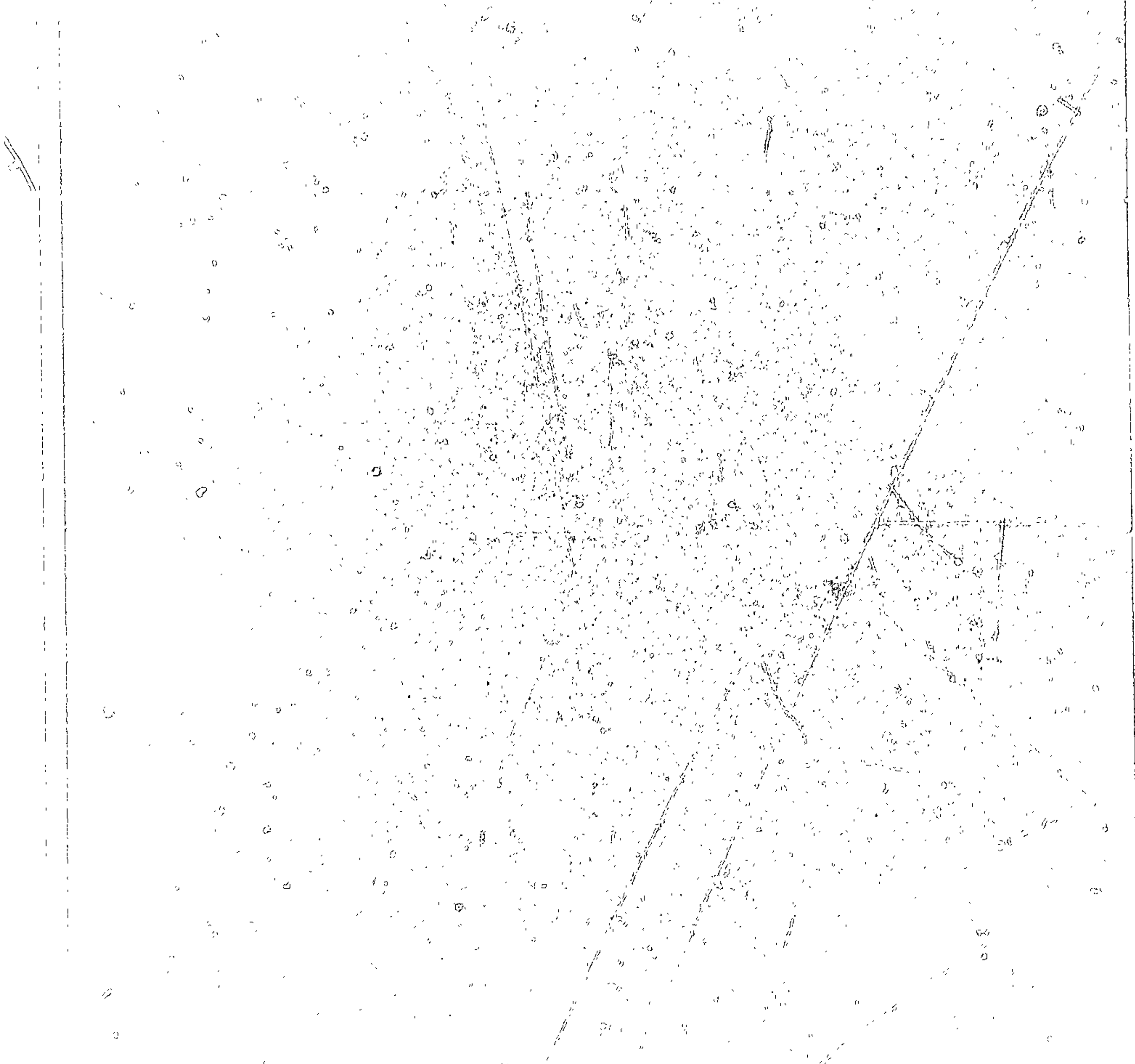
IMI plc Annual Report 1987



IMI

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Results in brief

714275

	£ million 1987	£ million 1986
Sales to external customers	860.8	780.3
Profit before taxation	92.3	73.3
Profit after taxation	61.9	52.7
Earnings per share excluding extraordinary items	19.2p	17.1p
Dividend per share	7.0p	6.0p
Net tangible assets per share	99.7p	90.2p

The audited accounts are on pages 20-37

IMI is a major international group and one of Britain's foremost industrial companies, developing and manufacturing a wide range of advanced materials and high technology products. It has major plants in the UK, North and South America, Continental Europe and Australia.

IMI's companies operate in five main areas: building products, drinks dispense, fluid control, special engineering and refined and wrought metals. Executive Directors' responsibilities to the Board for the principal subsidiary companies are shown on pages 6 to 15. The chief executives of these subsidiaries are guided by local Boards or their equivalent; they are responsible for manufacture, sales and financial control in accordance with an agreed budget, and, with some constraints, for purchasing, personnel policies and research and development.
Overall performance of the Group is monitored through regular meetings of the Executive Directors when proposals on policy, strategy and resource allocation are also formulated for consideration by the Board as a whole.

There are two Committees of the Board consisting of the Non-Executive Directors: a Salaries and Appointments Committee determines the remuneration of Executive Directors and an Audit Committee, established in 1977, considers with the auditors matters relating to accounts.

Non-Executive Directors

Sir Robert Clark DSC
Chairman

Age 64; joined the Board in 1971; appointed Chairman in 1981. Other directorships include TSB Group, Hill Samuel Group, Alfred McAlpine, Beecham Group, Marley, The Shell Transport and Trading Co. and The Rover Group.

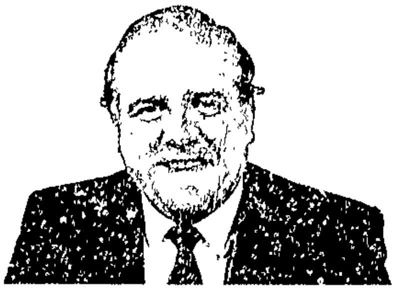
D V Atterton CBE PhD

Age 61; joined the Board in 1976. Other directorships include the Bank of England, Barclays Bank, British Coal, Investors in Industry Group, Marks & Spencer and The Rank Organisation.

D W Livingstone CBE

Age 62; joined the Board in 1978. Deputy Chairman of Albright & Wilson until 31 December 1986.

Executive Directors

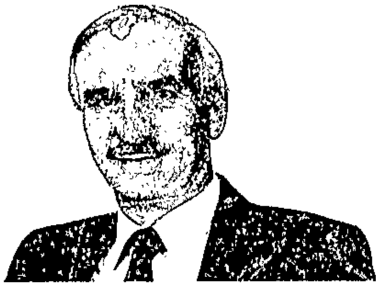


G J Allen
Managing Director

Age 43; joined IMI in 1965; appointed to the Board in 1978, and as Managing Director in 1986. Chairman of the Executive Directors' meetings. Directly responsible for IMI Group Inc. (USA) and for company planning, research and development, and the company secretarial, legal and public relations functions.

R Amos

Age 53; joined IMI in 1959; appointed to the Board in 1974. Responsible for Drinks Dispense; and also, in Special Engineering for Marston Palmer, IMI Air Conditioning, Eley, IMI Components and IMI Computing.



D V Ayres

Age 60; joined IMI in 1954; appointed to the Board in 1977. Responsible, in Special Engineering, for IMI Radiators, IMI Yorkshire Alloys and Royal Ordnance Summerfield; and, in Refined and Wrought Metals, for IMI Refiners, IMI Wolverhampton Metal and IMI Rolled Metals.

P Fisken

Age 55; joined IMI in 1956; appointed to the Board in 1986. Responsible for Building Products, IMI Titanium and the personnel function.

T A J Lamb PhD

Age 58; joined IMI in 1956; appointed to the Board in 1974. Responsible for Fluid Control.

G L Taylor

Age 55; joined IMI in 1968; appointed to the Board in 1987. Finance Director and also responsible for Holford Estates and the interest in the Opti Group.

I am pleased to report that IMI in 1987 continued to sustain its excellent progress of the past few years and once again established new records for profits, earnings per share and dividends. The basis of this performance has been the wholehearted and considerable efforts of employees at every level and I wish to thank them for their contribution to the Company's results.

Profits

Profits increased by 26 per cent to £92.3m before tax. After tax earnings of £61.9m were 17.5 per cent higher and earnings per share at 19.2p, 12.3 per cent higher. These after-tax figures reflected a substantial increase in the tax charge from 23 per cent to 33 per cent.

The figures for 1987 include twelve months from companies acquired during 1986 whereas 1986 included only the profits from the date of acquisition. The net effect of this and of the acquisition of businesses and disposals during 1987 has been to increase profits by £3.4m.

Sales value increased by £80m (10 per cent) over 1986. £38m arose from the net effect of acquisitions and disposals and £23m from higher average copper prices. A reduction in sales due to the change in the US$ exchange rate was largely offset by opposite movements in European currencies and the net overall reduction in sales due to exchange rates was less than £3m. Total Group sales overseas increased by 5 per cent. Sales volumes both in the UK and overseas were higher.

Balance sheet

Our balance sheet remains very strong with Shareholders Funds increasing by £30m to £319m and the gearing ratio improving for the third year running, this time reducing from 19 per cent to 7.9 per cent. The effect of exchange rates and cash inflow from disposals made a contribution to this reduction but a significant amount resulted from internal cash generation despite again increasing capital expenditure by £7m to £39.6m.

Operating results

We report on 1987 performance on pages 6 to 15. In short our Building Products business had another excellent year with copper tube, fittings and the water heating activities all enjoying good demand and benefiting from recent expenditure to improve productivity. Further gains will be made in this respect when our £7m investment at the tube plant in Kirkby is completed later on this year. In Special Engineering most of our activities achieved increased profits. This was particularly the case for the heat exchange companies. As announced in September, we have sold all our South African interests which comprised vehicle radiators and number plates. In Refined and Wrought Metals, IMI Titanium, after a difficult first half, ended the year strongly with excellent sales and a good profit recovery. However, as the result of increasing pressures on price, profits for the year were lower than the very high levels achieved in the last two years. The copper refinery and our rolled metals activity had a much better year, despite problems in the copper market in the second half. In Drinks Dispense we achieved good profits growth after two somewhat level years. Particularly encouraging was the performance of our operations in Brazil, Germany, Spain and the UK, emphasising the truly international nature of this business area. The broadly based strength of IMI also showed in the performance of our Fluid Control Group (now incorporating the Fluid Power and Special Purpose Valve activities) – the significant improvement in results contributed substantially to IMI's overall achievement. This is now the most rapidly developing area of our business, providing opportunities for profitable expansion in such fields as instrumentation and low cost automation. I am particularly pleased that the management has more than delivered the expected rationalisation benefits following the acquisition of Martonair; and there are more to come.

The future

Your Board continues to be optimistic for the future. The breadth of our product portfolio combined with the strength of our Balance Sheet means we are well placed to develop both from within and by acquisition. As with all other companies, the Stock Market crash in October caused us to re-examine our plans for capital spending in both our existing businesses and for acquisitions. In my view IMI's future success depends upon continuing our programmes of investment in the best available plant for our factories and of extending IMI's areas of interest into sectors offering sustained growth for the longer term. We are not, therefore, reducing our plans for capital spending, which in the current year will amount to around £50m, and we continue to search widely for new companies which will complement and enhance IMI's activities.

One further comment about the Stock Market crash – I contest the view expressed in some quarters that IMI's exposure to the US market is a weakness. In our case, our two principal US businesses, drinks dispense and fluid control, are less likely than many others to suffer significantly from any slowdown in the US economy. In addition our US assets are covered by dollar borrowings and we export more out of the US than we sell into it. The US is and will remain the world's major economy and we believe that despite any short term difficulties we should have a larger presence in that market.

