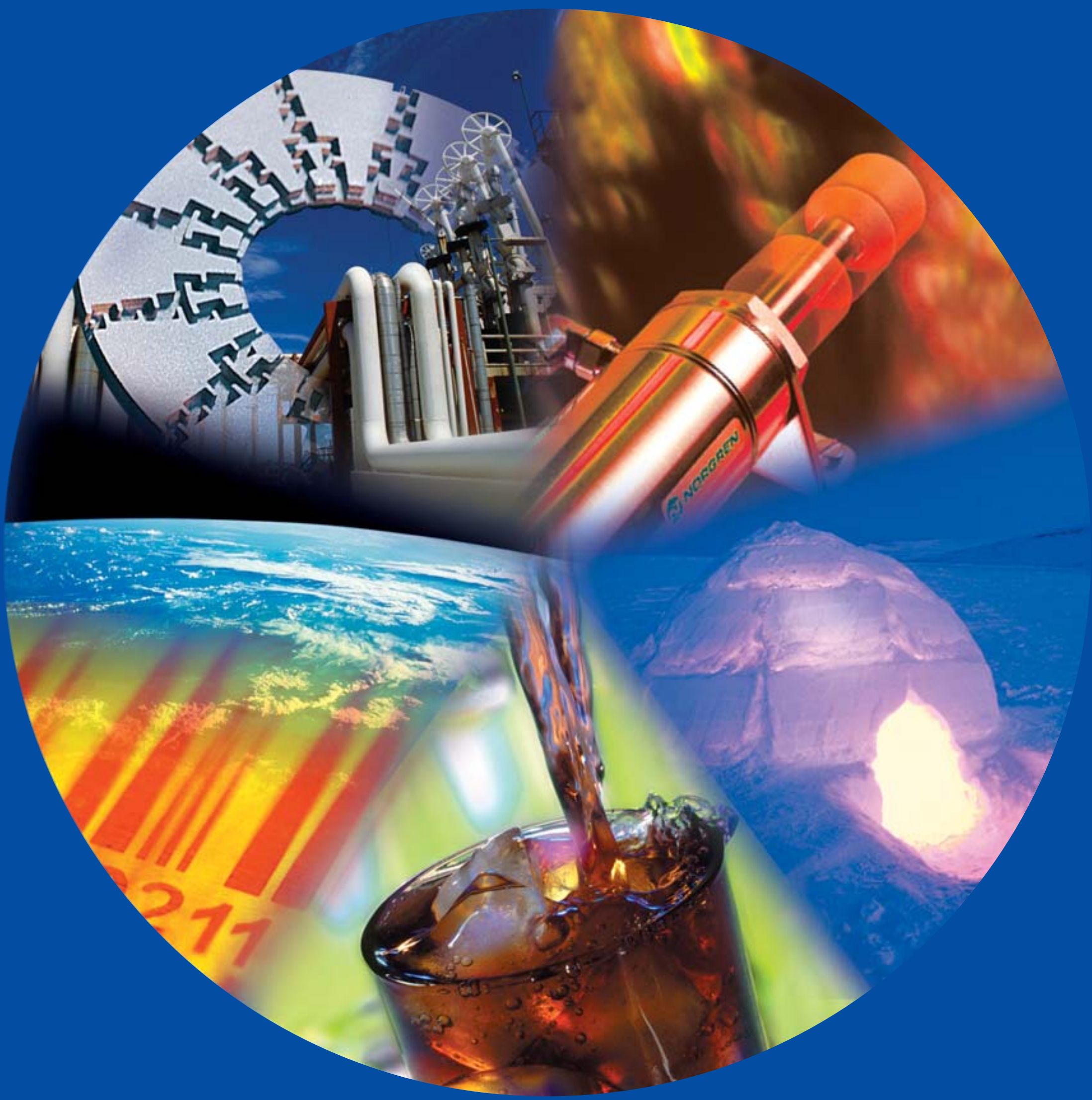
IMI plc Annual Report 2007

What does a 21st century engineering business need?



IMI

leadership...

...inspires and propels us to meet the needs of our key stakeholders. We place high demands on ourselves to ensure that we gain and maintain strong market positions.

execution...

...is fundamental. We must do what we say we will do. Our business disciplines ensure that we focus on delivering our obligations to customers, shareholders, employees and the wider communities and environments in which we operate.

2007

CONTENTS

innovation... global reach... insight...

…is critical in order to stay ahead of changing market requirements, bring new products to our customers and enable them to achieve their tactical and strategic objectives.

…gives us access to talented people of many different social and ethnic backgrounds, the ability to handle the demands of the world's leading global enterprises and the ability to compete in faster growing developing markets.

…makes it possible to anticipate the future. What will matter to our customers tomorrow shapes our strategy today. The insight that we provide is a key reason for customers to do business with us.

2007 RESULTS IN BRIEF

Revenue
£1,599m +6%
2006 £1,505m

Operating profit*
£210.8m +10%
2006 £191.8m

Total dividend per share
20.2p +8%
2006 18.7p

Profit before tax
£171.0m +8%
2006 £158.2m

Profit before tax *
£210.1m +8%
2006 £194.9m

Basic earnings per share
35.4p +65%
2006 21.4p

Adjusted earnings per share **
42.5p +11%
2006 38.3p

* before restructuring, investigation costs, intangible amortisation and other income totalling £39.1m (2006: £36.7m)
** before the after tax cost of restructuring, investigation costs, intangible amortisation, other income and change in fair value of financial instruments totalling £25.6m (2006: £23.7m)

IMI

who we are and what we do

OUR FIVE STRONG BUSINESSES HAVE GROWING L
OUR 14,700 DEDICATED EMPLOYEES PROVIDE I
SOLUTIONS. **IMI DELIVERS VALUE FOR MARKET L**

controlling critical processes (p12)...

creating competitive advantage in motion and fluid control (p14)...

IMI plc is the ultimate holding company of the Group and has been listed on the London Stock Exchange since 1966. At 31 December 2007 it had a market value of £1.27bn and shareholders' funds of £406.5m. The Company's headquarters is at Lakeside, Birmingham Business Park, England. The trading activities of the IMI Group are conducted through subsidiary companies.

ANALYSIS OF REVENUE AND OPERATING PROFIT

The Group serves all the major geographical markets where our customers are present which are summarised below.

% of revenue by geographical destination

	Severe Service	Fluid Power	Indoor Climate	Beverage Dispense	Merchandising	IMI Group
UK	11	10	9	17	14	12
Rest of Europe	24	55	79	16	10	39
US	17	20	6	52	72	29
Other	48	15	6	15	4	20

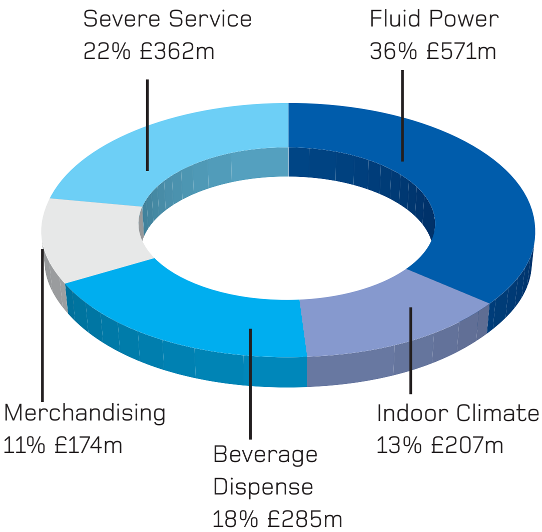
EADERSHIP POSITIONS IN FOCUSED NICHE MARKETS.
NNOVATIVE KNOWLEDGE-BASED ENGINEERING
EADING CUSTOMERS AROUND THE WORLD BY...

perfecting indoor climate (p16)...

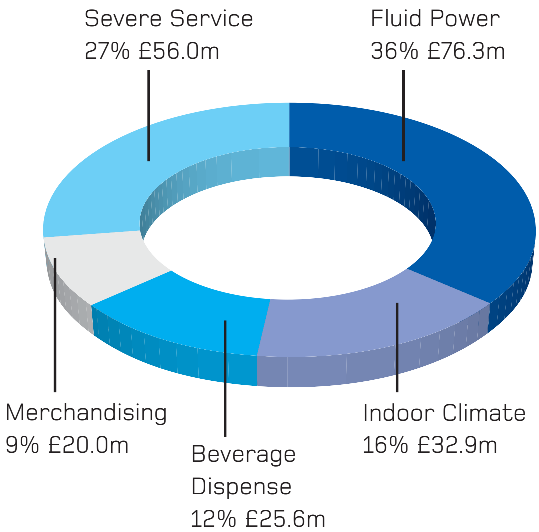
pioneering beverage dispense solutions (p18)...

and driving impulse purchase (p20).

% of Group revenue



% of Group profit*



* Operating profit before restructuring, investigation costs, intangible amortisation and other income.

IMI

our goals and how we are achieving them

WE AIM TO DELIVER SUSTAINABLE ORGANIC GROWTH EQUIVALENT TO TWICE GDP GROWTH AND OVER TIME TO REACH OPERATING MARGINS OF 15%.

We have a clear strategy that is relevant and appropriate for a successful engineering solutions business in the 21st century and we continue to pursue it vigorously. We are focused on growth with industry or sector leading customers in niche markets which are themselves growing. Adding value to such customers and improving their performance is the route to sustainable profit growth for our shareholders. We operate in markets where we already hold or can achieve a market leadership position and where we can clearly differentiate ourselves from our competitors with end-user insight and the application of innovative technology. Key account management and project management are important disciplines for the effective delivery of bespoke solutions to our leading customers. We also provide aftermarket support in the form of service and spares to our customers' installed product base.

Our five business platforms share this common philosophy. While each business platform is predominantly an autonomous business, we operate in two main areas.

The Severe Service, Fluid Power and Indoor Climate business platforms serve Fluid Controls markets, where our customers are plant operators and original equipment manufacturers.

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

Our strategic growth drivers are understood by all the senior management in IMI and embedded throughout our businesses.

OUR FOUR KEY STRATEGIC GROWTH DRIVERS

Paul McWilliam, Artform Key Accounts Director, coordinates relationships with our major cosmetics customers across the Merchandising business.

accelerating our key account focus

Highly talented, customer-focused, entrepreneurial-minded teams of people in IMI add long-term value for both customers and ourselves. Developing these skills, understanding the drivers of our customers' businesses, and our own, and ensuring that we work with the best customer partners, are critical components of our business model. Recognising where value can be added for both parties is a fundamental part of our approach. A centrally-based 'Key Account Academy' helps to train our people and ensure that best practice is shared across the Group. Nearly 100 key account managers and sales leaders received training via the academy in 2007.

increasing our creative abilities

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

Indoor Climate's Business Development Director, Andrew Lane, ensures that innovative, energy-saving new products help us to maintain our competitive edge on major construction projects around the world.

seizing the initiative in rapidly growing economies

We continue to invest in the fast-growing markets of Eastern Europe, the Middle East and Asia, particularly China. In recent years we have significantly increased our ability to generate sales, manufacturing and procurement opportunities in these territories through the development of regional and local teams with relevant local industry knowledge and experience. Focused investment of this sort enables us to support our customers as they enter new markets, while also helping to drive value for our customers in established markets. A high-profile advisory board supports our commitment to current and future activities in China.

balance sheet management

Greg Croydon, IMI plc Treasurer, is responsible for maintaining a strong and flexible balance sheet, ensuring that adequate funding is available to meet our requirements whilst managing the financial risks associated with foreign currency, interest rates, base metals, cash and investments.

Strategic acquisitions that support our existing businesses help us to develop new markets further. Acquisitions must align with our growth and margin targets and meet key criteria including technology, talent, market sector or key account relationships and the ability to create significant differentiation and leadership positions in the market place.
In addition to our acquisition programme, we continue to invest in our existing businesses where we see potential to promote organic growth and use the share buyback programme to help manage our balance sheet efficiently. All potential acquisitions and all major investment proposals must be able to demonstrate positive economic value added on a cumulative basis within three years. The Group also aims to maintain cash conversion levels no less than 80-90%.

Leading IMI's procurement team in Asia, Wayne Huang plays a critical role in sourcing essential components for IMI products at the right price and quality levels.

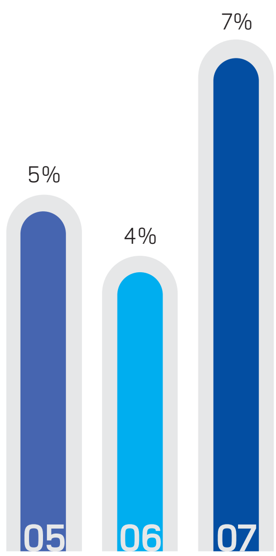
measuring our business performance

BUSINESS PERFORMANCE IS EVALUATED REGULARLY BY THE BOARD OF IMI USING A VARIETY OF TOOLS. FIVE OF THE MOST IMPORTANT MEASURES ARE INDICATED HERE.

Each business unit of IMI participates in an annual round of planning meetings with the Executive Committee of the Board, during which plans for that business for the next three years are reviewed and updated. These plans include specific local, relevant regional and sector targets and key performance indicators which reflect and measure business performance. In addition, each business has its own regular business reviews from weekly updates to quarterly analyses. This process enables the Board to review performance against tactical and strategic milestones and allows informed decisions to be taken at each level of the organisation.

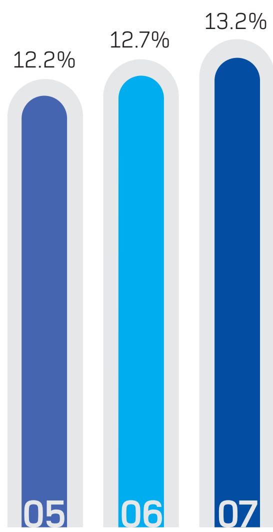
organic revenue growth

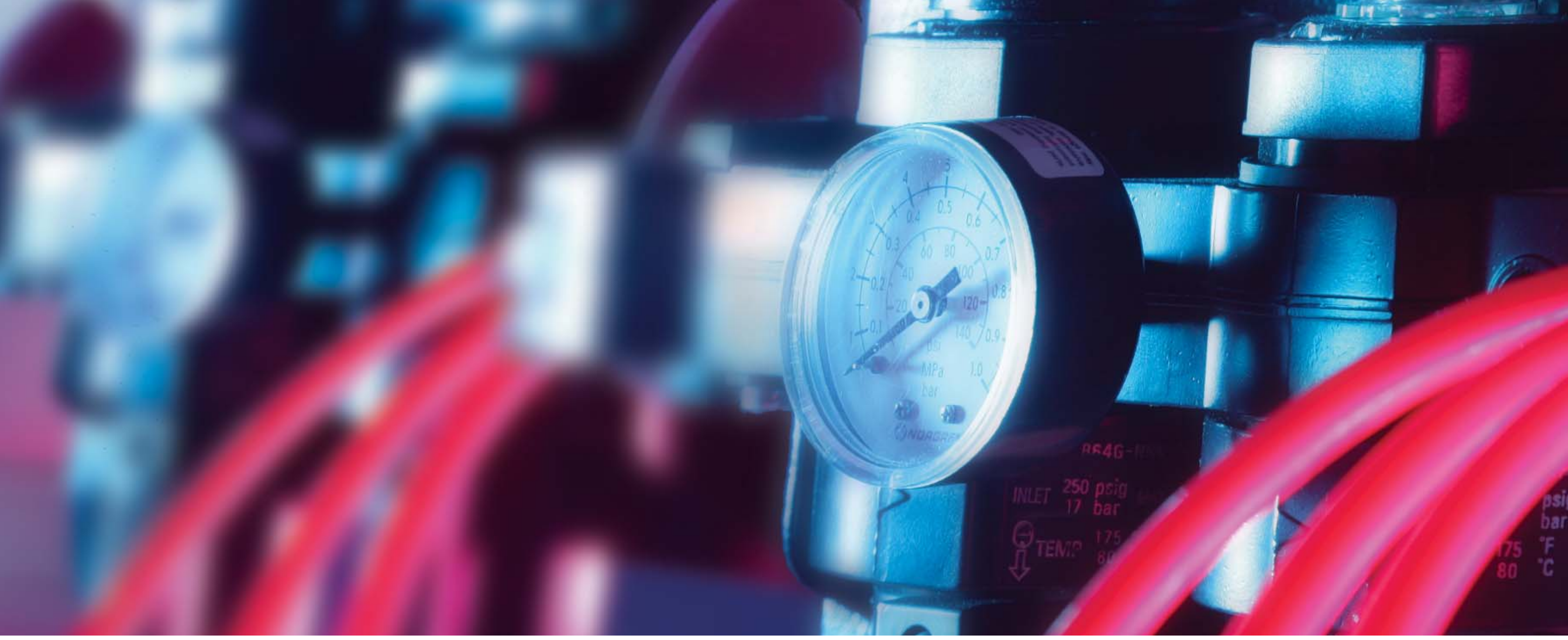
Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2007 the Group's organic revenue growth was 6.7%, which is above our long term target of around 5%.



operating margins

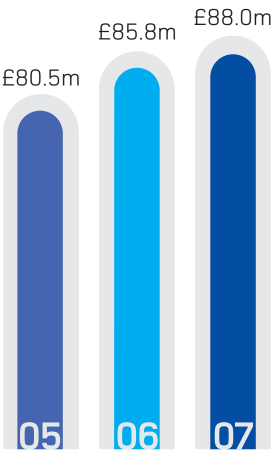
Operating margins are defined as the ratio of operating profit before restructuring, investigation costs, intangible amortisation and other income as a percentage of revenues. In 2007 these margins increased from 12.7% to 13.2%.
Our target is to raise these margins over time to 15%.





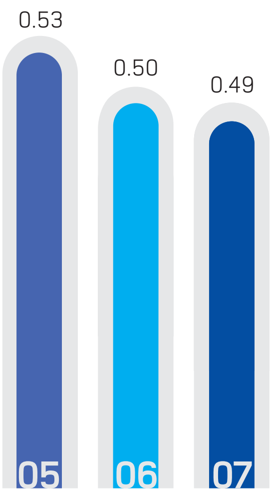
economic value added

Economic value added (EVA) is defined as the net operating profit after tax on continuing operations before restructuring costs less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital to the average invested capital (net assets plus net debt, but net debt excludes the IAS19 pension deficit). For the fifth year running, IMI delivered positive economic value added. The 2007 EVA was £88.0m which is an increase of £2.2m over 2006.



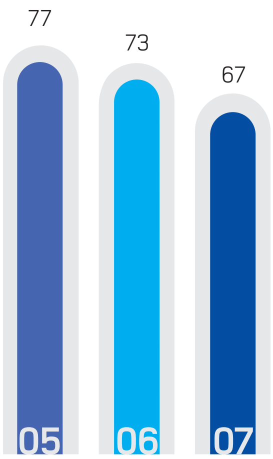
lost time accident rates

The Group takes seriously its responsibility for the safety of all our employees. Our lost time accident rate improved to 0.49 accidents per 100,000 hours worked in 2007 from 0.50 in 2006. The 3 year rate to 2007, of 0.50, also compares favourably to the 3 year rate to 2004 which stood at 0.64. We recognise the need for further improvement and continue to reinforce the responsibility of all our people to contribute to our safe working practices.



CO_2 emissions per £billion of revenue

Our CO_2 emissions in 2007 from all forms of energy usage in our operations amounted to 107,000 tonnes compared to 110,000 tonnes in 2006. As a ratio of emissions per £ billion of revenue, our performance improved by 8% with a reduction in the year to 67 CO_2 tonnes/£bn of revenue. All of our major factories have local energy saving targets and initiatives to deliver these improvements, examples of which are given in the Responsible Business pages of this report on pages 28 to 33.



IMI

'another strong set of results'

progre

I AM PLEASED TO REPORT ANOTHER STRONG SET OF RESULTS FOR THE GROUP IN 2007, WITH ENCOURAGING PROGRESS ACROSS MOST DIMENSIONS OF THE BUSINESS.

Revenue, operating profit, operating margin and earnings per share all showed significant progress over the prior year.

Our Fluid Controls businesses delivered another strong result, buoyed by continuing strength in energy markets in particular. The acquisitions of Kloehn for £30m in June and Pneumatex for £19m in September, are welcome additions to the business and have made an encouraging start in the early months of trading. Our Retail Dispense businesses enjoyed a return to growth on the back of a number of new product launches and some significant new contracts.

Operating profit, before restructuring, investigation costs, intangible amortisation and other income increased by 10%, and the operating margin improved from 12.7% to 13.2%. We are now two thirds of the way through our 3 year restructuring programme to move a greater proportion of our manufacturing capacity to low cost economies, and the benefits are beginning to accrue as expected. During the year we trebled the size of our manufacturing operation for Beverage Dispense equipment in China, and doubled our facility for Fluid Power in Mexico.

We returned a further £93m to shareholders through our share buyback programme during the year, acquiring a further 5.1% of our share capital. We will continue with a buyback programme in 2008 which, alongside our continuing acquisition programme, should deliver further progress towards our medium term target for net debt of between £400m and £500m. Net debt at the end of 2007 was £233m.

Adjusted earnings per share increased by 11% to 42.5p.
The Board is recommending that the final dividend be increased by 9% to 12.7p. This makes the total dividend for the year 20.2p, an increase of 8% over last year's 18.7p.

The independent investigation into improper payments within our Severe Service business is now largely complete and the Company continues to cooperate with the US Department of Justice. Additional costs in 2008 are not expected to be material but will be dependent on how the US Department of Justice decides to proceed. Our business is recovering well from what has been a period of considerable disruption and we expect normal order patterns to be fully restored by the middle of the year. Order intake for the first two months of 2008 is ahead of the equivalent period last year. Revenues in 2008 are expected to be at similar levels to last year, with a resumption of growth expected in early 2009. Our organisation has worked hard to put corrective actions in place, implementing rigorous compliance procedures and terminating a number of employee contracts.

Looking to the future for IMI as a whole, I am delighted with the strength and depth of our new products pipeline, and by the quality and breadth of our key account relationships. Our focus remains on attracting and retaining the best possible talent to help us take full advantage of the considerable opportunities available to us.

IMI people

The IMI people featured in this report are representative of the 14,700 people across the world who work directly for the Group. We are, increasingly, a skills-based business and we continue to invest in innovative programmes to develop our individual and team talents.

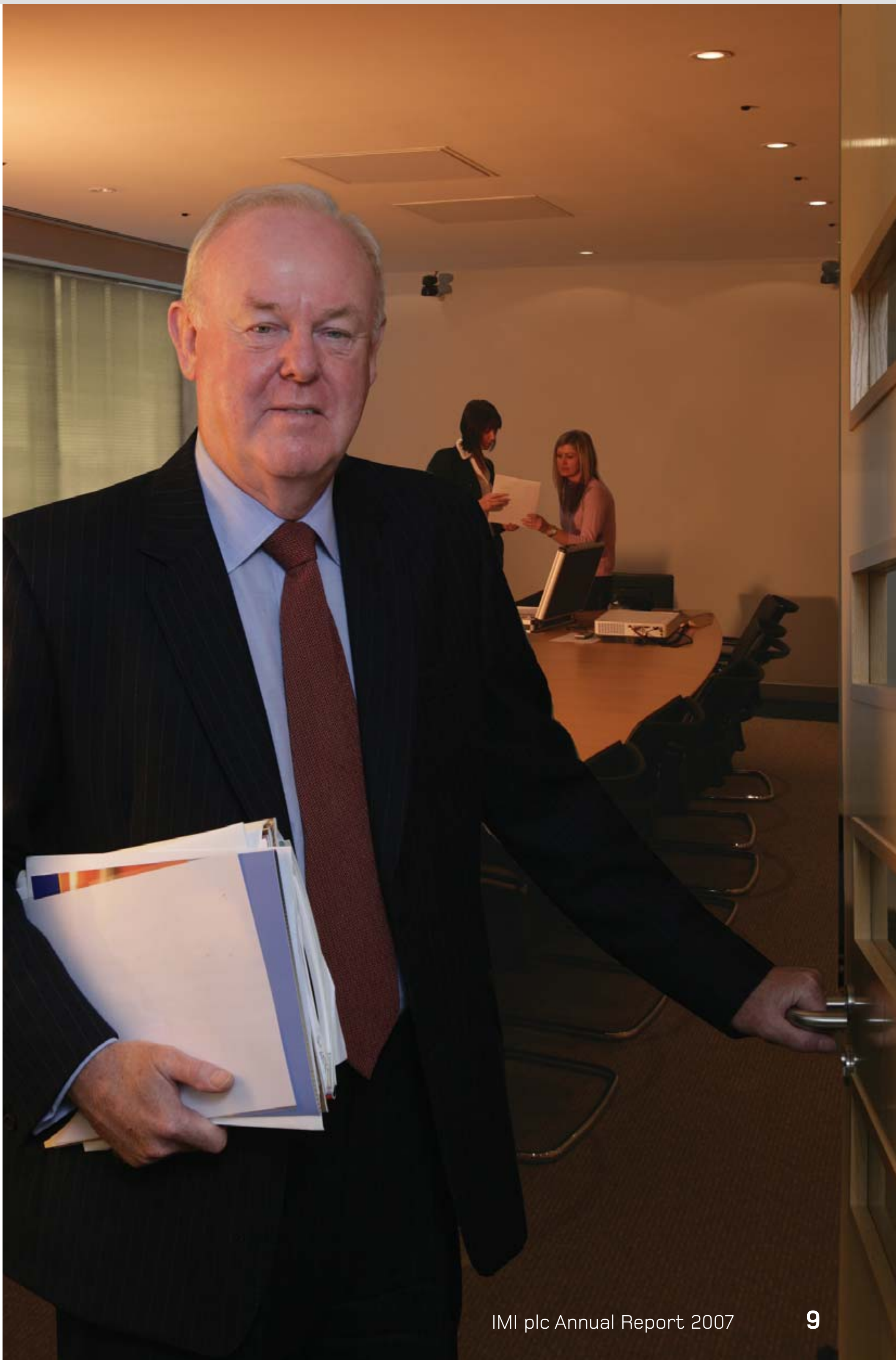
The skills, expertise and energy that my colleagues across the world bring to the Company is the most important factor in the success of IMI and I am deeply grateful for their continued hard work, commitment and enthusiasm.

Outlook

Trading in the first two months of 2008 has been encouraging, with organic sales up over 7% and order intake in all our business divisions comfortably ahead of last year. The order book at the end of February 2008 was 13% up on last year.

Generally our customers in industrialised economies continue to have confidence in their medium term prospects and the strong momentum in emerging markets has been maintained. Providing end markets remain supportive, the combination of a full new products pipeline, strong emerging markets growth, and lower operating costs arising from our recent restructuring programme should enable us to make further good progress in 2008.

Norman B M Askew Chairman
5 March 2008



IMI

'well placed to continue progress'

growth

2007 WAS ANOTHER ENCOURAGING YEAR FOR THE BUSINESS, WITH ORGANIC SALES GROWTH OF NEARLY 7% AND FURTHER GOOD PROGRESS TOWARDS OUR LONG TERM OPERATING MARGIN TARGET OF 15%.

The contribution to both sales and margin improvement from our cumulative investments in new products was particularly pleasing. Amongst the many new product highlights for the year were advanced new actuator and valve controls in support of a new generation of nuclear power plants; new door operating systems for Siemens for use on their high speed trains; balanced heating and cooling systems in high profile buildings such as the Burj Tower and Heathrow Terminal 5; new refrigeration technology which reduces the energy consumption of traditional drinks dispense equipment by up to 40%; a new cold beer station for a UK nationwide roll out of a super chilled beer for Coors; and breakthrough advances in the use of LED lighting for substantially improving the impact of merchandising displays used in the cosmetics industry.

Equally pleasing was the contribution from our activities in the emerging markets of Asia, East Europe and Latin America, where sales collectively grew by over 20% in the year and now account for 17% of Group revenues. China, Mexico, and the Czech Republic are now also central to our manufacturing capability, accounting for over 30% of Group wide manufacturing capacity, growing to an estimated 40% by the end of next year once our 3 year programme of factory restructuring, which began in 2006, has been completed. Operating margins are expected to have improved by around 150 basis points as a result of this programme.

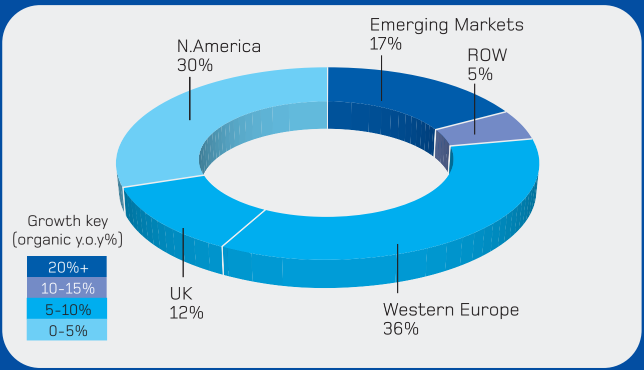
Fluid Controls delivered another strong set of results, with organic sales growth of 7% and operating margins improving to 14.5%. End markets in the energy sector in particular remained bouyant, and new products contributed significantly to year on year growth.

Within Retail Dispense, both the Beverage and Merchandising business exhibited signs of improvement, collectively delivering organic sales growth of 5% over last year, and improving operating margins by around 25 basis points, helped by higher margin new products and a growing contribution from our low cost manufacturing initiatives. Operating cash conversion at 87% was encouraging given the inevitable disruption associated with factory restructuring. Our balance sheet remains in good shape, with net debt at around 1 x EBITDA. We are well positioned to fund further acquisitions and a continuation of our share buyback programme which started in 2005. Kloehn and Pneumatex, acquired in 2007, performed well and, given their exposure to favourable end markets, we expect an accelerating contribution in the years ahead.

