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IMI plc ANNUAL REPORT 1997

IMI is a major international group and one of Britain's foremost industrial companies, developing and manufacturing a wide range of advanced and high technology products.

IMI is capitalised on The London Stock Exchange at over £1.5 billion. In 1997 sales of £1,434 million, two-thirds overseas, produced pre-tax profits before exceptional items of £146.5 million. It employs over 18,000 people world-wide and has major plants in the UK, North and South America, Continental Europe and Asia/Pacific.

IMI's activities are grouped into four business areas: Building Products, Drinks Dispense, Fluid Power and Special Engineering.

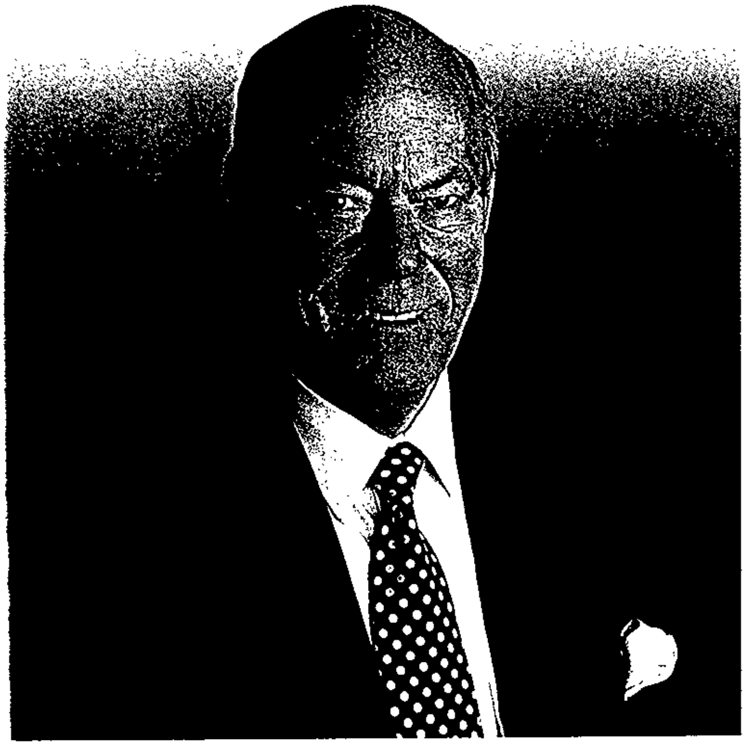
IMI is committed to establishing leading market and technical positions with the clear objective of optimising returns to shareholders.

RESULTS IN BRIEF

	1997	1996
Turnover	**£1,434m**	£1,316m
Profit before tax and exceptional items	**£146.5m**	£137.5m
Profit before tax	**£148.9m**	£161.1m
Profit after tax	**£108.8m**	£108.7m
Adjusted earnings per share	**30.7p**	25.7p
Earnings per share	**31.2p**	31.5p
Dividend per share	**14.0p**	13.0p
Net assets per share	**93.3p**	107.8p
Gearing	**58.2%**	11.5%

CHAIRMAN'S STATEMENT

CHAIRMAN
Sir Eric Pountain



Results and Dividend for 1997

It is a pleasure to report upon another successful year for the Group in which record sales and profit were achieved. Sales from continuing operations increased by 12 per cent to £1,411 million and profit before tax and exceptional items was £146.5 million, 7 per cent up on 1996. Adjusted earnings per share increased by 19 per cent to 30.7p during 1997.

All four of our business areas made progress, achieving increases in sales and profit despite the strength of sterling. Comparing year-on-year results at the average rates of exchange for 1997, sales increased by 20 per cent and operating profit by 17 per cent.

The acquisitions in the year increased further the international spread of our businesses and, including ISI Automation, contributed £160 million to sales and £18.9 million to operating profit. In 1997, 69 per cent of our sales were outside the UK and at the end of the year 62 per cent of our people were employed outside the UK.

Including acquired debt we spent £219 million on acquisitions in the year, all of which has been funded from internal cash generation and borrowings. Gearing at the year end was 58 per cent compared to 11 per cent at the end of 1996.

The tax charge on profit before exceptional items was reduced to 27 per cent (1996: 36 per cent), after taking account of the benefit of paying the interim and final dividends as Foreign Income Dividends (FID's). The underlying tax charge was around 33 per cent.

Your Board is recommending a final dividend of 8.6p (payable as a FID). This will make a total dividend for the year of 14.0p which is covered 2.2 times and compares with 13.0p for 1996.

Strategy

We have made good progress in assimilating and developing the major acquisitions of 1996 – Heimeier has been a very encouraging extension to Building Products and ISI Automation is now well established within Fluid Power.

The momentum of our strategic development was sustained by acquisitions across the whole Group. In May we acquired TA Hydronics of Sweden to expand further the broad range of top brand plumbing and heating products offered by Building Products.

A US market leader in the fast growing fruit juice dispense market was brought into Drinks Dispense in March through the acquisition of Wilshire Corporation.

Fluid Power considerably enhanced its position in pneumatic control valves with the acquisition in November of Herion to add to its pre-eminent position in pneumatic actuators and airline products.

In Special Engineering we advanced the growth of the controls businesses by acquiring the Swiss-based industrial valve operations of Sulzer in April. The closure of IMI Yorkshire Alloys was completed according to plan and marks the end of a period of unacceptable losses.

Corporate Governance

I can confirm that the Company has complied with all recommendations of The Code of Best Practice introduced by the Cadbury Report and with the London Stock Exchange's Listing Rules relating to best practice regarding Directors' remuneration. We welcome the Hampel Report and whilst we comply with most of its recommendations we need to amend our Articles of Association to comply fully with the recommendations which relate to the retirement of directors by rotation.

We will be holding an Extraordinary General Meeting to consider the adoption of new Articles of Association following our Annual General Meeting. The report of our Appointments and Salaries Committee is on pages 33 to 36.

Our People

At the end of July, Alan Emson left the Company and Roger Almond retired as Company Secretary after 29 years' service and we thank them both for their valuable contributions to the progress of the Group. We welcomed Trevor Slack to the Board as Finance Director in August, when we also appointed John O'Shea as Company Secretary.

I must commend the employees at all levels in the Company world-wide for their contribution to the achievement of another year of record results. It is the commitment and quality of our people that makes a success of our businesses and strategy.

Outlook

Our strategic development has greatly improved the focus and quality of the Group. We are in a strong position to benefit from the emerging economic upturn in Europe and sustained US demand although we share the general sense of uncertainty over the indirect effects of the economic difficulties in South East Asia. The year has started according to plan and we are confident about our ability to maintain progress.

Eric Pountain, Chairman
9 March 1998

CHIEF EXECUTIVE'S REVIEW

CHIEF EXECUTIVE
Gary Allen

1997 was a year of both financial and strategic achievement. We made good progress both in underlying businesses and through acquisition. Sales increased by 12 per cent, operating profit by 9 per cent and profit before tax and exceptional items by 7 per cent. This growth was particularly pleasing given the strength of sterling – the overall impact of which was a reduction of £20 million in our profit before tax as anticipated in our interim results announcement.

Another year of major developments for the Group featured acquisitions in all four business areas and a well managed withdrawal from alloy tube manufacture. The focus of acquisitions has been to enhance our core businesses and to improve our market positions. In this context, the acquisition of Herion's specialised valve expertise is a significant addition to our global strength in pneumatics.

Accelerating globalisation means we must continue to strengthen our businesses both by acquisition and by improving performance in existing operations. To this end, in 1997 we invested £57 million in capital spend and carried out significant cost reduction and rationalisation plans within our core businesses. Our response to the strength of sterling has included increasing the pace of implementation of these measures which cost around £7 million during the year.

As part of our strategic thrust we have continued our policy of divesting businesses which no longer fit our criteria for future investment. During the year we sold Conax Buffalo for £4 million. Since the year end we have disposed of the Industrial Heat Exchanger business of IMI Marston and five smaller engineering components businesses for a total consideration of approximately £25 million.

Throughout the last two years of intense corporate activity we have continued the positive management of our balance sheet. We continue to generate good cash flow and to keep tight control of our operational and income gearing. Our year end financial gearing of 58 per cent, although higher than in previous years, leaves the balance sheet still very healthy. Our interest was covered 26 times by pre-interest profit.

Whilst our sales in South East Asia in 1997 at £77 million represent only 5 per cent of Group external sales, this is an important region and we are closely monitoring developments in each of the markets concerned.

The following is an overview of our four business areas where comparisons with the previous year's turnover and profit are based on average 1997 rates of exchange.

Building Products
The 10 per cent improvement in profit was an excellent result from Building Products. This was achieved even after the difficulties experienced in copper tube as a result of aggressive international competition. Our fittings business continued to show a robust improvement in sales although the pressure of increased price competition resulted in profit marginally down on the previous year's very strong performance. Heimeier had another good year and it was pleasing to see it achieve substantially higher sales outside Germany in the way we envisaged at the time of acquisition.

TA Hydronics contributed profit of £6.6 million on sales of £55 million during the eight months since acquisition. TA Hydronics is a leading producer of balancing valves for heating and cooling systems and significantly enhanced the product range of Building Products and its penetration of Scandinavian markets.

Drinks Dispense
The strength of demand in the USA countered weaknesses in Continental Europe, enabling Drinks Dispense to achieve increases of 21 per cent in sales and 14 per cent in profit. Global partnerships with the leading branded soft drink manufacturers and fast food restaurant chains are developing very well. Combined with our unique international presence in dispense equipment and leading technical edge, this provides an excellent platform for future growth.

With the acquisition of Wilshire we further developed our strategy by becoming a leading force in the USA for fruit juice dispense equipment and added £25 million and £1.9 million respectively to sales and profit.

Our successful start up investment in a new factory in China gives us a manufacturing base in one of the largest and most quickly developing target markets for our principal customers.

Cannon also made good progress with another year of increased sales and profit.