It is pleasing to see also that some of our own 'greenfield' projects such as IMI Computing and the Holford development are now in a position to make a worthwhile contribution to Group results. In this connection we were particularly pleased to welcome the Prime Minister to the Witton headquarters in May last year, at which time she took the opportunity to see the contribution which the Holford development is making to the regeneration of an inner city area.

The Board

As I reported last year Bill Brittain retired at the end of last June and was succeeded as Finance Director by Gordon Taylor. David Livingstone is to retire at the forthcoming Annual General Meeting after serving as a non-executive director for nine years. We will very much miss the advice and support which he has given us in that time and we would like to wish him a long and happy retirement.

I announced earlier this year that I intended to retire from the Board at the AGM one year from now. I am very pleased that Sir Eric Pountain has agreed to join the Board with the intention of succeeding me as Chairman at that time. He will bring great experience to help and support a strong executive team.

Robert Clark

Chairman
21 March 1988

IMI Managing Director Gary Allen with Prime Minister Mrs Margaret Thatcher on her visit to IMI in May 1987.

P Fisken [illegible]

IMI YORKSHIRE COPPER TUBE LIMITED
J Tamberlin *Managing Director*

IMI YORKSHIRE FITTINGS LIMITED
P C Roberts *Managing Director*

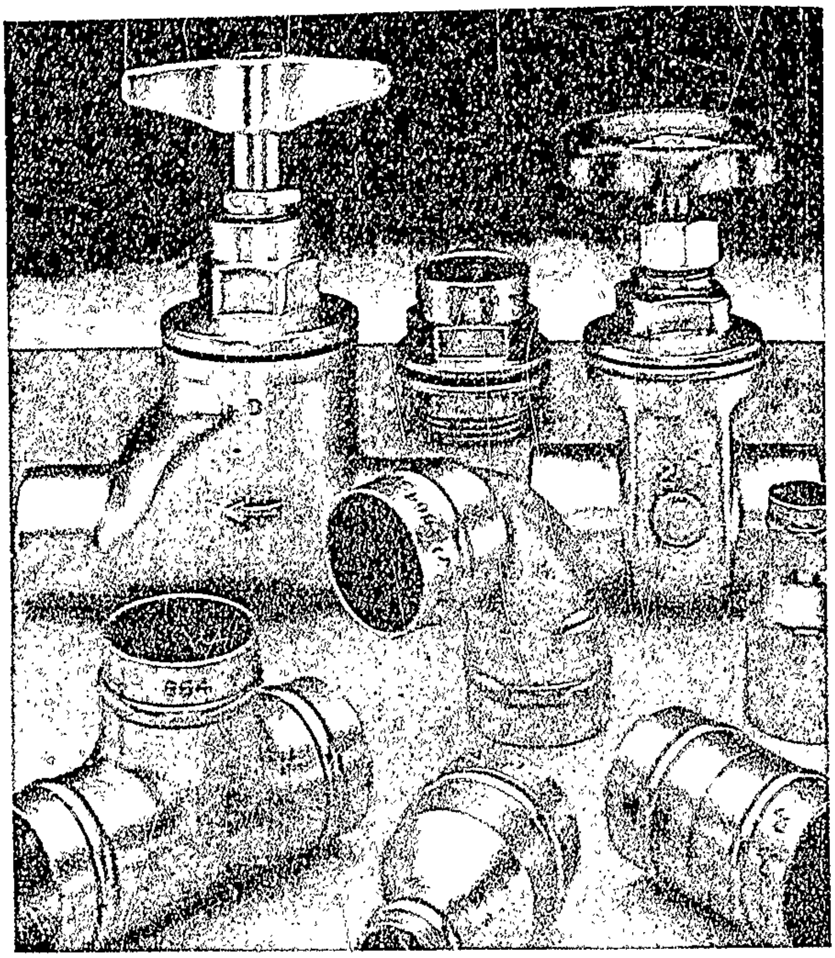
YORKSHIRE FITTINGS PTY LIMITED *(Australia)*
R A Solness *Managing Director*

IMI WATERHEATING LIMITED
P Croft *Managing Director*

IMI RANGE LIMITED
A V Parker *Managing Director*

IMI PACIFIC SA *(France)*
P Eck *Directeur-Général*

[illegible] 1988



The previous year's high level of demand in home improvement and construction was maintained and resulted in a further increase in profits from our Building Products Group. A good heating season starting in October has carried through into the current year.

Our Yorkshire Copper Tube business was a major beneficiary of these conditions. Work on its modernisation scheme progressed on schedule. This will make a useful contribution to performance in the second half of 1988 and will improve our international competitiveness. Our position in the Irish market was strengthened by purchase of the goodwill of Irish Metal Industries.

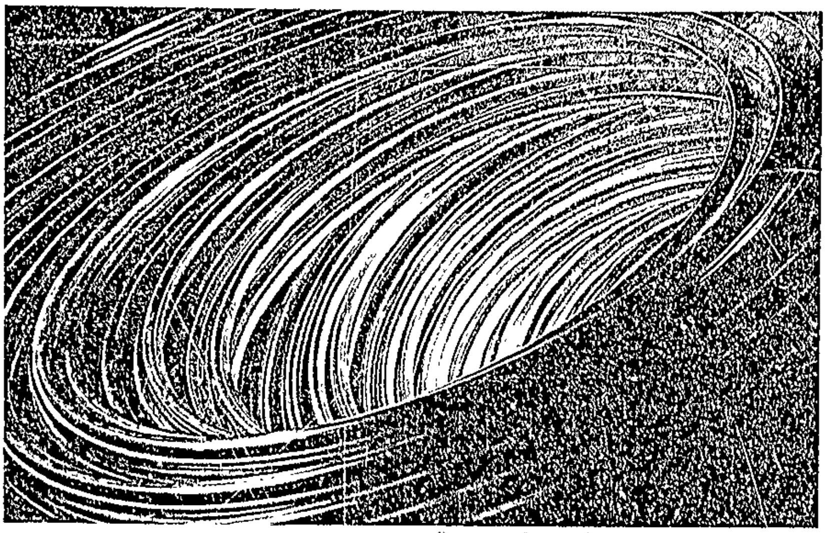
Yorkshire Fittings had another good year with a substantial increase in sales volume and market share. Excellent progress was made with sales of the new lead-free fittings range and continued growth for this product is expected. Plans for capital expenditure to increase capacity were both extended and advanced. The Australian fittings business performed at the same level as the previous year and there were more optimistic signs by the year end in the house building market after a fall in Australian interest rates.

Following last year's rationalisation of our plastic pipe activities we made considerable progress in improving the results of IMI Yorkshire Imperial Plastics. Nevertheless there remained a clear need for further market restructuring and subsequent to the year-end we have sold for £13.5m the business to Oy Uponor, an international plastics company headquartered in Finland.

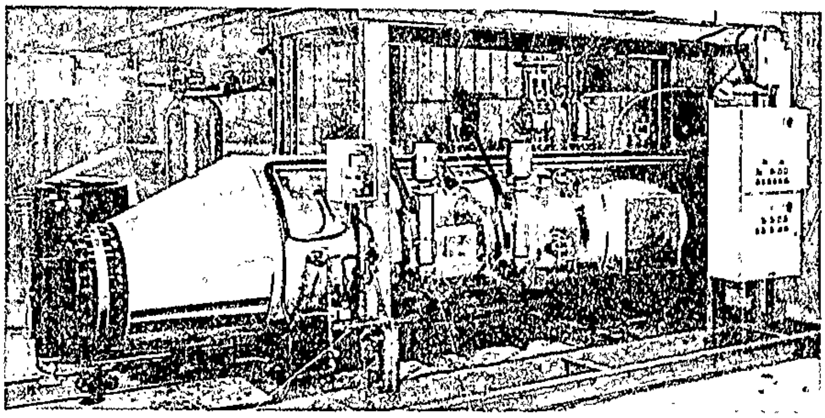
The Broderick roofing activity had a disappointing year in which slightly higher sales were not matched by an improved profit and the launching cost of new products depressed results.

Our Waterheating activities did not show as much advance as that registered in the previous year. At IMI Range the traditional cylinder activity showed some signs of levelling out but new higher value products such as Harmony 7 cylinders, Tribune unvented units and Showermax high pressure systems produced encouraging results and will contribute significantly in the future. IMI [illegible] and IMI Santon were adversely affected by lower exports but a Saudi Arabian contract awarded to Rycroft late in the year will make its contribution in the current first half. Results at IMI Pacific remained unsatisfactory with depressed prices in a highly competitive French market absorbing the benefits of increased operating efficiency.

The IMI Pactrol business continued to develop and expand. The company is now the main supplier of electronic ignition systems to the principal UK boiler manufacturers and its range of products is being widened to cater for domestic programmers, air conditioning controls and flow sensing systems. Profits at IMI Scott improved further as a result of plant modernisation and an extension of the product range.

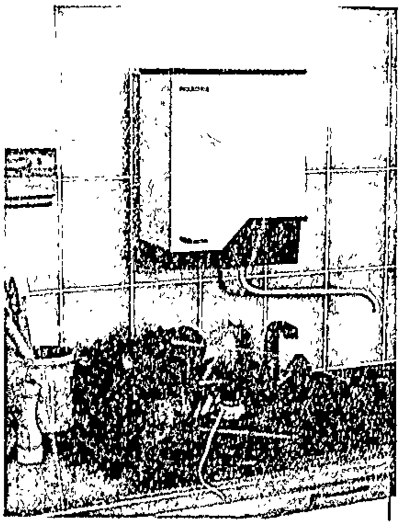


Copper tube produced at the Kirkby works of IMI Yorkshire Copper Tube



A fully packaged steam generator produced by IMI Rycroft

[illegible] latest [illegible] heater.