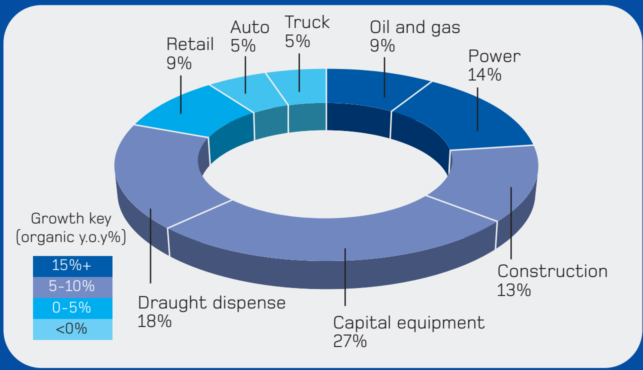
With its leading market positions in clearly defined global niches, strong customer relationships, a vibrant new products programme, reliable and recurring revenues from the aftermarket, an increasing exposure to fast growing emerging markets, and accelerating cost benefits from a largely implemented factory restructuring programme, the Group is well placed to continue its progress of recent years.

Martin J Lamb Chief Executive
5 March 2008

STRONG REGIONAL MARKETS



POSITIVE END MARKETS



IMI

controlling critical processes

leaders

IMI'S SEVERE SERVICE VALVE BUSINESS PROVIDES THE ABILITY TO MANAGE GAS AND LIQUID FLOW RATES AND PRESSURES IN THE EXTREME PHYSICAL ENVIRONMENTS TO BE FOUND IN CRITICAL PLANT APPLICATIONS.

Our valve solutions enhance plant performance and reliability by protecting valuable machinery such as turbines and compressors and enable them to operate with maximum efficiency.

We provide outstanding custom-engineered control valves for power generation, oil & gas production, petrochemical, pulp and paper and other process facilities. Our expert knowledge of plants and process industries includes a dedicated customer service network which supports our installed base, which now totals more than 60,000 high performance valves, for the life of each plant. We reduce risk and improve efficiency, reduce maintenance and operating costs, and help minimise downtime, thus helping our clients to optimise their operating and financial performance.

Power generation, fuel, and energy process industries are growing fast across the globe to satisfy the world's increasing need for energy. Industry lead times average six to nine months and can stretch to two years or more.

Our severe service valve, actuation and control solutions make a significant contribution to meeting the world's energy demands efficiently and effectively, both now and for the foreseeable future.

Performance and prospects

Severe Service revenue, excluding acquisitions and exchange rate movements, grew at 18%. All end markets remain buoyant with the strongest growth in North America and the emerging markets, especially in the Middle East.

Oil and gas markets remain firm. Orton, a supplier of high technology valves to the LNG market, grew revenues at over 50%. We took possession of the new Orton factory in October 2007 and have commenced fitting it out which, when complete, will double its capacity.

Revenues from the conventional power market, and particularly in the USA, showed good growth. In the nuclear power sector specification work for new power stations is picking up and we are investing heavily in nuclear engineering and certification from a strong existing technical base. We have manufacturing capability for the nuclear industry in our facilities in the US, Switzerland, UK, Canada, Japan and Korea.

We ended 2007 with a strong order book. Revenues in 2008 are expected to be at similar levels to 2007 with a resumption of growth expected in 2009.

FACTFILE Severe Service

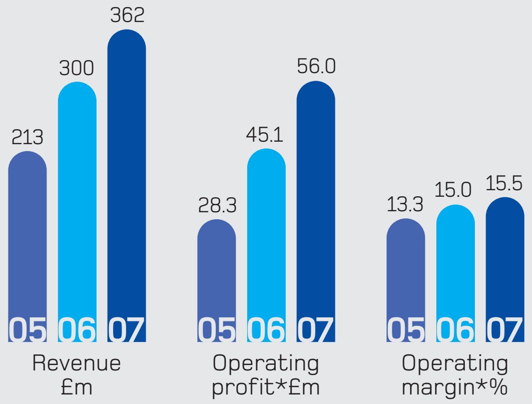
Key businesses CCI, Orton, Truflo Rona, Newman Hattersley.

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

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

Major operational locations USA, Switzerland, Italy, Sweden, Austria, South Korea, Japan, Belgium, China, Canada.

Employees 2,400



* before restructuring, investigation costs, intangible amortisation and other income

hip

KEY ACCOUNT MANAGER

"We are delighted that our superior valve technology helps the combined heat and power facility of Sweden's Södra Cell Värö mill generate environmentally friendly energy and provide a reliable steam supply for the plant's pulp processes."

Kermit Karlsson
CCI Sales Engineer

CUSTOMER

"Backed by CCI's thorough knowledge of thermal dynamics, the excellent valves in our new bio-fuelled steam plant give us precise control of steam pressure and temperature plus 'green' power we can sell to the grid."

Larry Kvarnström, Instrument Engineer
Södra Cell Värö pulp mill

IMI

creating competitive advantage in motion and fluid control

executi

NORGREN, IMI'S PNEUMATIC MOTION AND FLUID CONTROLS BUSINESS, PROVIDES SOPHISTICATED SOLUTIONS TO CONTROL AIR AND OTHER FLUIDS IN PRECISION ENGINEERED APPLICATIONS.

We engineer advantage for our customers by enabling them to operate faster, more efficiently and more cost-effectively.

Our targeted market sectors, representing around a third of today's business, include commercial vehicles, rail, life sciences, in-plant automotive, printing and PET bottling applications that show the strongest long-term growth potential. In these sectors our intimate understanding of our customers, their businesses, their needs and values, processes, and commercial and regulatory environments creates significant competitive advantage. Understanding, knowledge and experience enable us to develop innovative and reliable solutions that help our 'OEM' customers to grow their revenues and reduce the lifetime costs of ownership for the end user.

In wider pneumatic motion markets, around two-thirds of today's business, superior service is the key to success. Norgren Express, for example, provides rapid delivery of standard products from stock and is built upon our inventory and logistics efficiency.

Norgren's worldwide operations enable it to manage the most demanding of international projects and help our customers to achieve their objectives.

Performance and prospects

Underlying revenue growth in Fluid Power was around 6% before the impact, as expected, of the 40% downturn in our North American truck business, which reduced overall organic growth to 2%.

Our sector businesses have continued to perform well and, excluding US trucks, grew at 10%. Our commercial vehicle business outside the US, and PET bottling demonstrated particularly good growth.

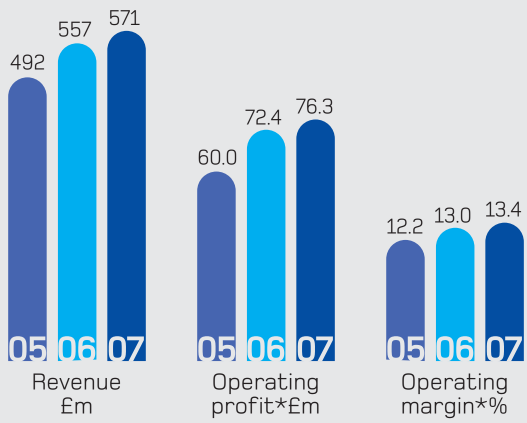
Amongst our non-sector business the Americas were generally flat while European revenues grew about 8%.

2007 operating profit* was £76.3m and represents a 13.4% operating margin.

During 2007, £14m of costs were charged to continue the restructuring of the Fluid Power cost base. One US site has now moved production to an enlarged established Mexican facility, an additional UK site closure was announced and that production is being transferred to an existing facility in the Czech Republic and to the Mexican facility. A further rationalisation saw production move from Switzerland to the Czech Republic.

FACTFILE Fluid Power

Key businesses	Norgren.
Strategic focus	Engineering advantage in motion and fluid control applications.
Main markets	Industrial pneumatic applications; on-board commercial vehicles; rail; life sciences; in-plant automotive; printing and PET bottling.
Major operational locations	UK, USA, Germany, Switzerland, Mexico and the Czech Republic.
Employees	6,000



* before restructuring, investigation costs, intangible amortisation and other income

KEY ACCOUNT MANAGER

"We relished the challenge to design high-flow valves for use on Donaldson's XLR gas turbine air inlet filter system. We delivered a product that provided twice the flow of the previous valves and helped Donaldson to reduce the size of their system by 40%."

Manfred Reckefuss
Technical Sales Manager Buschjost, Norgren

on

The resultant cost benefits will accrue more fully in 2008 and beyond. Whilst we remain alert to the possibility of a slowdown in certain industrial markets, order intake in the first two months of 2008 has been encouraging. The US truck market is expected to recover sharply in 2008 and early 2008 order patterns and industry intelligence support that view. The Kloehn acquisition, completed in June 2007, strengthens our capabilities in the life sciences sector.

CUSTOMER

"Norgren has been an important partner for 20 years. The small size of the XLR filter helps us to win market share and helps our customers reduce their total costs of ownership."

Dominique Renwart
Technical Development Manager, Donaldson Filtration Solutions

IMI

perfecting indoor climate

innovat

OUR INDOOR CLIMATE BUSINESS PROVIDES THE EXPERTISE AND TECHNOLOGY TO DELIVER RELIABLE INDOOR CLIMATES IN BUILDINGS.

We meet the challenges faced by building designers, operators, architects and engineers who seek problem-free, energy efficient and cost effective heating and cooling systems for buildings and indoor environments.
Our services and our products, principally balancing systems and thermostatic radiator valves (TRVs), help our clients to meet local and international regulatory obligations, significantly reduce energy consumption and deliver personal comfort in both commercial and domestic buildings.
Strong balancing system design knowledge, experience, commissioning and project management skills are essential to ensure that hospitals, airports, offices, retail outlets, hotel chains, restaurants and other facilities enjoy indoor environments that optimise the comfort of their employees and clients, while also being energy efficient.

For both new and refurbished buildings we analyse the relationship between heating, ventilation, air conditioning, lighting and power systems to deliver the most efficient energy performance. Investment in our strong TA and Heimeier brands, new products and customer training, positions us to benefit positively from global energy concerns and the fast growing Eastern European, Asian and Middle Eastern economies.

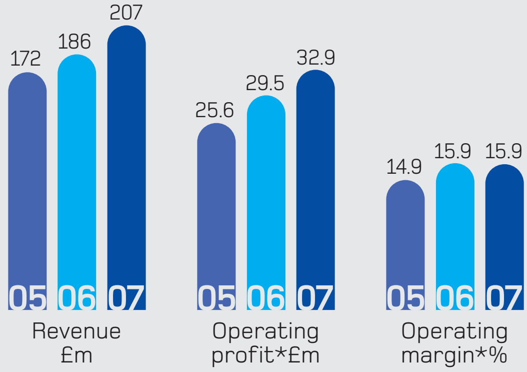
Performance and prospects

The Indoor Climate organic revenue growth was 7%. Growth did slow in the second half of the year to 1% after a particularly strong first half. The majority of the increased cost of copper, which represents a significant part of the cost of the valves, was passed on in selling prices. The underlying volume growth in the balancing valve business remains firm and was particularly strong in Europe.

There was, however, a significant downturn in our thermostatic radiator valve business in Germany during the second half, following a sharp fall in the number of residential building permits issued earlier in the year. Sales in the emerging markets of Eastern Europe maintained their strong development of recent years. 2007 operating profit* was £32.9m representing an operating margin of 15.9%.
32,000 industry professionals around the world received training in Indoor Climate hydronic balancing technologies in 2007, encouraging additional demand for our products and services.

FACTFILE Indoor Climate

Key businesses	TA, Heimeier, FDI, Pneumatex.
Strategic focus	Perfecting indoor climate through the provision of critical energy-efficient valve products and related services for water-based heating and cooling systems.
Main markets	Heating and cooling systems for commercial buildings and temperature control for residential buildings.
Major operational locations	Sweden, Germany, Switzerland and USA.
Employees	2,000



* before restructuring, investigation costs, intangible amortisation and other income

ion

KEY ACCOUNT MANAGER

"Our wide experience in this field and our unique hydronics balancing software enabled us to provide the best energy-efficient solution possible for our client's needs.
More than 500 TA valves were used to deliver the perfect indoor climate for this prestigious public building."

Juan Torralba
Key Account Manager TA

The acquisition of Pneumatex, with its complementary product range, enhances our offering in this field. It made a strong contribution in its first few months in the Group and has already made inroads into new markets previously beyond its reach.

CUSTOMER

"After many years of joint work, our confidence in TA's people and the quality of the valves is very high. This is exactly what we look for when carrying out projects of this importance."

Federico Cantera
Chief of Maintenance Services
Palace of the Arts, Valencia

IMI

pioneering beverage dispense solutions

global r

OUR CORNELIUS BUSINESS SUPPLIES COMPELLING BEVERAGE DISPENSE EQUIPMENT SOLUTIONS FOR A BROAD RANGE OF BEVERAGE PRODUCTS.

We drive growth for our customers, the world's leading beverage brand owners and major retailers, by helping them to increase beverage incidence – the number of times that a consumer chooses a drink.

Excellent product quality and availability are critical to our blue chip customers and to emerging and local brand owners as we help them to satisfy growing consumer demand for health and wellness drinks and greater variety.

Our market-driven new product development programme addresses changing consumer tastes, the development of 'signature' or 'destination' beverages that are unique to the large retailers and the increasingly important responsible business agenda of our customers.

Just one of the benefits of our new Energize cooler, for example, is that it reduces energy consumption by up to 40% by comparison with previous models, helping major customers to meet their public commitments to reduce carbon emissions.

3Wire, our successful US-based on-line parts service, provides parts to the beverage and food service industries.

We continue to increase our presence in emerging markets, particularly the Middle East and Russia. Our facilities in the Ukraine, China and Mexico, North America, Continental Europe and the UK ensure that we are well placed to service local, regional and global customers.

Performance and prospects

The organic growth for the year was 6% in Beverage Dispense. Both the Asia Pacific market and Eastern European market returned strong performances. The US market did show some signs of improvement in the second half, in particular in the 'health and wellness' categories to a variety of retailers.

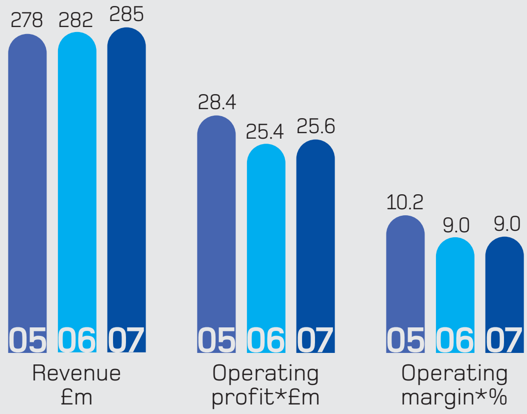
The beer market in the UK remained challenging, however.

We also had a pleasing contribution to growth from new products in 2007. We remain confident of the new product opportunities in the growing health and wellness drinks categories such as water, juices, dairy, smoothies and frozen drinks and have an extensive new product development programme addressing many of these needs.

Operating profit* for the year was £25.6m representing an unchanged operating margin of 9%. The Beverage team closed two significant factories in 2007, on time and to budget, and we expect to see the benefits from this consolidation flowing through in 2008 and beyond. We also trebled the manufacturing space of our factory in China and increased our production capacity in low cost economies to half of our total manufacturing output for this business.

FACTFILE Beverage Dispense

Key businesses	Cornelius, 3Wire.
Strategic focus	Supplying innovative beverage cooling and dispense solutions to brand owners and retailers around the world.
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	2,500

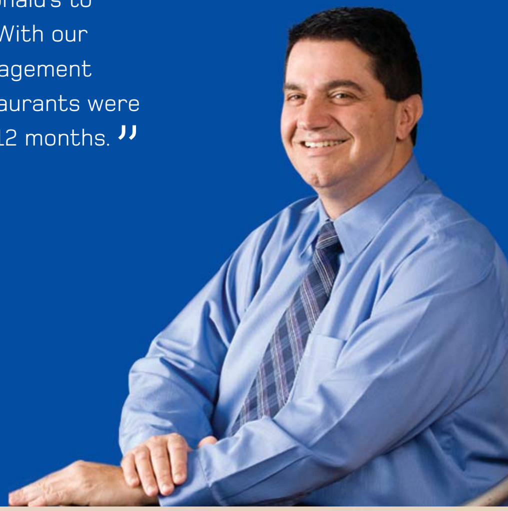


* before restructuring, investigation costs, intangible amortisation and other income

KEY ACCOUNT MANAGER

"We work as a team with McDonald's to meet the project objectives. With our global technical and local management support, 600 McDonald's restaurants were upgraded successfully within 12 months."

Sam Femia
Key Account Manager
Cornelius, Australia



each

CUSTOMER

"The Cornelius Automated Beverage System is an integral part of our beverage strategy and allows us to expand our flavour offering, increase profitability and improve efficiencies, which have benefited both our customers and our company."

David Bridger
Head of Equipment Dept.
McDonald's Australia

IMI

driving impulse purchase

insight

OUR MERCHANDISING BUSINESS PROVIDES SUPERIOR PERMANENT POINT OF SALE SOLUTIONS THAT INFLUENCE CONSUMER PURCHASING DECISIONS AND GENERATE REVENUE FOR OUR BRAND OWNER AND RETAILER CUSTOMERS.

We combine knowledge of what drives a consumer's impulse purchase with engineering expertise, marketing and project management skills to create and deliver display equipment specifically designed to achieve our customers' sales and marketing objectives.

The role of point of purchase displays is particularly significant in high-volume, high-margin sectors like cosmetics, one of the main areas served by our Artform business unit. DCI provides the automotive industry with merchandising expertise for new model launches and consumer electronics brands with displays that increase their product sales. In bulk bins (eco-friendly dispensers for food, coffee, confectionary and liquids) grocery and beverage stock management systems, Display Technologies and Cannon Equipment bring their customers sales uplift as well as inventory control, environmental sustainability, theft and labour reduction benefits. Display Technologies and Cannon Equipment are developing new products and services for major retailers in increasingly sophisticated retail markets.

We have the retail insight and the scale to handle major customer brand merchandising programmes with demanding timescales.

In a generally fragmented industry, our US and UK-based Merchandising businesses, demonstrate the advantages that a well co-ordinated team with a depth and breadth of capabilities can bring to the marketplace.

Performance and prospects

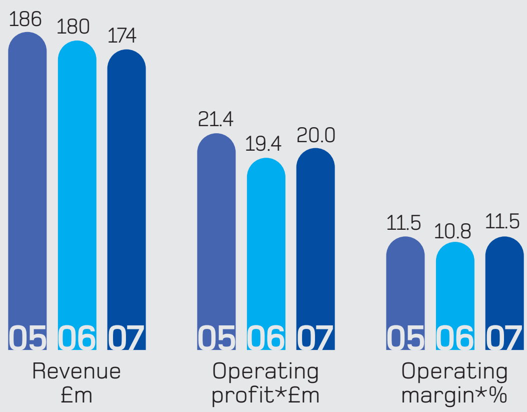
The organic growth for the year was 4% with a number of shipments originally slated for December delivery rescheduled to early 2008. The strongest sector performance in 2007 came from cosmetics with some significant European successes and some promising inroads being made into the US market. Solid progress was made in the food and beverage sectors, while the automotive sector held up well, supported by a strong commitment to merchandising from the car manufacturers. Sales within our consumer electronics sector however were disappointing, with a number of new launches failing to deliver the anticipated momentum. The opportunities in this sector, however, remain considerable.

Second half operating margins increased to nearly 13%, with our cost base continuing to benefit from value engineering programmes in general and from a focus on low cost sourcing in China and India in particular.

With strong shipments in the first two months of 2008, momentum remains positive.

FACTFILE Merchandising

Key businesses	Artform, Cannon Equipment, DCI Marketing, Display Technologies.
Strategic focus	Providing permanent point of sale solutions and technologies that enhance retailer and brand owner profitability by driving impulse purchase.
Main markets	Global brand owners and retail sales outlets.
Major operational locations	USA and UK.
Employees	1,400



* before restructuring, investigation costs, intangible amortisation and other income

KEY ACCOUNT MANAGER

“Understanding the Wegmans business - and the importance of the bulk food departments - has been critical to our ability to support the company’s business objectives.”

April Tefteller
Trade Fixtures Accounts Manager
Display Technologies

CUSTOMER

“Passion and commitment to a unique business model has helped to make Wegmans a supermarket leader. Close working relationships ensure that Display Technologies shares our insight and that our bulk food dispense systems make a statement to consumers about quality, craftsmanship, customer service and delivery.”

Todd Marino
Category Merchant Bulk Foods
Wegmans Food Markets, Inc.

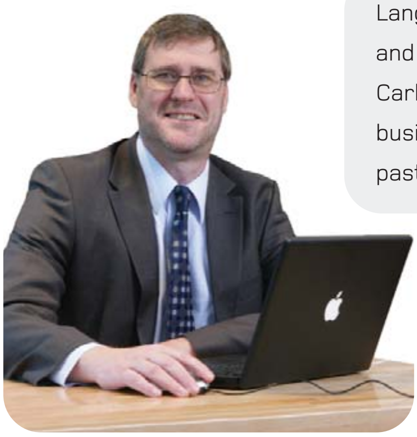
IMI

developing the talent for success

THE INSIGHT THAT WE BRING TO OUR CUSTOMERS, THE PACE AT WHICH WE DEVELOP AND DELIVER INNOVATIVE PRODUCTS AND OUR ABILITY TO MAINTAIN CLEAR LEADERSHIP POSITIONS IN OUR MARKETS RELIES ON DEVELOPING THE RIGHT PEOPLE IN THE RIGHT ROLES. IT RELIES ON DEVELOPING INTERNAL TALENT AND ON BRINGING APPROPRIATE NEW SKILLS AND EXPERTISE INTO THE COMPANY.

The geographical distribution of our operations and activities across the world enables us to draw upon a broad spectrum of talented people from a diversity of ethnic, cultural and business backgrounds.

In recent years we have accelerated the development of programmes and disciplines that will deliver the human resources necessary to maintain and grow our business. Ensuring that the company has the appropriate expertise and skills at all levels is a fundamental management responsibility.

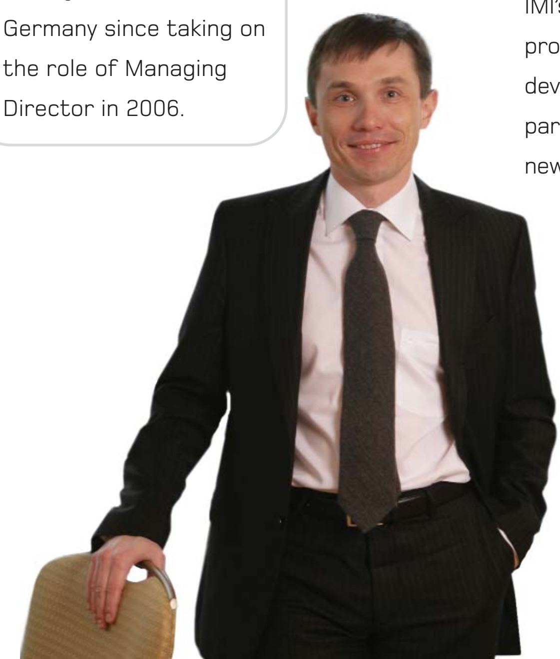


Language skills, diplomatic experience and business acumen have helped Michael Carbine MBE to grow Indoor Climate's business in Eastern Europe by 71% in the past 5 years.

Over the last 18 months each of our business units has rigorously reviewed the requirements for all key roles putting in place development or recruitment activity to address any capability gaps. Recruitment to senior level positions follows a demanding, disciplined and professional process. IMI's internal high potential programme, Aspire, is designed to develop the most talented individuals, particularly those willing to take on new challenges in different countries or businesses. This intensive, personalised programme prepares capable people for early movement into senior positions. Recent examples of the proactive way in which IMI offers Aspire members highly stretching and developmental roles are the appointment of a new managing director for Cornelius UK and a new operations director for Heimeier, Germany. Both of these moves involved international relocation and both individuals had already made previous international moves to take advantage of career development opportunities.

On-the-job development experiences

Aspire programme member, Michael Preinerstorfer, has revitalised Norgren's Buschjost business in Germany since taking on the role of Managing Director in 2006.



IMI graduate trainees like Maria Hooper, who scooped a top award from Britain's Chartered Institute of Marketing in 2007 (pictured right with CIM President, Lord Heseltine), are encouraged to develop skills and expertise through professional institutions and academic study as well as practical experience.

Kim Blackaby, Kuldeep Singh, Jon Kedge, Ian Jones, Harjinder Kalsi and Doug Hartshorne represent a group of more than 100 employees at Norgren, Lichfield, UK, who gained a level 2 Performing Manufacturing Operations NVQ qualification in 2007 with the support of the company.

for members of Aspire are complemented by a range of pragmatic classroom based workshops and relationship support activities, such as coaching and mentoring.

Each year IMI actively recruits between 20 and 30 high calibre graduates from a variety of disciplines and diverse backgrounds, from universities across the world, for its prestigious graduate programme. Demand for graduates within the business is high, as is demand for places on the programme. A comprehensive selection and assessment process ensures IMI only takes on those graduates with the potential to progress to senior management positions. Once a graduate is hired they embark on a series of six-month assignments in different locations around the world over a two-year period, and through tailored language and other training, graduates develop a thorough practical grounding in modern business. Assignments through the two-year programme are carefully matched to each graduate and frequently contribute significant market opportunities or savings to the sponsoring business unit. At the end of the two-year period, graduates take on their first permanent roles, with continuing access to training including a business leadership programme. An initiative launched in 2007 develops graduates with Chinese language skills for leadership positions in our Asian markets.

At the operational level each IMI facility ensures that employees receive suitable and continuing on-the-job training and support, with health and safety and environmental matters being a particularly important focus. IMI encourages its operating units to train and develop employees at all levels through a wide range of business-related education and training. Certain types of training, such as compliance and risk management are also undertaken by senior level employees annually.

Acquiring excellent businesses brings great talent into IMI. Alberto Aliani, Orton Managing Director, has accelerated the growth of the Orton part of the Severe Service business since joining IMI with Truflo in 2006.

Cherie Smith joined IMI in 2007, bringing a wealth of external experience and business discipline to her role as Chief Financial Officer with our Merchandising business.

IMI financial review

The 2007 results demonstrated a strong momentum with organic revenues up 7%, excluding the impact of exchange rates and acquisitions.

The Severe Service business continued to benefit from the underlying strength in energy markets. Fluid Power was impacted by the anticipated downturn in the US truck market, but notwithstanding this, saw its sector focus in other geographic truck markets, the life science, print and PET bottling markets, continue to deliver good growth. The US truck market is expected to return to growth in 2008. The Indoor Climate business saw promising growth in the balancing valve business but faced a sharp slow down in its thermostatic radiator valve business in its large German market in the second half.

In Retail Dispense, the Beverage Dispense business grew organically at 6% with a strong performance in the emerging markets; Merchandising had a stronger second half and the cosmetics sector was a major driver of its growth. The Group has continued to make further progress towards its long term operating margin target of 15%, with the operating profit margin, before restructuring, investigation costs, intangible amortisation and other income, at 13.2% (2006: 12.7%).

Total revenue for the year from continuing operations increased to £1,599m (2006: £1,505m), up 6% or £94m, of which £42m (3%) came from acquisitions and £96m (7%) from organic growth, offset by a £44m reduction from the translation impact of exchange rate movements.

Group operating profit before restructuring, investigation costs, intangible amortisation and other income at £210.8m (2006: £191.8m) increased by 10%. Acquisitions and disposals accounted for £6.5m of the increase but translational foreign exchange movements negatively impacted by £5.4m. The Severe Service, Fluid Power and Indoor Climate businesses accounted for £165.2m (2006: £147.0m) or 78% of these profits and the Beverage Dispense and Merchandising businesses for £45.6m (2006: £44.8m) or 22% of the total.

Interest costs for the year on net borrowings at £12.8m (2006: £7.5m) were covered 17 times (2006: 28 times) by earnings before interest, tax, depreciation, amortisation and other income of £219.8m (2006: £210.8m).

The net credit from pension fund financing under IAS19 was £10.5m (2006: £8.3m) and a gain arose on the revaluation of financial instruments and derivatives under IAS39 of £1.6m (2006: £2.3m).

Continuing operations profit before tax, restructuring, investigation costs, intangible amortisation and other income at £210.1m (2006: £194.9m) is 8% ahead of the prior year.

In the second year of a three year programme to raise the level of the Group's manufacturing undertaken in low cost economies from 25% to about 40%, restructuring costs were £22.0m (2006: £19.7m). The majority of these were in the Fluid Power business, £14.1m (2006: £12.2m) and the Beverage Dispense business £7.1m (2006: £2.8m). The majority of these costs are redundancy costs but they also include plant transfer, installation and set up costs.

The costs of the investigation into improper payments, which was announced in August 2007, were £4.9m. At this date it is not possible to assess the level of any fines, defence or other costs arising from any action which may be taken in connection with the Severe Service investigation or the timing of any such action and accordingly no provision has been made in these accounts. Intangible amortisation comprises £3.0m (2006: £2.4m) for the amortisation of capitalised development costs and £10.9m (2006: £14.6m) for the amortisation of other acquired intangible assets. Other operating income of £1.7m (2006: £nil) is the profit made on the disposal of the Group's interest in a Hong Kong based merchandising business. Profit before tax was £171.0m (2006: £158.2m), an increase of 8% over the prior year.

In June 2007 we acquired Kloehn, a leading provider of specialist pumping and fluid handling systems to the life science sector for £30.3m. In September 2007 Pneumatex, a provider of specialist water conditioning equipment used in systems for heating and cooling buildings, was acquired for £18.8m. These businesses contributed £15m of revenues and £1.8m of operating profits. The extra months of the Truflo businesses acquired in April 2006 also contributed revenues of £27m and operating profit of £4.7m.

