuations

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

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

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

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

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

Fair value hierarchy

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

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

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

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

Long term borrowings which are subject to hedging arrangements of £22.4m (2010: £22.9m) and derivative assets of £12.1m (2010: £22.1m) and liabilities of £7.1m (2010: £4.6m) are valued by Level 2 techniques. Investments are valued by Level 1 techniques.

18.7 Exposure to credit risk

The maximum exposure to credit risk for financial assets is represented by their carrying value. At 31 December 2011 this was £180.5m (2010: £161.4m).

	Carrying amount	
		Restated
	2011	2010
	£m	£m
Cash and cash equivalents	**147.9**	122.9
Investments	**20.4**	19.2
Other available for sale financial assets	**-**	3.5
Interest rate swaps	**3.1**	3.8
Forward exchange contracts	**9.1**	11.7
Metals contracts	**-**	0.3
	180.5	161.4

The maximum exposure to credit risk for trade receivables at 31 December 2011 by geographic region was:

	Carrying amount	
	2011	2010
	£m	£m
UK	**30.9**	25.7
Germany	**28.0**	29.9
Rest of Europe	**101.5**	101.9
USA	**77.0**	75.5
Asia/Pacific	**73.6**	59.8
Rest of World	**33.9**	22.1
	344.9	314.9

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.7 Exposure to credit risk (continued)

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

	Carrying amount	
	2011 £m	2010 £m
Severe Service	**132.1**	115.8
Fluid Power	**107.7**	99.8
Indoor Climate	**38.5**	39.3
Beverage Dispense	**41.0**	40.6
Merchandising	**25.1**	19.4
Corporate	**0.5**	-
	344.9	314.9

The Group's most significant customer, a food and beverage company, accounts for 3.8% of trade receivables carrying amount at 31 December 2011 (2010: 1.5%).

Impairments

The ageing of trade receivables at the reporting date was:

	2011		2010	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m
Not past due	**304.9**	**(2.2)**	275.3	(1.1)
Past due 1-30 days	**29.4**	**(1.0)**	31.7	(0.8)
Past due 31-90 days	**12.6**	**(0.8)**	9.0	(1.0)
Past due over 90 days	**16.2**	**(14.2)**	16.3	(14.5)
Total	**363.1**	**(18.2)**	332.3	(17.4)

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

	2011 £m	2010 £m
Net balance at 1 January	**17.4**	17.8
Charged to the income statement	**4.5**	3.7
Utilised during the year	**(1.8)**	(2.6)
Released	**(1.7)**	(1.7)
Exchange	**(0.2)**	0.2
Net balance at 31 December	**18.2**	17.4

The impairment loss recognised of £1.0m (2010: gain £0.1m) relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers across all of its businesses.

18.8 Market risk sensitivity analysis on financial instruments

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

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

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

Financial instruments sensitivity table

The outputs from the sensitivity analysis are estimates of the impact of market risk assuming that the specified changes occur only to the financial instruments and do not reflect the opposite movement from the impact of the specific change on the underlying business 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% increase in base metal costs £m	10% decrease in base metal costs £m
At 31 December 2011						
Impact on income statement: (loss)/gain	**-**	**-**	**(3.5)**	**3.5**	**0.4**	**(0.4)**
Impact on equity: (loss)/gain	**-**	**-**	**(51.2)**	**51.2**	**-**	**-**
At 31 December 2010						
Impact on income statement: (loss)/gain	(0.4)	0.4	(5.0)	5.0	0.2	(0.2)
Impact on equity: (loss)/gain	-	-	(49.0)	49.0	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits

Pension arrangements, other post-employment and other long-term employee benefit arrangements are accounted for in accordance with the requirements of IAS19. As at 31 December 2011 the Group continues to provide pension benefits through a mixture of defined benefit and defined contribution arrangements. Contributions to defined contribution arrangements are recognised in the consolidated income statement as incurred.

The Group has 75 different defined benefit arrangements worldwide. The major pension and other post-employment benefit arrangements are funded with plan assets that have been segregated in a trust or foundation. Assessments of the obligations for funded and unfunded plans are carried out by independent actuaries, based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on the assets. Movements in the pension assets and liabilities that arise during the year from changes in actuarial assumptions, or because actual experience is different from the underlying actuarial assumptions, are recognised through equity.

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

The Group's strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible and to minimise the liability of the Group. During 2011 four defined benefit arrangements were wound-up, one was closed to new entrants and one to future accrual.

The largest defined benefit arrangement is the IMI Pension Fund in the UK (the Fund). This constitutes 83% of the total defined benefit liabilities and 89% of the total defined benefit assets. The last formal triennial actuarial valuation of the Fund was carried out as at 31 March 2011. The statement of funding principles agreed with the Trustee resulted in an actuarial deficit of £120m. The Group agreed to pay a special contribution of £36.1m in December 2011 and further contributions of £16.8m each July from 2012 to 2016 inclusive as part of the recovery plan to close the deficit by 2016.

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

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

Also during 2010, the difference between the cost of the annuities and the underlying IAS19 liability was financed by a special contribution to the Fund of £48.6m which the Trustee agreed to invest in a special purpose vehicle giving them rights to receive income of £4.4m a year for twenty years, or until the Fund becomes fully funded.

During 2011 certain Fund members accepted the Group's enhanced transfer value offer. The 31 December 2011 defined benefit obligation in respect of the Fund reflects the liability to pay transfer values in early 2012. The transfer values payable are less than the value of the liabilities measured using the underlying IAS19 assumptions, resulting in a curtailment gain. As part of the Group's offer, in addition to receiving transfer values from the Fund (which will reduce the IAS19 assets and liabilities by £27.4m each), subsequent to the year-end, the Group made payments of £8.5m to the individuals in addition to paying employers' national insurance thereon of £1.1m. The curtailment gain of £11.7m reported in this note is therefore partially offset by £9.6m additional pension costs accrued, resulting in a net gain of £2.1m, reflected in segmental operating profit.

With effect from 1 January 2012 Fund pensioners could choose to exchange future increases on their pensions for a higher current pension. The reduction in the Fund's defined benefit obligation as a result of this exercise will be reflected in the income statement for 2012.