Turnover	£m
1983	159
1984	171
1985	176
1986	186
1987	205

Profit	£m
1983	9.8
1984	9.1
1985	9.8
1986	15.3
1987	20.8

Drinks dispense

R Amos *IMI Director*

IMI CORNELIUS GROUP LIMITED
T J Gillard *Director*

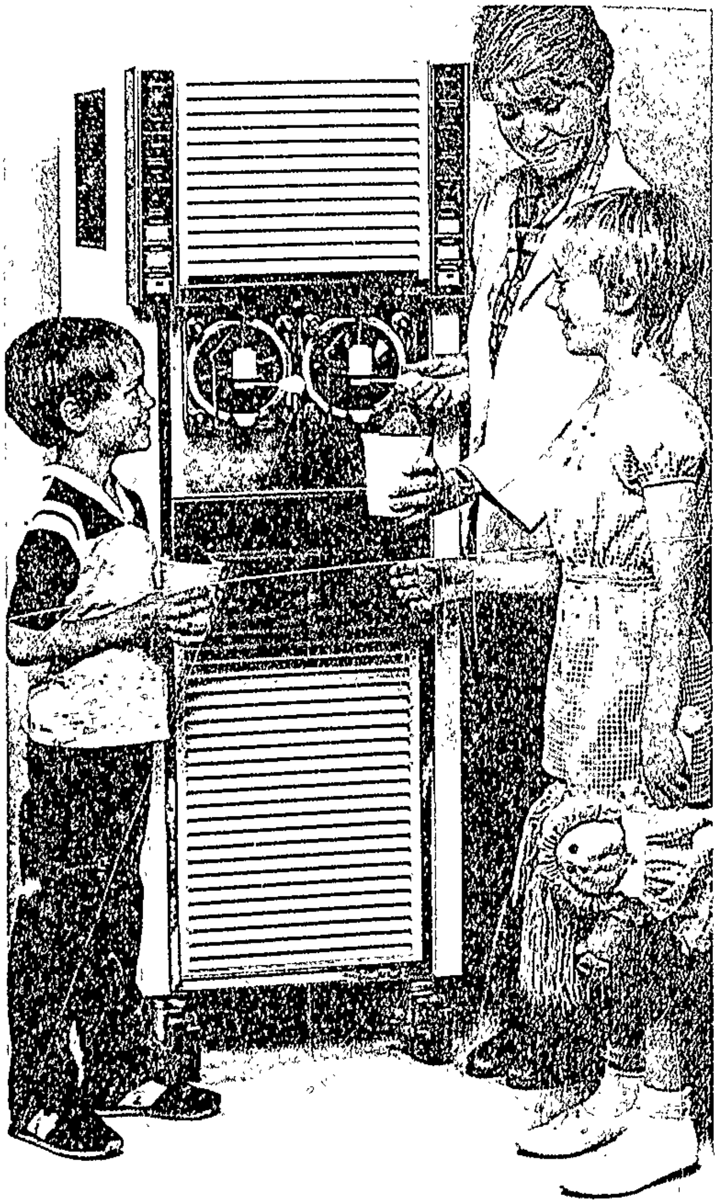
IMI CORNELIUS AMERICAS INC. *(USA)*
M S Hall *President*

IMI CORNELIUS EUROPE *(German Federal Republic)*
G A Maddox *Geschäftsführer*

IMI CORNELIUS (UK) LIMITED
R S Johnson *Managing Director*

CANNON EQUIPMENT CO. *(USA)*
D W Morgan *Chairman*

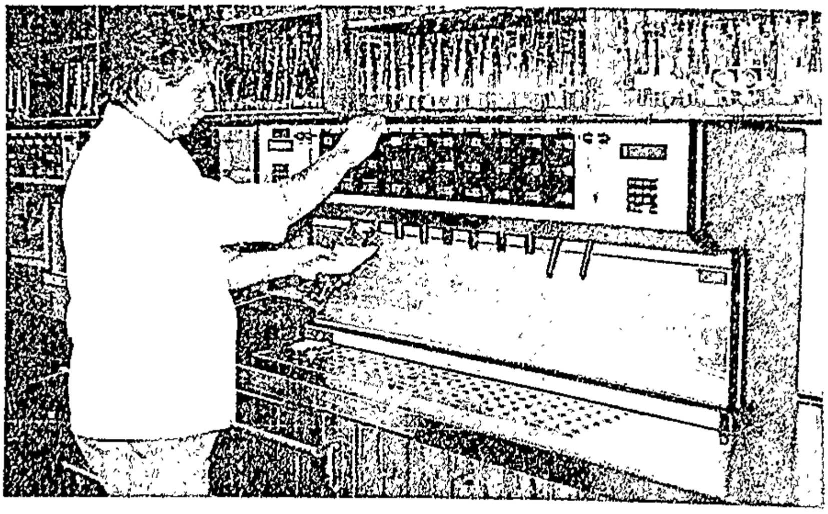
As at March 1988



Our worldwide Drinks Dispense activity had a successful year with higher sales and an improved profit performance.

In USA market conditions were still unsettled by the continuing rationalisation of Coke and Pepsi bottler operations; nevertheless modest volume growth was achieved with sales of ice-cooled post-mix units and combination ice/drink dispensers particularly strong. Further increases were made with the new range of Genius ice-cubers and sales of

[illegible] range (FCB) [illegible] US [illegible] growing [illegible] South-east Asia and [illegible]



[illegible] computer [illegible] 960 [illegible] products for [illegible] control [illegible] individual [illegible] with food [illegible]

FCB's grew considerably in the earlier part of the year.

Cannon Equipment had another successful year with sales of its custom designed distribution carts and point of sale products showing continuing growth. Following the extension of its operations on the West Coast of the US last year, we are now seeking to extend our operations to the East Coast to provide a more effective national coverage.

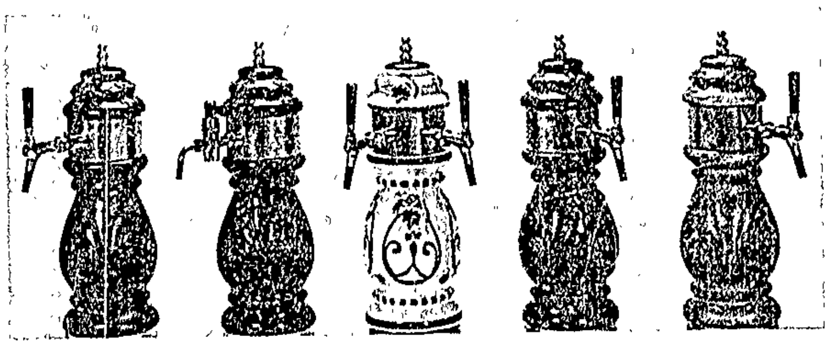
Exports from the US were considerably higher than the previous year with significant increases in Taiwan, Philippines, Colombia and Venezuela. Progress was also made in China where we supplied all the drinks dispense equipment for the world's largest fast food restaurant opened in Beijing by Kentucky Fried Chicken.

Following the mutually agreed termination of our joint selling company with Sanyo in the Far East, a new wholly-owned operating company has been established in Hong Kong to provide more extensive and flexible support to this important and growing market.

Our Canadian activity had a disappointing year but our operation in Brazil produced another excellent performance with sales in the home market buoyant and exports to Argentina and Chile also well up.

After an excellent year in 1986 our activities in Continental Europe produced further substantial profits growth. Production facilities in West Germany and Spain were fully stretched and additional manufacturing space was installed in Spain to meet the very strong demand in that market. Austria, Benelux and France were also good markets for both beer and soft drinks equipment. Exports from Germany were affected to some extent by the strong Deutschmark but we were able to counter this by switching customer requirements to our UK and US operations.

Demand in the UK market was good, particularly in the soft drinks equipment sector. Sales of beer coolers and bottle coolers were also well up on the previous year, whilst beer dispense equipment remained steady. The Coldflow business acquired at the end of 1986 was fully and successfully integrated and in part accounted for the substantial increase in the volume of activity.



Traditional craftsmanship is combined with modern technology in the production of ceramic beer columns by Cornelius Apparate in West Germany.

Cornelius supplied all the drinks dispense equipment for the Kentucky Fried Chicken restaurant in Beijing – the first western fast food unit to be established in China and the largest KFC outlet in the world

Turnover	£m
1983	98
1984	118
1985	130
1986	134
1987	151

Profit	£m
1983	11.0
1984	14.1
1985	13.5
1986	13.8
1987	17.2

Special engineering (and other activities)

D V Ayres *IMI Director*

IMI RADIATORS LIMITED
D F Allison *Managing Director*

IMI YORKSHIRE ALLOYS LIMITED
F J Benton *Managing Director*

ROYAL ORDNANCE SUMMERFIELD
H M Darwell *Managing Director*

R Amos *IMI Director*

MARSTON PALMER LIMITED
G Morris *Managing Director*

IMI AIR CONDITIONING LIMITED
R J Holden *Managing Director*

ELEY LIMITED
E Lewis *Managing Director*

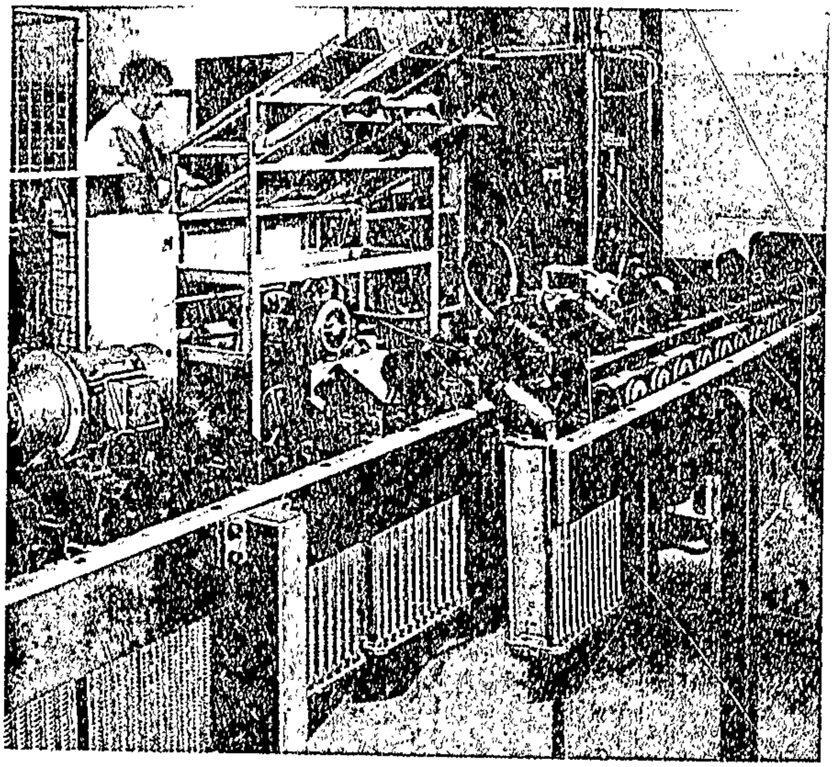
IMI COMPONENTS LIMITED
K R Collie *Managing Director*

IMI COMPUTING LIMITED
D A Williamson *Managing Director*

G L Taylor *IMI Director*

HOLFORD ESTATES LIMITED
B K Jones *Managing Director*

As at March 1988



IMI Yorkshire Alloys did well to maintain its performance at the level of the last two years. The energy/offshore industries remained flat but we won orders for UK Naval programmes.

Our heat exchange activities, which we have now grouped into this area, all reported improved profits. At IMI Radiators the task of absorbing work from the Bolton factory into Leeds caused more disruption than expected, but the aluminium activity at Baildon showed further improvement. Continued penetration of overseas markets has resulted in almost 50 per cent of production now being dedicated to exports, in recognition of which the company received a Queen's Award. We sold our South African operations during the year but IMI Radiators will continue to benefit for a further three years from a technology agreement with Silverton Engineering.

Our Air Conditioning activity had a very good year and we successfully integrated the activities of Marstair and Calder under the new company IMI Air Conditioning. The introduction of an improved range of room air conditioners was favourably received in the market.

Marston Palmer also achieved good profit growth. Aircraft Heat Exchangers received long term contracts from a number of major American aerospace companies, whilst in Hydraulic Components good progress was made with new product introductions. Engine Rings, after a slow start, ended the year with a high workload. Industrial Heat Exchangers added high pressure vacuum brazed liquefiers to its range of products which has put the company at the forefront of technology in this specialised market.