Fluid Power
A record year's sales and profit owed much to the buoyancy of the USA and the full year contribution from ISI Automation. Europe was increasingly competitive but we saw a steadily developing economic improvement as the year unfolded. Sales at £336 million and profit at £38.0 million were ahead of the previous year by 28 per cent and 34 per cent respectively. Good progress was made in rationalisation and stock reduction programmes undertaken to sharpen performance. Fluid Power, in common with Building Products and Drinks Dispense, has the established international structure to enhance the distribution of the complementary products which our recent acquisitions have brought to us.

ISI Automation had a good first year with profit of £9.1 million on sales of £55 million. Herion joined the Group in November and its extensive pneumatic valve capability is a valuable addition to the product range. Synergy benefits will be realised following rationalisation during 1998 and Herion is expected to enhance earnings per share thereafter.

Special Engineering
An increase in profit from continuing operations in Special Engineering is encouraging. Our controls businesses made further progress and the acquisition of Sulzer's industrial valve division is proving to be a useful extension to Control Components Inc, our severe service valve business. IMI Cash Valve returned to profit with normal operations being restored after relocation from Illinois to Alabama. Components engineering had a satisfactory year with nearly all businesses contributing to an increase in profit.

Management
Our international management team at all levels, reinforced by those joining through acquisition, has demonstrated its ability to run our operations and take the Group forward along its path to growth.

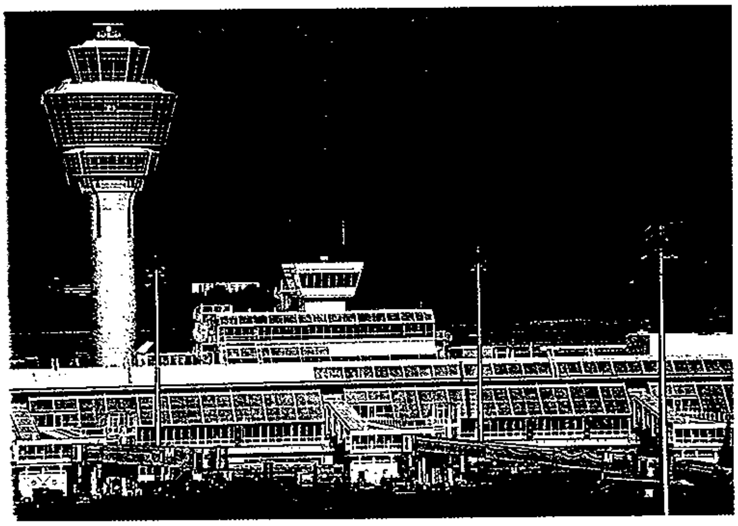
Gary Allen

Gary Allen, Chief Executive
9 March 1998

BUILDING PRODUCTS

EXECUTIVE DIRECTOR
Barry Pointon

1997 has been a year of further strategic progress for Building Products. Our overall systems capability has been extended and we have continued the move into product areas offering higher added value and



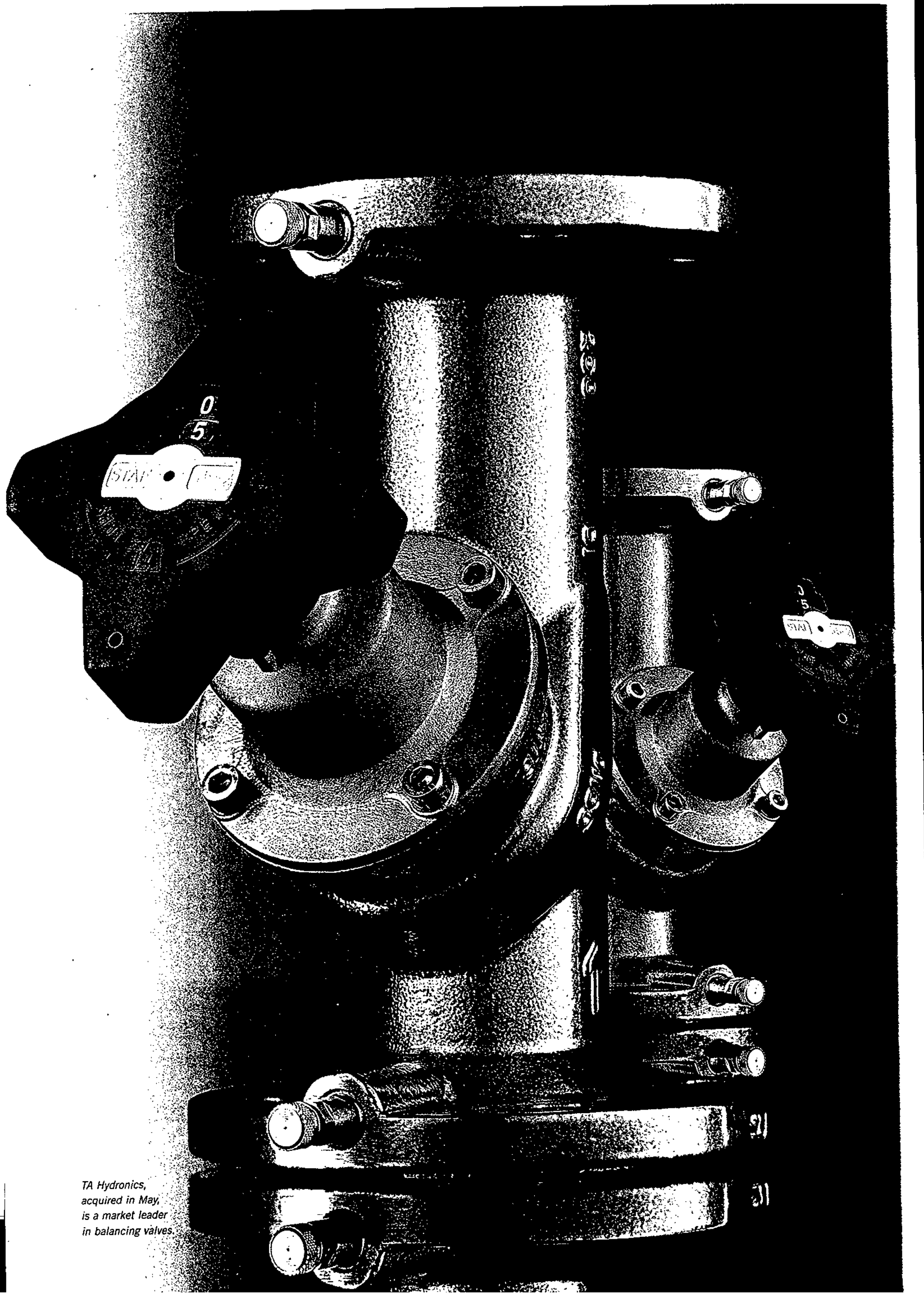
Heimeier thermostatic radiator valves are specified in the new Munich Airport extension.

growth potential. The trading performance over the year has been robust, with an excellent performance from Heimeier and a good first time contribution from TA Hydronics. Sales and profits improved by 14 per cent and 10 per cent respectively at constant exchange rates. The year reflected the pattern set during the first six months, with the UK market relatively subdued whilst some recovery was experienced in Continental Europe. Plumbing fittings made useful sales volume gains but margins tightened in increasingly competitive markets. In the UK sales increased marginally, mainland European volumes recovered and growth in Eastern Europe continues. Our Australian operations made good progress in profit terms as the effects of rationalisation and new product development showed through.

Another excellent year's result from Heimeier saw growth in profits from a 14 per cent increase in turnover (in local currency terms) and other efficiency measures. The internationalisation of Heimeier proceeded well, pushing sales outside Germany to over 25 per cent of turnover.

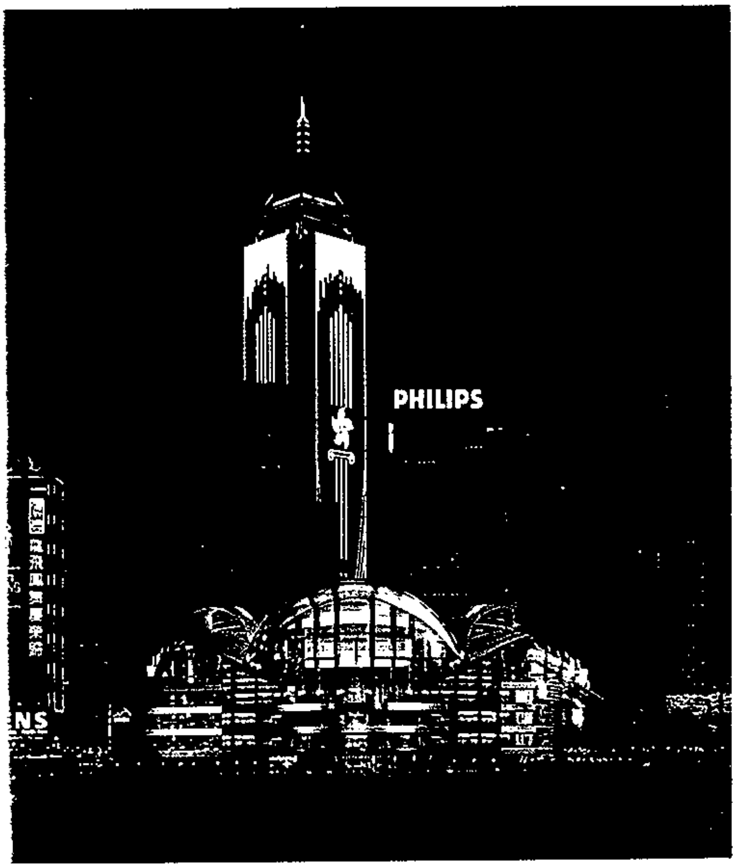
TA Hydronics, the leader in balancing valves for heating and cooling systems, was acquired in May for £93 million. Based in Ljung, near Gothenburg,

	Turnover £m	Operating Profit £m
1993	284	24.0
1994	332	29.1
1995	412	35.8
1996	479	59.4
1997	**514**	**60.0**



TA Hydronics, acquired in May, is a market leader in balancing valves.