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	PBTRA* £m	PBT** £m
First half			
2006	732	88.1	75.3
Effects of currency translation	**(35)**	**(4.3)**	**(4.3)**
Acquisitions	**27**	**4.7**	**4.7**
Other continuing operations	**57**	**9.3**	**9.3**
Net interest cost		**(2.5)**	**(2.5)**
Other financing items		**0.2**	**0.2**
Restructuring costs			**(3.2)**
Amortisation			**(2.7)**
2007	**781**	**95.5**	**76.8**
Second half			
2006	773	106.8	82.9
Effects of currency translation	**(9)**	**(1.1)**	**(1.1)**
Acquisitions	**15**	**1.8**	**1.8**
Other continuing operations	**39**	**8.6**	**8.6**
Net interest cost		**(2.8)**	**(2.8)**
Other financing items		**1.3**	**1.3**
Restructuring costs			**0.9**
Amortisation			**5.8**
Investigation costs			**(4.9)**
Other income			**1.7**
2007	**818**	**114.6**	**94.2**
Year	**1,599**	**210.1**	**171.0**

* continuing operations profit before tax, restructuring, investigation costs, intangible amortisation and other income
** continuing operations profit before tax

Half year analysis

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

	Change %	2007 £m	2006 £m
Revenue			
First half	**+7**	**781**	732
Second half	**+6**	**818**	773
	+6	**1,599**	1,505
Operating profit*			
First half	**+11**	**95.6**	85.9
Second half	**+9**	**115.2**	105.9
	+10	**210.8**	191.8
PBTRA**			
First half	**+8**	**95.5**	88.1
Second half	**+7**	**114.6**	106.8
	+8	**210.1**	194.9
Restructuring costs			
First half		**(10.9)**	(7.7)
Second half		**(11.1)**	(12.0)
		(22.0)	(19.7)
Intangible amortisation			
First half		**(7.8)**	(5.1)
Second half		**(6.1)**	(11.9)
		(13.9)	(17.0)
Others: second half			
Severe Service investigation costs		**(4.9)**	-
Other income		**1.7**	-
		(3.2)	-
Profit before tax			
First half	**+2**	**76.8**	75.3
Second half	**+14**	**94.2**	82.9
	+8	**171.0**	158.2

* continuing operations operating profit before restructuring, investigation costs, intangible amortisation and other income
** continuing operations profit before tax, restructuring, investigation costs, intangible amortisation and other income

IMI financial review

Taxation

The effective tax rate for the year on profit before tax was 31% (2006: 31%). The reductions in the UK and German corporate tax rates that become effective in 2008 are expected to have a beneficial impact on this effective tax rate of about one percentage point in 2008. After taxation of £53.0m (2006: £49.0m) the profit on continuing operations was £118.0m (2006: £109.2m), an increase of 8%.

Gain after tax from discontinued operations

The IMI Refiners business was formerly reported within the now discontinued building products segment. The land on which this business was once sited was sold during the year, realising a profit after tax of £1.9m.

In 2006 the EC fine and associated costs, relating to anti-competitive activity of a copper plumbing fittings business sold in 2002, amounted to £33.5m. The fine was paid in January 2007.

Earnings per share

Basic earnings per share (EPS) was 35.4p (2006: 21.4p) and on continuing operations the basic EPS was 34.8p (2006: 31.3p), an increase of 11%. The Board considers that a more meaningful indication of the underlying performance of the Group is provided by adjusting the basic EPS on continuing operations to state earnings before the after tax cost of restructuring, investigation costs, intangible amortisation, other income and the change in fair value of financial instruments. Details of this calculation are given on page 77. On this basis the adjusted EPS from continuing operations was 42.5p, an increase of 11% over last year's 38.3p.

Cash flow

The Group's cash flow statement is shown on page 62. The change in net debt is summarised in the table opposite.

The operating cash flow from continuing operations was £160m (2006: £147m). This represents a conversion rate of operating profit before intangible amortisation and other income to cash of 87%. Capital expenditure in the year was £53m (2006: £44m) which was equivalent to 1.4 times depreciation. Development costs capitalised in the year were £3.2m (2006: £4.4m).

After payment of interest and tax, the free cash flow generated from operations was £110m and after paying the additional pension contribution and the EC fine, cash flow before corporate activity was £61m. The conversion of foreign currency borrowings at the year end resulted in an increase of £13m in reported net debt.

Net debt at the year end was £233m. The year end net debt to EBITDA ratio was 1.1 and the ratio of net debt to cash flow before corporate activity was 3.8, which falls to 2.5, excluding the EC fine.

	2007 £m	2006 £m
EBITDA*	**220**	211
Working capital requirements	**(11)**	(27)
Capital expenditure	**(53)**	(44)
Capital sales	**4**	7
Operating cash flow (continuing)	**160**	147
Tax paid	**(37)**	(40)
Interest paid (net)	**(13)**	(8)
	110	99
European Commission fine	**(33)**	-
Additional pension scheme funding	**(16)**	(16)
Free cash flow before corporate activity	**61**	83
Acquisitions and disposals net of cash acquired including acquired debt	**(50)**	(118)
Redemption of Polypipe vendor loan note	**–**	36
Dividends paid	**(64)**	(61)
Dividends paid to minorities/other	**(2)**	(2)
Purchase of shares (net)	**(85)**	(36)
Currency translation	**(13)**	28
Change in net debt	**(153)**	(70)
Opening net debt	**(80)**	(10)
Closing net debt	**(233)**	(80)

* earnings before interest, tax, depreciation, amortisation and other income

The Group does not presently foresee any difficulties in increasing facilities to support corporate activity, which includes the share buyback programme and acquisitions. At the end of 2007 the US loan notes totalled £119m with a weighted average maturity of 3.6 years and unsecured bank loans totalled £190m. In early 2008 $100m of the US loan notes maturing in 2009 have been refinanced out to 2018 with a further $50m added to this tranche.

Share buyback

In 2007 the Company bought back 17.2m (2006: 7.0m) of its shares at a cost of £93.3m (2006: £35.2m).

Dividend

The Board has recommended a 9% increase in the final dividend to 12.7p (2006: 11.7p) giving a total dividend for the year of 20.2p, an increase of 8%. The total cost of the final dividend is expected to be £41m, giving a total cost of £66m in respect of the year ended 31 December 2007. Dividend cover based on adjusted earnings is 2.1 times.

Pensions

The IMI Pension Fund remains the largest employee benefit obligation within the Group. Like many other UK companies, the Fund is very mature having significantly more pensioners and deferred pensioners than active participating members. The most recent actuarial valuation was prepared at 31 March 2005 and a deficit of £51m resulted. The Company has taken steps to eliminate this deficit over four years by annual payments of around £16m, which commenced in December 2005. The final of these four payments will be made in December 2008. The IAS19 deficit at 31 December 2007 for the Group's employee defined benefit pension plans at 31 December 2007 was £64m, down from £121m in the prior year. The reduction was mainly due to the increase in the market value of the pension fund assets and the contributions referred to above.

The next actuarial valuation of the UK Pension Fund will be undertaken as at 31 March 2008 and will be available later in 2008. The assumptions for this valuation will be agreed between the Company and the Trustees of the Pension Fund and only on its completion will the need for any further additional contributions be established.

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 19 to the financial statements. The translation impact on the 2007 profit before tax was a loss of £5.4m. 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	
	2007	2006	**2007**	2006
Euro	**1.46**	1.47	**1.36**	1.48
US Dollar	**2.00**	1.85	**1.99**	1.96

Return on capital employed

Return on capital employed, defined as operating profit before intangible amortisation as a percentage of closing net assets, was 45% (2006: 41%). This equates to a post tax return of 31% at the underlying tax rate of 31%.

Economic value added

Economic value added is defined as the net operating profit after tax (NOPAT) on continuing operations before restructuring costs less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital (WACC) to the average invested capital (net assets plus net debt, but net debt excludes the IAS19 pension deficit). For 2007 the net operating profit before restructuring costs was £193.7m and after tax of 31% the NOPAT was £133.7m. The Group's invested capital at the beginning of 2007 was £497.0m, comprising £416.6m of net assets and £80.4m of net debt. The equivalent amounts at the end of 2007 were £646.0m, £412.9m of net assets and £233.1m of net debt. The average invested capital was £571.5m. Applying the 2007 WACC of 8% to the invested capital gives a charge of £45.7m. The economic value added in 2007 was £88.0m, representing an increase of 3% over the 2006 economic value added of £85.8m.

Going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Share price and shareholder return

The share price at 31 December 2007 was 393.75p (2006: 507.0p), a decrease of 22% over the year. Based on the year end share price, the total dividend of 20.2p represents a yield of 5.1%.

IMI

we acknowledge our responsibilities as a good corporate citizen

priorities

WE ALIGN OUR BUSINESS STEWARDSHIP WITH THE SOCIAL, ENVIRONMENTAL AND ECONOMIC ISSUES POTENTIALLY AFFECTING OUR OPERATIONS THROUGH A RIGOROUS MANAGEMENT SYSTEM OF PRIORITIES, POLICIES AND MEASURES.

We believe that this responsibility (sometimes known as Corporate Social Responsibility or CSR) to the communities amongst whom we operate, impacts positively on profitability, returns to shareholders, reputation and growth. We demand sound management of these issues and we call this 'responsible business'.

In 2007, IMI plc was again selected for inclusion in the FTSE4Good index. IMI has also taken part in the 2007 Index of Corporate Environmental Engagement conducted by Business in the Community. The results will be published on our website (www.imiplc.com) later in the year alongside our other health, safety and environmental (HS&E) performance information.

As a further public statement of our intentions, IMI signed up to the United Nations Global Compact (UNGC) in March 2006 and from 2008 we will communicate our progress in this context annually using this report and via our website. The UNGC encompasses ten individual commitments within four core areas of human rights, labour standards, environmental and anti-corruption which we also encourage our suppliers to subscribe to. In 2007, Indoor Climate and the US arm of our Beverage Dispense business, Cornelius, became the first major parts of IMI to require and receive statements from all key suppliers that they too adhere to these principles.

IMI's first responsible business seminar, held in May 2007 and facilitated by independent external experts in this subject, brought together our responsible business leaders from across the Group and made detailed recommendations to the IMI Board. Intended to further embed the disciplines of responsible business in the Company's activities, the results are now a formal and integral part of IMI's management process and a further seminar will be held in 2008.

The planning process in 2007 highlighted responsible business objectives for each IMI business. These included identification of future risks, opportunities and measures to ensure full alignment of each business with the corporate priorities, as well as specific local objectives. Typical local actions include measures to improve health and safety, energy efficiency targets and steps to gain relevant HS&E or quality accreditation in particular facilities.

Legal compliance remains the bedrock for any responsible business including IMI. Unlawful activity of any kind is completely unacceptable to us.

We have been tested in this area during 2007 with the investigation into our Severe Service business. Despite the fact that our pre-existing processes identified this issue and immediately and correctly involved the appropriate judicial authorities, the need for an investigation was a major disappointment. This breach of the standards that we set has prompted a review of all aspects of control across the whole of IMI, particularly with regard to anti-corruption.

More routinely, we identify, monitor, and forecast legislative developments in order to maximise opportunities and minimise risks.

Our businesses are positioned to benefit from ever more stringent government energy policies and environmental legislation around the world, particularly in the context of energy use in buildings, maximising the efficiency of electricity generating plant, emissions legislation impacting commercial vehicles and energy consumption in bars and restaurants.

Legislation will continue to impact responsible business management in all territories, affecting the majority of policy areas (eg, HS&E and employment regulations). Mindful of current legislative requirements and change, we are focused on four key responsible business priorities and objectives.

Students Callinah Makofane and Maurice Nakabini from the CIDA foundation in South Africa, which is supported by IMI, made a very positive impression on IMI staff and Chief Executive Martin Lamb, during internships with the Company.

es

Health and Safety

We promote a strong culture of health and safety and of environmental protection to minimise risk for our people, the environment, adjacent communities and other stakeholders.

We are committed to effective communication and consultation on HS&E matters with all relevant stakeholders, particularly with employees. IMI requires those working for us directly, or on our behalf as contractors, to comply with our HS&E standards and procedures.

In support of these general commitments, IMI and each subsidiary manages its activities to ensure that improvement in these areas is cumulative and constant. Business-wide HS&E forums were held in Mexico as well as the UK and the USA.

Successes in 2007, for example, included a focus on employee safety programmes in Cornelius US which reduced recordable incidents from 39 to 19. A new programme of health fairs in our Cannon Equipment business provides health screening and advice and almost certainly saved the life of at least one employee whose extreme blood pressure placed him at imminent risk.

These and other initiatives have resulted in the continued improvement in our lost time accident rates, as shown on page 7.

Supporting our customers' priorities

We place significant emphasis on helping our customers to meet their responsible business commitments – from diversity targets to carbon emissions - recognising the opportunities for them and ourselves to protect the planet. 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.

Understanding issues affecting customers in the Beverage Dispense business in Europe, for example, has created profitable opportunities in extending equipment life and also for a dispense system enhancement which reduces beer waste in stadia – a significant competitive advantage.

To help customers meet their environmental emissions targets, Cornelius uses an insulating foam specifically designed to minimise global warming. To help one of its major cosmetics customers address its climate change agenda, our Artform business fundamentally redesigned cosmetics displays, providing operational energy savings of up to 50%.

The scale of the plants operated by our Severe Service customers is such that achieving even just a few fractions of a percentage improvement in efficiency can mean substantial benefits to the customer and the environment.

The technologies of CCI as well as Orton and Truflo Rona, customised precisely for each application, deliver performance improvement as well as risk reduction that conventional products cannot match.

Norgren's proprietary technologies improve efficiencies in a wide variety of applications. Amongst other examples, bespoke solutions help leading companies in conventional and renewable energy markets, while innovative valve and fluid control solutions address the growing global market for water quality and efficient water management devices. Norgren's unique Posi-Clik™ fittings reduce vehicle weight and air leakage, therefore reducing engine power requirements and energy costs for truck industry end-users.

The efficient use of energy in buildings is a fundamental part of our Indoor Climate proposition with many of the world's most high profile and prestigious construction projects relying on TA and Heimeier to achieve global warming reduction targets.

IMI

four key priorities guide our responsible business agenda

respon

Supply chain and manufacturing in low cost economies

The manufacturing plants established by IMI in emerging economies have all been developed with full attention to employment and HS&E risks. Risk control surveys are conducted on a regular basis – typically annually.

Major supplier conferences in both China and India in 2007 focused on ensuring that regional suppliers fully understood and could meet IMI's demanding legal compliance, quality assurance and responsible business requirements including adherence to the UN Global Compact.

Similar conferences will be repeated in 2008 to ensure full communication of our requirements.

Our procurement teams use a risk-based methodology to assess and audit suppliers as part of the supplier evaluation process.

In addition, IMI's Risk Control team conducts regular supplier visits and training of procurement personnel.

Suppliers are subject to rigorous and ongoing audits for all aspects of compliance from full time quality teams including a substantial team based in China, using a standard global IMI set of requirements.

Responsible business priorities and objectives

Processes to deliver our four responsible business priorities and associated objectives are embedded across all our operating units and reviewed at least annually as part of our long term planning process. Successful implementation of these priorities, objectives and policies will ensure that IMI maximises its opportunities and minimises its risks related to these issues.

Objectives

Health and safety

- To provide safe places of work and working conditions.
- To reduce the number and severity of industrial accidents or incidents.

Supporting our customers' priorities

- To take advantage of business opportunities arising from customer priorities.
- To work proactively with customers on responsible business issues that could enhance our relationship with them.
- To ensure that any threats arising from our customers' responsible business issues are identified and minimised.

Supply chain – manufacturing in low cost economies

- To minimise supply chain reputational risks to IMI and our customers.
- To manage business efficiency opportunities and threats within IMI and our suppliers.
- To improve our suppliers' understanding and actions in the area of responsible business.

Energy efficiency

- To minimise our energy use relative to our sales.
- To minimise our impact on the environment (principally emissions of CO_2).
- To minimise the cost of energy use to improve profitability.
- To take advantage of business opportunities associated with energy efficiency.

IMI's detailed policies on the following subjects can be viewed on the Company's website:

- Responsible Business – Corporate Social Responsibility
- Ethics
- Legal Affairs and Compliance
- Health, Safety and Environment
- Corporate Governance
- Community
- Donations
- Human Rights and Employment
- Communications and Investor Relations
- Whistleblowing
- Supply Chain

The performance of our business units is assessed during an annual responsible business audit and throughout the year through other processes such as our risk control surveys and financial assurance audits. The results of the responsible business audit are reviewed by the Board. Statistics from the annual audit are published on our website www.imiplc.com.

sibility

The Masayrk Institute, a leading cancer care specialist in Brno opened a new department in 2007, supported by IMI. The city is home to both Norgren and CCI facilities in the Czech Republic.

Energy efficiency

Global pressures on energy prices have had, and will continue to have, an adverse impact on IMI's energy costs. In 2007, IMI's gas and electricity costs increased by approximately 5% to £12.1m from £11.4m in 2006 - including an average unit cost increase of 11%. The overall impact of the 2007 cost increases has been mitigated somewhat by our on-going energy efficiency and procurement initiatives. The positive trend in our overall CO_2 emissions is shown on page 7.

Regular teleconferences help to ensure that ideas and best practice are shared around IMI's operations worldwide. Both CCI in California and Cornelius in Chicago, for example, have improved paper and cardboard recycling techniques. CCI's Rancho Santa Margarita plant now recycles all its paper, cardboard, cooling fluid, metal, machine oil, batteries, wood and computer components.

Programmes targeting our internal use of energy in 2007 included the introduction of an integrated energy management unit at Norgren's main UK plant at Lichfield, which controls lights, gas, air conditioning and air compressors. Energy efficient lighting has replaced conventional lighting at 3Wire in Osseo and Cornelius facilities in Brighouse (UK), Chicago and Reynosa (Mexico) in 2007. Optimisation of electricity usage at Reynosa has enabled the plant to use air conditioning more efficiently at peak periods and on second shift. This facility has also reduced gas consumption in its cold plate furnace by 20% by limiting production to set days and increasing utilisation while the furnace is hot.

The TA plant at Ljung in Sweden continues to set an excellent example in energy self-sufficiency with 29 geothermal boreholes delivering 1200 MWh/year, its own water turbine delivering 150-300 MWh/year, process heat providing additional heat for buildings, and tap water heated with surplus energy from air compressor units. Previous annual oil consumption of more than 700 m^3 a year has been reduced to a back up oil heating system using only 3-8 m^3 of oil a year.

IMI

we respect and value our relationships with all stakeholders

commu

Children at the Snehasadan orphanage in Bangalore welcomed the generosity of a fund-raising effort amongst IMI senior managers, which was matched by a contribution from the Company.

Community engagement

We seek and encourage good relationships with the local communities in which our facilities operate.

Faced with the extraordinary circumstances of raging wildfires in California in 2007, which affected the lives of many employees and which left many local residents homeless, CCI donated money, food, toiletries and gift vouchers to the Orange County Rescue Mission. With the fires controlled, CCI funded the provision of drought-tolerant, fire-resistant vegetation and supported an ambitious replanting effort organised by local citizens to prevent landslides and restore the natural habitat.

In China we have very active long-term relationships with Care for Children (www.careforchildren.cn) one of that country's most effective providers of child welfare. A similar association with the CIDA foundation (www.cidafoundation.org), a business-focused educational charity in South Africa led to two outstanding South African students receiving internships with IMI. Our graduate trainees again visited CIDA in 2007 to teach creative problem solving techniques.

We have numerous links with many other educational institutions across the world, but also continue long-standing associations with schools and charities local to our Birmingham headquarters.

In the USA, Display Technologies' employees are closely aligned with the Queens Child Guidance Centre which focuses on improving the lives of 10,000 underprivileged children in Queens County, New York, where the business is located. In addition to financial contributions from the company, employees play a vital role on the charity's board, on its committees and in its business planning processes, with considerable benefits for all parties involved.

In February 2007, personal donations made by IMI senior managers during a management conference were matched by the Company to support the work of the Snehasadan foundation, an orphanage providing for street children in Bangalore.

We provide practical support for university level technical classes and seminars focused on energy management systems in buildings in nity

several emerging economies including China, Romania, Slovakia and Hungary. This support helps to educate a new generation of energy conscious construction engineers, architects and system designers.

IMI graduate trainees are encouraged to undertake community placements during their training period, with the Engineering Education Scheme, for example. This scheme, which encourages schoolchildren to consider engineering careers, is particularly well respected and popular with schools and IMI personnel alike.

Health-related causes continue to receive good support from IMI. Blood donation drives are held around the world and matching funds are normally made available for employee team fund raising efforts. The charity devoted to countering the debilitating skin disease Epidermolysis Bullosa, DebRA, also receives substantial support from IMI and remains, along with CIDA and Care for Children, one of the principal beneficiaries of IMI's charity budget.

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

In a proactive response to an environmental disaster in October 2007, Sharon Lewis, Manager Corporate Services, and other CCI employees helped to replant local hillsides ravaged by devastating firestorms with native plants carefully chosen to counter potential landslides.

IMI

board of directors

NON-EXECUTIVE DIRECTORS

NORMAN B M ASKEW
Chairman
Age 65; non-executive; joined the IMI Board in 2005.

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

TERRY M GATELEY
Age 54; non-executive; joined the IMI Board in 2003.

Terry Gateley began his career as a chartered accountant and was in private practice until moving into investment management in 1999. He is a member of the Industrial Advisory Board of Alchemy Partners LLP and his current directorships include Kestrel Holdings Limited, Everyday Loans Holdings Limited, Presentation Service Providers Limited and Leicester Tigers.

LANCE BROWNE CBE
Age 58; non-executive; joined the IMI Board in 2005.

Lance Browne is the non-executive Chairman of Standard Chartered Bank, China, where he was Chief Executive between 1996 and 2001. He has held a range of senior positions in banking and engineering businesses and has lived in China for over 20 years. Director of China Goldmines plc. An Honorary Citizen of Shanghai, he has also received a CBE for his work in China.

KEVIN S BEESTON
Age 45; non-executive; joined the IMI Board in 2005.

Kevin Beeston is the non-executive Chairman of Serco Group plc and is also a member of the CBI's President's Committee, Chairman of the CBI's Public Services Strategy Board, non-executive Chairman of Partnerships in Care Limited, Infinitas Learning BV, Domestic and General Limited and a non-executive director of Ipswich Town Football Club plc.

ANITA M FREW
Age 50; non-executive; joined the IMI Board in 2006.

Anita Frew is the senior non-executive director of Victrex plc and a non-executive director of Aberdeen Asset Management PLC, Northumbrian Water Ltd, and Securities Trust of Scotland plc. Director of City of London Trust plc. She was previously an executive director of Abbott Mead Vickers PLC, Director of Corporate Development at WPP Group Plc and Head of UK Equity Investment at Scottish Provident in Edinburgh.

EXECUTIVE DIRECTORS

MARTIN J LAMB
(top right)
Chief Executive
Age 48; joined IMI in 1986.

Martin Lamb was appointed to the Board in 1996 and as Chief Executive in 2001. He has extensive experience of engineering and managed several major businesses within the Group before his present appointment. He is a non-executive director of Severn Trent Water plc.

DOUGLAS M HURT
(top left)
Finance Director
Age 51; joined IMI and the Board in 2006.

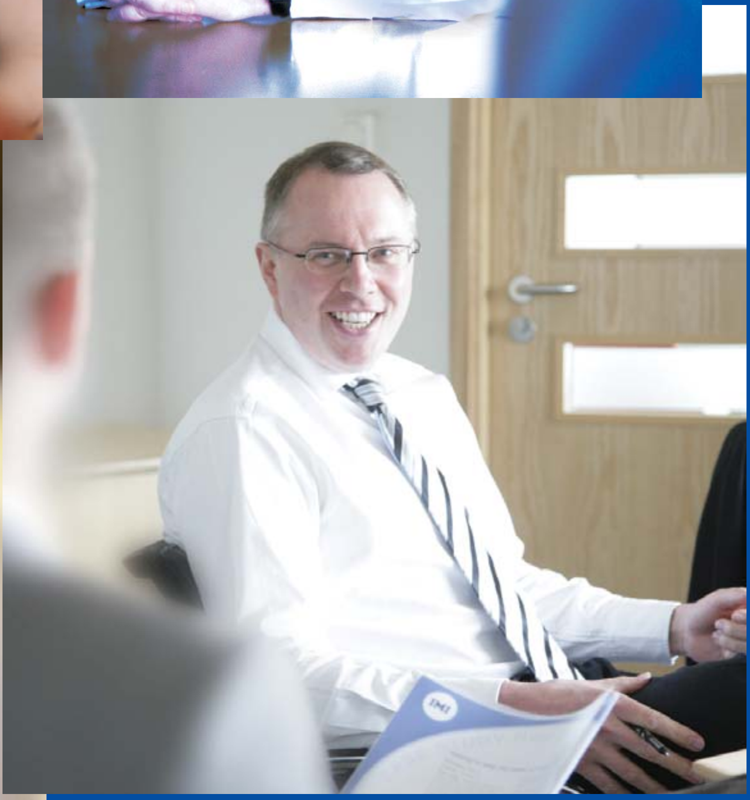
Douglas Hurt was previously with GlaxoSmithKline, where he held both financial and operational roles including a number of US and European senior management positions. He is a member of the Institute of Chartered Accountants.

DAVID C NICHOLAS
(bottom left)
Executive Director
Age 58; joined the IMI Board in 2004.

David Nicholas is responsible for IMI's Fluid Controls businesses, which comprise Fluid Power, Indoor Climate and Severe Service. His recent past directorships include Tyco Flow Control Europe. He has extensive experience in managing engineering businesses.

ROY M TWITE
(bottom right)
Executive Director
Age 41; joined IMI in 1988.

Roy Twite was appointed to the Board in February 2007 with responsibility for IMI's Retail Dispense businesses, which comprise Beverage Dispense and Merchandising. He was previously President of IMI's Indoor Climate business, having held a number of senior operational positions in IMI.



IMI directors' report

The year's results

The directors present their report and financial statements for the year ended 31 December 2007. The Group consolidated income statement is shown on page 60. Group profit from continuing activities before taxation, restructuring, investigation costs, intangible amortisation and other income amounted to £210.1 million (2006: £194.9 million) and profit on continuing operations before taxation amounted to £171.0 million (2006: £158.2 million). Earnings attributable to shareholders of IMI plc amounted to £117.0 million (2006: £72.7 million).

Dividends

The directors recommend a final dividend at the rate of 12.7p per share on the ordinary share capital payable on 23 May 2008 to shareholders on the register at the close of business on 11 April 2008. Together with the interim dividend of 7.5p per share paid on 19 October 2007, this final dividend brings the total distribution for the year to 20.2p per share (2006: 18.7p per share).

Business review

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, containing Beverage Dispense and Merchandising. The main subsidiary companies operating within these two principal activities are listed on pages 108 and 109. The revenue, profit and capital employed attributable to each of these businesses are shown in note 3 on pages 70 to 72. Further descriptions of the Group, its strategy and its businesses, and their development and performance during the year, appear on pages 2 to 33. All these pages are incorporated by reference and form part of this business review.

Research and development

Expenditure on research and development in the year was £30.7 million compared with £34.1 million in 2006: of this amount £3.2 million (2006: £4.4 million) has been capitalised.

Shareholders' funds

Shareholders' funds decreased from £412.7 million at the end of 2006 to £406.5 million at 31 December 2007.

Share capital

As at 31 December 2007, the Company's share capital comprised a single class of share capital which is divided into ordinary shares of 25 pence each. Details of the share capital of the Company are set out in note 23 to the financial statements on page 98. The ordinary shares are listed on the London Stock Exchange.

As at 31 December 2007, 1,244,130 shares are held in an employee trust for use in relation to certain executive incentive plans representing 0.4% 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, 2,644,431 new ordinary shares were issued under employee share schemes: 419,935 under the all employee share ownership scheme and save as you earn plans and 2,224,496 under executive share plans. Shares acquired through Company share schemes and plans rank equally with the shares in issue and have no special rights.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of ordinary shares are entitled to receive the Company's annual report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or propose resolutions at annual general meetings. Voting rights for ordinary shares held in treasury are suspended and the treasury shares carry no rights to receive dividends or other distributions of assets.

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

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

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

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares or on voting rights.

Own shares acquired by the Company

In 2007 the Company made market purchases of a total of 17,210,273 of its own ordinary shares representing 5.1% of the shares in issue at the beginning of the year (excluding treasury shares) at an aggregate cost of £93.3 million (nominal value £4,302,568.25) including dealing costs of £0.5 million pursuant to the authorities granted by the shareholders at the annual general meetings held on 12 May 2006 and 18 May 2007. The authority granted at the annual general meeting held on 18 May 2007 to purchase up to 50,500,000 of its ordinary shares will expire at the conclusion of the next annual general meeting to be held on 9 May 2008. The directors were of the opinion that the purchase of these shares was both in the best interests of the shareholders generally and constituted an effective use of the cash the Group generates.

On 13 December 2007, the Company cancelled 25,281,586 ordinary shares each with a nominal value of 25 pence per share that were being held in treasury representing 7% of the issued share capital (excluding treasury shares) at that time. As at 31 December 2007, 16,000,000 ordinary shares were held in treasury representing 5% of the issued share capital (excluding treasury shares) at that time.

The maximum number of shares held in treasury during the year ended 31 December 2007 was 41,281,586 (nominal value £10,320,396.50) on 11 December 2007, representing 12% of the issued share capital (excluding treasury shares) at that time.

Substantial shareholdings

As at 5 March 2008, the Company has been informed, pursuant to the FSA's Disclosure and Transparency Rules, of the following notifiable voting rights in its issued share capital:

Standard Life Investments Limited	13.26%
AXA Investment Managers UK Limited	5.37%
Newton Investment Management Limited	4.87%
Legal and General Group plc	4.00%

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

Corporate social responsibility

The Board has adopted a range of corporate policies, including a Responsible Business Policy, which reflects the high standards of conduct it sets for itself and its employees across the Group. A relevant selection of corporate policies is available on our website (www.imiplc.com). Further information on corporate social responsibility matters is set out on pages 28 to 33.

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 operate, using their own consultative and communication methods. The Group has a European Works Council which has been in operation since May 2003 and which meets at least once a year to exchange views on pan-European issues facing the Group. At the date of this annual report, there are 19 members of the European Works Council comprising 15 employee representatives nominated from among employees from each European company with the balance being Company appointees. The Group's financial results and important initiatives are communicated through a number of mechanisms including newsletters and intranets for the individual businesses and the Company's website. The annual report is available to all employees.