Reconciliation to the balance sheet as at 31 December

	2011				2010			
	UK £m	Overseas post employ-ment £m	Overseas non-post employ-ment £m	Total £m	UK £m	Overseas post employ-ment £m	Overseas non-post employ-ment £m	Total £m
Funded schemes in surplus:								
Fair value of assets	-	21.6	-	21.6	-	21.8	-	21.8
Present value of defined benefit obligation	-	(18.2)	-	(18.2)	-	(19.1)	-	(19.1)
	-	3.4	-	3.4	-	2.7	-	2.7
Restriction due to asset ceiling	-	(1.5)	-	(1.5)	-	(1.1)	-	(1.1)
Assets for defined benefit funded schemes	-	1.9	-	1.9	-	1.6	-	1.6
Funded schemes in deficit:								
Fair value of assets	1,061.5	112.4	-	1,173.9	981.5	112.7	-	1,094.2
Present value of defined benefit obligation	(1,159.5)	(142.9)	-	(1,302.4)	(1,088.4)	(134.3)	-	(1,222.7)
Recognised liabilities for defined benefit funded schemes	(98.0)	(30.5)	-	(128.5)	(106.9)	(21.6)	-	(128.5)
Present value of obligation for unfunded schemes	(3.5)	(60.3)	(13.4)	(77.2)	(3.5)	(54.6)	(14.4)	(72.5)
Liabilities for defined benefit schemes	(101.5)	(90.8)	(13.4)	(205.7)	(110.4)	(76.2)	(14.4)	(201.0)
Net liability for defined benefit obligations	(101.5)	(88.9)	(13.4)	(203.8)	(110.4)	(74.6)	(14.4)	(199.4)
Total fair value of assets	1,061.5	134.0	-	1,195.5	981.5	134.5	-	1,116.0
Total present value of defined benefit obligation	(1,163.0)	(221.4)	(13.4)	(1,397.8)	(1,091.9)	(208.0)	(14.4)	(1,314.3)
Asset ceiling	-	(1.5)	-	(1.5)	-	(1.1)	-	(1.1)
Net liability for defined benefit obligations	(101.5)	(88.9)	(13.4)	(203.8)	(110.4)	(74.6)	(14.4)	(199.4)

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits (continued)

a) Summary of assumptions

	Weighted averages					
	31 Dec 2011		31 Dec 2010		31 Dec 2009	
	UK % pa	**Overseas % pa**	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation rate - RPI	**3.1**	**n/a**	3.5	n/a	3.7	n/a
Inflation rate - CPI	**2.1**	**1.9**	n/a	2.0	n/a	2.0
Discount rate	**4.8**	**3.7**	5.5	4.1	5.7	4.4
Expected rate of salary increases [1]	**n/a**	**2.8**	n/a	2.8	4.9	2.8
Rate of pension increases [2]	**3.1**	**0.5**	3.5	0.6	3.7	0.5
Rate of increase for deferred pensions [2]	**3.1**	**0.5**	3.5	0.6	3.7	0.5
Medical cost trend rate [3]	**n/a**	**5.0**	n/a	5.0	n/a	5.0
Expected return on equities	**7.1**	**7.5**	7.4	7.3	8.1	7.6
Expected return on bonds	**3.8**	**2.8**	4.8	3.1	5.3	3.5
Expected return on property	**6.0**	**5.0**	6.7	5.1	7.0	5.6
Expected return on other assets [4]	**8.4**	**2.4**	8.4	2.4	4.4	2.5
Overall expected return on assets [5]	**6.5**	**4.3**	7.1	4.4	6.9	4.6

[1] For 2009, includes 0.2% pa as the average effect of the age-by-age promotional scale for UK.

[2] In excess of any Guaranteed Minimum Pension (GMP) for UK.

[3] Initial rate of 7.0% pa (7.5% pa in 2010, 8.0% pa in 2009) reducing by 0.5% pa each year to 5.0% pa. Assumed healthcare cost trend rates do not have a significant effect on the amounts recognised in the income statement.

[4] There was a material change in the assumed return on other assets in the UK in 2010 which reflects changes in the IMI Pension Fund's investment strategy during the year. See note (e) below for further details.

[5] Based on the distribution of assets set out in note (e) below.

The mortality assumptions used for the IMI Pension Fund reflect its experience, together with an allowance for improvements over time. The experience was reviewed as part of the formal triennial actuarial valuation carried out as at 31 March 2011, and the assumptions used as at 31 December 2011 reflect the results of this review. The table below shows the implied life expectancy from age 65 for the Fund's current and future pensioners based on the assumptions adopted. The allowance for future improvements in mortality rates from 2011 is in line with the CMI's 2010 Core Projection model, with a long-term rate of improvement of 1.25% pa. The CMI is the research body funded by the actuarial profession to collect and analyse UK mortality rates. The allowance for future improvements in mortality rates assumed at December 2009 and 2010 was in line with the published medium cohort rates, with a minimum annual rate of improvement of 1%.

Implied life expectancy (years) from age 65 for:

	31 Dec 2011		31 Dec 2010		31 Dec 2009	
	Males	**Females**	Males	Females	Males	Females
Current pensioners	**20.9**	**23.8**	20.7	22.4	20.6	22.3
Future pensioners	**22.7**	**25.8**	22.7	24.3	22.6	24.2

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

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

	2011				2010			
	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
Defined benefit schemes operating costs								
Current service cost	-	4.6	0.8	5.4	4.7	4.2	0.6	9.5
Past service cost	-	-	0.1	0.1	-	(0.8)	-	(0.8)
Recognition of losses/(gains)	-	-	(0.1)	(0.1)	-	-	0.9	0.9
Settlement/curtailment	(11.7)	(1.8)	-	(13.5)	(15.1)	(1.0)	-	(16.1)
Total	(11.7)	2.8	0.8	(8.1)	(10.4)	2.4	1.5	(6.5)
Defined benefit schemes financial costs								
Interest cost	58.3	8.2	0.7	67.2	61.2	8.0	0.7	69.9
Expected return on assets	(67.5)	(5.9)	-	(73.4)	(64.2)	(5.7)	-	(69.9)
Total	(9.2)	2.3	0.7	(6.2)	(3.0)	2.3	0.7	-
Total defined benefit schemes pension expense/(income)	(20.9)	5.1	1.5	(14.3)	(13.4)	4.7	2.2	(6.5)
Accrued payment to deferred members *	9.6	-	-	9.6	-	-	-	-
Pension expense from defined contribution schemes	3.1	6.1	-	9.2	1.0	6.3	-	7.3
Total pension (income)/expense	(8.2)	11.2	1.5	4.5	(12.4)	11.0	2.2	0.8

* £9.6m (including £1.2m National Insurance contributions) has been accrued for committed payments to be made to deferred members in respect of the enhanced transfer value exercise. This amount has been included in operating profit. After the related settlement gain of £11.7m included above, this exercise results in a £2.1m net gain in the 2011 income statement.

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

	2011				2010			
	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
Actuarial losses during the year	(64.9)	(19.9)	-	(84.8)	(18.6)	(3.5)	-	(22.1)
Change in the effect of the asset ceiling	-	(0.4)	-	(0.4)	-	(0.1)	-	(0.1)
Exchange gain/(loss) [1]	-	0.8		0.8	-	(1.5)	(0.2)	(1.7)
Total losses recognised during the year	(64.9)	(19.5)	-	(84.4)	(18.6)	(5.1)	(0.2)	(23.9)
Cumulative amount of actuarial gains/(losses) at the beginning of the year	(216.0)	(30.8)	(5.9)	(252.7)	(197.4)	(25.7)	(5.7)	(228.8)
Cumulative amount of actuarial losses at the end of the year	(280.9)	(50.3)	(5.9)	(337.1)	(216.0)	(30.8)	(5.9)	(252.7)

[1] The 2011 figure includes no gain or loss on asset ceiling due to exchange rate movements. The equivalent figure for 2010 was a £0.1m gain.