BUILDING PRODUCTS

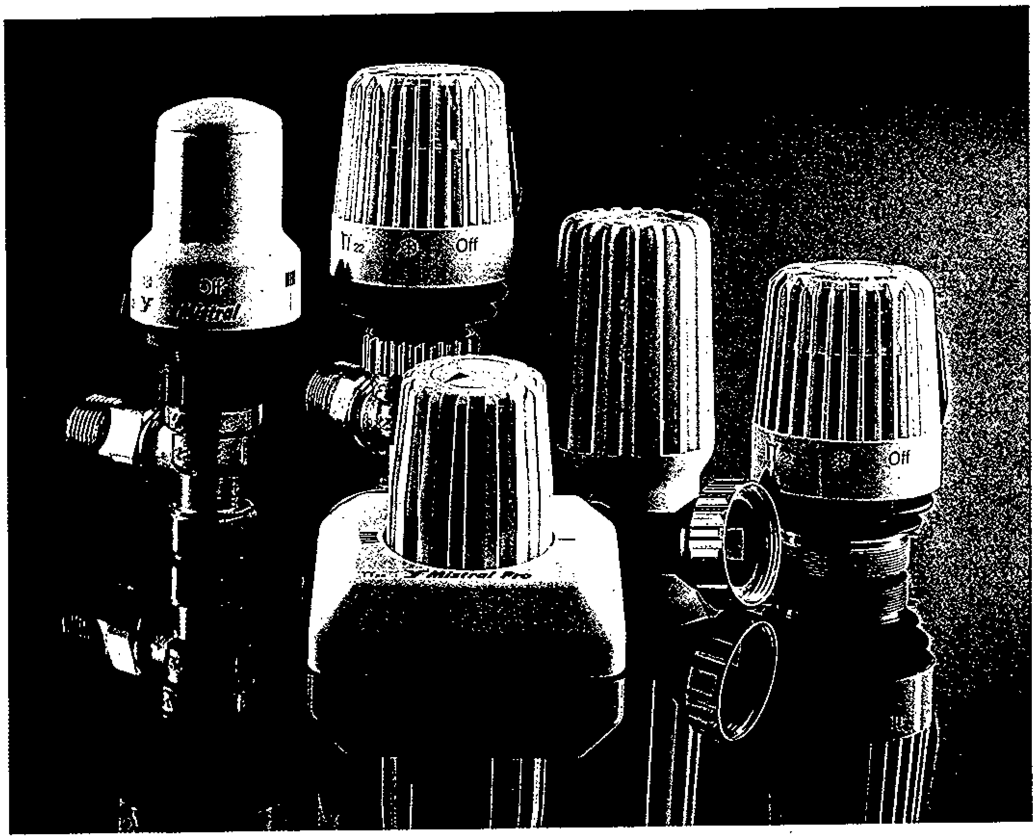


IMI Yorkshire Copper Tube & Fittings are specified in the new Hong Kong Convention and Exhibition Centre's expansion project.

TA Hydronics is very strong in Scandinavia and exports account for about half of its sales. The synergy with existing Building Products businesses is considerable in terms of product base and territorial coverage, offering potential market growth and operational efficiencies. The recognition TA branded products have won in the plumbing and heating industry makes it a superb addition to our outstanding range of products. The integration of TA's operations into Building Products, particularly in Germany and the UK, is well advanced and sales development in these two key markets is progressing.

The combined refinery and copper tube activity saw prices and margins depressed due to aggressive competition and sterling's appreciation. This is now believed to be a low point in the business cycle after several years of healthy profits following the

The new 'Aquadapt' water meter adaptor from IMI Yorkshire Fittings.



The 'Mistral' range of thermostatic radiator valves has been successfully launched in the UK by IMI Yorkshire Fittings.

commissioning of the new automated tube plant during 1992/93.

The poor weather in the early summer dampened demand for IMI Air Conditioning products compared with recent years but cost reductions and other efficiency improvements largely mitigated the impact on profit.

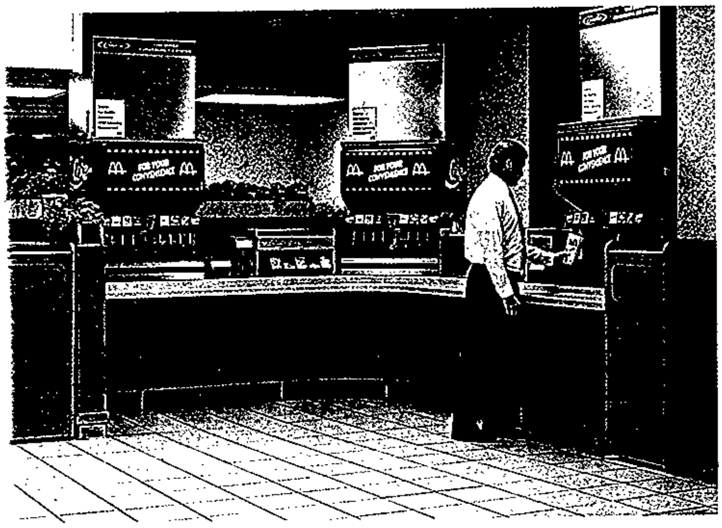
Waterheating made considerable progress to increase both sales and profits. Improved results were achieved in mains pressure products but continued weakness in demand for traditional cylinders and electric waterheaters made necessary a further rationalisation of the business during the year. IMI Rycroft performed better and, together Andrews in the UK and Sentry, its sister company in the Netherlands, also made progress.

We expect some improvements in both the UK and Continental European markets in 1998. The main contributor to growth in profit will be the continued enhancement of the distribution chain and the achievement of synergy benefits from the recent acquisitions.

DRINKS DISPENSE

EXECUTIVE DIRECTOR
Martin Lamb

Globalisation of the drinks industry continued throughout 1997 with a number of high profile mergers and acquisitions. We expect to benefit from these developments by further



The new McDonalds store at Minneapolis Airport is equipped with ice drinks dispensers by IMI Cornelius Inc, Anoka.

enhancing our partnership position with the world's leading drinks companies and restaurant chains.

Key to achieving this is a first class account management structure with a global sales and service capability, a comprehensive product range, and advanced, low cost, manufacturing.

We have made excellent progress over the last twelve months in all three respects. Account teams now provide separate and dedicated support to individual customers on a global basis. This support extends to emerging markets where our continued investment is central to the partnership philosophy. Investment in research and development has increased over 20 per cent enabling us to deal with a sharp increase in the number of customer sponsored projects. We also began work on the implementation of a global manufacturing strategy which will see the upgrade of key operations to world class status. As part of this strategy four plant closures were announced or completed during 1997.

The successful acquisition during the year of Wilshire complemented this strategy, filling key product and market gaps.

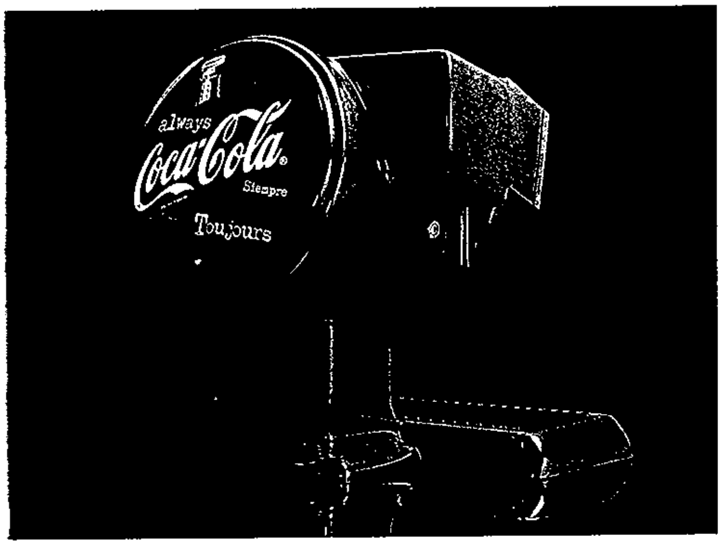
	Turnover £m	Operating Profit £m
1993	257	28.2
1994	284	34.4
1995	296	35.2
1996	305	33.8
1997	345	35.7

Objex Ltd continues to expand its range of countermount displays

DRINKS DISPENSE

Despite the costs involved in implementing this increased programme of investment and rationalisation we were pleased to record a healthy advance in both sales and profit.

Progress was especially pleasing in the US where an excellent performance



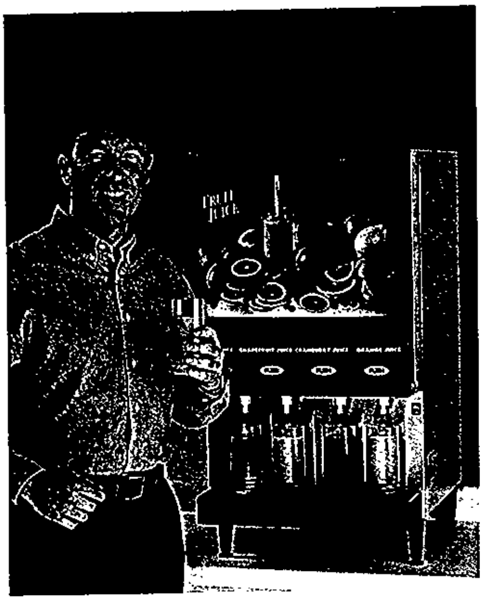
A high profile soft drinks tower designed for the Coca-Cola Company, and marketed extensively in Europe.

enabled us to build further market share. Volume was enhanced by a buoyant economy and a renewed focus on fountain equipment by both principal soft drinks customers. Strong customer interest in a number of major new product initiatives provides considerable encouragement for 1998 and beyond. The Wilshire Corporation, acquired in March, has now been fully integrated and we are delighted with the contribution that the juice product lines, in particular, have made to our business.