The Company operates an all employee share ownership plan covering all UK employees of certain operations, under which an annual bonus worth up to £3,000 can be awarded to employees in shares and employees can invest their own money to acquire additional shares in a tax efficient manner. A savings-related share option scheme, which is available to the majority of UK employees, has operated since 1984. Further details of employee share schemes are set out in the remuneration report on pages 49 to 51 and in note 21 and the financial statements on pages 95 to 97.

A number of people development initiatives are co-ordinated across the Group, including the IMI Graduate programme and a senior talent management programme called Aspire. These programmes and the Company's approach to employee development are explained on pages 22 and 23.

IMI directors' report

It is Group policy to promote equal opportunities in employment consistent with the requirements of the countries in which the Group operates. The policy applies to both employees and applicants for employment. Companies in the Group are required to eliminate discrimination and communicate and promote the policy to all employees. Managing Directors of operating units have responsibility for compliance and each employee is required to abide by the policy. Every effort is made to ensure that applications for employment from disabled persons are fully and fairly considered and that disabled employees have equal opportunity in training and promotion. As a matter of longstanding policy, where appropriate, employees who become disabled have been given suitable training for employment within the Group or elsewhere.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment. Information on certain key performance indicators in this area is given on pages 7 and 29 and further information is available on our website (www.imiplc.com).

Policy and practice on the payment of trade creditors

Operating units are responsible for making their suppliers aware of the terms of payment and agreeing such terms with their suppliers for each business transaction. The Company is not a trading entity.

Donations

£220,000 was given during 2007 for community and similar purposes including £205,000 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 donations to political parties were made during the year.

Directors

The persons who were directors throughout the year were Mr N B M Askew, Mr T M Gateley, Mr K S Beeston, Mr L Browne, Ms A M Frew, Mr M J Lamb, Mr D M Hurt and Mr D C Nicholas. Mr W R Whitney retired from the Board on 31 January 2007 and Mr R M Twite was appointed as an executive director with effect from 1 February 2007.

The rules for the appointment and replacement of directors are set out in the Company's articles of association. Changes to the articles of association must be approved by the shareholders in accordance with the legislation in force from time to time. A resolution will be proposed at the forthcoming annual general meeting to make certain changes to the Company's articles of association. The Corporate Governance Report sets out further details of the requirements for re-election of directors on page 42.

In accordance with the Company's articles of association, Mr N B M Askew, Mr K S Beeston and Mr M J Lamb retire by rotation at the forthcoming annual general meeting and all are recommended for re-election. Biographical details appear on pages 34 and 35. Messrs N B M Askew and K S Beeston are non-executive directors with a letter of appointment and do not have a service contract. Mr M J Lamb is an executive director and has a service contract terminable on one year's notice.

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

Directors' powers

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

Directors' interests

The interests of the persons (including the interests of their families and 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 54 to 57.

Change of control

The Company is not a party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

The Company does not have any 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 employees under such schemes to vest on a takeover.

Directors' responsibilities for the financial statements

The directors are responsible for preparing the annual report 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 IFRSs as adopted by the EU and applicable law.

EU adopted IFRSs may differ temporarily from IFRSs as published by the International Accounting Standards Board (IASB), if at any point in time, new or amended IFRSs have not been adopted by the EU. At 31 December 2007, there were no unadopted standards effective for the year ended 2007 and there is therefore no difference between IFRSs as adopted in the financial statements and IFRS issued by the IASB.

The directors have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a remuneration report and corporate governance statement that comply with that law and those regulations.

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

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Risks and uncertainties

In common with all businesses, there are a number of risks and uncertainties which could have a material impact on the Group's long-term performance. The Group has in place a risk management structure and internal controls which are designed to identify, manage and mitigate business risk. A summary of the Group's risk management structure is given on pages 44 and 45. The Group's financial risk management practices are also discussed in note 19 to the financial statements. In addition, the Group's approach to corporate social responsibility and associated risks is described on pages 28 to 33.

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

External risk

Political and natural catastrophe

The Group's worldwide operations expose it to economic, business, political and other risks such as sudden changes in regime, expropriation of assets, imposition of trade barriers and wage controls, limits on the export of currency and volatility of prices, taxes and currencies.

Economic cycle

The Group will, by the nature of its business, be affected by the economic cycles for industrial and capital equipment. The Group recognizes the need to mitigate the negative effects of these cycles with such strategies as a spread of global and sector interests, focusing growth in sectors least affected by cyclical trends, development of aftermarket revenues and appropriate contingency planning.

Environmental

The environmental laws of the jurisdictions in which the Group operates impose actual and potential obligations on the Group to remediate or to fund remediation of contaminated sites, including some sites no longer owned by the Group. The Group makes provision for the expected cost of remediation based on independent professional advice. There is a risk that remediation could prove more costly than expected and that further contamination could be discovered.

Key customers and suppliers

Certain of the Group's businesses benefit from close commercial relationships with key customers and suppliers. The loss of certain of these key relationships could have a material impact on the Group's results. The Group's top ten customers represent approximately 15% of total group revenues.

Legal and regulatory

The Group's worldwide operations also expose it to different legal and regulatory requirements and standards in each of the jurisdictions in which it operates including those for taxation, environmental, operational and competition matters.

The nature of the Group's operations exposes it to the potential for litigation from third parties which may arise in the ordinary course of business.

Further costs and actions potentially arising from the investigation into the Severe Service business in 2007 are a possible risk in the near term. However, it is anticipated that any such actions and associated costs would not extend significantly beyond 2008/9.

Financial market risks

The Group is exposed to a number of financial market risks including credit risk, liquidity risk and fluctuations in foreign exchange rates, interest rates and commodity prices. A description of these risks and the Group's centralised approach to managing them is described in note 19 to the financial statements.

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.

Internal risk

Talent acquisition

If the Group is unable to recruit and retain high calibre managers and engineering talent, it may not be able to effectively implement its business plans and strategy and could experience delays in the development of, or increased difficulty in developing and selling, its products and services.

Internal controls

The Company operates various corporate governance and internal controls. Failures in these controls might have a material impact on the Group.

New products and technology

The Group is exposed to risks associated with the commercial failure of new products, projects and technologies.

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.

Pension funding

Poor investment returns and longer life expectancy may result in the cost of funding defined benefit pension arrangements becoming a significant burden on the Group's financial resources.

Cautionary statements

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

The business review and other content of this annual report is addressed to the shareholders of IMI plc as a body. Neither the Company nor its directors or officers accept or assume responsibility to any person for this annual report beyond the responsibilities arising from the production of this annual report pursuant to and for the purposes required by UK legislation.

Sections of this annual report may contain forward-looking statements about the Group, including, for example, statements relating to: future demand and markets for the Group's products and services, research and development relating to new products and services, tax rates, liquidity and capital resources and implementation of restructuring plans and efficiencies. Any forward-looking statements are by their nature subject to numerous risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements depending on a variety of factors, including, for example, those described above under the heading 'Risks and uncertainties'. IMI undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Annual general meeting

The annual general meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Friday 9 May 2008, commencing at noon. Notice of the meeting will be sent to shareholders as a separate circular.

Auditor

Resolutions for the re-appointment of KPMG Audit Plc as auditor of the Company and to authorise the directors to determine the auditor's remuneration are to be proposed at the forthcoming annual general meeting.

By order of the Board
John O'Shea
Company Secretary
5 March 2008

IMI corporate governance

Statement of compliance

The Board is committed to high standards of corporate governance and confirms that throughout the year ended 31 December 2007 the Company has applied the principles of good governance contained in the revised Combined Code issued in June 2006 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 42 to 58.

The Board is able to report compliance with the Combined Code throughout 2007.

The Board

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

The non-executive directors are all free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of them meet the criteria for independence under the Combined Code and are regarded by the Board as independent of the Group's executive management. The Chairman, Mr N B M Askew, was also regarded as independent at the date of his appointment in May 2005. Mr T M Gateley is the senior non-executive director. The independent non-executive directors are from varied backgrounds and bring with them a wide range of skills and experience of senior management in commerce and industry. Biographical details of the current directors are shown on pages 34 and 35. Each new appointee to the Board is required to stand for election at the next annual general meeting following their appointment. In addition, one third of the Board retire by rotation at each annual general meeting and each director stands for re-election at least once every three years.

The Board provides leadership, direction and control for the Group and oversees business and management performance. The Board has an established list of matters reserved to it and written delegations of authority for its committees and the executive directors. Board reserved matters include strategy and key areas of policy, major investment decisions and material changes in the composition of the Group. The Board reviews budgets, forecasts and plans for the businesses of the Group on an annual basis. Quarterly meetings of the Board consider detailed financial and management reports on the operational and strategic progress of the Group. Senior executives from around the Group are invited by the Board to attend certain meetings to make presentations and join in discussion.

There is a clear division of responsibility between the Chairman and Chief Executive, which is reflected in a written statement approved by the Board. In summary, the Chairman is responsible for the leadership and running of the Board but does not have any executive powers or responsibilities. The Chief Executive leads the executive management team in running the business and implementing operating and strategic plans under authority delegated by the Board. The executive team during the year comprised: the Chief Executive, Mr M J Lamb, Finance Director, Mr D M Hurt, and two operational executives, Mr D C Nicholas, responsible for Fluid Controls, and from 1 February 2007 Mr R M Twite (until 31 January 2007 Mr W R Whitney), responsible for Retail Dispense.

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

The Board met on ten occasions during the year including four quarterly reviews, strategy days, 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 main quarterly meetings held during their tenure save that Mr D C Nicholas missed one meeting. Apart from Mr M J Lamb all directors missed some other meetings, but all attended at least seven of the meetings held in the year.

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

Standing committees of the Board

The standing committees of the Board are: the Audit Committee, the Remuneration Committee, the Nominations Committee and the Executive Committee. Each of these committees operate under written terms of reference which clearly set out their respective delegated responsibilities and authorities. Summaries and the full terms of reference of the Audit Committee, Remuneration Committee and Nominations Committee appear on the Company website (www.imiplc.com).

The Audit Committee was chaired by Mr T M Gateley. All of the other independent non-executive directors were also members of the Audit Committee throughout the year. Mr T M Gateley is a qualified chartered accountant and has significant relevant financial experience. 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 and significant issues of judgement, internal financial controls, the proposed external audit approach and the independence and objectivity of the external auditor. In assessing auditor independence the committee had regard to the guidance for audit committees in the Smith Report 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. The policy requires committee approval for any non-audit engagement where fees exceed £100,000 and does not allow work to be placed with the auditor if it could compromise auditor independence, such as valuations work. The committee also receives reports from and monitors the work of the internal audit function, known as the 'IMI Assurance Department', and reviews the operation of the Group whistleblowing policy and procedure. During the year the committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor. The committee recommended and the Board approved the proposal to re-appoint the external auditor at the forthcoming annual general meeting. The committee met on four occasions during the year with all members in attendance. The committee regularly calls upon the Chairman, Chief Executive, Finance Director and other personnel, including the Controller and the Group Assurance Manager, to attend for parts of its meetings. The committee approved the foregoing report on its work.

The Remuneration Committee was chaired by Mr K S Beeston. Mr N B M Askew, Ms A M Frew, Mr T M Gateley and Mr L Browne were members of the Remuneration Committee throughout the year. The committee's main responsibilities are to determine the remuneration policy and individual terms and conditions in respect of the executive directors including new appointments and to set the Chairman's remuneration. As well as salary and annual bonuses, the committee is responsible for the structure and level of performance related elements of executive remuneration and other benefits. The committee also reviews the packages of those at the next most senior level of management. The committee met on six occasions during the year with all members in attendance except that Mr L Browne and Ms A Frew missed one meeting. External consultants were engaged by the committee to provide advice and the Chief Executive and Finance Director attended its meetings when required. The committee approved the foregoing report on its work and more details are given in the Remuneration Report.

The Nominations Committee comprised the Chairman, Mr N B M Askew, who chaired the committee, all of the independent non-executive directors and the Chief Executive. During the year the committee reviewed the Board composition and made nominations for appointments to the Board and its committees. External consultants were engaged by the committee in relation to the search for successor non-executives and worked to an agreed brief from the committee defining the core competencies and profile for the roles. Appointments of non-executives are made on the basis of a standard form of appointment letter. Each non-executive director and the Chairman were appointed on the basis of a stated minimum time commitment judged appropriate by the committee. The committee considered that the time given by each non-executive was sufficient. The committee also reviewed the roles of the non-executive directors and made recommendations, which were approved by the Board, concerning the composition of the Audit Committee and the Remuneration Committee. The committee met on three occasions during the year with all members in attendance. The committee played a central role in the selection of a new executive director to fill a vacancy arising from a retirement in early 2007. The committee approved the foregoing report on its work.

The Executive Committee of the Board is chaired by the Chief Executive and consists of all the executive directors. It meets monthly and more often as may be required in order to monitor performance, review business management issues and formulate budgets and proposals on strategy, policy and resource allocation for consideration by the Board. Its minutes are circulated to all members of the Board. It also acts as the Risk Committee of the Board. Senior executives from around the Group are regularly called upon to attend meetings of the Executive Committee.

Board induction, continuing professional development and evaluation

A formal induction process for new directors has been in operation for several years. It is overseen and kept up to date by the Chairman with support from the Chief Executive and Company Secretary. During and after induction directors are encouraged to visit business units around the Group and to meet with operating management and corporate staff. Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in some appropriate training during the year.

An evaluation of the Board, its committees and individual directors, including the Chairman, was carried out and facilitated by independent consultants. This included interviews and appropriate follow up discussions. In addition, the non-executive directors met with the senior independent non-executive director regarding the performance of the Chairman and the Chairman met individually with each of the non-executive directors to canvass their views. The Board received the findings of the evaluation in November 2007 and agreed that certain refinements to the agenda and papers for its meetings would be useful. The evaluation concluded that the Board and its committees were effective and that each director demonstrated a valuable contribution. The contribution and performance of individual directors standing for election or re-election is commented on in the notice of the annual general meeting issued to shareholders with this annual report.

Investor relations

The annual general meeting is regarded by the Board as an important opportunity to meet and communicate with shareholders, particularly private investors. The 2007 annual general meeting was chaired by the Chairman, and attended by the chairmen of the standing committees of the Board and all of the other directors. The Chairman encouraged debate and questions at the formal meeting and informally during refreshments afterwards.

Each substantially separate issue was put to the 2007 annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the directors' report for 2006. A separate resolution for the approval of the remuneration report was also put to the meeting. Notice of the 2007 annual general meeting was despatched more than twenty working days in advance and the level of proxy votes lodged for and against each resolution, together with details of abstentions, were disclosed at the meeting and are shown on the Company's website.

In addition to the annual report, the Company publishes an interim report to shareholders and issues trading updates around the mid-year and in December. From 2008 the Company will issue interim management statements as required by companies legislation in May and November of each year. The Company has its own website (www.imiplc.com) which includes recordings of certain key presentations made by senior management, recent annual and interim reports, trading updates, other corporate announcements and links to the websites of Group businesses. The Company has arranged a dealing service for the convenience of shareholders with JPMorgan Cazenove (details are shown on page 112).

The Board as a whole seeks to maintain a balanced understanding of the issues and concerns of major shareholders. Dialogue is maintained with shareholders and the executive directors meet regularly with institutional investors. The Chief Executive and Finance Director have primary responsibility for investor relations and report thereon to the Board at least quarterly.

In addition, financial analysts' notes are circulated to the Board and regular feedback reports from the Company's brokers are supplemented by periodic, independent surveys of major investors' views. The Chairman, senior independent non-executive director and other non-executives will meet with major shareholders upon request and otherwise if any of them considers appropriate. During the year the Chairman met with one of the Company's major investors at its request.

Corporate social responsibility

The Board takes account of the social, environmental and ethical impact of its decisions and has established corporate policies and standards for responsible business across the Group. Through the Group's risk assessment processes key issues of corporate social responsibility are identified, monitored and addressed.

The Company satisfies the FTSE4Good global corporate responsibility criteria and has been awarded membership of the FTSE4Good Index. More information on corporate policies and social responsibility matters is given on pages 28 to 33 and on the Company website (www.imiplc.com).

Internal control

The Board has overall responsibility for the Group's system of internal control and confirms that the system of internal control takes into account the relevant guidance issued in September 1999 and revised in October 2005 by the Financial Reporting Council (the 'Turnbull Committee Guidance').

Consistent with the Turnbull Committee Guidance, the Board has assigned responsibility for the continuous review of risk management and controls to the Executive Committee. During the year the Board received reports on risk issues from the Executive Committee and reviewed the effectiveness of the Group's system of internal control in relation to financial, operational and compliance controls and risk management. In addition, the Audit Committee considered and reported to the Board on the financial aspects of internal control. It also reviewed the nature and scope of the external audit. The committee also reviews the internal audit work carried out by the IMI Assurance Department.

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

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

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

The Group has a clear organisational structure and well established reporting and control disciplines. Managers of operating units assume responsibility for and exercise a high degree of autonomy in running day-to-day trading activities. They do this within a framework of clear rules and policies regarding business conduct, approval of proposals for investment and material changes in operations.

All operating units prepare forward plans annually which make projections for a period of three years. These plans are reviewed in detail by executive directors and consolidated for review by the Board. Performance against forecast is continuously monitored by the executive directors, reviewed at monthly meetings of the Executive Committee and on a quarterly basis by the Board. Minimum standards for accounting systems and controls, which are documented and monitored, are promulgated throughout the Group. Certified quarterly reports are required from senior executives of operating units, confirming compliance with Group standards. There is also a central internal audit function, IMI 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 Assurance Department and co-ordinated with the divisional financial management review processes and external audit. Additionally, visits to operations are carried out by senior Group finance personnel in conjunction 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 or the Board, as appropriate, according to their materiality. In addition, the Executive Committee and the Board regularly review the operation of corporate policies and controls in relation to treasury activities, environmental issues, health and safety, human resources, ethical trading, taxation, insurance, pensions, legal and regulatory compliance. Compliance reports are made to the Board and the Audit Committee, as appropriate, to enable control issues and developments to be monitored.

Control processes are dynamic and continuous improvements are made to adapt them to the changing risk profile of operations and whenever weakness in the internal control system is identified appropriate remedial action is taken. During the year it became apparent that improper payments had been made within IMI's Severe Service business. IMI had established policies and controls to prevent such payments, which were circumvented through collusion by a group of employees. New anti-corruption controls and compliance arrangements were put in place within Severe Service and employee changes were made in response to the discovery of these improper payments currently under investigation.

Through the procedures outlined above the Board has considered the effectiveness of all significant aspects of internal control for the year 2007 and up to the date of this Annual Report, including the changes to personnel and compliance procedures within Severe Service. 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.

By order of the Board
John O'Shea
Company Secretary
5 March 2008

IMI remuneration report

Overview

During the year the Remuneration Committee reviewed its remuneration policy to ensure that it remains consistent with market and best practice. The broad conclusion of this review was that the structure of the remuneration packages continues to be appropriate at this time, but some changes have been made and these are described below.

Composition

The members of the Remuneration Committee during the year were Mr K S Beeston (Chairman), Mr T M Gateley, Mr L Browne, Ms A M Frew and Mr N B M Askew, the Company's non-executive Chairman. In accordance with the revised Combined Code, issued by the Financial Reporting Council in June 2006, all of the foregoing non-executive directors were regarded by the Board as independent and Mr Askew was considered independent on his appointment as Chairman of the Company.

Advice received

The committee consulted the Chief Executive, Mr M J Lamb, regarding the remuneration of the other executive directors and senior managers. It also received the advice and services of the Finance Director, Mr D M Hurt, the Group Pensions Manager, Mr P Flanagan, and the Company Secretary, Mr J O'Shea, who acted as secretary to the committee. Independent remuneration advisers were engaged by the committee to provide advice on directors' remuneration to the committee: Deloitte & Touche LLP until June 2007 and thereafter New Bridge Street Consultants LLP.

These advisers also attended certain meetings at the request of the committee. During the year Deloitte & Touche LLP also provided due diligence, financial and tax consulting services to the Company and New Bridge Street Consultants provided survey data on non-executive remuneration for the Board.

Non-executive directors' remuneration and terms of appointment

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

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 52 and was reviewed in 2007 (the last review being in 2005). For 2007 annual remuneration was as follows: Chairman £195,000, non-executive director £45,000 (including committee membership fees) and additional remuneration for chairing a committee of £10,000 and for the senior non-executive director of £5,000.

The Board has established a shareholding guideline for non-executive directors, each of whom is encouraged to build up a holding of at least 7,500 shares, or 10,000 shares in the case of the Chairman, within a reasonable period of appointment. All of the non-executives hold the relevant number of shares except that Mr L Browne holds 6,438 shares and he intends to buy the balance during 2008.

The normal period for initial appointment and first renewal is three years. The appointment of the Chairman runs for an initial three year term expiring in May 2008 and the Board has agreed a renewal for a further three years. Appointments are made under a letter of agreement subject to retirement by rotation and removal under the Company's articles of association. There are no provisions for the Company to give notice or pay compensation in relation to the early termination of the appointment of the Chairman or any non-executive director. There is a provision in the appointment letters to the effect that a non-executive director is normally expected to give one month's prior notice of termination to the Company. The dates and unexpired terms of the letters of appointment for the non-executive directors, which are available for inspection at the annual general meeting and at the Company's registered office, are as follows:

	Date of letter of appointment	Unexpired term as at 31 December 2007	Date appointed as a director
Mr N B M Askew*	28.04.05	4 months**	14.05.05
Mr K S Beeston*	07.03.05	2 months**	08.03.05
Mr L Browne	16.12.04	N/A**	01.01.05
Ms A M Frew	16.02.06	1 year 2 months	02.03.06
Mr T M Gateley	30.10.06	1 year 10 months	01.11.03

*Standing for re-election at the May 2008 annual general meeting.

** Appointments renewed for a further 3 years since the year end.

Executive directors' remuneration and terms of appointment

Statement of policy

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

The policy is to provide competitive remuneration packages to attract, motivate, reward and retain executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to specific performance measures.

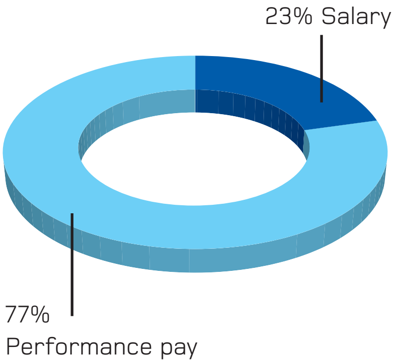
The Remuneration Committee considers it to be important to maintain the flexibility to respond to individual circumstances. However, its normal approach has been to pay salaries within appropriate market competitive ranges, combined with realistic potentials for above market total compensation if performance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

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

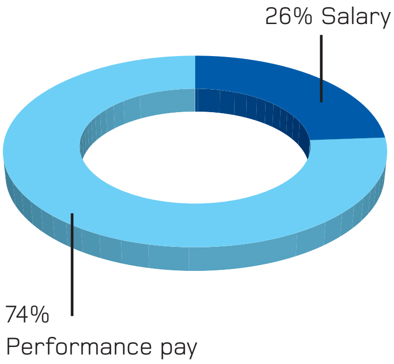
The policy of the committee is to set performance conditions which are both stretching but also reasonably attainable in the environment in which the Company is then operating.

The charts below show the proportion of executive directors' aggregate remuneration which is paid as salary or is performance-related pay based on maximum vesting under the annual bonus and long-term incentive arrangements mentioned above (assuming reinvestment of half of annual bonus payments in the deferred bonus 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.

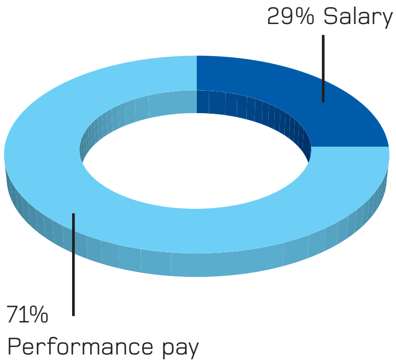
Maximum performance pay
Chief Executive



Maximum performance pay
Finance Director



Maximum performance pay
Executive Director



Consistent with the policy on service contracts, the executive directors' service contracts are subject to termination on one year's notice by the Company or the executive. Contractual retirement age for directors was changed from 60 to 65 in 2006 in response to the new age discrimination law. These contracts do not include any specific provision for compensation payable upon early termination. It is the policy of the Remuneration Committee to limit any compensation which might be paid in the event of early termination of an executive director's contract to the legal minima, taking into account mitigation and other relevant factors.

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

	Date joined Group	Date of appointment to Board	Date of service contract	Notice period	Period to normal retirement age as at 31 December 2007
M J Lamb	31.10.86	18.07.96	24.01.08	12 months	17 years 1 month
D M Hurt	01.05.06	01.07.06	01.10.06	12 months	13 years 6 months
D C Nicholas	08.03.04	08.03.04	01.10.06	12 months	7 years
R M Twite	26.09.88	01.02.07	01.02.07	12 months	24 years 5 months
W R Whitney*	03.08.87	01.03.04	01.03.04	N/A	N/A

* retired on 31 January 2007

Base salary

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

The salaries for the executive directors effective from 1 January 2008 are:

M J Lamb - £656,000.

D M Hurt - £360,000.

D C Nicholas - £340,000.

R M Twite - £340,000.

Annual bonus

Executive directors are awarded annual performance bonuses. Maximum bonus is only payable if the stretching targets set by the Remuneration Committee are met. The annual bonus targets for 2007 related to operating profit (before restructuring, investigation costs, intangible amortisation and other income), organic revenue growth and working capital. These measures also apply to the 2008 bonus, a proportion of which is discretionary. 50% of any bonus paid must be taken in the form of deferred shares (deferred for three years).

The maximum annual bonus potential for 2007 was 100% of salary. During 2007 operating profit increased by 10%, organic revenue growth was 6.7% but the working capital efficiency target was not met. On this basis the Remuneration Committee determined that bonuses in respect of 2007 be 79.9% of salary (2006: 88%), of which half must be put into the Deferred Bonus Plan. Annual bonuses are non-pensionable in the case of all executive directors.

The changes to annual bonus policy that will apply in 2008 are:

1. The annual bonus maximum for the Chief Executive will be 75% of salary in the form of a cash payment and 75% of salary in the form of deferred shares. The Finance Director's annual bonus maximum will be 62.5% of salary cash bonus and 62.5% of salary deferred share bonus. The on-target bonus levels will be set at 40% of the bonus maximum for the Chief Executive and at 48% for the Finance Director; this compares to 50% for both in 2007.
2. The 2008 targets required to achieve the higher bonus maxima have been made more stretching relative to the 2007 targets so as to ensure that the Company is not paying more for the same level of performance.
3. A committee power to reduce or to delay the payment of annual bonuses in exceptional circumstances has been introduced.
4. An element of the bonus is payable at the discretion of the committee reflecting other financial and non-financial performance.

Long term incentive arrangements

Overview

The Company operates two executive share plans:

1. the Deferred Bonus Plan which is a co-investment arrangement; and

2. the Performance Share Plan which is a conventional long term incentive plan.

Deferred Bonus Plan

The Deferred Bonus Plan (DBP) runs in conjunction with the annual bonus plan for executive directors and was approved by shareholders at the 2005 annual general meeting.

Under the DBP, at least one half of each executive director's earned annual bonus is mandatorily deferred for three years and delivered in shares in the Company. The executive may also elect to voluntarily defer all or part of the remaining 50% of their annual bonus. Additional shares, in the form of a matching award, may be earned (to a maximum of 100% of the deferred bonus at the entry share price level or 125% for the Chief Executive) if stretching performance conditions are met by the Company over the three year deferral period. The awards are subject to economic profit, also known as 'economic value added' (EVA), based performance conditions. EVA has been chosen as the performance measure because it combines profitability with return on capital in a single measure and is being used across the Group as a management decision-making tool. The EVA performance conditions attached to the awards are tiered (with linear progression within each band). The calculation of EVA is based on operating profit after tax, with appropriate adjustment for restructuring costs, less a capital charge on the invested capital in the business reflecting IMI's cost of capital. Further details of the performance conditions attaching to the awards are set out in the notes to the table on page 55. No changes are being made to the DBP for 2008.

Performance Share Plan

The Performance Share Plan (PSP) was also introduced in 2005 with shareholder approval and allows for share-based awards worth up to the normal policy maximum of 100% of annual salary. Details of the awards made under the PSP are contained in the table of directors' awards on page 54.

The vesting of awards is subject to the satisfaction of stretching performance conditions over a three year period. One half is subject to an earnings per share (EPS) performance condition and the other half to a comparative total shareholder return (TSR) target. EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings and because the Remuneration Committee believes it works well in combination with TSR which is a comparative measure. TSR is well understood and accepted as a performance measure for long term incentives and links rewards to shareholder value. Details of the performance conditions attached to awards granted under the PSP are shown in the notes to the table on page 54.

Changes which will apply to awards made in 2008 are:

1. The TSR comparator group has been widened and includes more international companies. This supports the committee's policy to be competitive on an international basis. A list of the proposed companies is given below.
2. There will be straight line vesting between median and upper quartile as the vesting schedule has been simplified by removing the previous mid-point.
3. The financial underpin to the TSR condition has been extended so that the Remuneration Committee can consider more financial indicators than just EPS.
4. Reflecting the international scope of the plan the EPS range will be set by using absolute growth figures rather than by reference to the UK retail prices index.
5. The threshold vesting level commences at 25% rather than 30%.

The new 2008 international comparator group for the relative TSR target is expected to comprise the following 42 companies:

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

*Country is shown as country of primary listing.

If, at the end of the three-year period, the Company is ranked median in the comparator group, then 25% of the TSR-dependent awards will vest. If the Company is ranked in the upper quartile (top 25%) of the comparator group, then the TSR-dependent awards will vest in full. Awards will vest on a straight line basis if the Company's TSR performance is between these two points. If the Company's TSR performance is below the median, the TSR dependent awards will lapse without retesting.

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.