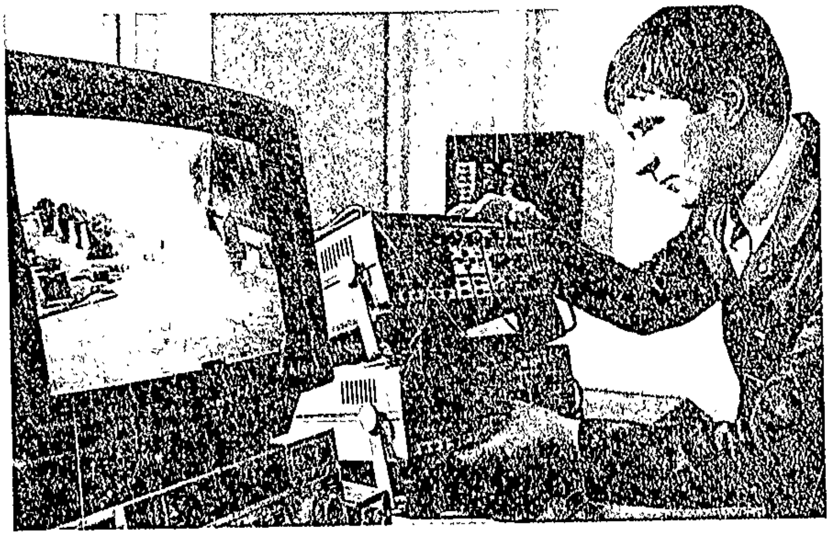
The Eley ammunition business had a difficult year with a reduction in the overall level of demand, particularly from export markets. Competition remained intense and margins were affected by sharply increased lead prices. A rationalisation and reorganisation plan involving some job losses and a slimming down of the product range was implemented at the end of the year and we expect significant improvement in 1988. Further contracts for the use of the Eleyprime process were concluded during the year and new prospects continue at an encouraging level.

Our Components businesses again did well, but were unable overall to match the exceptional result of 1986. Total activity in the Mint was lower but benefited from some unexpected orders from Ireland and Kenya. Demand was good for lampholders and precision diecastings and sales of Amal flame arresters improved in the second half. The nuclear components business suffered a downturn in demand which is likely to persist in the current year.

IMI Computing continued to expand its external business and achieved higher profits but with some reduction in margins. The company entered into a joint venture with Warwickshire County Council in mid-year to provide data processing services primarily to Local Authorities in the UK. The new company, Warwickshire Computing Ltd, in which we hold 51 per cent, got off to a promising start.

Profit sharing results from the management of the rocket motor business at Summerfield were similar to those of the previous year. However, following its takeover by BAe we are in discussions with Royal Ordnance with a view to transferring to it the operation and management of the Summerfield business.

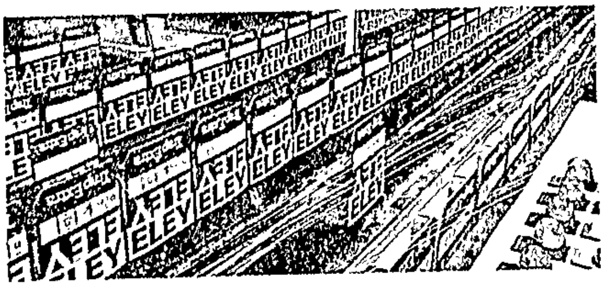
IMI Radiators' managing director Fenwick Allison receiving the Queen's Award for Export from Lord Ingrow, Lord Lieutenant of West Yorkshire.



High-performance flame arrester test in IMI Amal's new test laboratory.

IMI would continue to participate in the success of the UK rocket motor activity through royalty payments ongoing for the next ten years.

Holford is now established as one of the principal new industrial developments in the West Midlands. Since its opening in June 1985, 386,000 sq ft have been let, 1,000 jobs created and the development is now making a growing contribution to Group profits.



Eley Trap Extra sporting cartridges on the highly automated packaging line.

Turnover	£m
1983	149
1984	154
1985	160
1986	157
1987	160

Profit	£m
1983	7.1
1984	11.2
1985	13.6
1986	14.6
1987	17.4

Refined and wrought metals

D V Ayres *IMI Director*

IMI REFINERS LIMITED
C G H Foster *Managing Director*

IMI WOLVERHAMPTON METAL LIMITED
J E Pugh *Managing Director*

IMI ROLLED METALS LIMITED
M J O'Donnell *Managing Director*

P Fisken *IMI Director*

IMI TITANIUM LIMITED
T W Farthing *Managing Director*

As at March [illegible]

We achieved a substantial improvement in performance at IMI Refiners with demand for cast shapes buoyant throughout the year. The resulting increase in profits would have been even higher but for irregularities in supplies of blister copper and the extreme volatility in copper pricing which occurred during the second half of the year. Normal hedging operations became more difficult and expensive, but on the other hand, the high copper price did result in scrap being more freely available with higher operating margins. The Wolverhampton Metal activity also recorded increased profits.

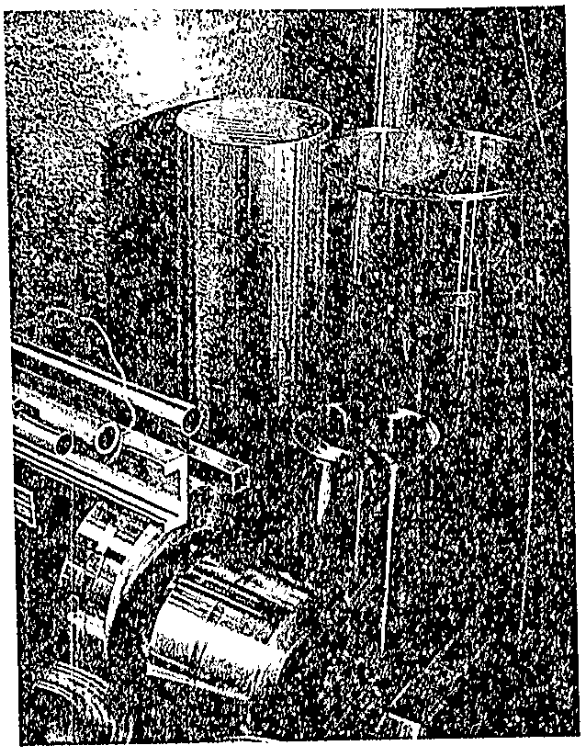
Graduate trainee Lesley [illegible] Research and Development Department

IMI Rolled Metals also contributed better results than in 1986 assisted both by improved demand and a successful programme to contain cost increases.

After a difficult first half, IMI Titanium ended the year strongly with excellent sales and a good profit recovery. Profits for the year were lower than the very high level achieved in 1986 as the result of increasing pressures on price. These pressures came from imports in relation to a number of aircraft projects. We expect this more difficult commercial environment to continue in the current year and we shall respond by further major capital investment designed to reduce costs, improve yields and raise productivity. In addition, since we are denied equal access to overseas markets we are continuing to participate in efforts to protect the European market from low-priced Japanese and US imports. We made further progress in increasing our exports, winning an order for the first time from the largest engine manufacturer in France, and in particular in the USA where wide interest in our latest creep-resistant alloy was confirmed by enquiries from all the US engine manufacturers.

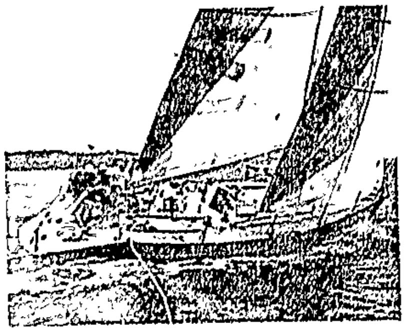
Outside the aerospace sector we have reopened our welded tube plant to service two large and attractive power station contracts for Guangdong in China and the Sizewell 'B' nuclear plant.

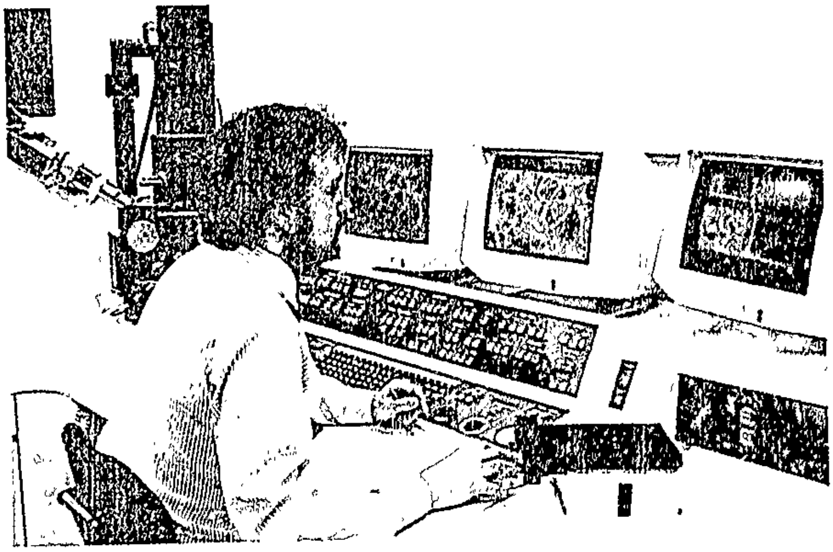
We continue to be highly optimistic about titanium as a material and are spending substantial sums on research and development not only in relation to alloys for aerospace but also in connection with other growing applications such as electrochemical plants, superconductors, car engines, cathodic protection and metal matrix composites.



[illegible] and other non-ferrous alloys [illegible] and produced in various [illegible] manufactured forms

[illegible] racing yachts use titanium [illegible] reduce weight and improve their [illegible] edge - as did *Propaganda*, [illegible] winner of the Admiral's Cup.





Steve Fox operating IMI T[illegible] new scanning electron microscope [illegible] Europe and second in the world [illegible] can magnify up to 250 000 times and [illegible] used for research, development and chemical analysis

Turnover	£m
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
1987	212

Profit	£m
[illegible]	5.7
[illegible]	6.8
[illegible]	11.1
[illegible]	14.7
1987	13.5

Directors' report

The year's results
The consolidated profit and loss account is shown on page 20. Group profit on ordinary activities before taxation amounted to £92.3m (1986: £73.3m)

Earnings applicable to shareholders of IMI plc amounted to £61.1m (1986: £49.0m)

Dividends
The Directors recommend a final dividend at the rate of 4.25p per share on the ordinary share capital payable on 23 May 1988 to shareholders on the register at the close of business on 22 April 1988. Together with the interim dividend of 2.75p per share paid on 19 October 1987 this makes a total distribution for the year of 7.0p per share (1986: 6.0p per share)

Principal activities
The Group's business falls into the following main business classes: building products, drinks dispense, fluid control, special engineering (and other activities) and refined and wrought metals. Subsidiary companies operating within these classes of business are listed with a description of their main activities on pages 36 and 37. The turnover and profit attributable to each of these classes of business are shown in Note 2 on page 24.

Review of activities
The activities of the Group in 1987, together with indications of likely future developments, are reviewed on pages 6 to 15.

Capital expenditure and changes in fixed assets
Expenditure on fixed assets was £39.6m compared with £32.6m in 1986. UK expenditure accounted for £31.0m, the rest of Europe £3.6m and the rest of the world £5.0m.

Details of changes in the fixed assets of the Group are shown in Notes 10 and 11 on pages 26 and 27.

Research and development
Research and Development expenditure was £8.4m compared with £7.9m in 1986.

The Group has continued to concentrate on the application of modern technology to improve production methods and product quality and also on developing new products.

IMI Cornelius development related mainly to new drinks-cooling and integrated-dispense systems; new Norgren Martonair products included improved control and positioning devices for automated manufacturing processes. There was considerable work by IMI Refiners on improved melting and casting operations; by Marston Palmer on enhanced performance heat-transfer surfaces and hydraulic components for aircraft, and by IMI Radiators on improved heat exchangers for refrigeration and vehicle cooling systems. Work on new titanium alloys led to development trials throughout the USA as well as in Europe and considerable progress was also made on the manufacturing of titanium alloy sheet and foil for aircraft applications. New designs for air-conditioning units were produced and IMI Range and IMI Santon work led to new products for water heating systems.

Share capital
No shares were issued by the Company in 1987 except for 248,346 new ordinary shares under employee share schemes.