In the UK we consolidated our position in the domestic market, growing both sales and profit. Exports out of the UK to both Eastern Europe and Asia/Pacific were dented by the effects of strong sterling but still exhibited growth over the previous year. We closed our manufacturing plant in Leicester, transferring production to an existing facility in Sheffield. A major new facility is to be constructed at our Brighouse site during 1998.

Continental Europe remained weak as difficult conditions in the important German market continued. Profit was also damaged by lower margins on UK sourced products. Cost reduction measures were implemented successfully during the year with downsizing occuring at both of our manufacturing plants in Germany and Spain.

Performance in our emerging markets was mixed. Eastern Europe continued to demonstrate good growth albeit not at the same rate enjoyed in the previous three



IMI Wilshire, acquired in March, brings a range of juice dispensers to the product portfolio.

years. In the back half of the year our activities in Asia/Pacific were affected by the current economic and financial crisis facing the territory. China and markets in the north of the region were, however, well up on last year, and the new factory in Tianjin, China, became fully operational on schedule. In South America, Brazil continued to suffer from uncertainty surrounding consolidation of the customer base. Mexico, on the other hand, where we acquired our distributor, Ielus, enjoyed an excellent year, offering much promise in this potentially enormous market.

Our Cannon group in the USA made further progress, increasing both sales and profit during another record year. Automated handling systems and carts for the dairy industry, and point of purchase merchandisers for retailers, performed especially well. The transfer of production of conveyor systems from our factory in St Paul to our recently constructed facility in Rosemount, Minnesota is underway to concentrate production and increase efficiency. Prospects for the further development and growth of this business look very encouraging.

A new concept Fountain Dispenser designed in partnership with Pepsi and Warner Brothers International.

FLUID POWER

EXECUTIVE DIRECTOR
Nick Paul

A record year from Fluid Power showed the strength of its global marketing organisation and product portfolio. Excellent progress was made at

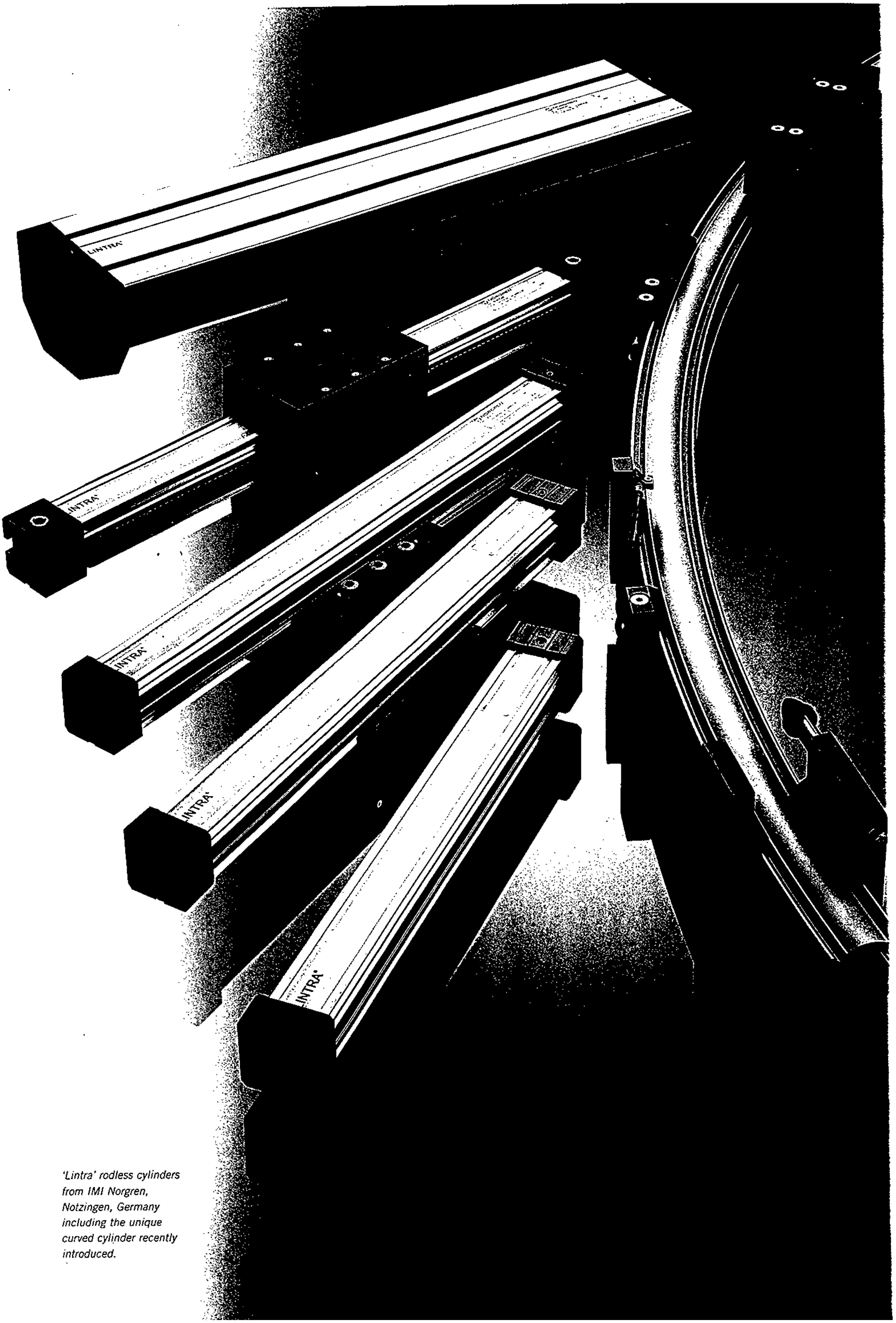
Production line at ISI Norgren, Handling Division at Mount Clements, Detroit.

operational level in reducing working capital and improving efficiency. Increased rationalisation costs were associated with the continuing drive for cost reduction and represent a sound investment in the future successful profitable growth of the business.

A maiden contribution from ISI Automation of £55 million to sales and £9.1 million to profit was in line with expectations. During the year we significantly enhanced our world-wide marketing organisation focused on the automotive industry. We combined the strengths of ISI Automation's leading position in automated handling systems for the North American automotive industry with Norgren's existing automotive product range and global sales, service and distribution capabilities. Signs world-wide are encouraging and in particular substantial progress was made in developing the market for ISI's handling systems and components in Germany and the UK.

In November we added a leading pneumatic control valve manufacturer to Fluid Power by acquiring Herion. A superb range of products and a business serving many of the major German original equipment manufacturers is an excellent base from which we can develop additional

	Turnover £m	Operating Profit £m
1993	220	14.2
1994	243	21.1
1995	281	30.1
1996	289	30.4
1997	**336**	**38.0**



'Lintra' rodless cylinders from IMI Norgren, Notzingen, Germany including the unique curved cylinder recently introduced.

FLUID POWER

The first combined Norgren Herion stand at the ASA Fluid Power Exhibition in Stuttgart.

sales internationally. Located near Stuttgart, 80 per cent of Herion's turnover is in valves and, whilst approximately 30 per cent of its sales are direct exports, a further 40 per cent of its sales are exported as components in customers' products. Rationalisation will be required to achieve improved returns but we are confident of our ability to make this acquisition earnings enhancing over the next two years.

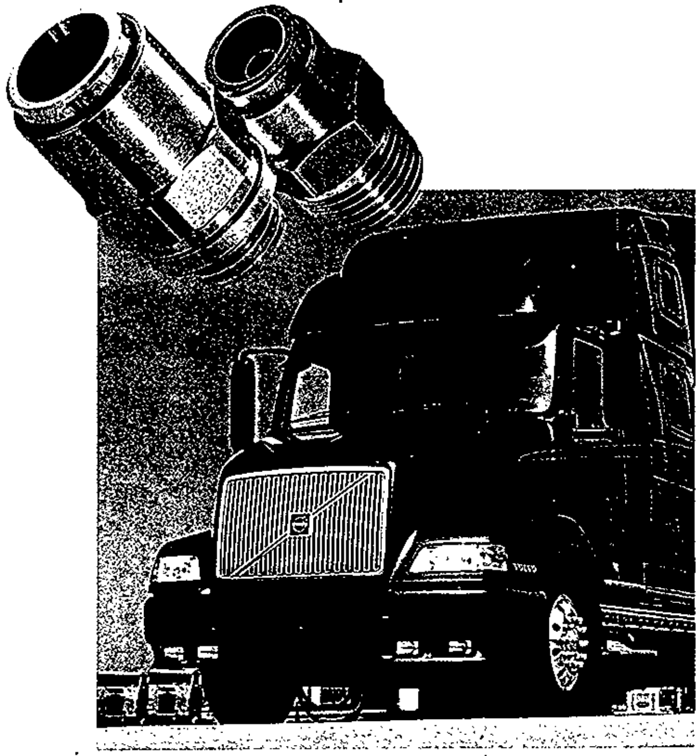
In Europe, the markets in Germany, Switzerland and Austria became stronger and sales elsewhere were satisfactory with a positive trend emerging as the year progressed. Our operations in the UK did well to improve results against a highly competitive backdrop. Further progress was also made in Eastern Europe. Overall, at constant exchange rates, sales in Europe increased and profit was satisfactory after higher rationalisation costs.

In the Americas, a major boost in sales and profit was achieved as favourable conditions continued. Vehicle fittings and actuator sales progressed strongly in the USA and we further developed our position in Canada, Brazil and Mexico, each of which performed well.

In the Pacific region our operations in New Zealand achieved good results in a flat economy whilst Australia, Hong Kong and China made useful advances in sales. Although there was a slowdown in the more troubled Asian economies towards the end of the year, we had a good result in the region as a whole.