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits (continued)

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

	2011 UK £m	2011 Overseas post employment £m	2011 Overseas non-post employment £m	2011 Total £m	2010 UK £m	2010 Overseas post employment £m	2010 Overseas non-post employment £m	2010 Total £m
Present value of DBO at the beginning of the year	**1,091.9**	**208.0**	**14.4**	**1,314.3**	1,101.4	186.3	13.5	1,301.2
Company service cost	**-**	**4.6**	**0.8**	**5.4**	4.7	4.2	0.6	9.5
Interest cost	**58.3**	**8.2**	**0.7**	**67.2**	61.2	8.0	0.7	69.9
Employee contributions	**-**	**2.9**	**-**	**2.9**	1.4	2.4	-	3.8
Past service cost	**-**	**-**	**0.1**	**0.1**	-	(0.8)	-	(0.8)
Actuarial (gain)/loss:								
from experience	**(10.5)**	**(1.8)**	**(0.6)**	**(12.9)**	(11.8)	(1.6)	0.7	(12.7)
from changes in assumptions	**90.0**	**18.2**	**0.5**	**108.7**	10.1	5.8	0.2	16.1
Actual benefit payments								
from plan assets	**(55.0)**	**(10.0)**	**-**	**(65.0)**	(60.0)	(8.6)	-	(68.6)
direct from the employers	**-**	**(3.9)**	**(2.5)**	**(6.4)**	-	(3.3)	(2.3)	(5.6)
Settlement/curtailment	**(11.7)**	**(2.9)**	**-**	**(14.6)**	(15.1)	(3.1)	-	(18.2)
Purchase of business	**-**	**-**	**-**	**-**	-	4.4	0.8	5.2
Exchange	**-**	**0.1**	**-**	**0.1**	-	14.3	0.2	14.5
Transfer to defined contribution scheme	**-**	**(2.0)**	**-**	**(2.0)**	-	-	-	-
Present value of DBO at the end of the year	**1,163.0**	**221.4**	**13.4**	**1,397.8**	1,091.9	208.0	14.4	1,314.3

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

	2011 UK £m	2011 Overseas post employment £m	2011 Total £m	2010 UK £m	2010 Overseas post employment £m	2010 Total £m
Equities	**54.6**	**37.8**	**92.4**	41.5	40.4	81.9
Bonds	**397.5**	**73.1**	**470.6**	335.5	71.5	407.0
Property	**38.2**	**8.6**	**46.8**	36.5	6.3	42.8
Other	**571.2**	**14.5**	**585.7**	568.0	16.3	584.3
Total	**1,061.5**	**134.0**	**1,195.5**	981.5	134.5	1,116.0

As at 31 December 2011 Other UK assets now include:

- the current market value of the total return equity swaps of a negative £3m. These contracts provide the IMI Pension Fund with equity returns in excess of LIBOR on a notional investment of £362m;
- £317m in respect of insurance (annuity) policies and IMI Pension Fund's interest in the IMI Scottish Partnership;
- £147m in respect of hedge fund investments;
- £61m in respect of PFI investments; and
- £49m in respect of cash and currency items.

There are no assets that may be counted against the liabilities for overseas non-post employment arrangements.

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

	2011			2010		
	UK £m	**Overseas post employment £m**	**Total £m**	UK £m	Overseas post employment £m	Total £m
Fair value of assets at the beginning of the year	**981.5**	**134.5**	**1,116.0**	926.6	118.2	1,044.8
Expected return on assets	**67.5**	**5.9**	**73.4**	64.2	5.7	69.9
Actuarial gain/(loss) on assets	**14.6**	**(3.5)**	**11.1**	(20.3)	0.7	(19.6)
Actual company contributions:						
normal	**-**	**6.3**	**6.3**	4.2	5.5	9.7
additional - as agreed under 2008 valuation funding plans	**16.8**	**-**	**16.8**	16.8	-	16.8
additional - other	**36.1**	**-**	**36.1**	48.6	-	48.6
Employee contributions	**-**	**2.9**	**2.9**	1.4	2.4	3.8
Benefit payments (met from plan assets)	**(55.0)**	**(10.0)**	**(65.0)**	(60.0)	(8.6)	(68.6)
Settlements	**-**	**(1.1)**	**(1.1)**	-	(2.1)	(2.1)
Exchange	**-**	**0.9**	**0.9**	-	12.7	12.7
Transfer to defined contribution scheme	**-**	**(1.9)**	**(1.9)**	-	-	-
Fair value of assets at the end of the year	**1,061.5**	**134.0**	**1,195.5**	981.5	134.5	1,116.0

The other additional Company contribution made to UK arrangements during 2010 was in connection with facilitating investment by the IMI Pension Fund in the IMI Scottish Partnership.

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

	2011			2010		
	UK £m	**Overseas post employment £m**	**Total £m**	UK £m	Overseas post employment £m	Total £m
Expected return on assets	**67.5**	**5.9**	**73.4**	64.2	5.7	69.9
Actuarial gain/(loss) on assets	**14.6**	**(3.5)**	**11.1**	(20.3)	0.7	(19.6)
Actual return on assets	**82.1**	**2.4**	**84.5**	43.9	6.4	50.3

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits (continued)

h) Additional information

	UK £m	Overseas £m	Total £m
Expected employer contributions to defined benefit schemes for the year ending 31 December 2012			
Normal	-	5.8	5.8
Additional	16.8	-	16.8
Expected employee contributions to defined benefit schemes for the year ending 31 December 2012	-	3.2	3.2
Expected benefits to be paid by the Company for the year ending 31 December 2012	-	5.8	5.8

The IMI Pension Fund closed to future accrual with effect from 31 December 2010.

i) Historical information

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of the defined benefit obligation	**(1,397.8)**	(1,314.3)	(1,301.2)	(1,093.7)	(1,184.1)
Fair value of assets	**1,195.5**	1,116.0	1,044.8	958.2	1,124.0
Deficit	**(202.3)**	(198.3)	(256.4)	(135.5)	(60.1)
Impact of the asset ceiling	**(1.5)**	(1.1)	(1.1)	(1.6)	(3.5)
Net liability for defined benefit obligations	**(203.8)**	(199.4)	(257.5)	(137.1)	(63.6)
Experience (gain)/loss arising on plan liabilities	**(12.9)**	(12.7)	(23.1)	(13.0)	0.8
Experience (gain)/loss arising on plan assets	**(11.1)**	19.6	(74.0)	245.6	11.3

j) Sensitivities

The balance sheet liability is sensitive to changes in the assumptions used to place a value on the defined benefit obligation, in particular to the discount rate and implied life expectancy, and to changes in the assets, in particular to equity market movements. The IMI Pension Fund constitutes 83% of the total liabilities and 89% of the total assets for the Group's long-term employee benefit arrangements as at 31 December 2011. It is therefore appropriate to consider the sensitivity to changes in key assumptions in respect of the Fund and these are illustrated below (net defined benefit liability as at 31 December 2011 for the IMI Pension Fund is £98.0m).

Increase in net defined benefit liability as at 31 December 2011[1]	**£m**
Discount rate 0.1% pa lower	15
Inflation-linked pension increases 0.1% pa higher	11
Increase of one year in life expectancy from age 65	30
10% fall in non-bond-like[2] assets	66

[1] in each case all other assumptions are unchanged.
[2] bond-like assets include cash, bonds, insurance (annuity) policies and IMI Pension Fund's interest in the IMI Scottish Partnership.

20. Share-based payments

The Group operates the following share-based payment schemes:

SAYE savings-related share option scheme

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase IMI shares. SAYE options are exercisable within 6 months of the date they become exercisable or otherwise expire.