At the Annual General Meeting of the Company held on 19 May 1987 a general authority was given to the Directors pursuant to Section 80 of the Companies Act 1985 enabling them to allot authorised but unissued shares within a five year period from that date. At the same Meeting an additional authority was given to the Directors pursuant to Section 95(1) of the Companies Act 1985 enabling them to allot equity securities up to an aggregate nominal value of 5 per cent of the Company's authorised share capital as if Section 89(1) of the Companies Act 1985, which gives pre-emption rights to existing shareholders, did not apply. This authority expires at the forthcoming Annual General Meeting. The Directors consider it advisable to retain the ability to make small allotments of ordinary shares for cash to persons other than existing ordinary shareholders. They accordingly recommend approval of the special resolution set out in paragraph B in the notice of meeting on page 18.

The Directors have not been informed pursuant to Section 198 of the Companies Act 1985 that any person or company holds any interest in the Company amounting to, or exceeding, 5 per cent of its issued ordinary share capital.

Acquisitions and disposals
£5.5m in cash was received from disposals. These included the 60 per cent holding in Anderson Greenwood (Australia) Pty Ltd in Australia, the 50 per cent holding in Silverton Engineering Holdings (Pty) Ltd in South Africa, and two local management buy-outs, Mapegaz Remati SA (and its related companies) in France for FF38.5m and Chaste Investments (Pty) Ltd in South Africa for SA Rands 450,000. The business of Irish Metal Industries Ltd in the Republic of Ireland was acquired.

Since the year end, the Group has acquired the Pneumatics Division of AB Westin & Backlund, Sweden for approximately £1.0m in cash. Also since the year end the Group disposed of IMI Yorkshire Imperial Plastics Ltd for £13.5m in cash.

Taxation status
The Company is not and has never been a close company within the meaning of the Income and Corporation Taxes Act 1970 (as amended).

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and Managing Directors of all units have a personal responsibility for that policy in relation to plant, equipment, processes and employees under their control. They are assisted at large sites by local medical officers and at each unit specific members of staff have defined safety duties. The Group also employs a full-time Medical Adviser who is assisted by an occupational hygiene unit, safety officers and environmental specialists. Full co-operation is afforded to government and other inspectorates on health, safety and environmental matters.

Employee involvement

The Directors believe that benefit is derived from the provision of systematic channels for employee participation. Formal joint consultative machinery has been in operation in all except the very smallest units for many years and throughout the Group exchange of information between management and employees is strongly encouraged.

During 1987 joint consultation has continued, through exchange of information and constructive discussion, to play a vital role in ensuring consideration of employees' views on matters likely to affect their interests and in developing understanding of factors affecting the performance of the particular unit in which they are employed.

An employee profit sharing scheme has been operated for many years providing an annual profit-related bonus to members of the scheme, which covers most UK employees. Since 1980 an opportunity to take the bonus in the form of the Company's shares has been available to members of the scheme. In 1984, an Inland Revenue approved savings-related share option scheme was introduced for UK employees.

A summary of this Annual Report is produced for employees and a copy of the full Annual Report is also available to all.

Employment of disabled persons

Applications for employment from disabled persons are fully and fairly considered, bearing in mind the aptitudes and abilities of the person concerned. In the event of employees becoming disabled every reasonable effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that disabled persons should, as far as possible, have identical training, career development and promotion to those who do not suffer from disabilities.

Donations

£77,000 was given during 1987 for charitable purposes. £25,000 was given during 1987 to the Conservative Party.

Intra-Group pricing policy

The Group's policy is that transfer pricing shall conform with the laws and regulations of the countries between which the transfer is made. Intra-Group sales across national boundaries are a small fraction of Group business: in 1987 the figure was approximately £35m, or less than 3 per cent of total sales. Transfers are generally priced on an arm's-length basis, but a cost-plus formula is used for some specialised components.

Directors

With the exception of Mr G L Taylor, the Directors whose names appear on pages 2 and 3 were Directors throughout the year; in addition Mr W Brittain was a Director from the beginning of the year until he retired from the Board on 30 June 1987.

Mr G L Taylor was appointed a Director with effect from 1 July 1987 and under Article 72 retires and is recommended for re-election; he is an Executive Director and has a service contract which may be terminated by either party on three years' notice. In addition, since the year end Sir Eric Pountain has been appointed a non-Executive Director with effect from 18 May 1988 and under Article 72 retires and is recommended for re-election; he will not have a service contract.

Under Article 104, Sir Robert Clark and Mr P Fisken retire by rotation and are recommended for re-election. Sir Robert Clark is a non-Executive Director and does not have a service contract. Mr Fisken is an Executive Director and has a service contract which may be terminated by either party on three years' notice. Also under Article 104, Mr D W Livingstone retires by rotation but is not seeking re-election.

Directors' interests

The interests of the Directors and their families in the share and loan capital of the Company and its subsidiaries are shown in note 19 on page 32, together with their interests in the Company's share option schemes.

Auditors

The auditors, Peat Marwick McLintock, are willing to continue in office and a resolution re-appointing them in accordance with Section 384 of the Companies Act 1985 and authorising the Board to fix their remuneration will be put to the Annual General Meeting.

By order of the Board
J. Metcalf, Secretary
Witton, Birmingham B6 7BA
21 March 1988

The twenty-sixth Annual General Meeting of IMI plc will be held at the Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Thursday 19 May 1988 at noon, for the following purposes:-

A To consider and, if thought fit, to pass the following ordinary resolutions:

1 That the Directors' report and the accounts for the year ended 31 December 1987 be approved and adopted.

2 That a final dividend at the rate of 4.25p per share on the ordinary share capital of the Company be declared for the year ended 31 December 1987 payable on 23 May 1988 to shareholders on the register at the close of business on 22 April 1988.

3 That Sir Eric Pountain be re-elected a Director of the Company.

4 That Mr G L Taylor be re-elected a Director of the Company.

5 That Sir Robert Clark be re-elected a Director of the Company.

6 That Mr P Fisken be re-elected a Director of the Company.

7 That the auditors Peat Marwick McLintock be re-appointed as the Company's auditors until the conclusion of the next Annual General Meeting of the Company, and that the Board be authorised to fix the auditors' remuneration.

B As special business, to consider and, if thought fit, pass the following special resolution:

That pursuant to Section 95(1) of the Companies Act 1985 the Directors of the Company be and they are hereby authorised to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) pursuant to the authority conferred by an ordinary resolution of the Company passed on 19 May 1987 as if Section 89(1) of the Companies Act 1985 did not apply to such allotment provided that this power shall be limited:

(a) to the allotment (otherwise than pursuant to paragraph (b) below) of equity securities up to an aggregate nominal value of £4,425,000 (being 5 per cent of the authorised ordinary share capital less that reserved for issue in connection with the Company's share option schemes); or

(b) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders of the Company where the equity securities respectively attributable to the interests of all such ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them;

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the Board
J. Metcalf, Secretary
Witton, Birmingham B6 7BA
20 April 1988

Note: A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and on a poll, to vote instead of him. A proxy need not be a member of the Company. Any instrument appointing a proxy must be received at the Company's transfer office not less than forty-eight hours before the time fixed for the meeting. A proxy card is enclosed.

The following information, which is available for inspection during business hours at the Company's registered office, will, on the day of the Annual General Meeting, be available for inspection at the Birmingham Metropole Hotel, National Exhibition Centre, Birmingham, from 11.30 a.m. until the conclusion of that meeting:

a statement of the interests of Directors (and their families) in the share and loan capital of the Company and its subsidiaries in accordance with the provisions of the Companies Act 1985.

copies of all contracts of service of Directors with the Company and its subsidiaries.

Auditors' report

to the members of IMI plc

We have audited the accounts on pages 20 to 37 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on page 23, give a true and fair view of the state of the affairs of the Company and of the Group at 31 December 1987 and of the profit and source and application of funds of the Group for the year to that date and have been properly prepared in accordance with the Companies Act 1985.

Peat Marwick McLintock
Chartered Accountants
Birmingham
21 March 1988

Peat Marwick McLintock

for the year ended ...

	Notes	1987 £m	1986 £m
Turnover	2	860.8	780.3
Cost of sales		(624.5)	(571.4)
Gross profit		236.3	208.9
Distribution costs		(93.4)	(83.5)
Administration expenses		(54.1)	(53.7)
		88.8	71.7
Other operating income		4.5	3.6
Trading profit		93.3	75.3
Income from fixed asset investments	3	3.6	3.2
Net interest payable	4	(4.6)	(5.2)
Profit on ordinary activities before taxation	2	92.3	73.3
Tax on profit on ordinary activities	5	(30.4)	(20.6)
Profit on ordinary activities after taxation		61.9	52.7
Applicable to minority shareholders of subsidiaries		(0.8)	(0.5)
Profit applicable to shareholders of IMI plc before extraordinary items		61.1	52.2
Extraordinary loss after taxation	6	—	(3.2)
Profit for the financial year applicable to shareholders	7	61.1	49.0
Dividends	8	(22.4)	(19.2)
Retained profit	20	38.7	29.8
Earnings per ordinary share	9		
Excluding extraordinary items		19.2p	17.1p
Including extraordinary items		19.2p	16.1p

Balance sheets

at 31 December 1987

		The Group		The Company	
	Notes	1987 £m	1986 £m	1987 £m	1986 £m
Fixed assets					
Tangible assets	10	164.4	158.7	—	—
Investments	11	22.0	22.8	269.2	276.4
		186.4	181.5	269.2	276.4
Current assets					
Stocks	12	208.9	200.6	—	—
Debtors	13	161.5	158.9	80.7	98.5
Cash and deposits		113.5	80.2	68.8	48.4
		483.9	439.7	149.5	146.9
Creditors: amounts falling due within one year					
Loans and overdrafts	14	(40.9)	(56.9)	(15.6)	(32.3)
Other creditors	15	(172.5)	(160.4)	(58.7)	(57.8)
Net current assets		270.5	222.4	75.2	56.8
Total assets less current liabilities		456.9	403.9	344.4	333.2
Creditors: amounts falling due after more than one year					
Loans	16	(97.9)	(78.2)	(83.0)	(60.7)
Other creditors	17	(15.2)	(9.7)	(15.6)	(27.8)
Provisions for liabilities and charges	18	(20.8)	(22.5)	—	—
		323.0	**293.5**	**245.8**	**244.7**
Capital and reserves					
Called up share capital	19	81.2	81.2	81.2	81.2
Share premium account	20	61.2	60.9	61.2	60.9
Revaluation reserve	20	0.5	0.5	—	—
Other reserves	20	9.9	9.9	—	—
Profit and loss account	20	166.4	136.2	103.4	102.6
		319.2	288.7	245.8	244.7
Minority interests in subsidiaries		3.8	4.8	—	—
		323.0	**293.5**	**245.8**	**244.7**

Robert Clark
Robert Clark
Gary Allen
Gary Allen
Directors

Source and application of funds

for the year ended 31 December 1987

	1987 £m	1987 £m	1986 £m	1986 £m
Source of funds:				
Profit before taxation		92.3		73.3
Extraordinary loss before taxation		—		(3.3)
		92.3		70.0
Adjustments for items not involving the movement of funds:				
Depreciation	23.4		22.5	
Other items	(3.0)	20.4	3.0	25.5
Total generated from operations		112.7		95.5
Funds from other sources:				
Disposal of tangible fixed assets	2.9		2.6	
Disposal of fixed asset investments and loan repayments	1.7		2.8	
Proceeds from issue of shares	0.3		0.3	
Disposal of subsidiary companies	7.2	12.1	—	5.7
		124.8		101.2
Application of funds:				
Purchase of fixed assets	(39.6)		(32.6)	
Fixed asset investments	(0.3)		(0.1)	
Acquisition of subsidiary companies	—		(17.2)	
Goodwill purchased	(0.7)		(0.4)	
Provisions utilised	(6.8)		(6.3)	
Taxation paid	(21.9)		(17.6)	
Dividends paid	(20.0)	(89.3)	(16.2)	(90.4)
		35.5		10.8
(Increase)/decrease in working capital:				
Stocks	(13.6)		3.2	
Debtors	(3.7)		2.7	
Creditors	11.4	(5.9)	(12.8)	(6.9)
Movement in net liquid resources		29.6		3.9
Made up of changes in:				
Short term investments and bank balances		33.3		12.6
Bank overdrafts and borrowings		(3.7)		(8.7)
Decrease in net borrowings		29.6		3.9

The effect of the disposal and acquisition of subsidiary companies is summarised below:

	1987 £m	1986 £m
Net assets (sold)/acquired:		
Fixed assets	(2.6)	12.8
Goodwill	—	74.2
Working capital	(5.9)	19.3
	(8.5)	106.3
Represented by:		
Nominal value of shares issued	—	13.9
Premium on shares issued	—	75.2
Cash consideration	(5.5)	18.0
Borrowings/cash at date of disposal/acquisitions	(1.7)	(0.8)
Reduction in minority interest	(1.3)	—
	(8.5)	106.3

1. Accounting policies

(a) Basis of accounting

The accounts have been prepared under the historical cost convention modified by the revaluation of certain tangible fixed assets.