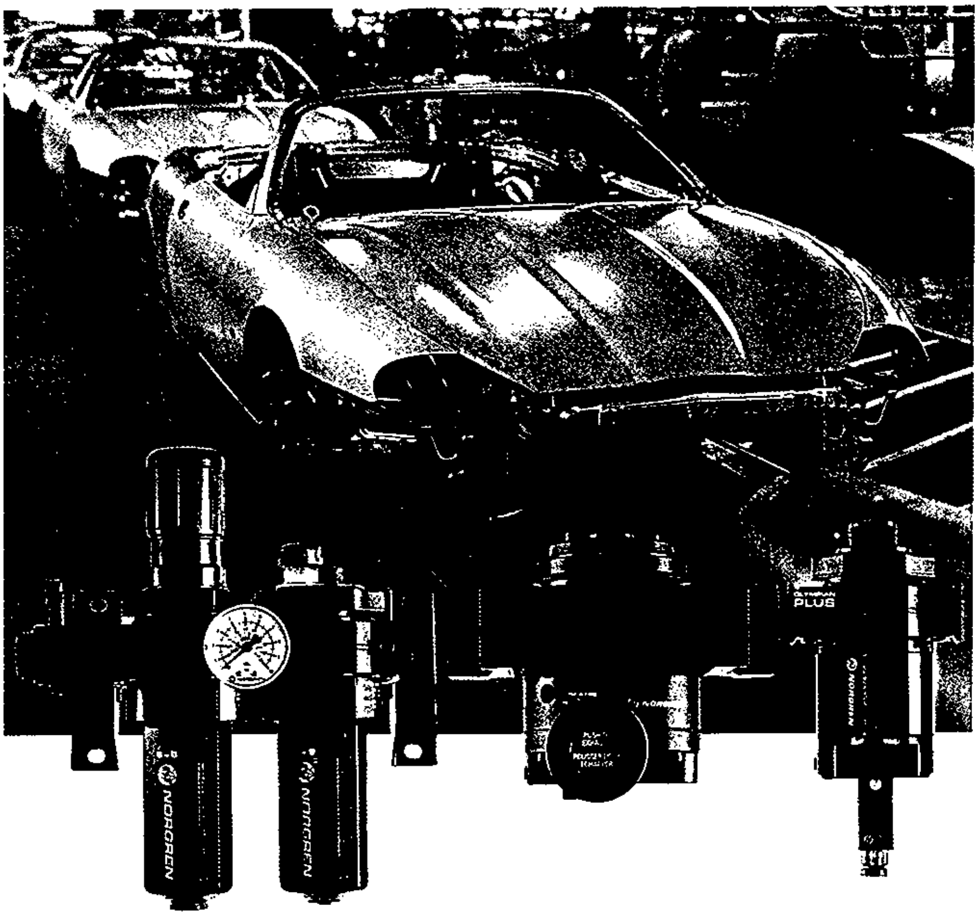
At the design and manufacturing level our four product divisions again made progress in product development and operating efficiencies. Further support to market companies was also provided with new products including the first in a range of US/European compatible power clamps for the automotive industry.

The outlook for our principal markets, Europe and the USA, is good, and Fluid Power is well set to make significant progress.



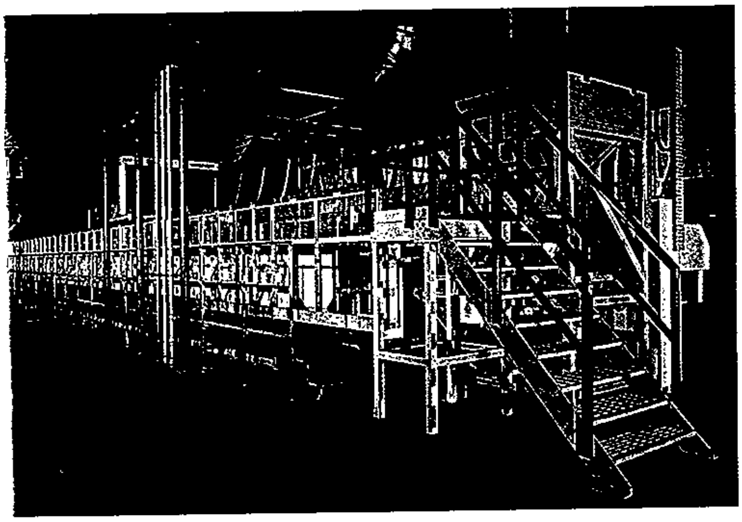
Volvo Truck US incorporate IMI Norgren fittings on airbraking and auxiliary air systems.

IMI Norgren air preparation equipment is specified for use in automotive plants worldwide.



SPECIAL ENGINEERING

We continued to make strategic progress in Special Engineering. The sale of our titanium interests in 1996 was followed by the closure of the alloy tube operation. Conax Buffalo in the US and six of the engineering components businesses have been sold and the severe service valve business has grown by acquisition. The effect of these changes is evident in the table of sales and operating profit shown on this page.



IMI Birmingham Mint recent investments include a fully automated line for copper plating steel coin blanks to meet an increasing worldwide demand.

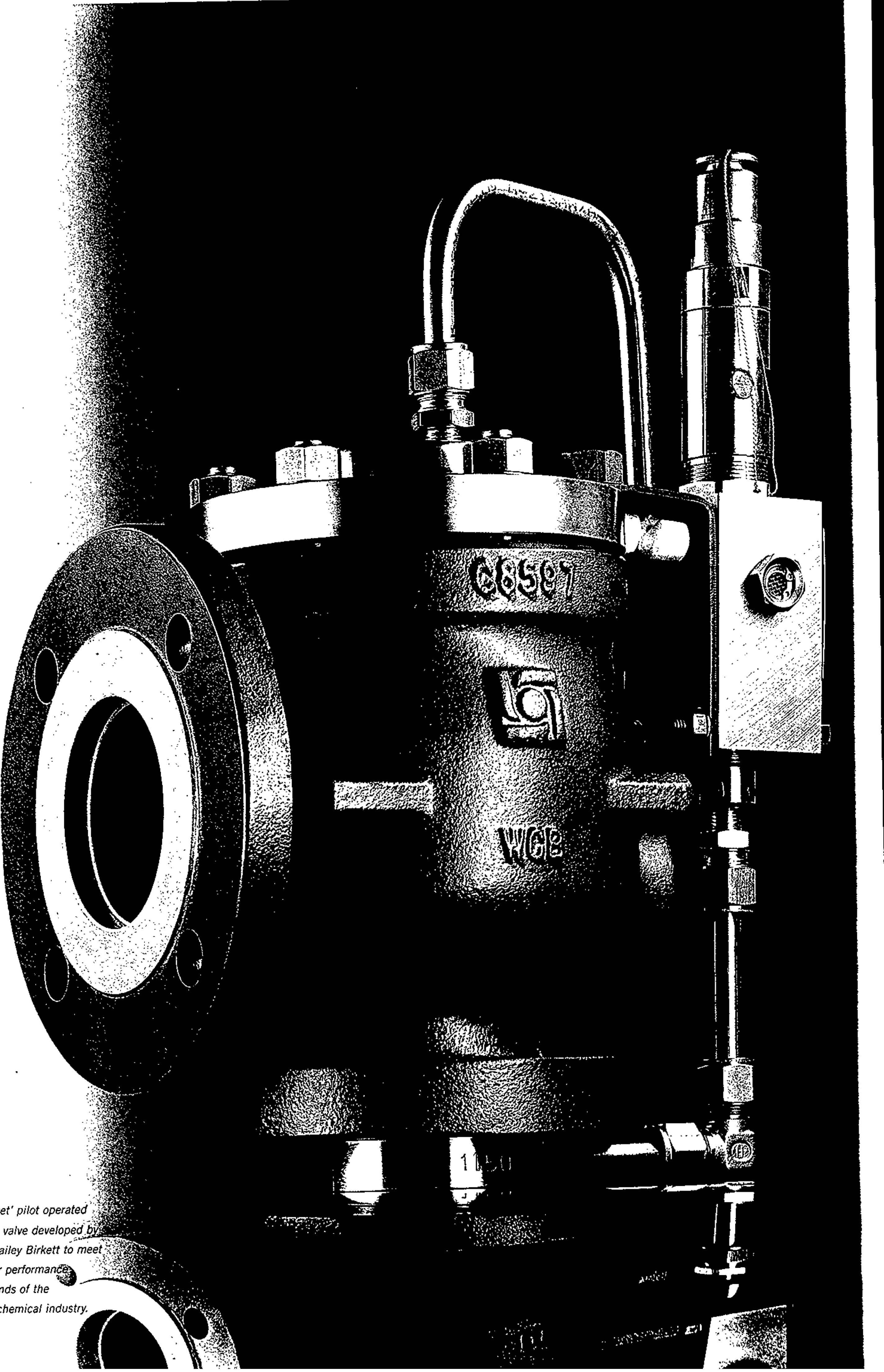
CONTROLS

EXECUTIVE DIRECTOR **Nick Paul**

Controls achieved an excellent performance that was primarily driven by Control Components Inc which maintained its recent track record of improvements in sales and profits from severe service valves.

The industrial valve division of Sulzer Thermtec based in Switzerland was acquired in April. This acquisition offers a complementary range of products to the Control Components range being a recognised leader in valves for nuclear and conventional power plants. It also has an established position in a number of key international markets. A progressive consolidation of the business is expected to make the combined operations a formidable force in severe service valves.