The performance condition for the second 50% of the 2008 PSP awards is 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. For the 2008 PSP awards, 25% will vest if compound earnings per share growth is 6% per annum during the three-year performance period; all will vest if the Company's compound annual earnings per share growth is 15% per annum or higher; and awards will vest on a straight line basis if the Company's EPS growth is between these points.

The EPS measure for PSP awards is based on IFRS earnings per share subject to certain adjustments including the elimination in whole or in part of restructuring costs, investigation costs, intangible amortisation, other income and the change in fair value of financial instruments and derivatives.

Share ownership guidelines

Executive directors who are eligible to participate in the DBP and the PSP, are encouraged to acquire and maintain a shareholding in the Company with a value equal to 100% of their annual salary, within three years of appointment or June 2008 for those in office in 2005 (when the guidelines were introduced). During the year the committee reviewed this guideline and agreed some practical aspects on how it will be monitored. Progress as at 31 December 2007 on meeting the guideline is as follows:

Executive director	Level of share ownership (at 31.12.07 share price and 2007 salary).	Date to meet guideline
M J Lamb	102.78%	30.06.08
D M Hurt	35.39%	01.07.09
D C Nicholas	105.74%	30.06.08
R M Twite	32.58%	01.02.10

SAYE plan

The Company operates an HM Revenue and Customs approved savings-related share option scheme which is open to the majority of the Group's UK employees, including the UK-based executive directors, and allows the grant of options to all participants at a discount of up to 20 per cent 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.

All Employee Share Ownership Plan

The UK-based executive directors also participate in an All Employee Share Ownership Plan which is open to the majority of the Group's UK employees. In May 2008 shares to a value equal to the lesser of £3,000 and 0.75% of each participant's basic salary will be acquired at market value by the trustee of the plan in respect of their participation during 2007. The plan is not operated subject to specific performance conditions but the level of shares awarded to participating employees is set taking into account performance, in particular that of the UK operations of the Group. Eligible employees are also able to invest up to £1,500 annually in a tax-efficient manner in purchasing partnership shares under the plan. Each of the executive directors makes the maximum contribution from their salary towards partnership shares under the plan. Up to two matching shares may be awarded for every one partnership share acquired under the plan, although the policy to date has been not to award any matching shares.

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

Pension entitlement

UK-based executive directors except for Mr D M Hurt participate in the IMI Pension Fund. Their normal retirement age under the Fund is 65, although Mr M J Lamb and Mr D C Nicholas may elect to retire and receive a pension at any time after age 57 without any actuarial discount and Mr R M Twite may retire at any time after age 60 without actuarial discount. On death after retirement a dependant's pension is provided equal to two-thirds of the member's pension for Mr M J Lamb and Mr D C Nicholas, and 50% of the member's pension for Mr R M Twite.

Should Mr M J Lamb or Mr D C Nicholas die within the first five years of retirement a lump sum is also paid equal to the balance of five years' pension payments. For Mr R M Twite the dependant's pension is increased to 100% of the member's pension for the remainder of the five year period.

Pensions in payment, in excess of any guaranteed minimum pension, are increased each year in line with price inflation up to a maximum of 5%, in respect of pension built up before 1 January 2006, and 2.5% in respect of pension built up after 1 January 2006.

Mr M J Lamb 'opted-out' of the IMI Pension Fund in April 2006 and receives a cash allowance equal to 35% of his basic salary instead of accrual for future service from that date, although accrued benefits generally continue to be linked to final salary inflation and Fund benefits were preserved in relation to ill-health retirement, death-in-service and termination after age 50 (including where twelve months termination notice is given by the Company after age 49) for redundancy or otherwise at the Company's instance.

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

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

Mr W R Whitney was a US-based executive director and during the year was a member of two pension arrangements in the US. The first was a defined contribution arrangement, the IMI 401(k) Plan and during the period 1 January 2007 to 31 January 2007 employer contributions of £893 were made to this plan (2006: £4,757). The second arrangement was a defined benefit arrangement, the IMI Americas Supplemental Executive Retirement Plan. His pension is payable without actuarial reduction from age 60, there are no pension increases provided under the Plan and on death a dependant's pension equal to the member's pension is payable.

External appointments

Executive directors may accept one external appointment with the consent of the Board, and are normally allowed to retain fees from external non-executive directorships. Mr M J Lamb was appointed a non-executive director of Severn Trent Water plc on 29 February 2008.

Summary of directors' remuneration

	Salary and fees £000	Non-cash benefits £000	Sums by way of taxable allowances £000	Bonus £000	LTIP Payment £000	Total 2007 £000	Total 2006 £000
Non-executive							
N B M Askew	188	–	–	–	–	188	175
K S Beeston	52	–	–	–	–	52	45
L Browne	52	–	–	–	–	52	45
A M Frew [1]	42	–	–	–	–	42	29
T M Gateley	57	–	–	–	–	57	50
Executive							
D M Hurt [2]	330	4	133	263	–	730	449
M J Lamb	616	4	236	492	296	1,644	1,538
D C Nicholas	328	4	15	262	157	766	767
R M Twite [3]	275	4	112	219	132	742	-
W R Whitney [4]	28	–	–	22	13	63	757
Total	1,968	16	496	1,258	598	4,336	
Total 2006							3,855

[1] Ms Frew was appointed on 2 March 2006.

[2] Mr Hurt was employed from 1 May 2006 and appointed as a director on 1 July 2006.

[3] Mr Twite was appointed as a director on 1 February 2007.

[4] Mr Whitney retired as a director on 31 January 2007 and retired as an employee on 31 July 2007. All of his remuneration was provided in US Dollars.

Half of the bonus and all of the LTIP payments shown above must be invested in the relevant share matching arrangement (as described above) in the case of all eligible executive directors.

Remuneration shown above as salaries for non-executive directors includes fees of £203,000 (2006: £169,000).
No compensation for loss of office was paid to or receivable by any director in 2007 and none was payable in respect of the retirement of Mr W R Whitney.

Benefits in kind provided to executive directors consist of the provision of private health care arrangements, life insurance and All Employee Share Ownership Plan awards. A fully expensed motor car was provided for Mr W R Whitney. All other executive directors elected for a cash alternative scheme, instead of a company car. Sums paid by way of taxable allowances in the above table include cash allowances instead of company car and pension benefits and in the case of Mr D M Hurt, who joined the Company during 2006, a relocation allowance of £90,000 in the prior year.

Summary of directors' pension arrangements

Details of the pension benefits earned in the IMI Pension Fund or the IMI Americas Supplemental Executive Retirement Plan are summarised in the following table:

Name	Age at 31.12.07*	Pensionable service to 31.12.07*	Accrued pension at 31.12.07*	Increase in accrued pension over the year	Increase in accrued pension over the year (net of inflation)	Transfer value of accrued pension at 31.12.07*	Transfer value of accrued pension at 31.12.06**	Difference between transfer values at 31.12.06** and 31.12.07*	Value of increase in accrued pension at 31.12.07* (net of inflation)
		Years	£000 pa	£000 pa	£000 pa	£000	£000	£000	£000
M J Lamb	47	20	259	19	10	3,316	2,949	367	128
D C Nicholas	58	4	31	10	9	657	466	191	192
R M Twite***	40	18	53	-	-	433	428	5	-
W R Whitney****	57	19	109	2	2	1,362	1,338	24	29

* or as at earlier date of ceasing to be a director.

** or as at later date of appointment as a director.

*** appointed 1 February 2007.

**** ceased to be a director 31 January 2007. All relevant benefits were provided in US Dollars.

The accrued pension benefits at the end of the year (31 January 2007 for Mr W R Whitney) represent the annual deferred pension to which each executive director would have been entitled had he left service at the end of the year. This is based on completed pensionable service and pensionable earnings at the relevant date. The increase in the accrued pension during the year reflects the completion of further pensionable service and the increase in pensionable earnings, both before and after inflation. The above figures exclude any benefits from the executive directors' voluntary contributions.

Transfer values calculated in accordance with the guidance note GN11 published by the Institute and Faculty of Actuaries are also shown in the table. A transfer value is the estimated capital value of the future pension payments in retirement.

Under the method and assumptions used by the Company to account for the costs associated with its defined benefit pension schemes (see note 20 to the financial statements on pages 91 to 95), the aggregate value of the accrued benefits as at 31 December 2007 for the executive directors was £7.83million (2006: £8.65million).

Mr W R Whitney ceased to be a director in January 2007 and retired as an employee in July 2007. His accrued pension benefits reflect his earnings and service at the date of leaving (as described above) and no additional pension entitlements will arise as a result.

Directors' share awards

Share awards/options are outstanding under the following schemes:

SAYE - IMI Savings-Related Share Option Scheme
ESOS - IMI Executive Share Option (1995) Scheme
PSP - Performance Share Plan
DBP - Deferred Bonus Plan

						During the year							
Director	Scheme	Perform-ance cond-ition	Date of grant/ award	Award price*	As at 01.01.07 (or date of joining if earlier)	Granted	Exercised / vested	As at 31.12.07 (or date of retirement if earlier)	Date from which exercisable/ vesting date	Expiry date	Date of exercise	Mid market price at date of exercise	Notional gain (£)**
M J Lamb	SAYE	a)	08.04.03	201p	4,980			4,980	01.08.10	31.01.11			
			06.04.04	289p	1,335			1,335	01.08.09	31.01.10			
			04.04.06	494.55p	378			378	01.08.09	31.01.10			
	ESOS 1995	b)	24.03.04	358p	418,000		105,000 313,000	Nil	24.03.07	24.03.14	05.04.07 12.09.07	593.5p 561p	247,275 635,390
	PSP	c)	13.05.05	388.67p	139,100			139,100	13.05.08	13.05.15			
		c)	03.04.06	569.67p	100,500			100,500	03.04.09	03.04.16			
		c)	05.04.07	592p	Nil	104,000		104,000	05.04.10	05.04.17			
D M Hurt	SAYE	a)	16.04.07	517.18p	Nil	1,827		1,827	01.08.10	31.01.11			
	PSP	c)	28.09.06	494.92p	62,800			62,800	28.09.09	28.09.16			
		c)	05.04.07	592p	Nil	55,600		55,600	05.04.10	05.04.17			
D C Nicholas	SAYE	a)	04.04.06	494.55p	3,255			3,255	01.08.11	31.01.12			
	ESOS 1995	b)	24.03.04	358p	156,000		8,000 75,375	72,625	24.03.07	24.03.14	28.03.07 29.10.07	579p 558.5p	17,680 151,127
	PSP	c)	13.05.05	388.67p	75,800			75,800	13.05.08	13.05.15			
		c)	03.04.06	569.67p	54,500			54,500	03.04.09	03.04.16			
		c)	05.04.07	592p	Nil	55,400		55,400	05.04.10	05.04.17			
R M Twite	SAYE	a)	16.04.07	517.18p	Nil	3,166		3,166	01.08.10	31.01.11			
	ESOS 1995	b)	24.03.04	358p	40,000		40,000	Nil	24.03.07	24.03.14	26.03.07	576.5p	87,400
	PSP	c)	13.05.05	388.67p	19,900			19,900	13.05.08	13.05.15			
		c)	03.04.06	569.67p	14,200			14,200	03.04.09	03.04.16			
		c)	05.04.07	592p	Nil	50,600		50,600	05.04.10	05.04.17			
W R Whitney	ESOS 1995	b)	24.03.04	358p	156,000			156,000†	24.03.07	24.03.14			
	PSP	c)	13.05.05	388.67p	69,000			69,000†	13.05.08	13.05.15			
		c)	03.04.06	569.67p	58,900			58,900†	03.04.09	03.04.16			

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

b) EPS – growth of 6%, 12% and 24% above RPI, respectively, for awards worth one, two and three times salary at option price.

c) 50% of award based on comparative TSR (with an EPS underpin) with vesting at median (30% vests) to upper quartile (full vesting) and 50% based on real annual EPS growth of between 3% (30% vests) to 12% (full vesting) per annum for 2007 and 2006 awards and 15% for 2005 awards. For details of the TSR comparator group used for 2005 and 2006 awards please refer to the 2006 Remuneration Report.

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

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

The closing price of the Company's ordinary shares at 31 December 2007 was 393.75p per share and the price range during the year was 637p to 387.25p.

†Mr W R Whitney retired from the Board in January 2007.

The first PSP awards were made in 2005 and based on performance for the period 2005-2007 will vest on 13 May 2008 at 50% of maximum (nil vesting for the TSR element and full vesting for the EPS element).

Awards under the Deferred Bonus Plan (DBP)

Director	Bonus year	Percentage of maximum total bonus achieved	Amount of bonus received invested in the DBP to purchase base shares (expressed as a percentage)	Date of investment in base shares	Purchase price for base shares per share	Number of base shares purchased	Potential maximum matching award if base shares held for three years after acquisition and subject to performance conditions**	Performance conditions for matching share awards	Vesting date
M J Lamb	2005	100	50	03.04.06	570.658p	27,758	59,224	a)	03.04.09
	2006	88	100	05.04.07	595.1065p	49,643	105,914	b)	05.04.10
D M Hurt	2006	88	100	05.04.07	595.1065p	18,086	30,869	b)	05.04.10
D C Nicholas	2005	100	96	03.04.06	570.658p	29,051	49,587	a)	03.04.09
	2006	88	100	05.04.07	595.1065p	26,944	45,988	b)	05.04.10
R M Twite	2006*	92	100	05.04.07	595.1065p	12,498	21,331	b)	05.04.10
W R Whitney†	2005	100	50	03.04.06	570.658p	14,729	26,630	a)	03.04.09

* This award relates to Mr Twite's responsibilities prior to his appointment as an executive director.

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

a) Performance of the Group in relation to economic profit will be measured over the years 2006-2008. Vesting is tiered (with linear progression in each band) as follows: 0% to 20% of maximum (maximum being a 125% match for the Chief Executive and a 100% match for other executive directors) for positive economic profit up to £100 million, 20% to 50% for £100 million to £150 million, 50% to 85% for £150 million to £200 million and 85% to 100% for £200 million to £210 million economic profit.

b) Performance of the Group in relation to economic value added will be measured over the years 2007-2009. Vesting is tiered (with linear progression in each band) as follows: 0% to 20% of maximum (maximum being a 125% match for the Chief Executive and a 100% match for other executive directors) for positive economic value added up to £185 million, 20% to 50% for £185 million to £275 million, 50% to 85% for £275 million to £365 million and 85% to 100% for £365 million to £385 million economic value added.

†Mr Whitney retired from the Board prior to the 2006 award being made and therefore received his payment in cash.

Directors' awards under the legacy long term incentive plan

Details of entitlements under the long term incentive plan of persons who were directors during the year are set out below. The last awards were made under this plan in 2005.

	At 1 January 2007 or date of appointment	At 31 December 2007
M J Lamb	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (vested at 50% of salary in March 2007) b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007*
D C Nicholas	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (vested at 50% of salary in March 2007) b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007*
R M Twite	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (vested at 16.7% of salary in March 2007) b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007*
W R Whitney	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (vested at 50% of salary in March 2007) b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007*

*Based on performance measured to 31 December 2007 these awards will vest in 2008 at 50% of 2007 salary but will be pro rated to the date of retirement in the case of Mr W R Whitney and will vest at 31.6% in the case of Mr R M Twite because part of the award was dependent upon his responsibilities prior to his appointment as an executive director.

Awards potentially vest in March of the year following the performance period end date shown above. The net amount payable to eligible executive directors on vesting will be used to purchase shares at the market prices that then apply pursuant to the linked deferred share plan.

Further details of the awards under this plan can be found in the 2006 Remuneration Report.

Awards under the legacy IMI Deferred Share Plan 2002

Director	Performance period and conditions	Percentage of award vested (maximum of 50%)	Percentage of LTIP award invested in deferred share plan	Gross amount of vested LTIP award (£)	Amount of vested LTIP award net of income tax and other taxes (£)	Date shares acquired ('initial shares') with vested LTIP award	Purchase price for initial shares (per share)	Number of initial shares purchased	Potential 1 for 4 matching award if initial shares held for three years after acquisition	Release date
M J Lamb	b)	36	100	194,670	114,855	03.04.06	570.658p	19,986	4,997	03.04.09
	d)	50	100	286,500	169,035	05.04.07	595.1065p	28,206	7,051	05.04.10
D C Nicholas	d)	50	100	155,051	91,745	05.04.07	595.1065p	15,309	3,827	05.04.10
R M Twite	a)	33.3	24	11,055	6,522	04.04.05	407.4944p	1,588	397	04.04.08
	c)	16.7	98	25,885	15,000	03.04.06	570.658p	2,610	652	03.04.09
	e)	9.1	100	14,810	8,737	05.04.07	595.1065p	1,458	364	05.04.10
W R Whitney*	f)	22	100	54,371	31,535	04.04.05	407.4944p	7,677	1,919	04.04.08
	g)	24	100	72,943	40,629	03.04.06	570.658p	7,070	1,767	03.04.09

* Mr W R Whitney retired from the Board in January 2007

a) Performance period 2002-2004. Award and Performance target related to Mr Twite's responsibilities prior to his appointment as an executive director

b) Performance period 2003-2005. Performance target for maximum vesting: £82m Group economic profit

c) Performance period 2003-2005. Award and Performance target related to Mr Twite's responsibilities prior to his appointment as an executive director

d) Performance period 2004-2006. Performance target for maximum vesting: £54m Group economic profit

e) Performance period 2004-2006. Award and Performance target related to Mr Twite's responsibilities prior to his appointment as an executive director

f) Performance period 2002-2004. Award and Performance target related to Mr Whitney's responsibilities prior to his appointment as an executive director

g) Performance period 2003-2005. Performance target for maximum vesting: in respect of 2003 the target was based on Mr Whitney's responsibilities prior to his appointment as an executive director and for 2004-2005 the Group economic profit target applied.

Further details of the awards under this plan can be found in the 2006 Remuneration Report.

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 2007	Shares held	Interest as at 31.12.07 or date of retirement if earlier	Interest as at 01.01.07 or date of appointment if later
N B M Askew	Ordinary shares	10,000	10,000
K S Beeston	Ordinary shares	7,500	7,500
L Browne	Ordinary shares	6,438	6,438
A M Frew	Ordinary shares	7,500	7,500
T M Gateley	Ordinary shares	7,500	7,500
D M Hurt	Ordinary shares+	29,650	11,024
M J Lamb	Ordinary shares+	160,832	96,442
D C Nicholas	Ordinary shares+	88,167	41,914
R M Twite	Ordinary shares+	24,842	10,680
W R Whitney*	Ordinary shares+	58,960	58,960

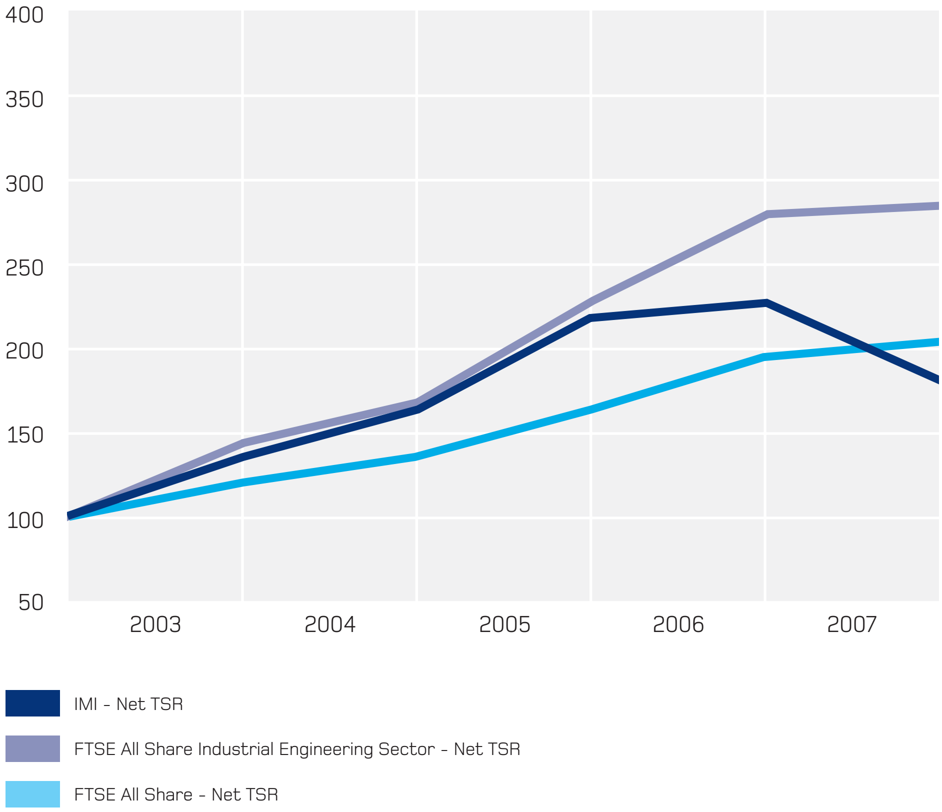
* Mr Whitney retired as a director on 31 January 2007.

\+ Including shares held within company share plans.

During the period 31 December 2007 to 5 March 2008 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 8 January 2008 of 33 shares on behalf of each of Mr M J Lamb, Mr D M Hurt and Mr R M Twite and 34 shares on behalf of Mr D C Nicholas, in each case at 378.92p per share, and on 12 February 2008 of 33 shares on behalf of Mr M J Lamb, Mr D M Hurt and Mr D C Nicholas and 34 shares on behalf of Mr R M Twite at 371.25p per share.

IMI remuneration report

Total shareholder return performance graph *This section of the Remuneration Report is not required to be audited.*
The graph below compares the Company's total shareholder return over the five years ended 31 December 2007 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 IMI share price has underperformed the FTSE All Share Industrial Engineering Index by 38.08% and the FTSE All Share Index by 13.57%. Over the same period total shareholder return has underperformed the FTSE All Share Industrial Engineering Sector Index by 35.54% and the FTSE All Share Index by 10.24%.



Approved by the Board on 5 March 2008 and signed on its behalf by:

Kevin S Beeston

Chairman of the Remuneration Committee

IMI

independent auditor's report to the members of IMI plc

We have audited the group and parent company financial statements (the 'financial statements') of IMI plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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
The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 39.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc, Birmingham
Chartered Accountants, Registered Auditor
5 March 2008

IMI consolidated income statement

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Revenue	3,4,5	**1,599**	1,505
Operating profit before restructuring, investigation costs, intangible amortisation and other income		**210.8**	191.8
Restructuring costs		**(22.0)**	(19.7)
Severe Service investigation costs		**(4.9)**	-
Intangible amortisation		**(13.9)**	(17.0)
Other income		**1.7**	-
Operating profit	3,4,5	**171.7**	155.1
Financial income	7	**81.1**	73.8
Financial expense	7	**(81.8)**	(70.7)
Net financial (expense)/income	7	**(0.7)**	3.1
Profit before tax	8		
Before restructuring, investigation costs, intangible amortisation and other income		**210.1**	194.9
Restructuring costs		**(22.0)**	(19.7)
Severe Service investigation costs		**(4.9)**	-
Intangible amortisation		**(13.9)**	(17.0)
Other income		**1.7**	-
Total		**171.0**	158.2
Taxation	9		
UK taxation		**(10.5)**	(6.5)
Overseas taxation		**(42.5)**	(42.5)
Total		**(53.0)**	(49.0)
Profit of continuing operations after tax		**118.0**	109.2
Gain/(loss) from discontinued operations (net of tax)	6	**1.9**	(33.5)
Total profit for the year		**119.9**	75.7
Attributable to:			
Equity shareholders of the Company		**117.0**	72.7
Minority interest		**2.9**	3.0
Total profit for the year		**119.9**	75.7
Earnings per share	10		
Basic earnings per share		**35.4p**	21.4p
Diluted earnings per share		**35.3p**	21.3p
Basic earnings per share (continuing operations)		**34.8p**	31.3p
Diluted earnings per share (continuing operations)		**34.7p**	31.1p

IMI consolidated balance sheet

at 31 December 2007

	Notes	2007	2006
	2		restated
		£m	£m
Assets			
Intangible assets	12	**314.7**	286.8
Property, plant and equipment	13	**207.9**	190.3
Employee benefit assets	20	**1.3**	0.7
Deferred tax assets	14	**37.2**	55.8
Total non-current assets		**561.1**	533.6
Inventories	15	**252.0**	217.4
Trade and other receivables	16	**332.6**	295.2
Current tax		**1.9**	8.7
Investments	19	**14.4**	15.0
Cash and cash equivalents	19	**106.5**	107.2
Total current assets		**707.4**	643.5
Total assets		**1,268.5**	1,177.1
Liabilities			
Bank overdraft	19	**(29.1)**	(3.6)
Interest-bearing loans and borrowings	17, 19	**(5.0)**	(43.3)
Provisions	22	**(6.9)**	(6.2)
Current tax		**(21.0)**	(18.2)
European Commission fine		**–**	(33.5)
Trade and other payables	18	**(350.0)**	(322.0)
Total current liabilities		**(412.0)**	(426.8)
Interest-bearing loans and borrowings	17, 19	**(305.5)**	(140.7)
Employee benefit obligations	20	**(64.9)**	(121.3)
Provisions	22	**(34.0)**	(34.3)
Deferred tax liabilities	14	**(18.8)**	(15.5)
Other payables		**(20.4)**	(21.9)
Total non-current liabilities		**(443.6)**	(333.7)
Total liabilities		**(855.6)**	(760.5)
Net assets		**412.9**	416.6
Equity	23		
Share capital		**84.6**	90.3
Share premium		**163.3**	155.2
Other reserves		**6.8**	(0.4)
Retained earnings		**151.8**	167.6
Total equity attributable to equity shareholders of the Company		**406.5**	412.7
Minority interest		**6.4**	3.9
Total equity		**412.9**	416.6

Approved by the Board of Directors on 5 March 2008 and signed on its behalf by:

Norman B M Askew Chairman

IMI

consolidated statement of cash flows

for the year ended 31 December 2007

	2007 £m	2006 £m
Cash flows from operating activities		
Profit for the period	**119.9**	75.7
Adjustments for:		
Depreciation	**35.9**	38.7
Amortisation	**13.9**	17.0
(Profit)/loss from discontinued operations (net of tax)	**(1.9)**	33.5
Other income - disposal of business	**(1.7)**	-
Gain on sale of property, plant and equipment	**(0.1)**	(2.0)
Financial income	**(81.1)**	(73.8)
Financial expense	**81.8**	70.7
Equity-settled share-based payment expenses	**3.1**	2.9
Income tax expense	**53.0**	49.0
Increase in trade and other receivables	**(12.6)**	(30.9)
Increase in inventories	**(18.6)**	(14.8)
Increase in trade and other payables	**20.5**	19.0
(Decrease)/increase in provisions and employee benefits	**(6.6)**	1.3
Cash generated from the operations	**205.5**	186.3
Income taxes paid	**(37.1)**	(40.0)
	168.4	146.3
Additional pension scheme funding	**(15.6)**	(15.6)
European Commission fine	**(32.8)**	-
Net cash from operating activities	**120.0**	130.7
Cash flows from investing activities		
Interest received	**7.2**	8.4
Proceeds from sale of property, plant and equipment (including £1m from discontinued operations)	**8.3**	7.7
Sale of investments	**0.1**	0.1
Purchase of investments	**(1.2)**	(2.6)
Acquisition of subsidiaries, net of cash acquired	**(52.2)**	(118.4)
Disposal of businesses (net of cash disposed)	**2.0**	-
Redemption of vendor loan note re Polypipe	**-**	35.9
Acquisition of property, plant and equipment	**(49.9)**	(39.7)
Capitalised development expenditure	**(3.2)**	(4.4)
Net cash from investing activities	**(88.9)**	(113.0)
Cash flows from financing activities		
Interest paid	**(19.9)**	(17.0)
Purchase of own shares	**(93.3)**	(42.4)
Proceeds from the issue of share capital for employee share schemes	**8.7**	6.5
Drawdown of borrowings	**110.7**	7.4
Dividends paid to minority interest	**(2.4)**	(2.1)
Dividends paid	**(63.9)**	(60.7)
Net cash from financing activities	**(60.1)**	(108.3)
Net decrease in cash and cash equivalents	**(29.0)**	(90.6)
Cash and cash equivalents at the start of the year	**103.6**	182.0
Effect of exchange rate fluctuations on cash held	**2.8**	12.2
Cash and cash equivalents at the end of the year	**77.4**	103.6

Notes to the cash flow appear in note 24.

consolidated statement of recognised income and expense

for the year ended 31 December 2007

	2007 £m	2006 £m
Foreign currency translation differences	**(1.0)**	(9.6)
Actuarial gains on defined benefit plans	**21.5**	23.3
Change in fair value of other financial assets	**4.2**	-
Effective portion of change in fair value of net investment hedges	**(2.3)**	1.9
Income and expense net of tax recognised directly in equity	**22.4**	15.6
Profit for the year	**119.9**	75.7
Total recognised income and expense for the year	**142.3**	91.3
Attributable to:		
Equity shareholders of the Company	**139.4**	88.3
Minority interest	**2.9**	3.0
Total recognised income and expense for the year	**142.3**	91.3

Note of changes in shareholders' equity

	2007 £m	2006 £m
Shareholders' equity at the start of the year	**412.7**	417.6
Total recognised income and expense for the year	**139.4**	88.3
Dividends paid	**(63.9)**	(60.7)
Share based payments (net of tax)	**2.9**	3.4
Issue of ordinary shares net of costs	**8.7**	6.5
Purchase of own shares	**(93.3)**	(42.4)
	(145.6)	(93.2)
Shareholders' equity at the end of the year	**406.5**	412.7

1. Significant accounting policies

IMI plc (the 'Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company financial statements present information about the company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRSs). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 102 to 107. The financial statements were approved by the Board of Directors on 5 March 2008.