(b) Consolidation

The consolidated accounts incorporate the accounts of IMI plc and all of its subsidiary companies, together with the Group's share of the audited results of major associated companies. The results of subsidiaries acquired or sold during the year are included from the date of acquisition or to the date of disposal.

Goodwill arising on the acquisition of subsidiaries and businesses, being the excess of cost over the fair value of the net assets at the date of acquisition, is written off to reserves.

In order to avoid undue delay in the presentation of consolidated accounts the accounts of certain overseas subsidiaries are made up to 30 September. Major associated companies' accounts are made up to dates within three months of 31 December. The accounts of all other group companies are made up to 31 December.

A separate profit and loss account dealing with the results of the Company has not been presented.

(c) Related companies

The consolidated accounts include the Group's share of the results of major associated companies. In the case of other related companies, situated primarily overseas, the consolidated accounts include only dividends and interest receivable. In the opinion of the Directors the benefit of determining the Group's share of adjusted profits less losses for the year of the other related companies would not be commensurate with the time and expense which would be involved.

(d) Foreign currencies

Assets and liabilities denominated in currency have been translated into sterling at the rate of exchange ruling on 31 December 1987. The profit and loss accounts of overseas subsidiaries are translated at the appropriate average rates of exchange. Exchange differences arising on the retranslation of the opening net assets of overseas companies are taken directly to reserves, as are those on currency loans used for overseas investment. Differences arising on trading transactions in the year are reflected in profit before taxation.

(e) Depreciation

Freehold land and assets in the course of construction are not depreciated. Depreciation is calculated so as to write off the cost of other tangible fixed assets by equal instalments over their estimated useful lives as follows:

Freehold buildings	50 years
Leasehold land and buildings	period of lease
Plant and machinery	between 5 and 20 years

Expenditure on patents purchased by the Group is charged against profits in the year in which it is incurred.

(f) Research and development

Expenditure on research and development is charged against profits in the year in which it is incurred, except for expenditure on tangible assets which is depreciated in the normal manner.

(g) Deferred taxation

Provision is made in respect of timing differences to the extent that such liabilities are expected to become payable in the foreseeable future.

No provision is made for any additional taxation which might become payable in the event of a distribution out of retained profits of overseas subsidiaries and major associated companies.

(h) Leasing

Lease rental costs are charged to the profit and loss account as they arise, finance leases being immaterial.

(i) Stocks

Stocks 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.

(j) Pensions

A number of pension funds are maintained both in the UK and overseas. With certain minor exceptions, these funds are independent of the Group's finances and are administered by Trustees. Annual contributions are determined on the recommendations of independent actuaries and are charged against profits in the year in which they are made.

2 Turnover and profit on ordinary activities before taxation

Turnover represents amounts invoiced by the Group in respect of goods and services provided during the year, excluding value added tax. The analysis of turnover and profit on ordinary activities before taxation by class of business is as follows:

	1987 Turnover £m	1987 Profit £m	1986 Turnover £m	1986 Profit £m
Building products	205	20.8	186	15.3
Drinks dispense	151	17.2	134	13.8
Fluid control	203	29.1	175	21.7
Special engineering (and other activities)	160	17.4	157	14.6
Refined and wrought metals	212	13.5	194	14.7
	931	98.0	846	80.1
Items not attributable to specific classes of business	—	(4.7)	—	(4.8)
Intra group sales	(70)	—	(66)	—
Turnover & trading profit	861	93.3	780	75.3
Income from fixed asset investments		3.6		3.2
Net interest payable		(4.6)		(5.2)
Turnover & profit before tax	861	92.3	780	73.3

The analysis of turnover by market is:	1987 £m	1986 £m
UK	448	388
Europe	213	180
North America	129	137
Asia	21	29
Australasia	17	15
Africa	18	18
Central and South America	15	13
	861	780

The following have been charged in arriving at profit on ordinary activities before taxation:

	Notes	1987 £m	1986 £m
Depreciation on tangible fixed assets		23.4	22.5
Bonus under employees' profit sharing scheme		2.9	1.8
Audit fees and expenses — UK		0.6	0.6
— overseas		0.7	0.7
Directors' emoluments	25	0.6	0.6
Property rents payable		3.5	3.4
Hire of plant and machinery		5.1	4.7

Turnover and profit for 1987 include twelve months from companies acquired during 1986 whereas 1986 included only turnover and profit from the date of acquisition. The net effect of this and the acquisition of businesses and disposals during 1987 has been to increase turnover by £38m and profit by £3.4m.

3 Income from fixed asset investments

	1987 £m	1986 £m
Income from shares in related companies		
Share of profits of major associates	2.2	2.1
Dividends from other related companies	0.4	0.1
	2.6	2.2
Income from related companies	1.0	0.8
Income from listed fixed asset investments	—	0.2
	3.6	3.2

Dividends from other related companies include £0.3m from the Opti Group.

4 Net interest payable

	1987 £m	1986 £m
Bank loans and overdrafts	8.6	8.2
Other loans		
Not wholly repayable within 5 years	1.5	1.6
Wholly repayable within 5 years	1.4	1.5
	11.5	11.3
Interest receivable	(6.9)	(6.1)
	4.6	5.2

Interest receivable comprises income from short term deposits and sundry loans.

5 Taxation

	1987 £m	1986 £m
Based on the profit of the year:		
UK corporation tax	19.7	12.5
Overseas taxes	11.2	7.1
Major associates	0.8	0.7
Adjustment for previous years	(1.3)	0.3
	30.4	20.6

Current UK corporation tax has been provided at 35% (1986:36.25%). The charge for UK corporation tax has been reduced by advance corporation tax written back of £4.1m (1986: £7.3m) and double taxation relief of £0.5m (1986: £0.6m). An amount of £0.5m (1986: £1.5m) is included in respect of deferred taxation.

6 Extraordinary items

	1987 £m	1986 £m
Closure costs	—	(3.3)
Less tax relief	—	0.1
Extraordinary loss after taxation	—	(3.2)

7 Profits applicable to shareholders of IMI plc

Of the Group profit of £61.1m (1986: £49.0m), £23.2m (1986: £25.1m) has been dealt with in the profit and loss account of the Company.

8 Dividends

	1987 £m	1986 £m
6.3% Cumulative preference dividend	0.1	0.1
Ordinary dividend:		
Interim 2.75p (1986: 2.5p)	8.8	8.0
Proposed final 4.25p (1986: 3.5p)	13.5	11.1
	22.4	19.2

9 Earnings per ordinary share

The calculation of earnings per ordinary share excluding extraordinary items is based on earnings (after deducting the preference dividend of £0.1m) of £61.0m (1986: £52.1m). The earnings are calculated on 318.4m shares (1986: 303.9m) being the adjusted average number of shares in issue.

10 Tangible fixed assets

	Land and buildings			Plant and machinery			Payments on account and assets in course of construction	Total
	Gross book value £m	Depreciation £m	Net book value £m	Gross book value £m	Depreciation £m	Net book value £m	Net book value £m	Net book value £m
At 31 December 1986	73.8	25.9	47.9	252.6	155.1	97.5	13.3	158.7
Capital expenditure	6.2	—	6.2	20.7	—	20.7	12.7	39.6
Sales, demolitions and adjustments	(2.9)	(0.9)	(2.0)	(13.2)	(9.5)	(3.7)	0.2	(5.5)
Transferred during the year	1.9	—	1.9	7.1	—	7.1	(9.0)	—
Exchange adjustments	(3.5)	(1.1)	(2.4)	(8.4)	(6.4)	(2.0)	(0.6)	(5.0)
Depreciation for year	—	2.6	(2.6)	—	20.8	(20.8)	—	(23.4)
At 31 December 1987	75.5	26.5	49.0	258.8	160.0	98.8	16.6	164.4

(i) The gross book value of land and buildings comprises:

	1987 £m	1986 £m
Freehold: Land	5.9	6.3
Freehold: Buildings	61.5	59.6
Long leasehold	6.4	6.4
Short leasehold	1.7	1.5
At 31 December	75.5	73.8

(ii) Land and buildings include investment properties at a valuation of £6.1m (1986: £2.1m). The valuation at 31 December 1987 was carried out by management based on professional advice.

(iii) Gross book value represents cost except for the investment properties and £0.5m in respect of a revaluation of land and buildings in an overseas subsidiary.

11 Fixed assets — investments

The Group

	Related companies Equity £m	Related companies Loans £m	Total £m
At 31 December 1986			
Major associates			
Cost	5.3	2.1	7.4
Group share of post acquisition profits	2.3	—	2.3
Other investments			
Cost	2.7	10.6	13.3
Less provisions	—	(0.2)	(0.2)
	10.3	12.5	22.8
Additions	0.3	—	0.3
Disposals/repayments	(0.4)	(0.5)	(0.9)
Share of retained profits for the year	—	—	—
Exchange adjustments	(0.2)	—	(0.2)
At 31 December 1987	10.0	12.0	22.0
Major associates			
Cost	5.5	2.3	7.8
Group share of post acquisition profits	2.2	—	2.2
Other investments			
Cost	2.3	9.7	12.0
	10.0	12.0	22.0

(i) Details of major associates at 31 December 1987 are shown on page 37. The Group share of net assets at the date of acquisition was £3.2m.
(ii) The equity investment in the Opti Group was fully written off in 1981 and is not therefore included in the figures shown above for related companies.
(iii) Loans include £9.7m (1986: £9.7m) to the Opti Group which are being repaid at various dates up to 1992.

The Company

	Subsidiaries Shares £m	Subsidiaries Loans £m	Related companies Shares £m	Related companies Loans £m	Total £m
At 31 December 1986					
Cost	100.6	169.4	4.3	2.1	276.4
Disposals/repayments	(0.3)	—	—	(0.4)	(0.7)
Exchange adjustments	—	(6.5)	—	—	(6.5)
At 31 December 1987	100.3	162.9	4.3	1.7	269.2

(i) Details of subsidiary companies at 31 December 1987 are shown on pages 36 and 37.
(ii) The Company's cost of investment in subsidiaries is stated at the aggregate of (a) the cash consideration, (b) the nominal value of the shares issued as consideration where Sections 131 and 133 of the Companies Act 1985 apply and (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

12 Stocks

The main categories of stocks are as follows:

	1987 £m	1986 £m
Raw materials and consumables	66.4	55.5
Work in progress	64.1	61.3
Finished goods	78.8	84.7
Less payments on account	(0.4)	(0.9)
	208.9	200.6

The above classifications are those given by individual group companies in relation to their own activities and are not adjusted to reflect the impact of intra-group trading. The replacement value of stocks is considered not to be significantly different from the amount stated above.