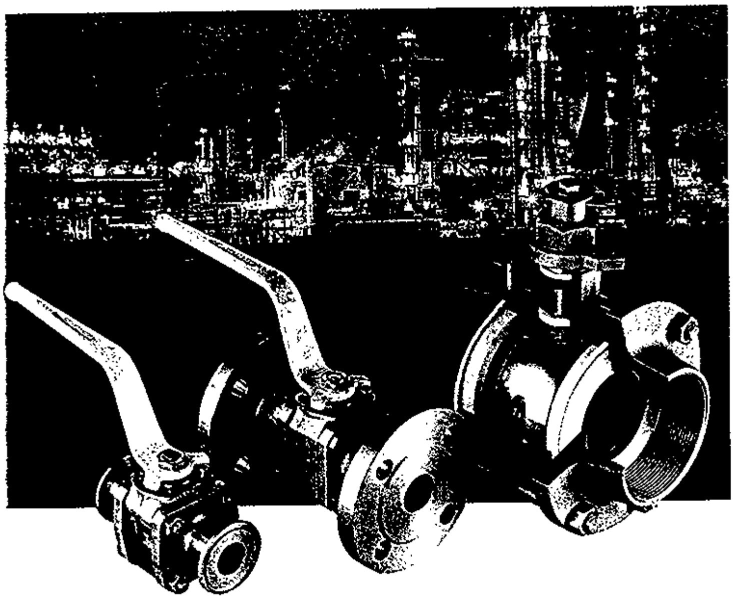
	Turnover £m	Operating Profit £m
1993	265	15.0
1994	290	13.1
1995	333	9.8
1996	235	15.0
1997	**216**	**18.6**



'Safeset' pilot operated safety valve developed by IMI Bailey Birkett to meet higher performance demands of the petrochemical industry.

SPECIAL ENGINEERING

IMI Cash Valve returned to profit as the operations became firmly established at the new facility producing safety and control valves in Alabama.



Mecafrance stainless steel ball valves are used in highly corrosive environments where reliability is paramount.

Progress was also made in the UK based Safety Systems business, which incorporates IMI Bailey Birkett and IMI Amal, particularly in increasing sales of safety relief valves and flame arresters to overseas markets. IMI Pactrol improved sales of electronic ignition controls despite considerable volatility in the UK gas boiler market. Mecafrance experienced reduced demand for high specification ball valves from the French and German chemical industries and both sales and profits fell short of last year.

ENGINEERING COMPONENTS

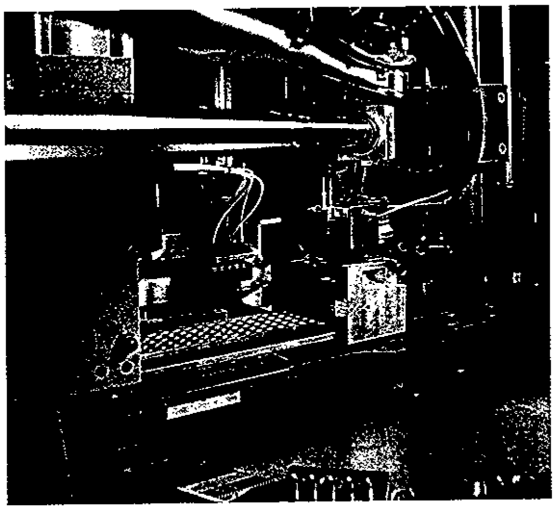
EXECUTIVE DIRECTOR **Martin Lamb**

Our engineering components business made good progress and improved profit over the previous year.

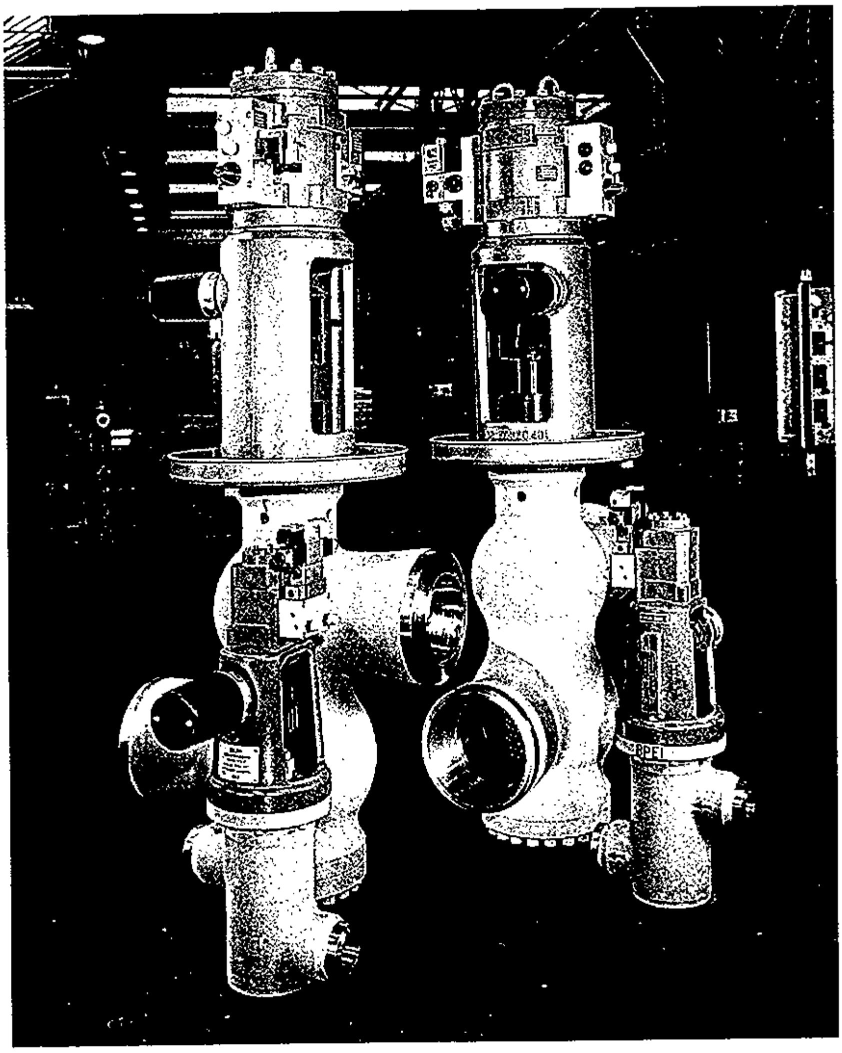
IMI Marston achieved increased sales and profits. Minting operations in the UK made pleasing progress but the US based casino tokens activities required scaling back as the peak demand of previous years dropped off and competition hardened. A major upgrade of plant at the IMI Birmingham Mint was successfully completed during the year, greatly enhancing both productivity and quality.

Eley had a difficult year with demand well down and distributors de-stocking in Europe. However, Eley Hawk made good progress in developing the US market for bismuth shot cartridges as environmental factors increasingly affected consumer choice.

Following the end of the year as part of our strategic thrust we disposed of the Industrial Heat Exchanger business of IMI Marston and five smaller engineering components businesses namely Fellows, Precision Diecasting, Reeves, Taurus and Wire Products.



The new Eley Tenex loading machine – leading edge technology which has revolutionised manufacture of the world's premier ammunition.



Bypass control valves produced by Control Components Inc.

FINANCIAL REVIEW

FINANCE DIRECTOR
Trevor Slack

Accounting Policies

The Group's accounting policies remain unchanged from the previous year and the financial statements have been prepared in accordance with UK accounting standards currently in force. Additional information relating to financial instruments is included for the first time.

Results

In a year in which the strength of sterling has been a major issue, the financial performance of the Group has been encouraging. The increase in sales and profit before tax and exceptional items (PBTE) are summarised as follows:-

	Sales £m	PBTE £m
As reported in 1996	1316	137.5
Effects of translation	(81)	(10.2)
Sales and operating profit:		
Acquisitions	160	18.9
Other continuing businesses	72	8.4
Increased rationalisation costs		(5.0)
Discontinued businesses	(33)	1.3
Associates income		(3.2)
Increased net interest cost		(1.2)
	1434	146.5

The total impact of the strength of sterling is around £20 million; in addition to the translation effect shown in the above table, the effect on foreign currency transactions is estimated to have reduced profit of continuing businesses by £10 million. The hedging of foreign currency transactions is described later. There is no hedging of profits translation.

The most significant foreign currencies for the Group are the US dollar and the Deutschemark; the relative average rates of exchange were:

	1997	1996	% change
US dollar	**1.64**	1.56	5.1
Deutschemark	**2.84**	2.35	20.9

Operating profits in all four business areas were ahead of last year and overall operating margin on continuing businesses was 10.8 per cent.

Rationalisation plans during the year cost around £7 million compared with £2 million in the previous year. This is the highest level of rationalisation costs for some years reflecting the need to remain competitive in our core businesses.

The loss of income from associates followed the sale in 1996 of our interests in Timet and International Radiator Services. Acquisitions resulted in higher interest costs, particularly in the second half when interest cover was 18 times compared to 26 for the full year.

Herion, a private German business, was acquired in November 1997 and the operating results for the period to December 1997 have not been included as they are not considered material to the 1997 Group results. All other acquisitions have produced operating profit in excess of financing costs and enhanced earnings per share.

Profit before tax and exceptional items was 6.5 per cent above last year but the increase is 15 per cent at constant exchange rates.

The payment of Foreign Income Dividends has allowed us to reclaim previously written off advance corporation tax which, taking into account taxes on repatriated profits, has helped reduce the tax rate to 27 per cent in 1997. The underlying tax rate is around 33 per cent and we would expect the increasing proportion of profits earned overseas to keep the rate above that of the UK corporation tax rate of 31 per cent.

The closure of the Yorkshire Alloys businesses was substantially concluded in 1997 but provision remains for site clearance and remedial work to be completed in 1998. The closure costs were £4.2 million lower than provided last year and this amount has been released as an exceptional item. Offsetting this credit is the net loss of £1.8 million arising from disposals.

Because of the significant exceptional net profit arising on disposals in 1996, profit before tax at £148.9 million is lower than last year's £161.1 million.

Earnings per share at 31.2p compare with 31.5p but adjusted earnings per share is 30.7p compared with 25.7p, an increase of 19 per cent.

The total dividend of 14.0p is covered 2.2 times excluding exceptional items (1996: 2.0 times).

Our return on investment, including all goodwill, was 19.2 per cent (1996: 19.4 per cent). Incorporating acquisitions on a full year basis increases the return to 20.2 per cent.