The following standards and interpretations were adopted by the Group during 2007:

- IFRS7 *'Financial Instruments'*: Disclosures
- IAS1 *'Presentation of Financial Statements'*: Capital Disclosures
- IFRIC8 *'Scope of IFRS2'*
- IFRIC11 *'Group and Treasury Share Transactions'*

The following relevant standards and interpretations were issued but are not effective for the year ended 31 December 2007:

- IFRS8 *'Operating Segments'* introduces the 'management approach' to segment reporting. IFRS8, which becomes mandatory for the Group's 2008 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Executive in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 3). Under the management approach, the Group will continue to report its existing five operating segments as these form the basis of internal reporting.
- Revised IAS23 *'Borrowing Costs'* removes the option to expense certain borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. It is not expected to have a material impact on the Group.
- IFRIC14 IAS19 *'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. The Group does not anticipate the impact of this interpretation will be significant.

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. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and assets and liabilities identified as hedged items.

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

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

b) Use of estimates and judgements

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

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

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

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

Information about other areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the notes which follow on 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

i) Subsidiaries

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

ii) Transactions eliminated on consolidation

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

d) Foreign currencies

i) Foreign currency transactions

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

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 IFRS, such differences have been recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

e) Financial instruments and fair value hedging

Financial instruments are recorded initially at fair value. 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, and short term borrowings and overdrafts are classified as 'loans and receivables' under IAS39, and held at amortised cost (after impairment losses).
- Derivatives, comprising interest rate swaps, foreign exchange contracts and options, metals futures contracts and any embedded derivatives, are classified as 'fair value through profit or loss' under IAS39, unless designated as hedges. Derivatives not designated as hedges are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition changes in fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

1. Significant accounting policies (continued)

- Long term loans and other interest bearing borrowings are generally held at amortised cost using the effective interest method. Where the long term loan is hedged, generally by an interest rate swap, and the hedge is regarded as effective, the carrying value of the long term loan is adjusted for changes in fair value of the risk being hedged.
- Trade receivables are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.
- Trade payables are stated at amortised cost.
- Financial assets and liabilities are recognised on the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.
- Available for sale assets are carried at fair value with gains and losses being recognised in reserves, except for impairment losses.

f) Other hedging

i) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used as an economic hedge of the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

ii) Hedge of net investment in foreign operation

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

g) Intangible assets

i) Goodwill

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

Goodwill on acquisitions prior to 1 January 1998 was deducted from reserves in the year of acquisition. In accordance with IFRS3 *'Business Combinations'* such goodwill continues as a deduction from reserves and is not recognised in the income statement in the event of disposal of the cash-generating unit to which it relates.

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

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

ii) Research and development

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

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

iii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy on 'Impairment'). Cost reflects management's prudent judgement of the fair value at the date of acquisition of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from utilisation of the asset, discounted at an appropriate discount rate. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation of intangible assets other than goodwill

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

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

h) Property, plant and equipment

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

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

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

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

■ Freehold buildings	25 to 50 years
■ Plant and machinery	3 to 20 years

i) Leased assets

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

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

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

Lease incentives received are recognised in the income statement as an integral part of the total lease expense. The majority of leasing transactions entered into by the Group are operating leases.

j) Inventories

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

k) Cash and cash equivalents

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

1. Significant accounting policies (continued)

l) Impairment

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

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

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is evaluated at each reporting date.

i) Calculation of recoverable amount

The recoverable amount of the Group's receivables 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, the estimated future cash flows generated (based upon the latest Group three year plan and prudently extrapolated using an appropriate long-term growth rate in perpetuity consistent with GDP growth) are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management believe that this approach is appropriate based upon historical experience and as this is one of the bases management utilise to evaluate the fair value of businesses for investment decisions. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

ii) Reversals of impairment

As required by IAS36 *'Impairment of Assets'*, any impairment of goodwill is non-reversible. In respect of other assets, an impairment loss is reversed if at the balance sheet date there are indications that the loss has decreased or no longer exists following a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m) Dividends

Final dividends are recognised as a liability in the period in which they are approved by shareholders.

n) Employee benefits

i) Defined contribution pension plans

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

ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds of the appropriate currency that have maturity dates approximating the terms 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 benefit 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 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 recognised income and expense.

iii) Long-term service benefits

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

iv) Equity and equity-related compensation benefits

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

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

o) Provisions

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

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

p) Revenue

Revenue from the sale of goods is recognised in the income statement 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.

q) Financial income and expense

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

1. Significant accounting policies (continued)

r) 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.

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

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

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

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

2. Restatement

2006 comparative figures have been restated where appropriate to show separately employee benefit net assets and employee benefit net obligations gross in the balance sheet.

3. Business and geographical segments

Segmental information is presented in the consolidated financial statements in respect of the Group's continuing operating segments which are the primary basis of segment reporting. The operating segment reporting format reflects the Group's management and internal reporting structures. Inter-segment revenue is insignificant. Geographical location is the secondary basis of segment reporting.

The Group includes the following five operating segments and activities:

Fluid Controls

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

Fluid Power
Design, manufacture and supply of motion and fluid control systems, principally pneumatic devices, for original equipment manufacturers in commercial vehicle, life science, print, packaging and other industries.

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

Retail Dispense

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

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

	Revenue		Adjusted operating profit *		Operating profit	
	2007	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£m**	£m
Fluid Controls	**1,140**	1,043	**165.2**	147.0	**133.8**	116.6
Severe Service	**362**	300	**56.0**	45.1	**44.2**	33.4
Fluid Power	**571**	557	**76.3**	72.4	**57.9**	55.9
Indoor Climate	**207**	186	**32.9**	29.5	**31.7**	27.3
Retail Dispense	**459**	462	**45.6**	44.8	**37.9**	38.5
Beverage Dispense	**285**	282	**25.6**	25.4	**17.4**	22.0
Merchandising	**174**	180	**20.0**	19.4	**20.5**	16.5
Segment result	**1,599**	1,505	**210.8**	191.8	**171.7**	155.1
Net financial (expense)/income					**(0.7)**	3.1
Taxation					**(53.0)**	(49.0)
Profit of continuing operations after tax					**118.0**	109.2
Gain/(loss) from discontinued operations (net of tax)					**1.9**	(33.5)
Total profit for the year					**119.9**	75.7

* Before restructuring, investigation costs, intangible amortisation and other income.

Balance Sheet

	Segment assets		Segment liabilities	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Fluid Controls	**834.0**	717.5	**249.4**	218.0
Severe Service	**284.6**	260.2	**96.7**	85.8
Fluid Power	**413.1**	359.6	**103.4**	92.9
Indoor Climate	**136.3**	97.7	**49.3**	39.3
Retail Dispense	**258.8**	263.2	**72.8**	72.3
Beverage Dispense	**130.3**	134.2	**41.5**	47.1
Merchandising	**128.5**	129.0	**31.3**	25.2
Total	**1,092.8**	980.7	**322.2**	290.3

Reconciliation of segment assets and liabilities to Group balance sheet

	Assets		Liabilities	
	2007	2006	**2007**	2006
	£m	£m	**£m**	£m
Segment assets and liabilities	**1,092.8**	980.7	**322.2**	290.3
Corporate items	**14.4**	9.0	**71.9**	109.7
Employee benefits	**1.3**	0.7	**64.9**	121.3
Investments	**14.4**	15.0	**–**	-
Net borrowings	**106.5**	107.2	**339.6**	187.6
Net taxation and others	**39.1**	64.5	**57.0**	51.6
Per Group balance sheet	**1,268.5**	1,177.1	**855.6**	760.5

3. Business and geographical segments (continued)

Other information

	Goodwill in segment assets		Capital expenditure		Depreciation & amortisation	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Fluid Controls	**177.3**	147.0	**41.1**	35.9	**39.6**	43.3
Severe Service	**71.9**	75.7	**9.0**	9.6	**11.6**	15.1
Fluid Power	**78.9**	56.1	**26.0**	21.4	**21.7**	21.9
Indoor Climate	**26.5**	15.2	**6.1**	4.9	**6.3**	6.3
Retail Dispense	**84.0**	83.8	**11.4**	11.1	**9.5**	11.8
Beverage Dispense	**13.3**	13.4	**7.6**	6.7	**4.4**	7.7
Merchandising	**70.7**	70.4	**3.8**	4.4	**5.1**	4.1
Total continuing operations	**261.3**	230.8	**52.5**	47.0	**49.1**	55.1
Corporate	**–**	–	**0.6**	1.4	**0.7**	0.6
Total operations	**261.3**	230.8	**53.1**	48.4	**49.8**	55.7

Revenue by geographical destination

	2007 £m	2006 £m
UK	**188**	173
Germany	**209**	194
Rest of Europe	**423**	376
USA	**460**	490
Asia/Pacific	**202**	183
Rest of World	**117**	89
Total continuing operations	**1,599**	1,505

Segmental analysis of operating assets by geographical origin

	Carrying amount of segment assets		Capital expenditure	
	2007 £m	2006 £m	**2007 £m**	2006 £m
UK	**221.2**	216.3	**12.6**	13.4
Germany	**125.4**	112.8	**10.4**	7.1
Rest of Europe	**347.5**	285.0	**14.2**	13.0
USA	**301.4**	274.6	**11.1**	11.6
Asia/Pacific	**74.0**	69.8	**4.5**	2.9
Rest of World	**23.3**	22.2	**0.3**	0.4
Total continuing operations	**1,092.8**	980.7	**53.1**	48.4

The results in respect of discontinued operations are set out in note 6.

4. Acquisitions

Acquisitions completed in the year included the business of Kloehn Company Ltd (Kloehn), a leading US provider of specialist pumping and fluid handling systems for the life science sector, acquired on 29 June 2007 which is reported within Fluid Power, and a 70% share in Pneumatex AG (Pneumatex), a specialist provider of water conditioning equipment for building heating, cooling and related systems, on 28 September 2007, reported within Indoor Climate.

Of the reported increase in revenue and operating profit of continuing businesses (before restructuring, investigation costs, intangible amortisation and other income), £15m and £1.8m respectively result from these acquisitions. The extra months of the prior year acquisitions of Truflo reported within Severe Service and Fluid Power contributed £27m and £4.7m to revenue and operating profit respectively.

Assuming the acquisitions of Kloehn and Pneumatex had been completed on 1 January 2007, the Group revenue and operating profit would have been higher by £33m and £1.9m respectively.

2007 Net assets acquired:

	Total 2007		
	Carrying values at acquisition £m	**Fair value adjustments £m**	**Fair value of net assets acquired £m**
Customer relationships		6.6	6.6
Order books		1.0	1.0
Property, plant and equipment	3.6	0.3	3.9
Inventories	8.3	(0.7)	7.6
Trade & other receivables	13.5	-	13.5
Trade & other payables	(10.0)	(3.9)	(13.9)
Tax	(1.5)	(0.5)	(2.0)
Net identifiable assets and liabilities	13.9	2.8	16.7
Minority share			(2.9)
			13.8
Other minority interests acquired			2.0
Total net assets acquired			15.8
Purchase consideration			53.3
Goodwill			37.5

2006 Net assets acquired:

	Truflo 2006			Total 2006		
	Carrying values at acquisition £m	Fair value adjustments £m	Fair value of net assets acquired £m	Carrying values at acquisition £m	Fair value adjustments £m	Fair value of net assets acquired £m
Intangible assets		46.4	46.4		50.0	50.0
Property, plant and equipment	8.1	(0.7)	7.4	8.1	(0.8)	7.3
Working capital	10.8	(6.3)	4.5	10.8	(10.7)	0.1
Cash acquired	8.3	-	8.3	8.3	-	8.3
Tax	(0.4)	(13.9)	(14.3)	(0.4)	(15.2)	(15.6)
Net identifiable assets and liabilities	26.8	25.5	52.3	26.8	23.3	50.1

4 Acquisitions (continued)

	2006 Truflo £m	2006 Total £m
Purchase consideration (cash)	123.1	126.7
Less cash acquired	(8.3)	(8.3)
Purchase consideration including costs, net of cash acquired	114.8	118.4
Fair value of net assets	(12.5)	(8.1)
Intangible assets net of deferred tax	(31.5)	(33.7)
Goodwill	70.8	76.6

Cash impact of acquisitions

	2007 £m	2006 £m
Purchase consideration net of cash acquired	**52.2**	114.8
Deferred consideration to pay	**1.1**	-
Deferred consideration paid	**–**	3.6
	53.3	118.4

The methodology for arriving at fair value, intangible asset values and residual goodwill is described in the Accounting Policies in note 1(g) to these financial statements. The goodwill recognised on the acquisitions principally relates to skills present within the assembled workforce, customer service capability and the geographical and sector presence of these businesses.

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

5. Operating profit

	2007 £m	2006 £m
Revenue	**1,599.2**	1,504.9
Cost of sales (i)	**(964.4)**	(904.1)
Gross profit	**634.8**	600.8
Selling and distribution costs (ii)	**(201.1)**	(202.5)
Administrative expenses (iii)	**(263.7)**	(243.2)
Other income	**1.7**	-
Operating profit	**171.7**	155.1

i) includes £5.2m restructuring costs (2006: £7.7m)
ii) includes £3.7m restructuring costs (2006: £1.2m)
iii) includes £13.1m restructuring costs (2006: £10.8m), £4.9m Severe Service investigation costs (2006: £nil) and £13.9m intangible amortisation (2006: £17.0m)

6. Discontinued operations

The Company made a profit of £1.9m (net of tax) and realised cash of £1.0m on the disposal of land once occupied by the previously discontinued business of IMI Refiners.

In September 2006, the European Commission announced the imposition of a fine of €48.3m on IMI in relation to its former copper fittings business, which was sold in 2002. Pending the outcome of an appeal, the full amount of the fine together with associated costs was provided and reported in the 2006 income statement as a loss on discontinued operations (net of tax). The fine was paid in January 2007.

The impact of the discontinued operations on the earnings per share is shown below:

	2007	2006
Basic EPS	**0.6p**	(9.9p)
Diluted EPS	**0.6p**	(9.8p)

7. Financial income and net expense

Recognised in the income statement	**2007 Interest £m**	**2007 Other £m**	**2007 Total £m**	2006 Interest £m	2006 Other £m	2006 Total £m
Interest income on bank deposits	**7.4**		**7.4**	5.5		5.5
Increase in fair value of financial instruments:						
Designated hedges		**0.8**	**0.8**		2.4	2.4
Other economic hedges		**3.3**	**3.3**		2.9	2.9
Expected return on defined benefit pension plan assets		**69.6**	**69.6**		63.0	63.0
Financial income	**7.4**	**73.7**	**81.1**	5.5	68.3	73.8
Interest expense on financial liabilites measured at amortised cost	**(20.2)**		**(20.2)**	(13.0)		(13.0)
Reduction in fair value of financial instruments:						
Designated hedges		**(0.9)**	**(0.9)**		(2.0)	(2.0)
Other economic hedges		**(1.6)**	**(1.6)**		(1.0)	(1.0)
Financial cost of defined benefit pension scheme liabilities		**(59.1)**	**(59.1)**		(54.7)	(54.7)
Financial expense	**(20.2)**	**(61.6)**	**(81.8)**	(13.0)	(57.7)	(70.7)
Net financial (expense)/income	**(12.8)**	**12.1**	**(0.7)**	(7.5)	10.6	3.1

Recognised directly in equity

	2007 £m	2006 £m
Foreign currency translation differences	**(1.0)**	(9.6)
Change in fair value of other financial assets	**4.2**	-
Change in fair value of effective portion of net investment hedges	**(2.3)**	1.9
Financial income/(expense) recognised directly in equity (net of tax)	**0.9**	(7.7)
Recognised in:		
Hedging reserve	**1.9**	1.9
Translation reserve	**(1.0)**	(9.6)
	0.9	(7.7)

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

	2007 £m	2006 £m
Depreciation of property, plant and equipment	**35.9**	38.7
Amortisation of intangible fixed assets	**13.9**	17.0
Fees payable to the Company's auditor for the audit of the company's annual accounts	**0.3**	0.3
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**3.8**	2.8
Other services pursuant to legislation	**0.2**	0.1
Tax services	**2.0**	1.4
Fees in respect of IMI Pension Fund:		
Audit	**-**	-
Rentals under operating leases:		
Property rents	**16.0**	15.8
Hire of plant and machinery	**5.7**	5.9
Research and development *	**27.5**	29.7

* In addition to the above, £3.2m (2006: £4.4m) has been capitalised. See note 12.

9. Taxation

	2007		2006	
	£m	£m	£m	£m
a) Recognised in the income statement:				
Current tax expense				
UK corporation tax:				
Current tax on income for the period	**19.8**		22.6	
Adjustments in respect of prior periods	**(1.3)**		(0.5)	
	18.5		22.1	
Double taxation relief	**(16.4)**		(22.4)	
		2.1		(0.3)
Overseas tax:				
Current tax on income for the period	**42.6**		43.5	
Adjustments in respect of prior periods	**(0.3)**		(0.4)	
		42.3		43.1
Total current taxation		**44.4**		42.8
Deferred taxation				
Origination and reversal of temporary differences		**8.4**		6.2
Effect of change in future tax rates		**0.2**		-
Income tax expense excluding tax on discontinued operations		**53.0**		49.0
Income tax expense from continuing operations		**53.0**		49.0
Income tax on discontinued operations		**0.9**		(0.3)
Total income tax expense		**53.9**		48.7

9. Taxation (continued)

	2007 £m	2006 £m
b) Total current and deferred tax recognised directly in equity:		
On equity-settled transactions	**0.2**	(0.5)
On gains and losses of financial instruments	**(1.0)**	-
On actuarial gains and losses	**11.7**	9.0
On foreign currency translation differences	**0.5**	-
	11.4	8.5

	2007 £m	2006 £m
c) Reconciliation of effective tax rate		
Profit before tax	**171.0**	158.2
Tax using the group rate of 31% (2006: 31%)	**53.0**	49.0
Effects of:		
Non-taxable and non-deductible items	**1.5**	(0.8)
Utilisation of tax losses	**(0.4)**	-
Current year losses for which no deffered tax asset has been recognised	**0.7**	-
Change in future tax rates	**0.2**	-
Differing tax rates in different jurisdictions	**0.1**	1.1
Over provided in prior years	**(2.1)**	(0.3)
Total tax in income statement excluding tax on discontinued operations	**53.0**	49.0

The group tax rate has been estimated by evaluating the effective tax burden borne by the Group's subsidiaries in their respective tax jurisdictions. Tax on discontinued operations of £0.9m is equivalent to the Group's effective rate of 31%.

10. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares purchased by the Company and held as treasury shares or to satisfy share option vesting, was 330.7m, 331.8m diluted for the effect of outstanding share options (2006: 339.3m, 341.3m diluted). Basic and diluted earnings per share have been calculated on earnings of £117.0m (2006: £72.7m) and the equivalent ratios for continuing operations have been calculated on earnings of £115.1m (2006: £106.2m), before gain/(loss) from discontinued operations (net of tax).

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

From continuing operations	2007 £m	2006 £m
Profit of the year	**118.0**	109.2
Minority interest	**(2.9)**	(3.0)
	115.1	106.2
Charges/(credits) included in profit for the year:		
Change in fair value of financial instruments	**(1.6)**	(2.3)
Intangible amortisation	**13.9**	17.0
Restructuring costs	**22.0**	19.7
Severe Service investigation costs	**4.9**	-
Other income	**(1.7)**	-
Taxation on charges/(credits) included in profit before tax	**(11.9)**	(10.7)
Earnings for adjusted EPS	**140.7**	129.9
Weighted average number of shares	**330.7m**	339.3m
Adjusted EPS	**42.5p**	38.3p
Diluted adjusted EPS	**42.4p**	38.1p

11. Employee information

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

	2007	2006
Fluid Controls	**10,804**	10,231
Retail Dispense	**4,090**	4,295
Other	**208**	212
Continuing operations	**15,102**	14,738

The aggregate employment cost for the year was:

	£m	£m
Wages and salaries	**386.2**	377.1
Share-based payments (see note 21)	**3.1**	2.9
Social security costs	**56.1**	55.6
Pension costs	**24.1**	18.5
Continuing operations	**469.5**	454.1

There were no employees or employment related costs in the discontinued operations.

The detailed information concerning directors' emoluments, shareholdings and options is shown in the Remuneration Report on pages 46 to 58.

12. Intangible assets

	Goodwill	Capitalised development cost			Other acquired intangibles			Total
	Carrying amount £m	Cost £m	Amort-isation £m	Carrying amount £m	Cost £m	Amort-isation £m	Carrying amount £m	Carrying amount £m
At 1 January 2006	165.5	19.3	8.3	11.0	16.9	7.6	9.3	185.8
Exchange adjustments	(11.3)	(1.4)	(0.7)	(0.7)	(1.9)	(0.9)	(1.0)	(13.0)
Acquisitions	76.6	-	-	-	50.0	-	50.0	126.6
Additions	-	4.4	-	4.4	-	-	-	4.4
Amortisation for year			2.4	(2.4)		14.6	(14.6)	(17.0)
At 31 December 2006	230.8	22.3	10.0	12.3	65.0	21.3	43.7	286.8
Exchange adjustments	**(7.0)**	**0.5**	**0.2**	**0.3**	**1.3**	**1.3**	**–**	**(6.7)**
Acquisitions	**37.5**	**–**	**–**	**–**	**7.8**	**–**	**7.8**	**45.3**
Additions	**–**	**3.2**	**–**	**3.2**	**–**	**–**	**–**	**3.2**
Amortisation for year			**3.0**	**(3.0)**		**10.9**	**(10.9)**	**(13.9)**
At 31 December 2007	**261.3**	**26.0**	**13.2**	**12.8**	**74.1**	**33.5**	**40.6**	**314.7**

Cumulative impairment recognised in relation to goodwill is £nil. Management believe that the key assumptions on which the carrying value of goodwill is based are appropriate and any reasonable change in these assumptions would not lead to a materially different conclusion. Cash flows were extrapolated into perpetuity at a 2.25% growth rate which is considered to be consistent with the long term average growth rate for the industry. 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 units' circumstances.

13. Property, plant and equipment

	Land & buildings			Plant & machinery			Assets in course of const-ruction	Total
	Gross book value £m	Depre-ciation £m	Net book value £m	Gross book value £m	Depre-ciation £m	Net book value £m	Net book value £m	Net book value £m
At 1 January 2006	154.2	72.3	81.9	521.8	423.0	98.8	11.4	192.1
Exchange adjustments	(7.3)	(3.3)	(4.0)	(23.8)	(19.9)	(3.9)	(0.8)	(8.7)
Acquisitions	4.3	1.2	3.1	11.0	6.8	4.2	-	7.3
Additions	6.1	-	6.1	24.5	-	24.5	13.4	44.0
Disposals	(8.3)	(6.5)	(1.8)	(25.9)	(22.0)	(3.9)	-	(5.7)
Transfers	0.8		0.8	13.7		13.7	(14.5)	-
Depreciation for year		4.9	(4.9)		33.8	(33.8)		(38.7)
At 31 December 2006	149.8	68.6	81.2	521.3	421.7	99.6	9.5	190.3
Exchange adjustments	**7.2**	**3.5**	**3.7**	**18.0**	**14.1**	**3.9**	**0.4**	**8.0**
Acquisitions	**0.5**	**0.2**	**0.3**	**11.1**	**7.6**	**3.5**	**0.1**	**3.9**
Additions	**4.7**	**–**	**4.7**	**28.0**	**–**	**28.0**	**17.2**	**49.9**
Disposals	**(7.8)**	**(1.8)**	**(6.0)**	**(28.1)**	**(25.9)**	**(2.2)**		**(8.2)**
Disposal of business	**–**	**–**	**–**	**(0.3)**	**(0.2)**	**(0.1)**	**–**	**(0.1)**
Transfers	**0.4**		**0.4**	**10.8**		**10.8**	**(11.2)**	**–**
Depreciation for year		**1.5**	**(1.5)**		**34.4**	**(34.4)**		**(35.9)**
At 31 December 2007	**154.8**	**72.0**	**82.8**	**560.8**	**451.7**	**109.1**	**16.0**	**207.9**

Included in the total net book value of plant and machinery is £0.9m (2006: £0.8m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.3m (2006: £0.4m).

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Non-current assets	**(15.8)**	(10.1)	**33.3**	28.1	**17.5**	18.0
Inventories	**(8.0)**	(6.4)	**5.7**	4.6	**(2.3)**	(1.8)
Interest-bearing loans and borrowings	**(1.5)**	(0.6)	**0.9**	0.4	**(0.6)**	(0.2)
Employee benefits and provisions	**(38.2)**	(63.7)	**8.8**	8.7	**(29.4)**	(55.0)
Tax value of loss carry-forward recognised	**(3.6)**	(1.3)	-	-	**(3.6)**	(1.3)
	(67.1)	(82.1)	**48.7**	41.8	**(18.4)**	(40.3)
Set off of tax	**29.9**	26.3	**(29.9)**	(26.3)	**–**	-
	(37.2)	(55.8)	**18.8**	15.5	**(18.4)**	(40.3)

Deferred tax assets totaling £11.7m have been recognised relating to territories where tax losses were incurred in the year. It is anticipated that, based on forecasts, future taxable profits will be available against which the losses can be utilised.

Unrecognised deferred tax assets and liabilities

Deferred tax assets of £25.8m (2006: £24.6m) have not been recognised in respect of tax losses. The majority of the tax losses have no expiry date, and the assets have not been recognised due to uncertainty over their recoverability.

The unrecognised temporary differences relating to investments in subsidiaries do not give rise to any significant deferred tax.

Movement in deferred tax assets and liabilities during the year

	Balance at 1 Jan 07 £m	**Recognised in income £m**	**Recognised directly in equity £m**	**Other £m**	**Acquisitions/ disposals £m**	**Balance at 31 Dec 07 £m**
Non-current assets	18.0	**(1.0)**	**–**	**(0.3)**	**0.8**	**17.5**
Inventories	(1.8)	**(0.6)**	**–**	**(0.2)**	**0.3**	**(2.3)**
Interest-bearing loans and borrowings	(0.2)	**0.5**	**(1.0)**	**0.1**	**–**	**(0.6)**
Employee benefits and provisions	(55.0)	**12.7**	**12.8**	**(0.1)**	**0.2**	**(29.4)**
Tax value of loss carry-forward recognised	(1.3)	**(2.1)**	**–**	**–**	**(0.2)**	**(3.6)**
	(40.3)	**9.5**	**11.8**	**(0.5)**	**1.1**	**(18.4)**

	Balance at 1 Jan 06 £m	Recognised in income £m	Recognised directly in equity £m	Other £m	Acquisitions/ disposals £m	Balance at 31 Dec 06 £m
Non-current assets	2.2	(2.0)	-	2.2	15.6	18.0
Inventories	(1.8)	-	-	0.1	(0.1)	(1.8)
Interest-bearing loans and borrowings	(0.4)	0.1	-	0.1	-	(0.2)
Employee benefits and provisions	(69.0)	7.0	8.5	(0.8)	(0.7)	(55.0)
Tax value of loss carry-forward recognised	(2.1)	0.8	-	-	-	(1.3)
	(71.1)	5.9	8.5	1.6	14.8	(40.3)

15. Inventories

	2007 £m	2006 £m
Raw materials and consumables	**89.5**	85.8
Work in progress	**85.6**	78.0
Finished goods	**76.9**	53.6
	252.0	217.4

In 2007 the cost of inventories recognised as an expense within cost of sales amounted to £954.3m (2006: £893.2m). In 2007 the write-down of inventories to net realisable value amounted to £5.7m (2006: £4.8m). The reversal of write-downs amounted to £0.8m (2006: £1.6m). The write-down and reversal are included in cost of sales. Write-downs and reversals in both years relate to on-going assessments of inventory obsolescence, excess inventory holdings and inventory resale values across all of the Group's businesses. The carrying value of inventories carried at net realisable value was £3.9m (2006: £5.4m).

16. Trade and other receivables

Falling due for payment within one year	2007 £m	2006 £m
Trade receivables	**286.7**	262.3
Other receivables	**16.1**	12.5
Prepayments and accrued income	**14.4**	13.0
Other financial assets	**8.3**	1.4
	325.5	289.2
Falling due for payment after more than one year		
Other receivables	**4.6**	3.8
Other financial assets	**2.5**	2.2
	7.1	6.0
Total trade and other receivables	**332.6**	295.2
Receivables are stated after:		
Allowance for impairment	**8.4**	7.0

The Group's exposure to credit and market risks related to trade and other receivables are disclosed in note 19.

17. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

	2007 £m	2006 £m
Current liabilities		
Secured bank loans*	–	1.0
Unsecured bank loans	4.6	21.1
Unsecured other loans	0.3	20.9
Secured other loans*	–	0.1
Current portion of finance lease liabilities	0.1	0.2
	5.0	43.3
Non-current liabilities		
Unsecured bank loans	185.7	20.0
Unsecured other loans	119.7	120.2
Secured other loans*	–	0.3
Finance lease liabilities	0.1	0.2
	305.5	140.7

*Secured against property, plant and equipment in 2006 with a carrying value of £2.1m.

18. Trade and other payables

Current

	2007 £m	2006 £m
Trade payables	185.2	171.8
Bills of exchange payable	2.8	3.2
Other taxation	10.6	8.3
Social security	5.0	3.2
Other payables	1.0	0.7
Accruals and deferred income	140.4	133.6
Other financial liabilities:		
At fair value through income statement	1.5	1.0
Net investment hedge	3.5	0.2
	350.0	322.0

19. Financial risk management

Overview

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance Report on pages 42 to 45, this responsibility has been assigned to the Executive Committee with support and feedback from the Audit Committee and the IMI 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 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.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, 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 2007 these totalled £418.4m (2006: £388.1m).

Trade and other receivables

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

Investments

A group of highly rated 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. Given the credit worthiness of these institutions management does not expect any counterparty to fail to meet its obligations. At the end of 2007 surplus cash was deposited with the Group's banks with no single institution creating an exposure greater than £20m.

Liquidity risk

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

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US loan note issues. The level of facilities is maintained such that facilities and term loans with a maturity in excess of 12 months exceed the forecast peak net debt of the Group by a pre-approved level taking into account market conditions and corporate activity. At the end of 2007 the Group had undrawn committed facilities totalling £60m and was holding cash and cash equivalents of £106.5m. Since the end of 2007 a further £50m of committed facilities and term debt has been agreed.

19. Financial risk management (continued)

Market risk

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

Under the management of the central treasury function, the Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Executive Committee.