Share Incentive Plan (SIP)

This scheme 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. Partnership shares – allow employees to sacrifice up to £125 per month from pre-tax pay, which is used to buy IMI shares. Matching shares may be awarded in respect of partnership shares acquired under the plan although the policy to date has been not to award any matching shares.
Free shares – allows a grant of shares to employees each year, up to a maximum of 0.6% of salary capped at £3,000. Both the Partnership and Free share schemes are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company.

Global Employee Share Purchase Plan (GESPP)

The IMI Global Savings Related Share Option Scheme was introduced in 2011 for USA and Germany. The German GESPP offers the opportunity to buy shares in IMI at a fixed price at a future date. This scheme mirrors the UK SAYE, with a minimum / maximum savings limit per month and contract duration of 3 or 5 years. The USA GESPP also offers the opportunity to buy shares in IMI at a fixed price at a future date. The USA scheme also operates in a similar way to SAYE, with a minimum / maximum savings limit per month. However the contract duration is for a fixed period of 2 years and different taxation conditions apply for the exercising period.

Performance Share Plan (PSP)

The performance share plan is open to the Company's executive directors and selected senior managers within the Group. For awards granted prior to April 2009, 50% of these PSP awards vest subject to EPS growth while the remaining 50% of awards are subject to relative TSR (total shareholder return). For awards granted in 2009, 100% of the awards granted vest subject to relative TSR performance. For awards granted in 2010 onwards, 50% of PSP awards vest subject to EPS growth, 25% vest subject to TSR, and 25% vest subject to RoOCE (Return on Operating Capital Employed).

Share Matching Plan (SMP)

Executive directors' and selected senior managers' annual incentive payments are 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 incentive payment is made in cash. If not achieved, a proportion of any earned annual incentive payment will be mandatorily deferred for three years and delivered in IMI shares in the SMP. This mandated investment (if Share Ownership Guideline is not achieved) is 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 may also elect to voluntarily defer all or part of the remainder of their incentive payment, and invest personal funds, up to a maximum of 100% of their annual incentive opportunity. Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the gross equivalent number of shares invested in the plan) if performance conditions over the three year vesting period are met.

Performance measures for 2009 SMP awards were exceptional, and included one third TSR, one third profit before tax (measured annually) and one third annual priority targets (measured annually). The annual priority targets were weighted equally, in 2009 between cash conversion and profit drop through and, in 2010 and 2011, between cash conversion and return on sales. The performance measure for 2010 SMP awards was Economic Value Added over the years 2010 to 2012.

Share Option Plan (SOP)

Share option awards were made from 2009 to selected senior managers and certain other employees under the Share Option Plan adopted in 2009. These awards are not subject to performance conditions, but are subject to a three year vesting period. The purpose of the Plan 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.

20. Share-based payments (continued)

The following share-based plans are no longer operated, but awards are outstanding under them:

Executive Share Option Scheme

Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005 under the Executive Share Option (1995) Scheme which expired in May 2005. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in EPS above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown below.

Long Term Incentive Plan (LTIP)

The LTIP awards were made in 2005 as part of the transition to new long term incentive arrangements introduced in 2005.

The LTIP allows for cash awards to be made to executive directors and selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments can (or in the case of executive directors, must) normally be invested in market purchases of IMI shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded at the ratio of one additional share for every four invested with no further performance conditions.

Deferred Bonus Plan (DBP)

Under the DBP, for executive directors and selected senior managers, a proportion of earned annual bonus was mandatorily deferred for three years, and delivered in IMI shares. Qualifying employees also elected to voluntarily defer all or part of the remainder of their annual bonus. Additional shares, in the form of a matching award, may be earned (to a maximum of 100%, or 125% for the Chief Executive, of the deferred bonus at the entry share price level) if stretching performance conditions are met by the Company over the three year deferral period.

Analysis of options granted

Currently operated share-based payment schemes

	Employee SAYE option			Performance Share Plan[1]		Share Matching Plan[1]		Share Option Plan		
	Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Weighted awards option price	Normal exercisable date
2003	976	201p	2006-2010	-	-					
2004	801	289p	2007-2009	-	-					
2005	464	380p	2008-2010	706	2008					
2006	251	495p	2009-2011	716	2009					
2007	204	517p	2010-2012	734	2010					
2008	342	391p	2011-2013	995	2011					
2009	832	201p	2012-2014	673	2012	1,783	2012	2,532	441p	2012
2010	190	511p	2013-2015	228	2013	1,145	2013	1,565	645p	2013
2011	**111**	**849p**	**2014-2016**	**234**	**2014**	**821**	**2014**	**1,463**	**959p**	**2014**

	Global Employee Share Purchase Plan		
	Number of options thousand	Weighted average option price	Normal exercisable date
2011	**246**	**695p**	**2013-2016**

Legacy share-based payment schemes

	Executive Option Scheme			Long Term Incentive Plan [1]		Deferred Bonus Plan [1]	
	Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date
2003	2,258	257p	2006-2013	-	-	-	-
2004	2,199	358p	2007-2014	-	-	-	-
2005	484	421p	2008-2015	53	2008	-	-
2006	-	-	-	44	2009	117	2009
2007	-	-	-	61	2010	184	2010
2008	-	-	-	82	2011	183	2011

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

The number and weighted average exercise prices of share options outstanding are as follows:

	Options without performance conditions			Options with performance conditions
	Number of options	Range of option prices	Weighted average option price	Number of options
Outstanding at 1 January 2010	4,372,528	201-517p	383p	4,379,648
Exercisable at 1 January 2010	715,618	201-517p	361p	15,389
Granted	1,754,639	511-645p	631p	1,372,302
Exercised	362,498	201-517p	359p	412,652
Lapsed	417,664	201-517p	411p	538,422
Outstanding at 31 December 2010	5,347,005	201-645p	464p	4,800,876
Exercisable at 31 December 2010	344,142	201-517p	364p	18,905
Granted	**1,819,496**	**632-972p**	**917p**	**1,054,632**
Exercised	**317,903**	**201-645p**	**390p**	**940,459**
Lapsed	**612,488**	**201-972p**	**573p**	**171,553**
Outstanding at 31 December 2011	**6,236,110**	**201-972p**	**575p**	**4,743,496**
Exercisable at 31 December 2011	**205,849**	**257-511p**	**386p**	**89,979**

NOTES TO THE FINANCIAL STATEMENTS

20. Share-based payments (continued)

Share options previously reported as Employee SAYE options and Executive options have been combined within Options without performance conditions. The options previously reported as Long Term Incentive Plan options, Performance Share Plan options and Deferred Bonus Plan options have been combined within Options with performance conditions. In both cases these schemes have substantially similar arrangements. Options with performance conditions were granted with an option price of £nil.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is 6.99 years (2010: 7.42 years).

Included in these balances are share options that have not been recognised in accordance with IFRS2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS2. The number of these share options outstanding was as follows:

1 January 2010: 78,772

31 December 2010 and 1 January 2011: 10,022

31 December 2011: nil

The weighted average share price at the date of exercise of share options exercised during the period was £9.94 (2010: £6.91).