13 Debtors

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Falling due for payment within one year				
Trade debtors	138.7	137.0	—	—
Amounts owed by group companies	—	—	33.5	39.4
Amounts owed by related companies	0.4	1.6	—	—
Prepayments and accrued income	5.5	5.0	0.7	0.6
Other debtors	14.0	13.6	—	—
	158.6	157.2	34.2	40.0
Falling due for payment after more than one year				
Trade debtors	0.7	0.2	—	—
Amounts owed by group companies	—	—	46.5	58.5
Other debtors	2.2	1.5	—	—
	2.9	1.7	46.5	58.5
Total	161.5	158.9	80.7	98.5

14 Loans and overdrafts: amounts falling due within one year

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Bank loans and overdrafts	39.1	54.5	15.6	32.3
Other loans	1.8	2.4	—	—
	40.9	56.9	15.6	32.3

The Group borrowings include bank loans and overdrafts of £0.6m (1986: £2.1m) and other loans of £1.4m (1986: £1.7m) which are secured by charges over the assets of certain overseas subsidiary companies. Group loans and overdrafts include £37.4m (1986: £54.7m) denominated in foreign currencies.

15 Other creditors: amounts falling due within one year

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Payments received on account	0.4	0.6	—	—
Trade creditors	80.2	72.4	—	—
Bills of exchange payable	3.5	3.6	—	—
Amounts owed to group companies	—	—	32.3	33.5
Amounts owed to related companies	0.3	0.6	—	—
Corporation tax	3.3	6.5	0.8	0.3
Other taxation	31.2	25.8	9.5	7.6
Social security	4.0	4.3	—	—
Accruals and deferred income	31.9	31.7	2.6	3.7
Proposed dividend	13.5	11.1	13.5	11.1
Other creditors	4.2	3.8	—	1.6
	172.5	160.4	58.7	57.8

16 Loans: amounts falling due after more than one year

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Bank loans				
Secured	1.2	1.7	—	—
Unsecured	61.8	39.6	52.9	30.6
	63.0	41.3	52.9	30.6
Loan stock				
Unsecured				
8 per cent Loan Stock 1985/90	5.0	5.0	5.0	5.0
7¼ per cent Loan Stock 1986/91	12.0	12.0	12.0	12.0
8¼ per cent Loan Stock 1987/92	1.5	1.5	1.5	1.5
7¾ per cent Loan Stock 1988/93	10.0	10.0	10.0	10.0
5½ per cent Loan Stock 2001/06	1.6	1.6	1.6	1.6
	30.1	30.1	30.1	30.1
Other loans				
Not wholly repayable within five years				
Secured				
10⅜ per cent US dollar loan repayable in equal monthly instalments terminating 1993	2.3	3.5	—	—
Other loans at variable rates of interest repayable up to 1996	0.7	1.8	—	—
Unsecured				
Sundry loans at variable rates of interest repayable up to 1994	—	0.5	—	—
Wholly repayable within five years				
Secured	1.1	0.6	—	—
Unsecured	0.7	0.4	—	—
	4.8	6.8	—	—
Total loans	97.9	78.2	83.0	60.7

Security consists of charges over the assets of certain overseas subsidiary companies.
Group loans include £52.6m (1986: £35.0m) denominated in foreign currencies.

Repayment of loans

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Bank loans				
Between one and two years	1.7	5.4	—	1.6
Between two and five years	44.2	19.6	37.9	14.0
In five years or more	17.1	16.3	15.0	15.0
	63.0	41.3	52.9	30.6
Loan stock and other loans				
Between one and two years	0.9	1.1	—	—
Between two and five years	22.0	20.3	18.5	17.0
In five years or more	12.0	15.5	11.6	13.1
	34.9	36.9	30.1	30.1
Total loans	97.9	78.2	83.0	60.7

17 Other creditors: amounts falling due after more than one year

	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Amounts owed to group companies	—	—	15.6	27.8
Corporation tax payable 1989	6.8	1.9	—	—
Other taxation	2.2	2.6	—	—
Accruals and deferred income	6.2	5.2	—	—
	15.2	9.7	15.6	27.8

18 Provisions for liabilities and charges

	Group			
	Deferred taxation	Pensions	Other	Total
	£m	£m	£m	£m
At 31 December 1986	1.4	3.8	17.3	22.5
Transfers	1.7	0.1	—	1.8
Exchange adjustments	—	(0.4)	(0.6)	(1.0)
Utilised during the year	—	(0.2)	(6.6)	(6.8)
Profit and loss account charge	0.5	0.5	3.3	4.3
At 31 December 1987	3.6	3.8	13.4	20.8

(i) The maximum potential liability for deferred tax, calculated at 35 per cent, and the amount provided are as follows:-

	1987		1986	
	Potential liability £m	Provided £m	Potential liability £m	Provided £m
Accelerated capital allowances	25.0	11.9	26.6	13.2
Other timing differences	(3.3)	(3.3)	(4.9)	(4.9)
Corporation tax losses	—	—	(0.2)	(0.2)
Advance corporation tax recoverable	(5.0)	(5.0)	(10.8)	(6.7)
	16.7	3.6	10.7	1.4

(ii) Pensions provisions are in respect of pension liabilities, primarily overseas, which have not been separately funded. At 31 December 1987 other provisions comprise mainly rationalisation costs (£6.2m) and warranties given in the normal course of trade (£3.9m).

19 Share capital

	1987 £m	1986 £m
Authorised		
360m ordinary shares of 25p each	90.0	90.0
15.1m 6.3 per cent cumulative redeemable preference shares of £1 each	15.1	15.1
	105.1	105.1
Called up		
318.5m ordinary shares	79.6	79.6
1.6m 6.3 per cent cumulative redeemable preference shares	1.6	1.6
	81.2	81.2

During the year 248,346 ordinary shares were issued under employee shares schemes realising £0.3m. The preference shares will be redeemed at par by the Company on 31 October 1991 but may be redeemed at par at the option of shareholders between 31 October 1989 and 30 April 1991.

Share options

At 31 December 1987 options had been granted and were outstanding, to participants of the IMI Share Option Schemes to purchase ordinary shares as follows:

	Date of grant	No. of shares	Price	Date of exercise
Savings Related Option Scheme:	12.6.84	1,199,561	69p	1.8.89 or 1.8.91
	26.4.85	380,711	101p	1.7.90 or 1.7.92
	23.4.86	291,349	154p	1.7.91 or 1.7.93
	22.4.87	706,701	189p	1.7.92 or 1.7.94
Executive Share Option (1985) Scheme:	26.6.85	2,690,000	108.5p	27.6.88 to 26.6.95
	22.4.87	550,000	212.0p	23.4.90 to 22.4.97
	7.10.87	10,000	254.5p	8.10.90 to 1.10.97

Directors' interests

The interests (all being beneficial) of the Directors and their families in the share and loan capital of the Company and its subsidiaries are shown below, together with their interests in options granted to them pursuant to the rules of the IMI Savings-Related Option Scheme (marked a) and the rules of the IMI Executive Share Option (1985) Scheme (marked b).

Directors at 31 December 1987	Shares/loan stock held and options granted over ordinary shares	Interest at 31 December 1987	Interest at 1 January 1987 (or at subsequent date of appointment)
G J Allen	Ordinary shares	7,104	6,302
	Options a	10,732	10,732
	Options b	300,000	200,000
R Amos	Ordinary shares	7,744	7,140
	Options a	10,732	10,732
	Options b	250,000	200,000
D V Atterton	—	—	—
D V Ayres	Ordinary shares	7,718	7,082
	Options a	5,362	5,362
	Options b	250,000	200,000
Sir Robert Clark	Ordinary shares	5,000	5,000
P Fisken	Ordinary shares	4,591	4,028
	Options b	170,000	70,000
T A J Lamb	Ordinary shares	10,315	7,679
	Options a	9,025	9,025
	Options b	250,000	200,000
D W Livingstone	Ordinary shares	1,285	1,285
G L Taylor	Ordinary shares	383	383
	Options a	5,362	5,362
	Options b	77,000	77,000

During the period 31 December 1987 to 21 March 1988 there were no changes in the interests of any Director from those shown.

20 Reserves

	Group					
	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	Share of related companies	Total
	£m	£m	£m	£m	£m	£m
At 31 December 1986	60.9	0.5	9.9	133.9	2.3	207.5
Retained profit for year	—	—	—	38.7	—	38.7
Amounts taken directly to reserves:						
Adjustment for exchange movements	—	—	—	(7.7)	(0.1)	(7.8)
Goodwill written off	—	—	—	(0.7)	—	(0.7)
Share premiums received	0.3	—	—	—	—	0.3
At 31 December 1987	61.2	0.5	9.9	164.2	2.2	238.0

Adjustments for exchange movements include a credit of £8.2m in respect of currency loans used for overseas investments.

	Company		
	Share premium account	Profit and loss account	Total
	£m	£m	£m
At 31 December 1986	60.9	102.6	163.5
Retained profit for year	—	0.8	0.8
Share premiums received	0.3	—	0.3
At 31 December 1987	61.2	103.4	164.6

21 Capital commitments

Group contracts in respect of future capital and investment expenditure which had been placed at the dates of the respective balance sheets amounted to approximately £8.3m (1986: £11.5m).

The amount of capital and investment expenditure authorised by the Directors but not yet contracted for at the dates of the respective balance sheets was £4.9m (1986: £8.2m).

22 Contingencies

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to approximately £6.3m.

The Company had contingent liabilities relating to (a) guarantees of obligations of certain subsidiaries amounting to £2.0m and (b) other contingent liabilities in the normal course of business of £11.0m. There is a right of set-off with one of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

23 Finance leasing obligations

	Group	
	1987 £m	1986 £m
Within one year	1.2	2.0
Between one and five years	3.5	6.6
In five years or more	—	0.6
Less interest on financing included above	(0.5)	(1.8)
	4.2	7.4

24 Operating leases

Annual commitments under operating leases expiring:

	1987		1986	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	0.5	0.3	0.6	0.6
In the second to fifth year	1.9	1.0	0.7	1.1
After five years	1.2	0.1	1.1	0.2
	3.6	1.4	2.4	1.9

25 Directors' emoluments

The total emoluments of the Directors of the Company for the year comprised fees £18,000 (1986: £19,000) and other emoluments £593,000 (1986: £612,000). In addition £60,000 was paid to a former executive director.

During the year the Chairman received emoluments of £15,000 (1986: £15,000) and the highest paid director received emoluments of £124,800 (1986: £109,500).

The table which follows shows the number of Directors of the Company whose emoluments during the year were within the bands stated.

Emoluments	1987	1986	Emoluments	1987	1986
£5,001-£10,000	2	2	£70,001- £75,000	—	1
£10,001-£15,000	1	1	£85,001- £90,000	1	4
£30,001-£35,000	1	—	£90,001- £95,000	3	—
£50,001-£55,000	1	—	£105,001-£110,000	—	1
£55,001-£60,000	—	1	£120,001-£125,000	1	—

26 Senior employees' emoluments

The table which follows shows the number of UK employees of the Company whose emoluments during the year were within the bands stated.