Currency risk

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

Transactions

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

The Group's net transactional exposure varies from time to time, but at the end of 2007 its forecast exposure for 2008, net of existing hedging derivative instruments, was broadly neutral to the US Dollar and continental European currencies, but a net recipient of other non Sterling currencies.

Profit translation

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

Asset translation

The Group hedges its net investments in its major overseas operations by way of external currency loans and currency forward contracts. The intention is to minimise 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 19.1.

Interest rate risk

As a result of the Group's asset translation policy, it is exposed to a number of global interest rates – the most important of which are US Dollar, Euro and Sterling. The analysis of this exposure is shown in note 19.2 of these financial statements. The Group adopts a policy of maintaining a portion of its liabilities at fixed interest rates and reviewing the balance of the floating rate exposure to ensure that if interest rates rise globally the effect on the Group's income statement is manageable.

The Group has raised US Dollar debt through the issuance of medium to long term fixed rate loan notes. In order to manage its exposure to interest rates, US$95m of this fixed rate exposure was hedged back to floating through the use of interest rate swaps in 1999 and 2001 covering loan notes with maturities between 2009 and 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 £3.5m (2006: £2.7m). The hedged item is included in the value of the debt as an increase in liability of £3.6m (2006: increase £2.7m).

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 £40m. It manages this exposure through a centralised process hedging copper, zinc, aluminium and nickel designed to protect short term margins. The exposure is managed using a combination of financial contracts and local supply agreements in order to minimise the short term impact of metal price volatility.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board monitors the demographic spread of its shareholders and employees are encouraged to hold shares in the Company.

The Board monitors economic profit created and seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages of security afforded by a sound capital position. The Board considers that a ratio of Debt : EBITDA of 2:1 represents a suitable leverage target and expects to reach this level over the next few years through a combination of acquisitions and share buybacks. A total of £93m was spent on the share buyback programme in 2007 (2006: £35m).

The primary financial covenants in the Group's banking arrangements relate to Net Debt to EBITDA and Net Interest to EBITDA ratios. The Group comfortably complied with these covenants during 2007.

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

19.1 Currency profile of assets and liabilities

	Assets excluding cash and debt 2007 £m	**Cash 2007 £m**	**Debt 2007 £m**	**Exchange contracts 2007 £m**	**Net assets 2007 £m**	Net assets 2006 £m
Sterling	**144**	**14**	**(85)**	**218**	**291**	330
US Dollar	**216**	**12**	**(147)**	**(59)**	**22**	8
Euro	**146**	**24**	**(84)**	**(80)**	**6**	3
Other	**140**	**56**	**(23)**	**(79)**	**94**	76
Total	**646**	**106**	**(339)**	**–**	**413**	417

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

19. Financial risk management (continued)

19.2 Interest rate risk profile

	Debt and exchange contracts 2007 £m	**Cash and exchange contracts 2007 £m**	**Floating rate 2007 £m**	**Fixed rate 2007 £m**	**Weighted average fixed interest rate %**	**Weighted average period for which rate is fixed years**
Sterling	**(85)**	**232**	**147**	**–**	**–**	**–**
US Dollar	**(206)**	**12**	**(126)**	**(68)**	**6.9**	**3.8**
Euro	**(164)**	**24**	**(140)**	**–**	**–**	**–**
Other	**(102)**	**56**	**(46)**	**–**	**–**	**–**
Total	**(557)**	**324**	**(165)**	**(68)**		

	Debt and exchange contracts 2006 £m	Cash and exchange contracts 2006 £m	Floating rate 2006 £m	Fixed rate 2006 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(38)	300	262	-	-	-
US Dollar	(188)	10	(101)	(77)	6.9	44
Euro	(161)	30	(110)	(21)	5.2	0.7
Other	(92)	58	(34)	-	-	-
Total	(479)	398	17	(98)		

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

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

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

19.3 Undrawn committed facilities

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

	2007 £m	2006 £m
Expiring within one year	**–**	5
Expiring between one and two years	**14**	50
Expiring after more than two years	**46**	75
	60	130

The weighted average life of these facilities is 3.0 years (2006: 2.7 years).

19.4 Terms and debt repayments schedule

The terms and conditions of outstanding loans were as follows:

	Effective interest rate %	Carrying value £m	Contractual cashflows £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
2007									
Cash and cash equivalents	**Floating**	**106.5**	**106.6**	**106.6**	**–**	**–**	**–**	**–**	**–**
US loan notes 2009-2022	**6.83%–7.17%**	**(42.7)**	**(57.7)**	**(3.0)**	**(28.1)**	**(1.2)**	**(1.2)**	**(11.3)**	**(12.9)**
US loan notes 2009-2014	**Floating**	**(25.4)**	**(30.3)**	**(1.4)**	**(8.9)**	**(1.0)**	**(1.0)**	**(1.0)**	**(17.0)**
US loan notes 2009	**6.56%**	**(25.1)**	**(28.3)**	**(1.6)**	**(26.7)**	**–**	**–**	**–**	**–**
US loan notes 2009	**Floating**	**(25.9)**	**(27.9)**	**(1.4)**	**(26.5)**	**–**	**–**	**–**	**–**
Finance leases	**Various**	**(0.2)**	**(0.2)**	**(0.1)**	**(0.1)**	**–**	**–**	**–**	**–**
Bank overdrafts	**Floating**	**(29.1)**	**(29.1)**	**(29.1)**	**–**	**–**	**–**	**–**	**–**
Secured bank loans	**Floating**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Unsecured bank loans	**Floating**	**(190.3)**	**(218.7)**	**(14.6)**	**(59.5)**	**(42.3)**	**(50.4)**	**(51.9)**	**–**
Other secured loans	**Floating**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other unsecured loans	**Floating**	**(0.9)**	**(0.9)**	**(0.3)**	**(0.6)**	**–**	**–**	**–**	**–**
Total		**(233.1)**	**(286.5)**	**55.1**	**(150.4)**	**(44.5)**	**(52.6)**	**(64.2)**	**(29.9)**

	Effective interest rate %	Carrying value £m	Contractual cashflows £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
2006									
Cash and cash equivalents	Floating	107.2	107.3	107.3	-	-	-	-	-
US Loan Notes 2007-2022	6.70%-7.17%	(51.1)	(69.8)	(11.4)	(3.0)	(28.5)	(1.2)	(1.2)	(24.5)
US Loan Notes 2009-2014	Floating	(25.4)	(32.1)	(1.4)	(1.4)	(9.1)	(1.0)	(1.0)	(18.2)
US Loan Notes 2009	6.56%	(25.6)	(30.4)	(1.6)	(1.6)	(27.2)	-	-	-
US Loan Notes 2009	Floating	(25.9)	(30.4)	(1.6)	(1.6)	(27.2)	-	-	-
UK Loan Notes 2007	Floating	(13.1)	(13.4)	(13.4)	-	-	-	-	-
Finance leases	Various	(0.4)	(0.4)	(0.2)	(0.1)	(0.1)	-	-	-
Bank overdrafts	Floating	(3.6)	(3.6)	(3.6)	-	-	-	-	-
Secured bank loans	Floating	(1.0)	(1.0)	(1.0)	-	-	-	-	-
Unsecured bank loans	Floating	(41.1)	(46.9)	(23.0)	(1.1)	(1.1)	(1.1)	(20.6)	-
Other secured loans	Floating	(0.4)	(0.4)	(0.1)	(0.1)	-	(0.1)	(0.1)	-
Total		(80.4)	(121.1)	50.0	(8.9)	(93.2)	(3.4)	(22.9)	(42.7)

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

19. Financial risk management (continued)

19.5. Total financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2007 and 31 December 2006.

	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
2007						
Cash and cash equivalents	**–**	**–**	**106.5**	**–**	**106.5**	**106.5**
Bank overdrafts	**–**	**–**	**–**	**(29.1)**	**(29.1)**	**(29.1)**
Borrowings due within one year	**–**	**–**	**–**	**(5.0)**	**(5.0)**	**(5.0)**
Borrowings due after one year	**(51.3)**	**–**	**–**	**(254.2)**	**(305.5)**	**(309.0)**
Derivative assets	**3.5**	**3.1**	**–**	**–**	**6.6**	**6.6**
Derivative liabilities	**(3.5)**	**(1.5)**	**–**	**–**	**(5.0)**	**(5.0)**
Other assets	**–**	**–**	**4.2**	**–**	**4.2**	**4.2**
Trade payables	**–**	**–**	**–**	**(185.2)**	**(185.2)**	**(185.2)**
Trade receivables	**–**	**–**	**–**	**286.7**	**286.7**	**286.7**
Investments	**–**	**–**	**14.4**	**–**	**14.4**	**14.4**
Total	**(51.3)**	**1.6**	**125.1**	**(186.8)**	**(111.4)**	**(114.9)**

	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
2006						
Cash and cash equivalents	-	-	107.2	-	107.2	107.2
Bank overdrafts	-	-	-	(3.6)	(3.6)	(3.6)
Borrowings due within one year	-	-	-	(43.3)	(43.3)	(43.3)
Borrowings due after one year	(51.3)	-	-	(89.4)	(140.7)	(144.4)
Derivative assets	2.7	0.9	-	-	3.6	3.6
Derivative liabilities	(0.2)	(1.0)	-	-	(1.2)	(1.2)
Other assets	-	-	-	-	-	-
Trade payables	-	-	-	(171.8)	(171.8)	(171.8)
Trade receivables	-	-	-	262.3	262.3	262.3
Investments	-	-	15.0	-	15.0	15.0
Total	(48.8)	(0.1)	122.2	(45.8)	27.5	23.8

Under IAS39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through profit or loss. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

For short term cash and cash equivalents and floating rate borrowings, the fair values are the same as carrying value. For fixed rate borrowings, forward currency contracts, interest rate instruments and commodity contracts fair values have been calculated by discounting the cashflows at prevailing appropriate market rates. Other assets reflect management's estimate of value on an appropriate basis. Investments are carried at their fair value which is usually open market value.

19.6 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £131.7m (2006: £125.8m).

	Carrying amount	
	2007	2006
	£m	£m
Available for sale financial assets	**4.2**	-
Cash and cash equivalents	**106.5**	107.2
Interest rate swaps	**3.5**	2.5
Forward exchange contracts	**3.1**	1.1
Investments	**14.4**	15.0
	131.7	125.8

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

	Carrying amount	
	2007	2006
	£m	£m
UK	**38.1**	35.3
Germany	**19.3**	16.0
Rest of Europe	**102.1**	90.0
USA	**55.5**	65.2
Asia/Pacific	**53.0**	46.5
Rest of World	**18.7**	9.3
	286.7	262.3

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

	Carrying amount	
	2007	2006
	£m	£m
Severe Service	**87.5**	78.0
Fluid Power	**97.7**	93.6
Indoor Climate	**39.4**	25.9
Beverage Dispense	**35.7**	36.9
Merchandising	**26.4**	27.9
	286.7	262.3

The Group's most significant customer, a food and beverage company, accounts for 2.3% of trade receivables carrying amount at 31 December 2007 (2006: 2.4%).

Impairment losses
The ageing of trading receivables at the reporting date was:

	2007		2006	
	Gross	**Impairment**	Gross	Impairment
	£m	**£m**	£m	£m
Not past due	**227.1**	**(1.5)**	204.8	(0.7)
Past due 1-30 days	**37.4**	**(0.4)**	40.6	(0.2)
Past due 31-90 days	**16.7**	**(0.9)**	16.8	(0.7)
Past due 91 days to less than one year	**13.9**	**(5.6)**	7.1	(5.4)
Total	**295.1**	**(8.4)**	269.3	(7.0)

19. Financial risk management (continued)
19.6 Exposure to credit risk (continued)

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

	2007 £m	2006 £m
Balance at 1 January	**7.0**	7.5
Impairment loss/(gain) recognised	**1.4**	(0.5)
Balance at 31 December	**8.4**	7.0

The impairment loss recognised of £1.4m 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.

19.7 Market risk sensitivity analysis

The Group has estimated the impact of the change to the fair values of its financial instruments and the translation of currency profits and assets, on the income statement and on equity of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, a 10% strengthening or weakening in Sterling against all other currencies or a 10% increase or decrease in the cost of base metals from the rates applicable at 31 December 2007. All other variables are assumed to remain constant. The sensitivity analysis excludes the impact of market risks on net post employment benefit obligations and taxation. The analysis is for illustrative purposes only as in practice market rates rarely change in isolation. The sensitivity analysis includes the following assumptions:

- Changes in market interest rates affect the interest income and expense of variable interest financial instruments;
- Changes in market interest rates only affect the interest income and expense in relation to financial instruments with fixed interest if these are recognised at their fair value;
- Changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments and all interest rate hedges are expected to be highly effective;
- Changes in fair values of derivative financial instruments and other financial assets are estimated by discounting future cash flows at appropriate market rates prevailing at year end; and
- All net investment hedges are expected to be highly effective.

The outputs from the sensitivity analysis are estimates of the impact of market risk assuming that the specified changes occur net of any hedging in place at the year end. Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such this table should not be considered as a projection of likely future gains and losses.

Sensitivity analysis table

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in Sterling £m	10% strengthening in Sterling £m	10% increase in base metal costs £m	10% decrease in base metal costs £m
At 31 December 2007						
Impact on income statement: gain/(loss)	**1.3**	**(1.3)**	**17.5**	**(14.3)**	**(2.6)**	**2.6**
Impact on equity: gain/(loss)	**–**	**–**	**13.6**	**(11.1)**	**–**	**–**
At 31 December 2006						
Impact on income statement: gain/(loss)	(0.4)	0.4	17.6	(14.4)	(3.2)	3.2
Impact on equity: gain/(loss)	-	-	9.7	(7.9)	-	-

20. Employee benefits

Post retirement benefits

	2007 £m	2006 £m
Recognised assets for defined benefit funded schemes	**1.3**	0.7
Recognised liabilities for defined benefit obligations	**(64.9)**	(121.3)
Recognised net liability for defined benefit obligations	**(63.6)**	(120.6)

a) Summary of assumptions

	Weighted averages					
	31 Dec 2007		31 Dec 2006		31 Dec 2005	
	UK % pa	**Overseas % pa**	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Discount rate	**5.9**	**4.9**	5.1	4.2	4.8	4.0
Expected rate of salary increases [1]	**5.0**	**2.9**	4.7	2.8	4.5	2.8
Rate of pension increases [2]	**3.3**	**0.5**	3.0	0.6	2.8	0.6
Rate of increase for deferred pensions [2]	**3.3**	**0.5**	3.0	0.6	2.8	0.6
Medical cost trend rate [3]	**n/a**	**5.0**	n/a	5.0	n/a	5.0
Expected return on equities	**7.8**	**6.9**	7.8	6.2	7.8	7.0
Expected return on bonds	**4.9**	**4.0**	4.7	3.5	4.3	2.2
Expected return on property	**6.6**	**4.9**	n/a	4.0	n/a	3.0
Expected return on other assets	**4.5**	**3.3**	4.2	2.5	4.0	2.2
Overall expected return on assets [4]	**6.6**	**4.8**	6.8	4.5	6.6	4.0

[1] Includes 0.2% pa as the average effect of the age-by-age promotional scale for UK.

[2] In excess of any Guaranteed Minimum Pension (GMP) for UK.

[3] Intitial rate of 9.0% pa (9.5% pa in 2006, 10% pa in 2005) reducing by 0.5% pa each year to 5% pa. Assumed healthcare cost trend rates do not have a significant effect on the amounts recognised in the income statement.

[4] Based on the distribution of assets set out below:

The IMI Pension Fund constitutes around 90% of the total liabilities as at 31 December 2007. The mortality assumptions used for the Fund reflect its experience to 31st March 2007, together with an allowance for improvements over time (this allowance reflects 'medium cohort' projections). 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 experience is next expected to be reviewed as part of the formal actuarial valuation as at 31 March 2008.

The sensitivity of the balance sheet liability in respect of the IMI Pension Fund to changes in the key assumptions is shown in note 20k.

Implied life expectancy (years) from age 65 for:	**31 Dec 2007**		31 Dec 2006	
	Males	**Females**	Males	Females
Current pensioners	**20.2**	**22.2**	18.8	20.9
Future pensioners	**21.6**	**23.4**	21.3	23.4

b) Reconciliation to the balance sheet as at 31 December

	2007				2006			
	UK £m	**Overseas post employment £m**	**Overseas non-post employment £m**	**Total £m**	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Fair value of assets:								
funded schemes in surplus	**–**	**61.2**	**–**	**61.2**	-	33.3	-	33.3
funded schemes in deficit	**1,031.2**	**31.6**	**–**	**1,062.8**	999.9	22.8	-	1,022.7
Present value of defined benefit obligation:								
funded schemes in surplus	**–**	**(56.4)**	**–**	**(56.4)**	-	(32.6)	-	(32.6)
funded schemes in deficit	**(1,034.6)**	**(38.1)**	**–**	**(1,072.7)**	(1,059.7)	(32.6)	-	(1,092.3)
Present value of defined benefit obligation:								
unfunded schemes	**–**	**(42.4)**	**(12.6)**	**(55.0)**	-	(42.3)	(9.4)	(51.7)
Net deficit	**(3.4)**	**(44.1)**	**(12.6)**	**(60.1)**	(59.8)	(51.4)	(9.4)	(120.6)
Restriction due to asset ceiling	**–**	**(3.5)**	**–**	**(3.5)**	-	-	-	-
Defined benefit liability at year end	**(3.4)**	**(47.6)**	**(12.6)**	**(63.6)**	(59.8)	(51.4)	(9.4)	(120.6)

20. Employee benefits (continued)

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

	2007 UK £m	2007 Overseas post employment £m	2007 Overseas non-post employment £m	2007 Total £m	2006 UK £m	2006 Overseas post employment £m	2006 Overseas non-post employment £m	2006 Total £m
From defined benefit schemes								
Current service cost	**12.2**	**4.4**	**0.9**	**17.5**	13.9	4.1	1.0	19.0
Interest cost (in financial expense)	**53.2**	**5.3**	**0.6**	**59.1**	49.7	4.2	0.8	54.7
Expected return on assets (in financial income)	**(66.5)**	**(3.1)**	**–**	**(69.6)**	(60.7)	(2.3)	–	(63.0)
Past service cost	**–**	**–**	**0.5**	**0.5**	–	–	0.3	0.3
Recognition of gains	**–**	**–**	**(0.1)**	**(0.1)**	–	–	(0.8)	(0.8)
Settlement/curtailment	**–**	**(0.3)**	**–**	**(0.3)**	–	–	–	–
Total defined benefit pension expense	**(1.1)**	**6.3**	**1.9**	**7.1**	2.9	6.0	1.3	10.2
Pension expense from defined contribution schemes	**0.6**	**5.9**	**–**	**6.5**	0.4	6.3	–	6.7
Total pension expense	**(0.5)**	**12.2**	**1.9**	**13.6**	3.3	12.3	1.3	16.9

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

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

	2007 UK £m	2007 Overseas post employment £m	2007 Overseas non-post employment £m	2007 Total £m	2006 UK £m	2006 Overseas post employment £m	2006 Overseas non-post employment £m	2006 Total £m
Actuarial gains/(losses) during the year	**32.9**	**6.0**	**(2.4)**	**36.5**	27.7	4.7	(0.1)	32.3
Change in the effect of the asset ceiling	**–**	**(3.3)**	**–**	**(3.3)**	–	–	–	–
Total gains/(losses) recognised during the year	**32.9**	**2.7**	**(2.4)**	**33.2**	27.7	4.7	(0.1)	32.3
Cumulative amount of actuarial gains/(losses) at the beginning of the year	(17.1)	(0.8)	0.2	(17.7)	(44.8)	(5.5)	0.3	(50.0)
Cumulative amount of actuarial gains/(losses) at the end of the year	**15.8**	**1.9**	**(2.2)**	**15.5**	(17.1)	(0.8)	0.2	(17.7)

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

	2007				2006			
	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
Present value of DBO at the beginning of the year	1,059.7	107.5	9.4	1,176.6	1,040.0	113.6	3.8	1,157.4
Company service cost	**12.2**	**4.4**	**0.9**	**17.5**	13.9	4.1	1.0	19.0
Interest cost	**53.2**	**5.3**	**0.6**	**59.1**	49.7	4.2	0.8	54.7
Employee contributions	**2.3**	**1.5**	**–**	**3.8**	2.0	0.7	–	2.7
Past service cost	**–**	**–**	**0.5**	**0.5**	–	–	0.3	0.3
Actuarial (gain)/loss:								
from experience	**(2.7)**	**2.8**	**0.7**	**0.8**	5.5	4.5	0.3	10.3
from changes in assumptions	**(41.7)**	**(10.6)**	**1.4**	**(50.9)**	(14.7)	(4.8)	–	(19.5)
Actual benefit payments	**(48.4)**	**(5.3)**	**(1.1)**	**(54.8)**	(50.4)	(3.3)	(1.1)	(54.8)
Settlement/curtailment	**–**	**(0.7)**	**–**	**(0.7)**	–	–	–	–
Purchase of businesses	**–**	**10.9**	**–**	**10.9**	13.7	0.8	–	14.5
Currency	**–**	**5.8**	**0.2**	**6.0**	–	(7.0)	(1.0)	(8.0)
Other[1]	**–**	**15.3**	**–**	**15.3**	–	(5.3)	5.3	–
Present value of DBO at the end of the year	**1,034.6**	**136.9**	**12.6**	**1,184.1**	1,059.7	107.5	9.4	1,176.6

[1] 2007 amounts comprising DBO for two Swiss plans that were previously accounted for as defined contribution plans but whose nature has changed due to Swiss legislative declarations (2006 relates to the identification of US deferred compensation arrangements as non-post employment).

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

	2007				2006			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Equities	**583.1**	**28.1**	**–**	**611.2**	681.4	22.3	–	703.7
Bonds	**339.0**	**47.9**	**–**	**386.9**	285.9	24.3	–	310.2
Property	**32.3**	**5.1**	**–**	**37.4**	–	2.0	–	2.0
Other	**76.8**	**11.7**	**–**	**88.5**	32.6	7.5	–	40.1
Total	**1,031.2**	**92.8**	**–**	**1,124.0**	999.9	56.1	–	1,056.0

20. Employee benefits (continued)

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

	2007				2006			
	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
Fair value of assets at the beginning of the year	999.9	56.1	-	1,056.0	931.5	53.1	-	984.6
Expected return on assets	**66.5**	**3.1**	**–**	**69.6**	60.7	2.3	-	63.0
Actuarial (loss)/gain on assets	**(11.5)**	**0.2**	**–**	**(11.3)**	18.5	1.7	-	20.2
Actual company contributions:								
normal	**6.8**	**4.3**	**–**	**11.1**	8.3	3.7	-	12.0
additional	**15.6**	**–**	**–**	**15.6**	15.6	-	-	15.6
Employee contributions	**2.3**	**1.5**	**–**	**3.8**	2.0	0.7	-	2.7
Actual benefit payments	**(48.4)**	**(3.0)**	**–**	**(51.4)**	(50.4)	(1.1)	-	(51.5)
Settlements	**–**	**(0.4)**	**–**	**(0.4)**	-	-	-	-
Purchase/(sale) of businesses	**–**	**11.8**	**–**	**11.8**	13.7	-	-	13.7
Currency	**–**	**4.0**	**–**	**4.0**	-	(4.3)	-	(4.3)
Other[1]	**–**	**15.2**	**–**	**15.2**	-	-	-	-
Fair value of assets at the end of the year	**1,031.2**	**92.8**	**–**	**1,124.0**	999.9	56.1	-	1,056.0

[1] 2007 amounts comprising assets for two Swiss plans that were previously accounted for as defined contribution plans but whose nature has changed due to Swiss legislative declarations.

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

	2007				2006			
	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
Expected return on assets	**66.5**	**3.1**	**–**	**69.6**	60.7	2.3	-	63.0
Actuarial (loss)/gain on assets	**(11.5)**	**0.2**	**–**	**(11.3)**	18.5	1.7	-	20.2
Actual return on assets	**55.0**	**3.3**	**–**	**58.3**	79.2	4.0	-	83.2

i) Additional information

	UK £m	Overseas £m	Total £m
Expected employer contributions to defined benefit schemes for the year ending 31 December 2008:			
normal	6.2	4.2	10.4
additional	15.6	-	15.6
Expected employee contributions to defined benefit schemes for the year ending 31 December 2008	2.2	1.8	4.0
Expected benefits paid by the Company for the year ending 31 December 2008	-	4.2	4.2

j) Historical information

	2007 £m	2006 £m	2005 £m	2004 £m
Present value of the defined benefit obligation	**(1,184.1)**	(1,176.6)	(1,157.4)	(1,003.2)
Fair value of assets	**1,124.0**	1,056.0	984.6	860.8
Restriction due to asset ceiling	**(3.5)**	-	-	-
Deficit	**(63.6)**	(120.6)	(172.8)	(142.4)
Experience loss/(gain) arising on plan liabilities	**0.8**	10.3	3.0	(1.6)
Experience loss/(gain) arising on plan assets	**11.3**	(20.2)	(91.3)	(27.6)

k) Sensitivities

The balance sheet liability for the IMI Pension Fund 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 of Fund members, and to changes in the market value of the Fund's assets, in particular to equity market movements. This sensitivity is illustrated below.

Increase in defined benefit liability as at 31 December 2007	**£m**
Discount rate 0.1% pa lower*	15
Increase of one year in life expectancy from age 65*	30
10% fall in equity markets*	55

* in each case all other assumptions are unchanged.

21. Share-based payments

The Group operates the following share-based payment schemes:

SAYE savings-related share option scheme
This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in the business. SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

Executive Share Option Scheme
Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005 under the Executive Share Option (1995) Scheme which expired in May 2005.
All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in earnings per share above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapse within the periods shown below.

Long Term Incentive Plan (LTIP)
The LTIP awards were made in 2005 as part of the transition to new long term incentive arrangements introduced in 2005. The LTIP allows cash awards to executive directors and selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments can (or in the case of executive diectors, must) normally be invested in market purchases of the Company's ordinary shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded of one additional share for every four with no further performance conditions.

Performance Share Plan (PSP)
These are open to the executive directors and selected senior managers within the Group. 50% of these PSP shares vest subject to EPS growth, based on internal financial performance conditions. Hence, for purposes of IFRS2, the fair value of the shares does not include any performance related discount. The plan uses TSR (total shareholder return) as a performance condition for the other 50% of shares granted. As TSR is a market based performance condition, the accounting treatment differs from that for shares subject to internal performance conditions. This means that the TSR performance condition must be incorporated into the calculation of the fair value, that is, there is a TSR-related discount in calculating the fair value.

Deferred Bonus Plan (DBP)
Under the DBP, for executive directors and selected senior managers a proportion of earned annual bonus will be mandatorily deferred for three years and delivered in shares in the Company. Qualifying employees may also elect to voluntarily defer all or part of the remainder of their annual bonus. Additional shares, in the form of a matching award, may be earned (to a maximum of 100% or 125% for the Chief Executive of the deferred bonus at the entry share price level) if stretching performance conditions are met by the Company over the three year deferral period.

21. Share-based payments (continued)

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Analysis of options granted

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

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

The number and weighted average exercise prices of share options are as follows:

	Employee SAYE options			Executive options			LTIP	Performance Share Plan	Deferred Bonus Plan
	Number of options	Range of option prices	Weighted average option price	Number of options	Range of option prices	Weighted average option price	Number of shares	Number of shares	Number of shares
Outstanding at 1 January 2006	1,283,184	201-380p	276p	4,610,750	257-421p	320p	47,009	706,200	-
Exercisable at 1 January 2006	232,793	201-380p	262p	3,000	257p	257p	-	-	-
Granted	250,619	494.55p	494.55p	-	-	-	43,623	716,250	116,816
Exercised	281,876	201-380p	215p	1,489,846	257p	257p	-	-	-
Lapsed	177,467	201-494.55p	314p	25,000	257-421p	316p	-	12,500	-
Outstanding at 31 December 2006	1,074,460	201-494.55p	336p	3,095,904	257-421p	350p	90,632	1,409,950	116,816
Exercisable at 31 December 2006	7,764	201p	201p	2,622,904	257-358p	337p	-	-	-
Granted	**204,000**	**517.18p**	**517.18p**	**-**	**-**	**-**	**60,881**	**734,050**	**183,930**
Exercised	**175,688**	**201-517.18p**	**290p**	**1,573,373**	**257-362p**	**341p**	**-**	**-**	**-**
Lapsed	**98,797**	**201-517.18p**	**392p**	**233,349**	**257-421p**	**370p**	**16,974**	**141,000**	**11,061**
Outstanding at 31 December 2007	**1,003,975**	**201-517.18p**	**376p**	**1,289,182**	**257-421p**	**357p**	**134,539**	**2,003,000**	**289,685**
Exercisable at 31 December 2007	**9,358**	**201-289p**	**268p**	**898,192**	**257-358p**	**329p**	**-**	**-**	**-**

The weighted average share price at the date of exercise of share options exercised during the year was £5.74 (2006: £5.57).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes option pricing model. The assumptions used for grants in 2007 included a dividend yield of 3.7% (2006: 3.5%), expected share price volatility of 34% (2006: 34%), a weighted average expected life of 4.4 years (2006: 4.5 years) and a weighted average interest rate of 5.7% (2006: 4.2%). 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 year arising from share-based payments are as follows:

	2007	2006
	£m	£m
Equity settled share-based payment expense in employee cost in the income statement (including £1.4m (2006: £1.0m) in respect of directors)	**3.1**	2.9

22. Provisions for liabilities and charges

	Due inside one year	**Due outside one year**		
	Restructuring	**Trade warranties**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2007	6.2	19.0	15.3	34.3
Exchange adjustment	**0.2**	**0.4**	**–**	**0.4**
Acquisitions	**–**	**0.8**	**–**	**0.8**
Utilised during the year	**(21.5)**	**(6.2)**	**(2.1)**	**(8.3)**
Income statement	**22.0**	**6.8**	**–**	**6.8**
At 31 December 2007	**6.9**	**20.8**	**13.2**	**34.0**

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 relocate or reorganise operations and facilities and upgrade talent.