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 2011 included a dividend yield of 3.5% (2010: 3.7%), expected share price volatility of 30% (2010: 30%), a weighted average expected life of 3.4 years (2010: 3.6 years) and a weighted average interest rate of 2.1% (2010: 2.0%). The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period arising from share-based payments are as follows:

	2011 £m	2010 £m
Equity settled share-based payment expense in employee cost in the income statement	**8.9**	5.5

The share-based payment expense of £8.9m (2010: £5.5m) comprises a charge of £10.3m for the year offset by a credit of £1.4m (2010: £2.2m) in respect of lapses. £6.0m (2010: £2.8m) of the total charge is in respect of directors.

21. Provisions for liabilities and charges

	Restructuring £m	Trade warranties £m	Investigation costs £m	Other £m	Total £m
Current	11.9	-	2.0	-	13.9
Non-current	-	32.1	1.7	13.6	47.4
At 1 January 2011	11.9	32.1	3.7	13.6	61.3
Exchange adjustment	**0.1**	-	-	-	**0.1**
Acquisitions	-	**0.1**	-	-	**0.1**
Utilised during the year	**(15.3)**	**(12.3)**	**(2.1)**	**(0.3)**	**(30.0)**
Arising during the year	**10.2**	**12.5**	-	**0.6**	**23.3**
At 31 December 2011	**6.9**	**32.4**	**1.6**	**13.9**	**54.8**
Current	**6.9**	**13.1**	**1.6**	-	**21.6**
Non-current	-	**19.3**	-	**13.9**	**33.2**
	6.9	**32.4**	**1.6**	**13.9**	**54.8**

The restructuring provision is expected to be fully utilised within one year. The provision balance reflects residual amounts committed but not spent in relation to a number of specific projects to reorganise operations and facilities.

Trade warranties are given in the normal course of business and cover a range of periods, typically 1-2 years, with the expected amounts falling due in less than one year separately analysed above. Amounts set aside represent management's best estimate regarding the amount of the settlements and the timing of resolution with customers.

CCI is subject to oversight by an independent compliance monitor pursuant to the terms of a settlement agreement with the US Department of Justice. Provision has been made for the costs associated with the monitor over the three year monitor appointment period which runs until June 2013 and the cost of resolving certain investigation related matters.

Other provisions are principally environmental provisions, recognising the Group's obligation to remediate contaminated land at a number of current and former sites. Because of the long term nature of the liability, the timescales are uncertain and the provision represents management's best estimates of these costs.

22. Share capital

	Number of ordinary shares of 25p each			
	2011 m	2010 m	**2011 £m**	2010 £m
Authorised	**480.0**	480.0	**120.0**	120.0
Issued and fully paid:				
In issue at the start of the year	**339.9**	339.5	**85.0**	84.9
Issued to satisfy employee share schemes	**0.3**	0.4	**-**	0.1
In issue at the end of the year	**340.2**	339.9	**85.0**	85.0
Of which held within retained earnings	**23.0**	23.3		

Shares issued and purchased during the year are shown in the table below:

	Employee Benefit Trust m	**Treasury m**	**Other m**	**Total m**
In issue at 31 December 2010	4.2	19.1	316.6	339.9
New issues	**-**	**-**	**0.3**	**0.3**
Market purchases	**0.8**	**-**	**(0.8)**	**-**
Allocations	**(1.2)**	**-**	**1.2**	**-**
At 31 December 2011	**3.8**	**19.1**	**317.3**	**340.2**

NOTES TO THE FINANCIAL STATEMENTS

22. Share capital (continued)

During the year 0.3m shares were issued under employee share schemes realising £1.2m.

The Company made market purchases of a total of 0.8m (2010: 3.6m) of its own shares with an aggregate market value of £8.0m (2010: £29.5m) and a nominal value of £0.2m (2010: £0.9m) including dealing costs of £nil (2010: £0.2m). Of the 23.0m (2010: 23.3m) shares held within retained earnings, 3.8m (2010: 4.2m) shares with an aggregate market value of £29.1m (2010: £39.7m) are held in trust to satisfy employee share scheme vesting.

Dividends

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2011 £m	2010 £m
19.0p per qualifying ordinary share (2010: 17.0p)	**60.3**	53.9

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

	2011 £m	2010 £m
17.0p per qualifying ordinary share (2010: 13.2p)	**53.9**	42.2
11.0p per qualifying ordinary share (2010: 9.0p)	**34.9**	28.7
	88.8	70.9

Share options

The majority of UK employees may participate in the IMI Sharesave Plan (2004) and selected senior executives within the Group participate in the IMI Executive Share Option (1995) Scheme and the IMI Performance Share Plan. At 31 December 2011, options to purchase ordinary shares had been granted to and not exercised by participants of IMI share option schemes as follows:

	Date of grant	**Number of shares**	**Price**	**Date of exercise**
IMI SAYE Share Option	04.04.06	2,278	494.55p	01.08.11
(1994) Scheme	16.04.07	35,317	517.18p	01.08.12
	14.04.08	74,788	391.41p	01.08.11 or 01.08.13
	09.04.09	709,599	201.36p	01.08.12 or 01.08.14
	06.04.10	164,183	510.92p	01.08.13 or 01.08.15
	06.04.11	105,838	849.02p	01.08.14 or 01.08.16
Global Employee Share	19.12.11	173,930	632.00p	01.08.13
Purchase Plan	19.12.11	71,602	849.02p	01.08.14 or 01.08.16
IMI Executive Share	02.04.03	27,500	256.9p	02.04.06 to 02.04.13
Option (1995) Scheme	24.03.04	44,590	358.0p	24.03.07 to 24.03.14
	23.03.05	129,235	420.5p	23.03.08 to 23.03.15
IMI 2005 Long Term	13.05.05	3,050	-	13.05.08 to 13.05.15
Incentive Plan (also known as	03.04.06	6,520	-	03.04.09 to 03.04.16
IMI Performance Share Plan)	05.04.07	9,768	-	29.03.10 to 05.04.17
	04.04.08	70,641	-	04.04.11 to 04.04.18
	10.03.09	673,400	-	10.03.12 to 10.03.19
	07.05.10	227,700	-	07.05.13 to 07.05.20
	10.03.11	234,000	-	10.03.14 to 10.03.21
IMI Share Option Plan (2009)	03.09.09	1,997,000	440.93p	03.09.12 to 03.09.19
	22.03.10	1,317,250	645.00p	22.03.13 to 22.03.20
	23.03.11	1,310,500	971.83p	23.03.14 to 23.03.21
	19.12.11	72,500	719.33p	19.12.14 to 19.12.21

23. Cash flow notes

a) Reconciliation of cash and cash equivalents

	2011 £m	Restated 2010 £m
Cash and cash equivalents in current assets	**147.9**	122.9
Bank overdraft in current liabilities	**(0.4)**	(2.5)
Cash and cash equivalents	**147.5**	120.4

b) Reconciliation of net cash to movement in net borrowings

	2011 £m	Restated 2010 £m
Net increase in cash and cash equivalents	**27.9**	41.1
Net repayment/(drawdown) of borrowings	**16.0**	(14.2)
Cash inflow	**43.9**	26.9
Net debt acquired	**(2.5)**	-
Currency translation differences	**(4.2)**	0.1
Movement in net borrowings in the year	**37.2**	27.0
Net borrowings at the start of the year	**(145.4)**	(172.4)
Net borrowings at the end of the year	**(108.2)**	(145.4)

c) Analysis of net debt

		Borrowings and finance leases due		
	Cash and cash equivalent £m	**within one year £m**	**after more than one year £m**	**Total net debt £m**
At 1 January 2011	120.4	(13.2)	(252.6)	(145.4)
Net debt acquired			**(2.5)**	**(2.5)**
Cash flow excluding settlement of currency derivatives hedging balance sheet	**22.3**	**(0.1)**	**16.1**	**38.3**
Settlement of currency derivatives hedging balance sheet	**5.6**			**5.6**
Other currency translation differences	**(0.8)**		**(3.4)**	**(4.2)**
At 31 December 2011	**147.5**	**(13.3)**	**(242.4)**	**(108.2)**