Cash Flow

The FRS1 cash flow statement is shown on page 40. The change in net debt can be summarised as follows:-

	1997 £m	1996 £m
Operating profit before depreciation	200	182
Working capital requirements	(7)	(13)
Capital expenditure less sales	(52)	(61)
Operating cash flow	141	108
Tax paid	(37)	(42)
Dividends paid	(47)	(41)
Interest paid (net)	(6)	(4)
Free cash flow	51	21
Acquisitions and disposals including acquired debt	(216)	(90)
Issue of shares	5	4
Currency translation	14	34
Increase in net debt	(146)	(31)

The Group generated £30 million more cash than last year before acquisitions. Improving working capital management remains an important Group objective and is a constituent of operating managers' targets for bonus considerations. Capital expenditure was 1.2 times depreciation. Full details of the acquisitions and disposals are shown on pages 56 to 58.

Gearing

Balance sheet gearing at the end of the year was 58 per cent compared with 11 per cent last year. In line with the Group's balance sheet hedging and debt maturity management US$ 100 million long term debt was raised by way of Loan Notes in the USA. This replaced existing shorter term debt.

Treasury Policy

IMI's centralised Group Treasury works within Board approved policies and operating parameters. These are designed to reduce the major financial risks affecting the Group which are related to funding, interest rate and foreign exchange rate exposure. The policies aim to provide a stable financial platform. They cover the use of financial instruments including derivatives. Speculative transactions are not permitted under the Group's policy. Control and reporting systems exist to ensure compliance with the policies. There have been no changes during the year or since the year end to the major financial risks faced by the Group nor to the way in which they are managed.

Funding

Net borrowings of £189 million at 31 December 1997 comprised gross borrowings of £253 million offset by cash of £64 million. There are no material funds outside the UK where repatriation is restricted. It is the policy of the Group to ensure that adequate committed funding is available to meet forecast requirements.

Funding is managed centrally with the bulk of the funding undertaken through IMI plc and a smaller portion in certain holding companies overseas. £200 million of the gross borrowings are committed with an average maturity of 7.2 years. A further £126 million of committed facilities remain undrawn with an average maturity of 3.2 years. Committed funding includes the US$100 million (£61 million) raised through the issue of Loan Notes by IMI Americas Inc. in the fourth quarter of 1997. The Notes mature in four tranches between 2007 and 2022 and have an average life of 14 years. The funds were raised at an average interest rate of 6.88 per cent.

Net assets in foreign currencies are hedged subject to considerations of materiality and practicality by foreign currency loans and forward exchange contracts.

The Group manages its exposure to short term interest rate movements through the use of fixed rate debt and derivative contracts where appropriate. Approximately 68 per cent of the interest exposure for 1998 was fixed at the end of 1997. Assuming no changes to the Group's borrowing and hedging profile a global change in interest rates of 1 per cent would affect the interest bill for 1998 by less than £1 million.

An analysis of currency exposure of assets, liabilities and interest exposure showing the effects of financial instruments is detailed in Note 18 to the accounts.

Foreign Exchange

Foreign currency transactions are hedged at commitment, or when there is a high confidence of future commitment, using currency instruments (primarily forward exchange contracts). The introduction of the Euro will simplify the Group's exchange exposures and should bring benefits in cross border cash management and create a broader funding market. The opportunities and problems associated with the introduction of the Euro are being addressed by both operational and corporate management.

Auditor

During the year, KPMG Audit Plc acted as the Group auditor. For other services including due diligence and international tax and accountancy, the Group used a number of advisors including KPMG. Group policy is to select the advisor appropriate to the task taking into account location and cost.

Year 2000

A review of the systems and operational implications of the Year 2000 issue has been carried out. Action plans have been developed throughout the Group for problems identified to date and the situation is being closely monitored at corporate level. It is estimated that the total revenue costs of changing systems in respect of the identified Year 2000 problems and the introduction of the Euro will be, in aggregate, less than £3 million over the next three years.

Shareholder Value

The share price at 31 December 1997 was 405.5p (1996: 375.5p) valuing the Group at £1.4 billion. Defining shareholder value as share price appreciation plus reinvestment of gross dividend income, the compound rate of growth over the five years to December 1997 has been 13.5 per cent per annum.

BOARD *of* DIRECTORS

Sir Eric Pountain DL Chairman

Age 64; non-executive; joined the Board in 1988; appointed Chairman in 1989. Chairman of James Beattie. Other directorships include United News & Media and John Maunders Group.

G J Allen CBE DL Chief Executive

Age 53; joined IMI in 1965; appointed to the Board in 1978, and as Chief Executive in 1986. Non-executive directorships include The London Stock Exchange and N V Bekaert (Belgium).

N C Paul Deputy Chief Executive

Age 53; joined IMI in 1977; appointed to the Board in 1989, and as Deputy Chief Executive in 1996. Responsible for Fluid Power and controls in Special Engineering.

M J Lamb

Age 37; joined IMI in 1985; appointed to the Board in 1996. Responsible for Drinks Dispense and engineering components in Special Engineering.

Sir Chips Keswick

Age 58; non-executive; joined the Board in 1994. Other directorships include Hambros PLC (Chairman), The Bank of England, De Beers, The Edinburgh Investment Trust, Persimmon and Anglo American Corporation of South Africa.

R B Pointon

Age 51; joined IMI in 1981; appointed to the Board in 1994. Responsible for Building Products.

T J Slack

Age 51; joined IMI in 1976; appointed to the Board in 1997. Finance Director and also responsible for property and human resources.

I A N McIntosh

Age 59; non-executive; joined the Board in 1989. Other appointments include Vice Chairman, HSBC Investment Bank plc.

DIRECTORS' REPORT

The year's results

The Group profit and loss account is shown on page 38. Group profit before tax and exceptional items amounted to £146.5 million (1996: £137.5 million) and profit before taxation amounted to £148.9 million (1996: £161.1 million).

Earnings applicable to shareholders of IMI plc amounted to £108.6 million (1996: £108.7 million).

Dividends

The Directors recommend a final dividend at the rate of 8.6p per share on the ordinary share capital payable as a foreign income dividend on 18 May 1998 to shareholders on the register at the close of business on 14 April 1998. Together with the interim dividend of 5.4p per share paid on 13 October 1997 this makes a total distribution for the year of 14.0p per share (1996: 13.0p per share).

Shareholders' funds

Shareholders' funds decreased from £374 million to £325 million at 31 December 1997.

Principal activities

In 1997 the Group's business fell into the following main classes: Building Products, Drinks Dispense, Fluid Power and Special Engineering. Subsidiary companies operating within these classes of business are listed with a description of their main activities on pages 60 and 61. The turnover, profit and capital employed attributable to each of these classes of business are shown in Note 1 on page 45.

Review of activities

The activities of the Group in 1997, together with indications of likely future developments, are reviewed on pages 6 to 25. Details of acquisitions and disposals are given in notes 22 and 23 on pages 56 to 58.

Research and development

Expenditure on research and development in the year was £16.1 million.

Capital expenditure

Expenditure on fixed assets was £56.6 million compared with £64.0 million in 1996. UK expenditure accounted for £26.6 million, the rest of Europe £14.6 million and the rest of the world £15.4 million.

Land and buildings

The Directors are of the opinion that on an existing use basis the aggregate market value of the Group's interests in land and buildings is substantially in excess of their net book value.

Share capital

During the year 1,765,071 new ordinary shares were issued under employee share schemes.

The Directors consider it advisable to have available the power to make limited issues of shares for cash without reference to statutory pre-emption rights. The power to make such issues granted at the Annual General Meeting held on 12 May 1997 will expire at the forthcoming Annual General Meeting and the Directors accordingly recommend approval of the special resolution set out in paragraph B in the notice of meeting on pages 64 and 65. The resolution, if approved, will disapply pre-emption rights so as to allow rights issues to be made in the most practical manner and otherwise to allow the Directors to issue for cash, without recourse to existing shareholders, shares up to a nominal value of £4,350,000 representing just under 5 per cent of the total ordinary share capital in issue as at 9 March 1998. This power will terminate 15 months after the passing of the resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 1999 and will be exercised in accordance with the guidelines issued by bodies representing institutional investors.

The Company has been notified pursuant to Section 198 of the Companies Act 1985 of interests in the Company amounting to or exceeding 3 per cent of its ordinary issued share capital as follows:-

	%
Prudential Corporation	3.97
Britannic Assurance plc	3.13
BT Pension Scheme	3.05
BAT Industries plc	3.05

Employee involvement and development

The Group continues to support employee involvement at all levels in the organisation. Formal joint consultative machinery is operated in all except the smallest units where it is strongly encouraged on an informal basis. During 1997 consultative arrangements, including formal committees and team briefings, were used to consider and discuss employees' views, to develop understanding of business aims, to increase awareness of financial and economic factors affecting performance, and to improve effectiveness. A profit sharing scheme covering most UK employees, which includes the opportunity to take the Company's shares, has operated for many years. A savings-related share option scheme available to all UK employees has operated successfully since 1984 and an Executive Share Option Scheme available to selected senior executives, including Executive Directors, has operated since 1985.

The Group requires its operating units to train and develop employees at all levels and a wide range of business-related training is offered. As a matter of long-standing policy, where appropriate, all employees who become disabled have been given suitable training for employment within the Group or elsewhere. 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. The Group also supports charities for assisting disabled people into work.

A summary of this Annual Report is produced for employees and copies of the full Annual Report are available to all.

Health, safety and environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment in all its companies. Chief executives have personal responsibility for implementing these policies in relation to the units under their control. An audit of the Group's Health, Safety and Environment performance is undertaken annually and reviewed by the Executive Directors. In addition a Health and Safety Forum is held in order to establish and promote best practice. Heimeier and Woeste have achieved certification to the very demanding Environmental Management Standard (ISO 14001) and other parts of the Group are working towards achieving the same standard.

Policy and practice on the payment of trade creditors

Operating businesses are responsible for making their suppliers aware of the terms of payment and agreeing such terms with their suppliers for each business transaction. It is Group policy that payments to suppliers are made in accordance with these terms. The Company does not have trade creditors.

Donations

£381,000 was given during 1997 for community and similar purposes, including £301,000 for charitable purposes. £40,000 was given during 1997 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 in 1997 were approximately £170 million, or 10 per cent of total sales. Transfers are generally priced on an arm's-length basis.