Trade warranties are given in the normal course of business and cover a range of periods, typically from 1-6 years.

Other provisions comprise mainly environmental provisions, recognising the Group's obligations 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 estimate of these costs.

23. Share capital and reserves

	Share capital £m	Share premium account £m	Hedging reserve £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total parent equity £m	Minority interest £m	Total equity £m
At 1 January 2006	89.6	149.4	(2.2)	7.9	1.6	171.3	417.6	3.5	421.1
Total recognised income and expense			1.9	(9.6)		72.7	65.0	2.5	67.5
Issued in the year	0.7	5.8					6.5		6.5
Dividends paid						(60.7)	(60.7)	(2.1)	(62.8)
Actuarial gains on defined benefit plans (net of tax)						23.3	23.3		23.3
Share based payments (net of tax)						3.4	3.4		3.4
Shares held in trust for employee share schemes						(7.2)	(7.2)		(7.2)
Acquisition of treasury shares						(35.2)	(35.2)		(35.2)
At 31 December 2006	90.3	155.2	(0.3)	(1.7)	1.6	167.6	412.7	3.9	416.6
Total recognised income and expense			**1.9**	**(1.0)**		**117.0**	**117.9**	**2.9**	**120.8**
Issued in the year	**0.6**	**8.1**					**8.7**		**8.7**
Dividends paid						**(63.9)**	**(63.9)**	**(2.4)**	**(66.3)**
Minority interest acquired (net)								**2.0**	**2.0**
Actuarial gains on defined benefit plans (net of tax)						**21.5**	**21.5**		**21.5**
Share based payments (net of tax)						**2.9**	**2.9**		**2.9**
Cancellation of treasury shares	**(6.3)**				**6.3**		**–**		**–**
Acquisition of treasury shares						**(93.3)**	**(93.3)**		**(93.3)**
At 31 December 2007	**84.6**	**163.3**	**1.6**	**(2.7)**	**7.9**	**151.8**	**406.5**	**6.4**	**412.9**

The aggregate amount of goodwill arising from relevant historical 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.

Share capital

	Number of ordinary shares of 25p each 2007 m	Number of ordinary shares of 25p each 2006 m	2007 £m	2006 £m
Authorised	**480.0**	480.0	**120.0**	120.0
Issued and fully paid:				
In issue at the start of the year	**361.0**	358.6	**90.3**	89.6
Issued to satisfy employee share schemes	**2.6**	2.4	**0.6**	0.7
Cancellation of treasury shares	**(25.3)**	-	**(6.3)**	-
In issue at the end of the year	**338.3**	361.0	**84.6**	90.3
Of which held within retained earnings	**17.2**	25.3		

During the year 2.6m shares were issued under employee share schemes realising £8.7m.

The Company made market purchases of a total of 17.2m (2006: 8.2m) of its own shares with an aggregate market value of £93.3m (2006: £42.4m, including £7.2m for employee share schemes) and a nominal value £4.3m (2006: £2.1m), including dealing costs of £0.5m (2006: £0.2m). Of the 17.2m (2006: 25.3m) shares held within retained earnings, 1.2m (2006: 1.2m) shares with an aggregate value of £7.2m (2006: £7.2m) 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.

	2007 £m	2006 £m
12.7p per qualifying ordinary share (2006: 11.7p)	**40.8**	39.5

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

	2007 £m	2006 £m
11.7p per qualifying ordinary share (2006: 10.85p)	**39.2**	37.0
7.5p per qualifying ordinary share (2006: 7.0p)	**24.7**	23.7
	63.9	60.7

Share options

The majority of UK employees may participate in the IMI SAYE Share Option (1994) Scheme and selected senior executives within the Group participate in the IMI Executive Share Option (1995) Scheme and the IMI Performance Share Plan. At 31 December 2007, options to purchase ordinary shares had been granted to and not exercised by participants of IMI share option schemes as follows:

	Date of grant	**Number of shares**	**Price**	**Date of exercise**
IMI SAYE Share Option (1994) Scheme	13.04.00	658	201p	01.07.07
	09.04.01	44,121	201p	01.07.08
	08.04.02	33,788	244p	01.08.07 or 01.08.09
	08.04.03	215,842	201p	01.08.08 or 01.08.10
	06.04.04	170,686	289p	01.08.07 or 01.08.09
	05.04.05	220,462	380p	01.08.08 or 01.08.10
	04.04.06	211,095	494.55p	01.08.09 or 01.08.11
	16.04.07	185,900	517.18p	01.08.10 or 01.08.12
IMI Executive Share Option (1995) Scheme	25.03.98	8,615	455.1p	25.03.01 to 25.03.08
	24.03.99	16,500	284.6p	24.03.02 to 24.03.09
	22.03.00	6,500	226.6p	22.03.03 to 22.03.10
	03.04.01	44,330	248.4p	03.04.04 to 03.04.11
	03.04.02	162,022	309.1p	03.04.05 to 03.04.12
	25.09.02	10,000	274.0p	25.09.05 to 25.09.12
	02.04.03	260,500	256.9p	02.04.06 to 02.04.13
	24.03.04	637,682	358.0p	24.03.07 to 24.03.14
	23.03.05	391,000	420.5p	23.03.08 to 23.03.15
IMI 2005 Long Term Incentive Plan (also known as IMI Performance Share Plan)	13.05.05	656,200	388.67p	13.05.08 to 13.05.15
	03.04.06	588,150	569.67p	03.04.09 to 03.04.16
	28.09.06	67,800	494.92p	28.09.09 to 28.09.16
	05.04.07	656,050	592.00p	05.04.10 to 05.04.17
	11.10.07	34,800	539.00p	11.10.10 to 11.10.17

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

24. Cash flow notes

a) Reconciliation of operating cash flow

	2007 £m	2006 £m
Cash generated from the operations	**205.5**	186.3
Sale of property, plant and equipment	**8.3**	7.7
Net purchase of investments	**(1.1)**	(2.5)
Acquisition of property, plant and equipment	**(49.9)**	(39.7)
Capitalised development expenditure	**(3.2)**	(4.4)
Operating cash flow	**159.6**	147.4

b) Reconciliation of cash and cash equivalents

	2007 £m	2006 £m
Cash and cash equivalents in current assets	**106.5**	107.2
Bank overdraft in current liabilities	**(29.1)**	(3.6)
Cash and cash equivalents	**77.4**	103.6

c) Reconciliation of net cash to movement in net borrowings

	2007 £m	2006 £m
Net decrease in cash and cash equivalents	**(29.0)**	(90.6)
Drawdown of borrowings	**(110.7)**	(7.4)
Cash outflow	**(139.7)**	(98.0)
Currency translation differences	**(13.0)**	28.2
Movement in net borrowings in the year	**(152.7)**	(69.8)
Net borrowings at the start of the year	**(80.4)**	(10.6)
Net borrowings at the end of the year	**(233.1)**	(80.4)

d) Analysis of net debt

		Borrowings and finance leases due		
	Cash and deposits £m	within 1 year £m	after more than 1 year £m	Total net debt £m
At 1 January 2007	107.2	(46.9)	(140.7)	(80.4)
Cash flow	**(3.5)**	**12.8**	**(149.0)**	**(139.7)**
Currency translation differences	**2.8**	**–**	**(15.8)**	**(13.0)**
At 31 December 2007	**106.5**	**(34.1)**	**(305.5)**	**(233.1)**

25. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007 Land and buildings £m	2007 Others £m	2006 Land and buildings £m	2006 Others £m
Within one year	**8.4**	**5.2**	8.7	3.9
In the second to fifth year	**25.3**	**10.5**	25.1	8.9
After five years	**19.2**	**0.1**	16.9	0.1
	52.9	**15.8**	50.7	12.9

Operating lease payments represent rentals payable by the Group primarily for certain of its office properties.

26. Commitments

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date amounted to £9m (2006: £5m).

27. Contingencies

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

The United States Department of Justice is investigating possible irregular payments associated with certain trading contracts entered into by IMI's Severe Service business which may be in breach of the law and the Company's policies and practices. The independent investigation into these matters is now largely complete and the Company continues to co-operate with the US Department of Justice. At this date, it is not possible to assess the level of any fines, defence or other costs arising from any action which may be taken in connection with the Severe Service investigation or the timing of any such action and accordingly no provision has been made for them in these accounts.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £56m (2006: £53m).

28. 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.

Certain short term quasi loan arrangements arose from time to time during the year in connection with transactions involving Martin Lamb, the aggregate amount of which did not at any time exceed £4,400, being less than the relevant statutory limits for small transactions of this nature as provided in Section 332 (1) of the Companies Act 1985 and, from 1 October 2007, Section 207 (1) of the Companies Act 2006.

Directors are considered to be the key management personnel. Detailed information concerning directors emoluments, shareholding, options and retirement benefits are shown in the Remuneration Report on pages 46 to 58 and note 21 of the financial statements on pages 95 and 96.

IMI company balance sheet

At 31 December 2007

	Note C1	2007 £m	2006 restated £m
Fixed assets			
Investments	C6	**631.2**	933.8
Current assets			
Debtors	C7	**14.4**	20.5
Cash at bank and in hand		**0.4**	5.0
		14.8	25.5
Creditors: amounts falling due within one year			
Borrowings	C8	**(7.0)**	(38.9)
Other creditors	C9	**(46.6)**	(36.3)
		(53.6)	(75.2)
Net current liabilities		**(38.8)**	(49.7)
Total assets less current liabilities		**592.4**	884.1
Creditors: amounts falling due after more than one year			
Borrowings	C8	**(76.5)**	(96.8)
Other creditors	C10	**–**	(496.4)
		(76.5)	(593.2)
Net assets		**515.9**	290.9
Capital and reserves	C11		
Called up share capital		**84.6**	90.3
Share premium account		**163.3**	155.2
Capital redemption reserve		**7.9**	1.6
Profit and loss account		**260.1**	43.8
Equity shareholders' funds		**515.9**	290.9

Approved by the Board of Directors on 5 March 2008 and signed on its behalf by:

Norman B M Askew Chairman

company reconciliation of movements in shareholders' funds

For the year ended 31 December 2007

	2007 £m	2006 restated £m
Equity shareholders' funds at the start of the year	290.9	427.8
Profit/(loss) for the year	**370.4**	(44.1)
Dividends paid	**(63.9)**	(60.7)
Share-based payments	**3.1**	3.8
Issue of ordinary shares net of costs	**8.7**	6.5
Purchase of own shares	**(93.3)**	(42.4)
Equity shareholders' funds at the end of the year	**515.9**	290.9

company notes to the financial statements

C1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements except as noted below:

Change in accounting policy – share-based payments

The Company has adopted UITF41 *'Scope of FRS 20'* and UITF44 *'Group and Treasury Share Transactions'* in these financial statements. When a parent grants share-based payments to employees of a subsidiary, UITF41 states that the parent receives services from employees indirectly through its subsidiary which should be accounted for as an increase in the investment in the subsidiary by the parent. In these financial statements the Company has therefore recognised an increase in the carrying amount of the investment in subsidiaries for grants of equity instruments subsequent to 7 November 2002 and a corresponding credit to equity. This has required the restatement of the comparative results, with a £3.6m increase in retained earnings. The increase in retained earnings (non-distributable) in 2007 was £4.4m. IMI plc recharges the full share-based payments charge in respect of each employee to the principal employing company. 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.

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 230 (4) of the Companies Act 1985.

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 entities which form part of the Group. Related party transactions with the Company's key management personnel are disclosed in note 28 to the Group financial statements. The Company has adopted the requirements of FRS29 *'Financial Instruments: Disclosures'* and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS7.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation included in the profit and loss account.

Investments

The Company's cost of investment in subsidiary undertakings is stated at the aggregate of (a) the cash consideration, (b) the nominal value of the shares issued as consideration when section 131 of the Companies Act 1985 applies and (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

C1. Significant accounting policies (continued)

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 and forward foreign currency contracts. These instruments are used for hedging purposes in line with the Group's risk management policy. Interest differentials are taken to net interest in the profit and loss account.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Equity and equity-related compensation benefits

The Company operates an Executive Share Option Scheme, a SAYE Share Option Scheme and a Performance Share Plan. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options are recharged to subsidiary undertakings. The total amount recharged over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest.

It recognises the impact of the revision of original estimates, if any, in the amount recharged to subsidiary undertakings.

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

Treasury shares

The consideration paid by the Company on the acquisition of treasury shares is charged directly to retained earnings in the year of purchase. If treasury shares are subsequently cancelled the nominal value of the cancelled shares is transferred from Share Capital to the capital redemption reserve.

Dividends or shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

C2. Remuneration of directors

The detailed information concerning directors' emoluments, shareholdings and options are shown in the Remuneration Report on pages 46 to 58.

All directors of the Company are also directors of the Group.

C3. Remuneration of auditors

The detailed information concerning auditors' remuneration is shown on page 76.

C4. Staff numbers and costs

With the exception of the directors, the number of people employed by the Company during the year was nil (2006: nil).

C5. Dividends

The aggregate amount of dividends comprises:

	2007 £m	2006 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**39.2**	37.0
Interim dividends paid in respect of the current year	**24.7**	23.7
Aggregate amount of dividends paid in the financial year	**63.9**	60.7

Dividends paid in the year of £63.9m represent 19.2p per share (2006: 17.85p).

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.

	2007 £m	2006 £m
12.7p per qualifying ordinary share (2006: 11.7p)	**40.8**	39.5

C6. Fixed assets – investments

	Subsidiary undertakings		
	Shares £m	**Loans £m**	**Total £m**
At 1 January 2007 at cost and net book value as restated	177.7	756.1	933.8
Repayments during the year	–	**(288.7)**	**(288.7)**
Impact of recharging share-based payments	–	**(6.3)**	**(6.3)**
Impairment in the year	**(7.6)**		**(7.6)**
Incorporation of IMI Group Limited	–		–
Sale of subsidiary undertakings to IMI Group Limited	**(170.1)**		**(170.1)**
Subscription of new shares in IMI Group Limited	**170.1**		**170.1**
At 31 December 2007 at cost and net book value	**170.1**	**461.1**	**631.2**

Details of subsidiary undertakings at 31 December 2007 are shown on pages 108 and 109.

During the year a new intermediate holding company, IMI Group Limited, was incorporated with an initial investment of £1,000 and IMI plc's previous investments in subsidiary undertakings were transferred to that company.

C7. Debtors

	2007 £m	2006 restated £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	**9.4**	0.6
Prepayments and accrued income	**0.2**	0.2
Corporation tax	–	14.2
Deferred tax	**1.3**	2.8
Other financial assets	**3.5**	2.7
	14.4	20.5

Deferrred tax relates principally to timing differences on employee benefits.

C8. Borrowings

The 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 19 in the Group financial statements.

	2007 £m	2006 £m
Due within one year:		
Unsecured UK loan notes 2007	–	13.1
Unsecured overdrafts	7.0	5.6
Unsecured Euro loans	–	20.2
	7.0	38.9
Due outside one year:		
Unsecured US loan notes 2009-2014	25.5	25.4
Unsecured US loan notes 2009	51.0	51.4
Unsecured Sterling loans	–	20.0
	76.5	96.8

Terms and debt repayment schedule

	2007 £m	2006 £m
Debt can be analysed as falling due:		
In one year or less, or on demand	7.0	38.9
Between one and two years	59.0	-
Between two and three years	–	59.5
Between three and four years	–	-
Between four and five years	–	20.0
In five years or more	17.5	17.3
	83.5	135.7

During the year, many of the Company's external borrowings were transferred to its new intermediate holding company, IMI Group Limited.

C9. Other creditors falling due within one year

	2007 £m	2006 £m
Amount owed to other subsidiary undertakings	39.6	-
Corporation tax	2.3	-
Other taxation	0.1	0.1
Other payables	0.4	0.7
Accruals and deferred income	4.2	1.6
European Commission fine	–	33.5
Other financial liabilities	–	0.4
	46.6	36.3

C10. Other creditors falling due after one year

	2007 £m	2006 £m
Amounts owed to other subsidiary undertakings	–	496.4

C11. Share capital and reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total parent equity £m
At 1 January 2006 as previously reported	89.6	149.4	1.6	187.2	427.8
Retained loss for the year as restated				(44.1)	(44.1)
Issued in the year	0.7	5.8			6.5
Dividends paid				(60.7)	(60.7)
Share-based payments as restated				3.8	3.8
Shares held in trust for employee share schemes				(7.2)	(7.2)
Acquisition of treasury shares				(35.2)	(35.2)
At 31 December 2006 as restated	90.3	155.2	1.6	43.8	290.9
Retained profit for the year				**370.4**	**370.4**
Issued in the year	**0.6**	**8.1**			**8.7**
Dividends paid				**(63.9)**	**(63.9)**
Share-based payments*				**3.1**	**3.1**
Acquisition/cancellation of treasury shares*	**(6.3)**		**6.3**	**(93.3)**	**(93.3)**
At 31 December 2007	**84.6**	**163.3**	**7.9**	**260.1**	**515.9**

Share capital

	2007 £m	2006 £m
Authorised		
480m (2006: 480m) ordinary shares of 25p each	**120.0**	120.0
Issued and fully paid		
338.3m (2006: 361.0m) ordinary shares of 25p each	**84.6**	90.3

During the year 2,644,431 shares were issued under employee share schemes realising £8.7m.

* Details of treasury and employee share scheme trust share movements are contained in note 21 and details of dividends paid and proposed in the year shown are in note 23 to the Group financial statements on page 98.

C12. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £47.5m (2006: £46.2m).

There is a right of set-off with four 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 27 to the Group financial statements.

IMI subsidiary undertakings

The following is a list of the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance which are excluded by virtue of sub-Section 231(5) of the Companies Act 1985. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.
The principal country in which each subsidiary operates is the country of incorporation.
The Company's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for those marked + in which case it is held directly by the Company.

Fluid Controls

Aero Dynamiek BV *Holland*
Asterm SAS *France*
CCI AG *Switzerland*
CCI KK *Japan*
CCI Ltd *Korea*
CCI Valve Technology AB *Sweden*
CCI Valve Technology GesmbH *Austria*
Commtech Ltd
Control Components Inc *USA*
Control Components India Pty Ltd *India*
Eley Ltd
Engineering Appliances Ltd (70%)
EVU Energi & VVS Utveckling AB *Sweden*
FAS AG *Switzerland*
FAS Medic SA *Switzerland*
FAS Sarl *France*
FAS Srl *Italy*
Flow Design Inc *USA*
Fluid Automatic Systems GmbH *Germany*
Fluid Automation Systems SA *Switzerland*
Fluid Automation Systems Technologies SA *Switzerland*
GT Development Corporation Inc *USA*
Herion Fluidtronik Corporation Ltd *China (55.5%)*
Herion Systemtechnik GmbH *Germany*
Hochdruck-Reduzietechnic GmbH *Germany*
IMI Components Ltd
IMI Indoor Climate Trading (Shanghai) Co Ltd *China*
IMI International Kft *Hungary*
IMI International sro *Czech Republic*
IMI International sp zoo *Poland*
IMI Norgren Buschjost GmbH & Co KG *Germany*
IMI Norgren Herion Pvt Ltd *India*
IMI Norgren Oy *Finland*
IMI Norgren Pneumatics (Shanghai) Co Ltd *China*
IMI Norgren SA *Spain*
IMI Norgren Terracco SA *Spain*
IMI Scott Ltd
IMI Tijuana Manufacturing de Mexico SA de CV *Mexico*
IMI Webber Ltd
Industrie Mecanique Pour Les Fluides SA *France*
Kloehn Inc *USA*
Newman Hattersley Ltd *Canada*
Norgren A/S *Denmark*
Norgren AB *Sweden*
Norgren AG *Switzerland*
Norgren AS *Norway*
Norgren Automotive GmbH *Germany*
Norgren Automotive Inc *USA*
Norgren BV *Holland*
Norgren Co Ltd *China*
Norgren Co Ltd *Thailand*
Norgren European Logistics Company Ltd
Norgren GesmbH *Austria*
Norgren GmbH *Germany*
Norgren Inc *USA*
Norgren Ltd
Norgren Ltd *Hong Kong*
Norgren Ltd *New Zealand*
Norgren Ltda *Brazil*
Norgren Manufacturing de Mexico SA de CV *Mexico*
Norgren NV *Belgium*
Norgren Pte Ltd *Singapore*
Norgren Pty Ltd *Australia*
Norgren SAS *France*
Norgren Sdn Bhd *Malaysia*
Norgren SpA *Italy*
Norgren Sweden AB *Sweden*
Norgren Taiwan Co Ltd *Taiwan*
Orton srl *Italy*
Pneumatex & CIE NV *Belgium (70%)*
Pneumatex AG *Switzerland (70%)*
Pneumatex BV *Netherlands (70%)*
Pneumatex GmbH *Germany (70%)*
Pneumatex SA *Luxembourg (70%)*
Pneumatex SA *France (70%)*
Pneumatex sp zoo *Poland (70%)*
Shanghai CCI Power Station Equipment Co Ltd *China (70%)*
Stainless Steel Fasteners Ltd
STI srl *Italy*
Syron Engineering & Manufacturing LLC *USA*
TA Regulator d.o.o. *Slovenia*
Theodor Heimeier Metallwerk GmbH *Germany*
Thompson Valves Ltd
Tour & Andersson A/S *Denmark*
Tour & Andersson AB *Sweden*
Tour & Andersson AS *Norway*
Tour & Andersson BV *Holland*
Tour & Andersson GesmbH *Austria*
Tour & Andersson Hydronics sp zoo *Poland*
Tour & Andersson Ltd
Tour & Andersson Ltda *Brazil*
Tour & Andersson NV/SA *Belgium*
Tour & Andersson Oy *Finland*
Tour & Andersson Pte Ltd *Singapore*
Tour & Andersson SA *France*
Tour & Andersson SA *Spain*
Truflo Marine Ltd
Truflo Rona S.A. *Belgium*

Retail Dispense

3Wire Group Inc *USA*
Artform International Inc *USA*
Artform International Ltd
Cannon Equipment Co *USA*
DCI Marketing Europe Ltd
DCI Marketing Inc *USA*
DCI Marketing Europe GmbH *Germany*
Display Technologies LLC *USA (80.1%)*
Display Technology (Europe) Ltd *(80.1%)*
IIMI 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 Equipco Inc *USA*
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*
IMI MCR Inc *USA*
Infrastructure Inc *USA*

Corporate

+ IMI Group Ltd
IMI Kynoch Ltd
IMI Overseas Investments Ltd
IMI Property Investments Ltd
IMI Vision Ltd

Geographic distribution of employees

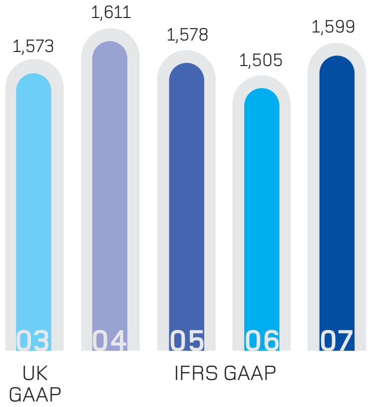
The following table shows the geographic distribution of employees at 31 December 2007 and is not required to be audited.

United Kingdom	2,721
Continental Europe	6,044
Americas	4,635
Asia Pacific	1,128
Others	169
Total	14,697

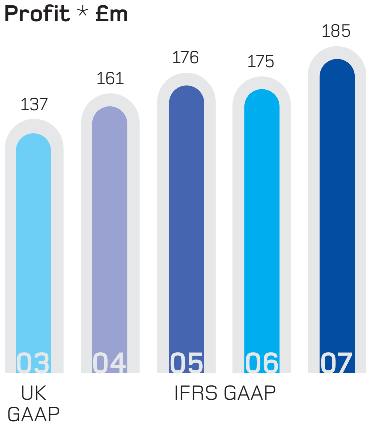
IMI's policies relating to employee involvement and development are set out in the Directors' Report on pages 37 and 38. Policies relating to health, safety and the environment are described on pages 29 to 33.

IMI five year summary

Revenue £m

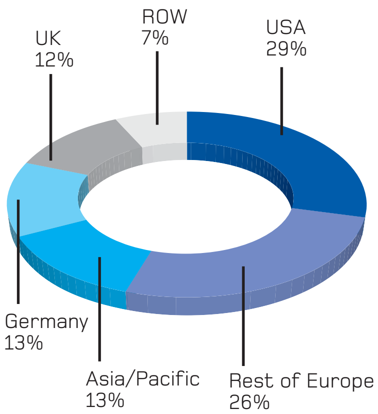


Profit * £m



* Profit before tax, exceptional items, goodwill and intangible amortisation.

2007 Revenue by geographical destination



	UK GAAP	IFRS GAAP			
	2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**
Income statement					
Revenue	1,573	1,611	1,578	1,505	**1,599**
Profit before tax, exceptional items, goodwill and intangible amortisation	137	161	176	175	**185**
Goodwill and intangible amortisation	(20)	(6)	(6)	(17)	**(14)**
Profit before taxation and exceptional items	117	155	170	158	**171**

Group revenue by destination

	UK GAAP	IFRS GAAP			
	2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**
UK	428	447	351	173	**188**
Germany	186	194	196	194	**209**
Rest of Europe	348	368	358	376	**423**
USA	447	431	466	490	**460**
Asia/Pacific	91	107	115	183	**202**
Rest of World	73	64	92	89	**117**
	1,573	1,611	1,578	1,505	**1,599**

Earnings and dividends	UK GAAP 2003	IFRS GAAP 2004	2005	2006	**2007**
Adjusted earnings per share (pre-restructuring)	26.8p			38.3p	**42.5p**
Adjusted earnings per share (post-restructuring)	25.7p	29.5p	33.4p		
Earnings per share	20.1p	19.1p	3.9p	21.4p	**35.4p**
Ordinary dividend per share	15.5p	16.5p	17.5p	18.7p	**20.2p**

Balance sheet	2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**
Net operating assets including intangible assets	758	698	578	690	**771**
Other non-operating liabilities (excluding borrowings)	(79)	(67)	(146)	(193)	**(125)**
Net borrowings	(136)	(76)	(11)	(80)	**(233)**
Net assets	543	555	421	417	**413**

Statistics	2003	2004	2005	2006	**2007**
Profit* as a percentage of revenues	8.7%	10.0%	11.2%	11.6%	**11.6%**
Profit* as a percentage of net assets	25.2%	29.0%	41.8%	42.0%	**44.8%**
Net assets per share	153.7p	156.4p	117.4p	115.5p	**122.1p**
Net borrowings as a percentage of shareholders' funds	25.3%	13.7%	2.5%	19.5%	**57.3%**
Net debt: EBITDA	0.6	0.3	-	0.4	**1.1**
Interest cover*	14	18	22	23	**14**

* before tax, exceptional items and goodwill/intangible amortisation.

IMI shareholder information

Announcement of trading results

The trading results for the Group for the first half of 2008 will be announced on 28 August 2008.

The trading results for the full year ending 31 December 2008 will be announced in March 2009.

Interim management statements will be issued at the AGM on 8 May 2009 and in early November 2009.

Trading updates are also issued around the mid-year and in December.

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 2007 was 393.75p (2006: 507.0p).

The market value of the Company's Ordinary Shares on 31 March 1982, as calculated for capital gains tax purposes, was 53.5p per share.

The Company's SEAQ number is 51443.

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings, please contact the Company's Registrar:

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Telephone 0871 384 2916.

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

Corporate Individual Savings Accounts (ISAs)

By arrangement with Equiniti Financial Services Limited, an IMI single company ISA is now being operated. A brochure, application form and further information can be obtained by contacting the Equiniti ISA helpline on 0871 384 2244.

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

Share Dealing Service

Managed by JPMorgan Cazenove, the Company's stockbrokers, the IMI plc Share Dealing Service provides shareholders with a simple way of buying and selling IMI ordinary shares. Full written details can be obtained from the Secretary's Department, IMI plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ (telephone: 0121 717 3700).

Ordinary shareholders

Range:	Number of Holdings	%	Balance as at 31 December 2007	%
1-500 shares	5,858	30.72	1,643,123	0.51
501-1,000 shares	5,293	27.76	3,897,400	1.21
1,001-10,000 shares	7,177	37.64	16,934,709	5.25
10,001-100,000 shares	442	2.32	14,266,152	4.43
100,001-Highest	298	1.56	285,627,844	88.60
Total	19,068	100.00	322,369,228	100.00

IMI

general information

Headquarters and registered office
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham
B37 7XZ
Telephone: 0121 717 3700

Website address
www.imiplc.com

Secretary
John O'Shea

Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0871 384 2916.

Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Allen & Overy LLP
One Bishops Square
London
E1 6AO

Stockbrokers

JPMorgan Cazenove
20 Moorgate
London
EC2R 6DA

Citigroup
33 Canada Square
Canary Wharf
London
E14 5LB

Auditor
KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

IMI plc is registered in England
No.714275

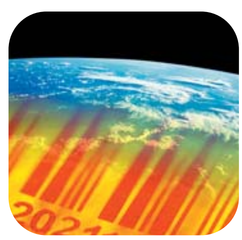
IMI delivers value around the world by helping to...

control critical processes . . .

create competitive advantage in motion and fluid control . . .

perfect indoor climate . . .

pioneer beverage dispense solutions . . .



and drive impulse purchase.

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
FSC www.fsc.org Cert no. SGS-COC-003148
© 1996 Forest Stewardship Council

This report contains material from responsibly managed and sustainable commercial forests, certified in accordance with the FSC (Forest Stewardship Council), is manufactured under the strict environmental management conditions demanded by international 140001, EMAS (Eco-Management and Audit Scheme) and the IPPC (Integrated Pollution Prevention and Control) standards and is made from totally recyclable, biodegradable and acid-free material.
All printed, bound and mailed at one location.

Designed and produced by Design Principles CV35 0HP. Printed by Goodman Baylis WR5 2JH
Photography by Studio Plus and Robert Edwards (Australia)

IMI plc
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham B37 7XZ
United Kingdom

www.imiplc.com