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011		2010	
	Land and buildings £m	**Others £m**	Land and buildings £m	Others £m
Within one year	**21.0**	**5.2**	16.1	4.9
In the second to fifth year	**37.6**	**12.2**	30.7	9.9
After five years	**23.4**	**-**	26.7	1.5
	82.0	**17.4**	73.5	16.3

Operating lease payments represent rentals payable by the Group primarily for certain of its office properties.

NOTES TO THE FINANCIAL STATEMENTS

25. Commitments

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date amounted to £7.3m (2010: £6.1m).

26. Contingencies

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £95m (2010: £86m).

27. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Executive directors are considered to be the key management personnel. Remuneration is as follows:

	2011 **£m**	2010 £m
Short term employee benefits	**5.2**	2.1
Contributions to executive retirement plan	-	1.8
Share-based payment	**6.0**	2.8
Total	**11.2**	6.7

Short-term employee benefits comprise salary and benefits earned during the year and bonuses awarded for the year. There are no other related party transactions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

We have audited the Parent Company financial statements of IMI plc for the year ended 31 December 2011 which comprise the Company Balance Sheet and the related notes C1 to C11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 68 the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements.
If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 required us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of IMI plc for the year ended 31 December 2011.

John C Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
1 March 2012

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.

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 2011

	Note	2011 £m	2010 £m
Fixed Assets			
Investments	C6	**574.0**	574.0
Current assets			
Debtors (including £1.9m due after more than one year (2010: £9.2m))	C7	**27.6**	31.2
Cash at bank and in hand		**0.9**	0.8
		28.5	32.0
Creditors: amounts falling due within one year			
Other creditors	C8	**(50.6)**	(48.6)
Net current liabilities		**(22.1)**	(16.6)
Total assets less current liabilities		**551.9**	557.4
Creditors: amounts falling due after more than one year			
Borrowings	C9	**(22.4)**	(22.9)
Net assets		**529.5**	534.5
Capital and reserves			
Called up share capital	C10	**85.0**	85.0
Share premium account	C10	**169.3**	168.1
Capital redemption reserve	C10	**7.9**	7.9
Profit and loss account	C10	**267.3**	273.5
Equity shareholders' funds		**529.5**	534.5

Approved by the Board of Directors on 1 March 2012 and signed on its behalf by:

Robert Quarta
Chairman

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements, except where otherwise noted below:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards except for certain financial instruments as defined by FRS26 *'Financial instruments: measurement'* which are stated at fair value.

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

Under FRS1 *'Cash flow statements',* the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

The Company has taken advantage of the exemptions contained in FRS8 *'Related party disclosures'* and has not disclosed transactions or balances with wholly owned entities which form part of the Group. Related party transactions with the Company's key management personnel are disclosed in the Remuneration Report on pages 48 to 67 and in note 27 of the Group financial statements. The Company has adopted the requirements of FRS29 *'Financial Instruments: Disclosures'* and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS7.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation included in the profit and loss account.

Investments

The Company's cost of investment in subsidiary undertakings is stated at the aggregate of (a) the cash consideration and either (b) the nominal value of the shares issued as consideration when Section 612 of the Companies Act 2006 applies or (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Financial instruments

The principal financial instruments utilised by the Company are interest rate swaps. These instruments are used for hedging purposes in line with the Group's risk management policy. Interest differentials are taken to net interest in the profit and loss account.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Equity and equity-related compensation benefits

The Company operates a number of equity and equity-related compensation benefits as set out in note 20 to the Group financial statements. The fair value of the employee services received in exchange for the grant of the options are recharged to the principal employing company.

When a parent grants share-based payments to employees of a subsidiary, UITF41 *'Scope of FRS20'* and UITF44 *'Group and Treasury Share Transactions'* states that the parent receives services from the employees indirectly through its subsidiary which should be accounted for as an increase in the investment in the subsidiary by the parent.

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1. Significant accounting policies (continued)

Equity and equity-related compensation benefits (continued)

Amounts recharged to subsidiaries are recognised as a reduction in the cost of investment in the subsidiary as this recharge is considered to form part of the determination of the net capital contribution from the parent in respect of the share-based payment arrangement. Accordingly, there is no overall increase in the investment in subsidiaries recorded in the Company's financial statements. The recharged amount is recognised as a debtor falling due for payment within one year.

The total amount recharged over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest.

It recognises the impact of the revision of original estimates, if any, in the amount recharged to subsidiary undertakings.

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

Treasury shares

The consideration paid by the Company on the acquisition of treasury shares is charged directly to retained earnings in the year of purchase. If treasury shares are subsequently cancelled the nominal value of the cancelled shares is transferred from share capital to the capital redemption reserve.

Dividends or shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

C2. Remuneration of directors

The detailed information concerning directors' emoluments, shareholdings and options are shown in the audited section of the Remuneration Report on pages 48 to 67.

C3. Remuneration of auditors

The detailed information concerning auditor's remuneration is shown in note 7 of the Group financial statements.

C4. Staff numbers and costs

The number of people employed by the Company, including directors, during the year was 27 (2010: 25) all of whom were employed in administrative roles. The costs associated with them were borne by a subsidiary undertaking.

The Company participates in the IMI Pension Fund, which is a defined benefit scheme in which the assets are held independently. The Company is unable to identify its share of the underlying assets and liabilities of the schemes and consequently in accordance with FRS17 paragraph 9(b) the Company is required to account for pension costs as if the scheme were a defined contribution scheme. Note 19 to the Group financial statements provides further details regarding the defined benefit scheme.

C5. Dividends

The aggregate amount of dividends comprises:

	2011 £m	2010 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**53.9**	42.2
Interim dividends paid in respect of the current year	**34.9**	28.7
Aggregate amount of dividends paid in the financial year	**88.8**	70.9

Dividends paid in the year of £88.8m respresent 28.0p per share (2010: 22.2p).

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.

	2011 £m	2010 £m
19.0p per qualifying ordinary share (2010: 17.0p)	**60.3**	53.9

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 dividend differing from those in issue at the balance sheet date.

C6. Fixed assets - investments

	Subsidiary undertakings		
	Shares £m	**Loans £m**	**Total £m**
At 1 January 2011 and 31 December 2011 at cost and net book value	**170.1**	**403.9**	**574.0**

Details of subsidiary undertakings at 31 December 2011 are shown on pages 130 and 131.