Emoluments	1987	1986	Emoluments	1987	1986
£30,001-£35,000	40	36	£50,001-£55,000	6	6
£35,001-£40,000	13	12	£55,001-£60,000	4	1
£40,001-£45,000	3	4	£60,001-£65,000	1	1
£45,001-£50,000	5	9			

27 Staff numbers and costs

The number of people employed by the Group on average each week was:

	1987	1986
Building products	4,659	4,792
Drinks dispense	2,980	2,858
Fluid control	5,380	5,342
Special engineering (and other activities)	5,973	6,249
Refined and wrought metals	2,276	2,318
	21,268	21,559

The aggregate payroll costs of these employees were as follows:

	1987 £m	1986 £m
Wages and salaries	224.2	204.0
Social security costs	21.6	19.9
Other pension costs	9.6	12.4
	255.4	236.3

28 Disclosable contracts

There were no disclosable contracts or arrangements between the Company and any of its Directors, nor were any of its Directors materially interested in any contract or arrangement subsisting during or at the end of the year.

29 Approval of accounts

The accounts were approved by the Board of Directors on 21 March 1988.

Subsidiary and major associated companies

at 31 December 1987

Subsidiary companies

The following is a list of the Company's subsidiaries, except for some intermediate holding companies and certain companies of minor importance which are excluded by virtue of Section 231 and Schedule 5 of the Companies Act 1985. Except where indicated, the subsidiaries are incorporated in Great Britain and registered in England 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 companies listed is 100%, except where indicated, and is held in each case by a subsidiary company, except for those marked † in which case it is held directly by the Company. The financial year end of the companies listed is 31 December, except for those marked * in which case the year end is 30 September.

Building products

Copper tubes and fittings; castings; hot water cylinders; controls and ignition devices; calorifiers; electrical resistance wire; electric liquid heating equipment; plastic pipes, fittings and drainage systems; roofing and cladding.

IMI Yorkshire Copper Tube Ltd
Irish Metal Industries Ltd *Republic of Ireland*
IMI Yorkshire Fittings Ltd
Anson Cast Products Ltd
*Yorkshire Fittings Pty Ltd *Australia*
YIM Scandinavia AB *Sweden*
IMI Waterheating Ltd
IMI Range Ltd
IMI Pactrol Ltd
IMI Rycroft Ltd
IMI Scott Ltd
IMI Santon Ltd
IMI Pacific SA *France*
‡IMI Yorkshire Imperial Plastics Ltd
IMI Finance Ltd (IMI Broderick Structures Division)
Ives Cladding Ltd *Scotland*

‡IMI Yorkshire Imperial Plastics Ltd was sold on 15 February 1988.

Drinks dispense

Beverage and food dispensing and cooling systems.

†IMI Cornelius Group Ltd
IMI Cornelius (UK) Ltd
Coldflow Ltd
IMI Cornelius (Americas) Inc. *USA*
The Cornelius Company *USA*
AAD Co. *USA*
Cannon Equipment Co. *USA*
Electro Measure Inc. *USA*
Stainless Ice-Tainer Company *USA*
Schneider Metal Manufacturing Co. *USA*
Cornelius Manufacturing Co. Ltd *Canada*
Cornelius Equipamentos Para Bebidas Ltda *Brazil*
Cornelius Apparate GmbH *German Federal Republic* (IMI Cornelius Europe)
Cornelius de Espana SA *Spain*
Cornelius Benelux NV *Belgium*
Cornelius GmbH *Austria*
IMI Drinks Dispense (Pacific) Ltd *Hong Kong*

Fluid control

Pneumatic systems and components; process control and instrumentation; specialised industrial valves; plastic mouldings.

IMI Fluid Power International Ltd
†IMI Control & Instrumentation Ltd
Norgren Martonair Ltd
Austin Beech Ltd
M.H. Hurst (Engineering) Ltd
IMI Fluidair Ltd
Watson Smith Ltd
†Webber Electro Components Ltd
IMI Mouldings Ltd
IMI Bailey Birkett Ltd
Norgren Martonair (Ireland) Ltd *Republic of Ireland*
Norgren Martonair Druckluftsteuerungen GmbH *Austria*
Norgren Martonair AS *Denmark*
Norgren Martonair AS *Norway*
Martonair AB *Sweden*
Martonair SA *France*
Mecafrance SA *France*
Norgren Martonair Europa GmbH *German Federal Republic*
Norgren Martonair GmbH *German Federal Republic*
Mecafrance (Deutschland) GmbH *German Federal Republic*
Norgren Martonair SpA *Italy*
Norgren Martonair BV *Holland*
IMI Nederland BV *Holland* (CCI Europa Division)
Enerfluid SA (90%) *Spain*
Norgren Martonair AG *Switzerland*
Norgren Co. *USA*
Reedex Corporation *USA*
MCF Controls Inc. *USA*
Control Components Inc. *USA*
*Norgren Martonair do Brazil Ltda *Brazil*
Norgren Martonair (Canada) Inc. *Canada*
Pearce Industrial Products Ltd *Canada*
*Norgren Martonair Pty Ltd. *Australia*
*Norgren Martonair Pacific Ltd. *Hong Kong*
*Norgren Martonair (Hong Kong) Ltd. *Hong Kong*
*Air Automation Ltd (80%) *New Zealand*
*Pneumatic Products Ltd (50%) *New Zealand*
*Norgren Martonair Pneumatics (S) Pte Ltd *Singapore*

Special engineering (and other activities)

Radiators; copper and copper alloy tubes and fittings; pipework fabrication; heat exchangers; flexible containers and bulk transport systems; flexible hoses; safety discs; electronics cooling equipment; hydraulic components for aerospace; aircraft engine rings; air conditioning; sporting ammunition and equipment; metal presswork, assemblies and components; coins and tokens; carburettors; computer services; Witton site redevelopment.

IMI Radiators Ltd
IMI Radiators Technology Inc. *USA*
IMI Yorkshire Alloys Ltd
IMI Dreh Ltd
Marston Palmer Ltd (75%)
Marston Palmer Inc. (75%) *USA*

IMI Air Conditioning Ltd
Eley Ltd
Eley Americas Inc. *USA*
IMI Components Ltd
IMI Amal Ltd
IMI Amal Espana SA *Spain*

IMI Computing Ltd
Warwickshire Computing Ltd (51%)
†IMI Kynoch Ltd
†Holford Estates Ltd
Holford Developments Ltd
Witton Estates Management Services Ltd

Refined and wrought metals

Copper refining and ingots in copper, aluminium and their alloys; copper and copper alloy semis (sheet and strip); titanium and zirconium semis.

IMI Refiners Ltd
IMI Wolverhampton Metal Ltd
Wolverhampton Abrasives Ltd (67.5%)

IMI Hayes Metals Ltd
IMI Rolled Metals Ltd
Bailey Gill Products Ltd

IMI Titanium Ltd
IMI Titanium France SARL *France*

Major associated companies

The following companies are those in which, at 31 December 1987, IMI effectively held 20 per cent or more of the equity and for which the Company has included in its consolidated accounts its share of the results. In each case the investment is non-listed and, except as indicated, the companies are incorporated in Great Britain and registered in England. Their activities include building products, fluid control and special engineering products. In addition the Company has an effective interest in 20 per cent or more of the equity in a number of companies, details of which are excluded in line with the relaxation afforded under Section 231 and Schedule 5 of the Companies Act 1985.

	Issued share capital at 31 December 1987	Effective interest
R. Woeste & Co. "Yorkshire" GmbH & Co. KG *German Federal Republic*	DM 3,000,000	50%
Lintra Lineartransporter GmbH *German Federal Republic*	DM 500,000	25%
International Radiator Services Ltd	£150	30%
Kitagawa Martonair Co. Ltd *Japan*	Yen 60,000,000	50%

Financial information

Five year summary	1987 £m	1986 £m	1985 £m	1984 £m	1983 £m
Profit and loss account					
Sales	860.8	780.3	766.2	737.9	676.3
Profit before taxation	92.3	73.3	57.8	45.1	31.6
Tax	(30.4)	(20.6)	(17.2)	(15.4)	(11.7)
Profit after taxation	61.9	52.7	40.6	29.7	19.9
Minorities	(0.8)	(0.5)	(0.5)	(0.8)	(0.5)
Profit applicable to IMI before extraordinary items	61.1	52.2	40.1	28.9	19.4
Extraordinary items	—	(3.2)	(2.8)	(3.1)	(10.3)
Profit applicable to IMI after extraordinary items	61.1	49.0	37.3	25.8	9.1
Dividends	(22.4)	(19.2)	(14.1)	(12.1)	(10.8)
Retained profits	38.7	29.8	23.2	13.7	(1.7)
Earnings and dividends					
Earnings per share (before extraordinary items)	19.2p	17.1p	14.9p	10.7p	7.2p
Ordinary dividend per share	7.0p	6.0p	5.25p	4.5p	4.0p
Balance sheet					
Tangible assets	348.3	348.4	305.0	327.2	291.6
Net borrowings	(25.3)	(54.9)	(58.8)	(89.7)	(65.6)
Net tangible assets	323.0	293.5	246.2	237.5	226.0
Minorities	(3.8)	(4.8)	(5.7)	(6.8)	(6.7)
Shareholders' funds	319.2	288.7	240.5	230.7	219.3
Statistics					
Profit before taxation as a percentage of sales	10.7%	9.4%	7.5%	6.1%	4.7%
Profit before taxation as a percentage of net tangible assets	28.6%	25.0%	23.5%	19.0%	14.0%
Net borrowings as a percentage of shareholders' funds	7.9%	19.0%	24.4%	38.9%	29.9%

IMI overseas	1987 £m	1986 £m	1985 £m	1984 £m	1983 £m
Group external sales overseas					
Sales by overseas companies	293	270	240	238	204
Direct exports from the UK	120	122	123	115	96
	413	392	363	353	300
Percentage of total external sales	48.0%	50.3%	47.4%	47.8%	44.4%
Group external sales overseas by geographical area					
Europe	213	180	135	129	120
North America	129	137	149	136	105
Asia	21	29	28	27	22
Australasia	17	15	18	18	14
Africa	18	18	22	32	30
Central and South America	15	13	11	11	9
	413	392	363	353	300

Shareholder information

Announcement of trading results

The trading results for the Group for the first half of 1988 will be announced on 6 September 1988 and will be publicised by means of paid advertisements in leading daily newspapers.

The trading results for the full year ending 31 December 1988 will be announced in March 1989.

Dividend payments

Dividends on ordinary shares are normally paid as follows:

Interim: end of October
Final: end of May

Dividends on 6.3 per cent cumulative redeemable preference shares are payable on 30 April and 31 October.

Interest payments on unsecured loan stocks

Interest on the unsecured loan stocks is payable as follows:

5½ per cent loan stock: 30 June 31 December
7¼ per cent loan stock: 6 March 6 September
7¾ per cent loan stock: 30 June 31 December
8 per cent loan stock: 30 June 31 December
8¼ per cent loan stock: 31 March 30 September

	At 31 December 1987	At 31 December 1986
Ordinary shareholders	**40,288**	**41,076**
Holdings:		
1 - 1,000 shares	21,096	21,378
1,001 - 10,000 shares	18,183	18,752
over 10,000 shares	1,009	946
Registered in the names of:		
Individuals	17%	18%
Corporate holders	83%	82%

IMI

Secretary

John Metcalf

Headquarters and registered office

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Solicitors

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Birmingham B4 6BH

Bankers

Lloyds Bank Plc
National Westminster Bank PLC

Auditors

Peat Marwick McLintock
45 Church Street, Birmingham B3 2DL

IMI plc is registered in England No. 714275