C7. Debtors

	2011 £m	2010 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	**24.1**	17.3
Prepayments and accrued income	**0.4**	0.4
Deferred tax	**-**	3.3
Other financial assets	**1.2**	1.0
	25.7	22.0
Falling due for payment after one year:		
Deferred tax	**-**	6.4
Other financial assets	**1.9**	2.8
	1.9	9.2
	27.6	31.2

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C8. Other creditors falling due within one year

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	**49.2**	46.9
Other payables	**0.9**	0.8
Accruals and deferred income	**0.5**	0.9
	50.6	48.6

C9. Borrowings

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

	2011 £m	2010 £m
Due after more than one year:		
Unsecured US loan notes 2014	**22.4**	22.9

Terms and debt repayment schedule

	2011 £m	2010 £m
Debt can be analysed as falling due:		
Between two and three years	**22.4**	-
Between three and four years	**-**	22.9
	22.4	22.9

C10. Share capital and reserves

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2010	84.9	166.6	7.9	170.6	430.0
Retained profit for the year				197.8	197.8
Shares issued in the year	0.1	1.5			1.6
Dividends paid*				(70.9)	(70.9)
Share-based payments				5.5	5.5
Shares held in trust for employee share schemes*				(29.5)	(29.5)
At 31 December 2010	85.0	168.1	7.9	273.5	534.5
Retained profit for the year				**81.5**	**81.5**
Shares issued in the year	**-**	**1.2**			**1.2**
Dividends paid*				**(88.8)**	**(88.8)**
Share-based payments				**8.9**	**8.9**
Shares held in trust for employee share schemes*				**(7.8)**	**(7.8)**
At 31 December 2011	**85.0**	**169.3**	**7.9**	**267.3**	**529.5**

Share capital	**2011 £m**	2010 £m
Authorised		
480.0m (2010: 480.0m) ordinary shares of 25p each	**120.0**	120.0
Issued and fully paid		
340.2m (2010: 339.9m) ordinary shares of 25p each	**85.0**	85.0

During the year 0.3m shares were issued under employee share schemes realising £1.2m.

* Details of treasury and employee trust share scheme movements are contained in note 22 to the Group financial statements and details of dividends paid and proposed in the year are shown in note C5.

C11. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £70.0m (2010: £64.8m).

There is a right of set-off with three of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company, as parent of the IMI Group, has contingent liabilities in respect of contingencies within the Group as described in note 26 to the Group financial statements.

SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings listed are those which in the opinion of the directors principally affect the figures shown in the financial statements. A full list of subsidiary undertakings will be included in the Annual Return of IMI plc to be filed with the Registrar of Companies during 2012. Except where indicated, the undertakings are subsidiaries incorporated in the United Kingdom and the share capital consists of ordinary shares only. The principal country in which each subsidiary operates is the country of incorporation. IMI plc's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for IMI Group Ltd which is held directly by IMI plc.

The Group has an interest in a partnership, the IMI Scottish Limited Partnership, which is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the partnership are not required to be and have not been filed at Companies House.

Fluid Controls

Aero Dynamiek BV *Netherlands*
Asterm SAS *France*
Buschjost GmbH *Germany*
CCI AG *Switzerland*
CCI America du Sol Comerico de Equipamentos Industrials Ltda *Brazil*
CCI Czech Republic sro *Czech Republic*
CCI Flow Control (Shanghai) Co. Ltd *China*
CCI Italy srl *Italy*
CCI KK *Japan*
CCI Ltd *Korea*
CCI Valve Technology AB *Sweden*
CCI Valve Technology GmbH *Austria*
Control Components Inc *USA*
Control Components India Pty Ltd *India*
Eley Ltd
Engineering Appliances Ltd
Flow Design Inc *USA*
Fluid Automation Systems GmbH *Germany*
Fluid Automation Systems SA *Switzerland*
Fluid Automation Systems Technologies SA *Switzerland*
Herion Systemtechnik GmbH *Germany*
Hochdruck-Reduziertechnik GmbH *Germany*
IMI Components Inc *USA*
IMI Components Ltd
IMI Indoor Climate Trading (Shanghai) Co Ltd *China*
IMI International Kft *Hungary*
IMI International LLC *Russia*
IMI International sro *Czech Republic*
IMI International Sp z.o.o. *Poland*
IMI Norgren Herion Pvt Ltd *India*
IMI Norgren Oy *Finland*
IMI Norgren SA *Spain*
IMI Norgren SA de CV *Mexico*
IMI Scott Ltd
IMI Webber Ltd
Industrie Mecanique Pour Les Fluides SAS *France*
Newman Hattersley Ltd *Canada*
Norgren A/S *Denmark*
Norgren AG *Switzerland*
Norgren AS *Norway*
Norgren Automation Solutions LLC *USA*
Norgren BV *Netherlands*
Norgren Co Ltd *China*
Norgren European Logistics Company Ltd
Norgren GesmbH *Austria*
Norgren GmbH *Germany*
Norgren GT Development Corporation Inc *USA*
Norgren Inc *USA*
Norgren Kloehn Inc *USA*
Norgren Ltd
Norgren Ltd *Hong Kong*
Norgren Ltd *New Zealand*
Norgren Ltda *Brazil*
Norgren Manufacturing Co Ltd *China*
Norgren Manufacturing de Mexico SA de CV *Mexico*
Norgren NV *Belgium*
Norgren Pte Ltd *Singapore*
Norgren Pty Ltd *Australia*
Norgren SAS *France*
Norgren SpA *Italy*
Norgren Sweden AB *Sweden*
Orton srl *Italy*
Pneumatex & CIE NV *Belgium*
Pneumatex BV *Netherlands*
Pneumatex GmbH *Germany*
Pneumatex SARL *France*
Shanghai CCI Power Control Equipment Co Ltd *China (70%)*
Stainless Steel Fasteners Ltd
STI srl *Italy*
TA Heimeier GmbH *Germany*
TA Hydronics AB *Sweden*
TA Hydronics AS *Norway*
TA Hydronics BV *Netherlands*
TA Hydronics GesmbH *Austria*
TA Hydronics Ltd
TA Hydronics Oy *Finland*
TA Hydronics SA *France*
TA Hydronics SA *Switzerland*
TA Hydronics Switzerland AG *Switzerland*
TA Isitma ve Havalandirma Sanayi Ticaret ve Servis Limited Şirketi *Turkey*
TA Regulator d.o.o *Slovenia*
Th Jansen-Armaturen Gmbh *Germany*
Thompson Valves Ltd
Tour & Andersson A/S *Denmark*
Tour & Andersson NV/SA *Belgium*
Tour & Andersson SA *Spain*
Truflo Marine Ltd
Truflo Rona SA *Belgium*
Zimmermann & Jansen Technologies GmbH *Germany*
Zimmermann & Jansen Inc *USA*

Retail Dispense

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

Corporate

IMI Group Ltd
IMI Kynoch Ltd
IMI Overseas Investments Ltd*
IMI Property Investments Ltd
IMI Americas Inc *USA*
IMI Overseas Holdings Inc *USA*
IMI Germany Holding Limited & Co KG *Germany*
Brookvale International Insurance Ltd *Bermuda*

* This entity holds debt listed on the official list of the Channel Islands Stock Exchange.

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES

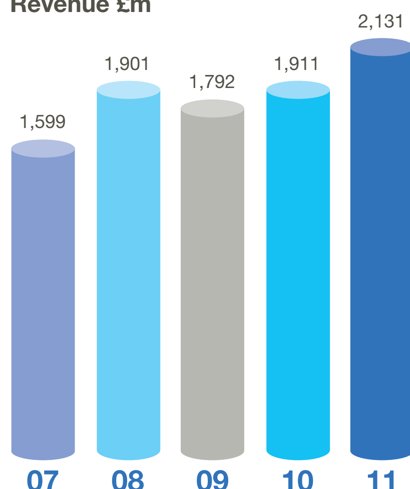
The following table shows the geographic distribution of employees at 31 December 2011 and is not required to be audited.

United Kingdom	2,554
Continental Europe	6,494
Americas	4,709
Asia/Pacific	1,859
Others	82
Total	15,698

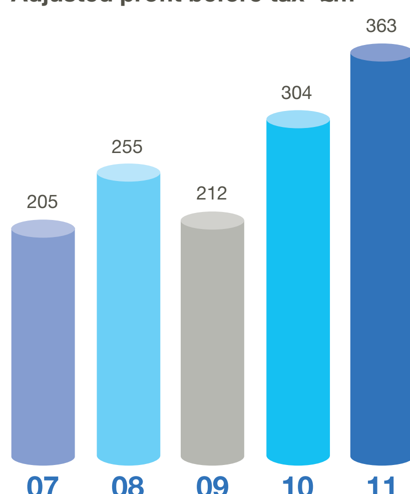
FIVE YEAR SUMMARY

Continuing operations

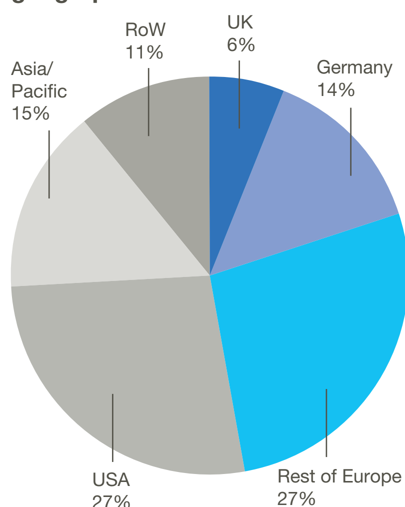
Revenue £m



Adjusted profit before tax* £m



2011 sales by geographic destination**



** before reversal of economic hedge contract gains and losses

	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**
Income statement					
Revenue	1,599	1,901	1,792	1,911	**2,131**
Segmental revenue*	1,599	1,897	1,785	1,917	**2,135**
Segmental operating profit*	207.8	266.3	234.2	319.7	**374.1**
Adjusted profit before tax*	205.5	254.7	211.7	304.4	**363.4**
Restructuring costs	(22.0)	(19.6)	(34.9)	(16.0)	**(23.5)**
Employee benefit curtailment - UK scheme	-	-	-	15.1	**-**
Investigation costs and fines	(4.9)	(26.3)	-	-	**-**
Acquired intangible amortisation and impairment	(10.9)	(13.2)	(7.2)	(7.0)	**(32.3)**
Other income	1.7	-	-	-	**-**
Financial instruments excluding economic hedge contracts gains/(losses)	1.6	(19.6)	16.6	9.6	**(6.2)**
Profit before tax from continuing operations	171.0	176.0	186.2	306.1	**301.4**
EBITDA†	220	269	262	369	**392**

* before exceptional items

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

Group sales by destination

	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**
UK	188	183	132	141	**136**
Germany	209	266	234	261	**296**
Rest of Europe	423	533	524	542	**577**
USA	460	517	491	543	**580**
Asia/Pacific	202	249	278	285	**319**
Rest of World	117	149	126	145	**227**
	1,599	1,897	1,785	1,917	**2,135**
Reversal of economic hedge contract losses/(gains)	-	4	7	(6)	**(4)**
	1,599	1,901	1,792	1,911	**2,131**

Earnings and dividends

	2007	2008	2009	2010	**2011**
Adjusted earnings per share (pre-restructuring)	41.9p	54.1p	45.8p	66.3p	**81.5p**
Earnings per share	35.4p	35.4p	40.8p	70.4p	**63.2p**
Ordinary dividend per share	20.2p	20.7p	21.2p	26.0p	**30.0p**

Balance sheet

	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**
Segmental net assets	771	973	850	985	**997**
Other non-operating liabilities (excluding borrowings)	(125)	(212)	(276)	(264)	**(275)**
Net debt	(233)	(299)	(172)	(145)	**(108)**
Net assets	413	462	402	576	**614**

Statistics

	2007	2008	2009	2010	**2011**
Segmental operating profit as a percentage of segmental revenue	13.0%	14.0%	13.1%	16.7%	**17.5%**
Segmental operating profit as a percentage of segmental net assets	27.0%	27.4%	27.6%	32.5%	**37.5%**
Effective tax rate	31.1%	31.0%	30.0%	30.0%	**28.0%**
Net assets per share (excluding treasury shares)	128.1p	144.4p	126.1p	180.5p	**193.5p**
Net debt as a percentage of shareholders' funds	57.3%	66.0%	43.0%	27.7%	**19.2%**
Net debt: EBITDA	1.1	1.1	0.7	0.4	**0.3**
EBITDA: Interest	17	17	14	24	**23**

SHAREHOLDER INFORMATION

Announcement of trading results

The trading results for the Group for the first half of 2012 will be announced on 23 August 2012.

The trading results for the full year ending 31 December 2012 will be announced in March 2013.

Interim management statements will be issued in April and November 2012.

Dividend payment

Dividends on ordinary shares are normally paid as follows:

Interim: mid October

Final: mid May

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 2011 was 760.00p (2010: 945.00p).

The market value of the Company's ordinary shares on 31 March 1982, as calculated for capital gains tax purposes, was 53.5p per share.

The Company's SEAQ number is 51443.

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings, please contact the Company's Registrar:

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Telephone 0871 384 2916, or from overseas, +44 121 415 7047.

Lines are open 8.30am to 5.30pm, Monday to Friday. Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

Corporate Individual Savings Accounts (ISAs)

By arrangement with Equiniti Financial Services Limited, an IMI single company ISA is now being operated. A brochure, application form and further information can be obtained by contacting the Equiniti ISA helpline on 0871 384 2244.

Lines are open 8.30am to 5.30pm, Monday to Friday. Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

Share Dealing Service

Managed by 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 08456 037 037. Full written details can be obtained from the Secretary's Department, IMI plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ. Telephone 0121 717 3700.

American Depository Receipts

IMI plc have an American Depositary Receipt (ADR) programme that trades on the Over-The-Counter (OTC) market in the US. ADR enquiries are 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), or email citibank@shareholders-online.com.

Ordinary shareholders

Range	Number of holdings	%	Balance as at 31 December 2011	%
1-500 shares	6,101	34.93	1,664,876	0.52
501-1,000 shares	4,910	28.11	3,631,040	1.13
1,001-10,000 shares	5,749	32.92	13,294,512	4.14
10,001-100,000 shares	406	2.32	14,065,454	4.38
100,001-Highest	300	1.72	288,412,918	89.83
Total	17,466	100.00	321,068,800	100.00

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

GENERAL INFORMATION

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10 Aldermanbury
London
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IMI plc is registered in England
No. 714275

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

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