Directors

The Directors whose names appear on pages 26 and 27 were Directors throughout the year except for Mr T J Slack who was appointed with effect from 1 August 1997. Mr A L Emson was an Executive Director from the beginning of the year until he left the Board on 31 July 1997. Under the Articles, Mr Slack retires and is recommended for re-election; Sir Eric Pountain and Mr R B Pointon retire by rotation and are also recommended for re-election. Sir Eric Pountain is a non-Executive Director and does not have a service contract; he is Chairman of the

Audit Committee and of the Appointments and Salaries Committee. Mr Slack and Mr Pointon are Executive Directors and have service contracts which may be terminated by either party on one years' notice.

Directors' interests

The interests, of the persons (including the interests of their families) who were Directors at the end of the year, in the share and loan capital of the Company, and their interests in the Company's share option schemes are shown on pages 35 and 36.

Corporate governance

The Company has complied throughout 1997 with all recommendations of the Cadbury Code of Best Practice.

The Company welcomes and is in compliance in most respects with the recommendations of the Hampel Committee. However, in order to comply fully with the recommendations regarding the retirement of directors by rotation, the Articles of Association require amendment to provide that each Director including the Chief Executive stands for re-election at least once every three years. An Extraordinary General Meeting will be held on 8 May 1998, following the Annual General Meeting, to consider the adoption of new Articles of Association incorporating these and a number of other changes as outlined in the Chairman's letter to shareholders dated 14 April 1998.

The Audit Committee, chaired by the Chairman, comprises all the non-Executive Directors. It meets at least twice a year. The Company's auditors, the Chief Executive and the Finance Director attend when appropriate. Its principal business is to review accounting policies and financial matters generally.

The Appointments and Salaries Committee, also chaired by the Chairman, consists of all the non-Executive Directors. The Committee makes recommendations to the Board on the appointment and responsibilities of Executive Directors and determines all aspects of their remuneration. It also acts as a nomination committee with regard to the selection of non-Executive Directors. The report of the Committee is on pages 33 to 36.

The Executive Committee, chaired by the Chief Executive, comprises all the Executive Directors and monitors performance and formulates proposals on strategy, policy and resource allocation for consideration by the Board.

The Chairman of each of these Committees is under an obligation to keep the Board informed of its deliberations.

The auditor, KPMG Audit Plc, has confirmed that in its opinion; with respect to the Directors' statements on internal financial control and going concern on pages 31 and 32, the Directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are consistent with the information of which they are aware from their audit work on the financial statements; and that the Company complied with the other aspects of the Cadbury Code of Best Practice specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board.

Internal financial controls

The Directors are responsible for the Group's system of internal financial control which is designed to safeguard the Group's assets and maintain proper accounting records which provide reliable financial information.

The key elements of the system of internal control, which are carried out through the organisational structure, are:

Business planning – all business units prepare forward plans annually which make projections for the following three years. These plans are considered in detail by Executive Directors and then consolidated for review by the Board as a whole. Performance against plan is monitored on a monthly and quarterly basis by the Executive Directors. Reports are consolidated and rolling forecasts are updated for overall quarterly review by the Board.

Controls – common accounting systems and controls are promulgated throughout the Group, which are documented and monitored. Certificated quarterly reports from relevant senior executives are required confirming compliance with the systems laid down. There is also a rolling programme of internal reviews which are documented and reported. In addition, selective annual reviews of subsidiary companies are carried out each year by Group personnel in conjunction with the external auditors.

Investment appraisal – procedures are set out for appraisal, authorisation and post-investment review of capital investments.

The Board has reviewed the effectiveness of the system of internal financial control through the monitoring process outlined above. It must be recognised that such a system can provide reasonable but not absolute assurances.

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.

Auditor

Resolutions for the re-appointment of KPMG Audit Plc as auditor of the Company and to authorise the Board to fix the auditor's remuneration are to be proposed at the forthcoming Annual General Meeting.

By order of the Board
J O'Shea, Secretary
Witton, Birmingham, B6 7BA
9 March 1998

REPORT OF THE APPOINTMENTS AND SALARIES COMMITTEE

The Appointments and Salaries Committee is responsible for determining the remuneration and other terms of employment of the executive directors. The Committee is comprised solely of the non-executive directors. In all respects, the Company complies with the requirements relative to the role and composition of remuneration committees set out in Section A of the best practice provisions annexed to the London Stock Exchange's Listing Rules.

Policy

The policy of the Committee is to provide a competitive remuneration package to executive directors to attract, retain and motivate individuals of the calibre required, and to ensure that the Group is managed successfully in the interests of shareholders. Remuneration comprises salaries, performance bonuses, benefits in kind, pension arrangements and participation in share schemes.

When setting the remuneration of executive directors, the Appointments and Salaries Committee takes into account market rates, as evidenced by comparisons with companies of a similar type, size and complexity, and periodic reports from external consultants. Reviews are carried out annually or when a change of responsibilities occurs. Factors taken into account in determining the package include the international nature of the business and market and technological leadership positions. In framing its policy, the Committee has given full consideration to Section B of the best practice provisions annexed to the London Stock Exchange's Listing Rules.

Executive directors are only permitted to accept external appointments with the consent of the Board, and are allowed to retain fees from their external non-executive directorships.

Service contracts

The two longest serving executive directors, Mr G J Allen and Mr N C Paul, have two year rolling service contracts (having voluntarily and without compensation moved from three year contracts); other executive directors have one year rolling service contracts. No specific terms are set out in any of these contracts for compensation in the event of early termination. None of the non-executive directors has a service contract.

Salaries

Salaries were increased by 3 per cent during the year. Newly appointed executive directors normally reach the full rate of salary for their position after completing two years in office subject to performance. Accordingly, Mr M J Lamb, who was appointed to the Board on 1 August 1996, received an additional increase in salary of £17,000. Mr T J Slack was appointed to the Board on 1 August 1997 at an annual salary of £150,000.

Performance bonuses

Executive directors are awarded performance bonuses to encourage profitable growth, measured by the increase in earnings per share, and for the achievement of strategic objectives; these are capped at 30 per cent of salary. As is the case with the vast majority of UK employees, these performance bonuses have always been pensionable.

Benefits

The principal benefits in kind for executive directors relate to the provision of a fully expensed motor car, private health care arrangements and, where appropriate, relocation arrangements.

Summary of individual directors' emoluments

	Salary £000	Benefits £000	Bonus £000	Total 1997 £000	Total 1996 £000
Executive					
G J Allen	333	14	98	445	419
R Amos	–	–	–	–	237
A L Emson*	104	8	–	112	245
M J Lamb	159	42	47	248	83
N C Paul	221	15	65	301	277
P C Roberts	–	–	–	–	85
R B Pointon	185	13	54	252	242
T J Slack (from 1 August)	64	5	19	88	–
Non-Executive					
Sir Eric Pountain	50	–	–	50	40
Sir Chips Keswick	19	–	–	19	15
I A N McIntosh	19	–	–	19	15
Total	1154	97	283	1534	
Total 1996	1191	79	388		1658

*In addition, £200,000 was paid to Mr A L Emson as compensation for loss of office.

Salaries listed above for non-executive directors include fees of £30,000 (1996: £30,000).

Pension entitlement

Executive directors participate in the IMI Supplementary Pension Fund. The Fund provides a pension on retirement at age 60, guaranteed for 5 years, up to two-thirds of final pensionable pay, together with a dependants' benefit of two-thirds of the member's pension in the event of the death after retirement. Pensionable pay normally includes performance bonuses.

An immediate pension based on service completed may be drawn on retirement after age 50, subject to certain service requirements and, if retirement precedes age 57, to a reduction if retirement is at the member's request. On death in service, in addition to a dependant's pension of two-thirds of the member's pension based on prospective service, a lump sum of four years pensionable pay is normally payable. Children's pensions are also paid in the event of death. An immediate pension based on prospective service is payable if ill-health forces retirement. Once in payment pensions are guaranteed to increase annually by 5 per cent or in line with price inflation (RPI) if less. No contributions are payable by members of this Fund.

Details of the pension benefits earned during 1997 are summarised in the following table. This shows the directors' accrued pension benefits at the end of the year, and represents the annual deferred pension to which the director would have been entitled had he left service at the end of the year (or the actual pension at the date of leaving in the case of Mr A L Emson). This is based on completed service and earnings at the relevant date. Also shown is the increase in the accrued pension during the year, over and above the effects of inflation, which reflects the completion of further pensionable service and any increase in salary. In addition, a contribution of £23,460 was paid into the Fund in respect of Mr A L Emson.

	Age at 31 December	Accrued pension at Year end £000pa	Increase in accrued Pension over year £000pa
G J Allen	53	216	21
N C Paul	52	126	17
R B Pointon	50	91	21
M J Lamb	37	30	10
T J Slack (from 1 August 1997)	51	56	9
A L Emson (to 31 July 1997)	55	13	2

The above figures exclude any benefits from the directors' voluntary contributions. Benefits under approved schemes are subject to the Inland Revenue earnings cap for directors who joined after May 1989. This applied to Mr A L Emson for whom an unfunded unapproved pension arrangement was set up. During the year a sum of £107,000 (1996: £52,000) was allocated to this arrangement and from 1 August 1997 to 31 December 1997 pension payments amounting to £5,522 were paid to him.

Non-executive directors are not members of any Group pension scheme.

Share options

During the year further grants of options were made under the IMI Executive Share Option (1995) Scheme. The options are subject to performance related conditions so that they only become exercisable if growth in earnings per share during any three consecutive financial years exceeds the rate of increase in the UK Retail Prices Index over that three year period by at least 6 per cent. The grant of options is being phased over a period of years as the Committee does not favour block grants of the maximum entitlement in any one year. The Scheme is available to all senior executives and options are priced at full market value without discount.

Executive directors are also eligible to participate in a savings related share option scheme, which is available to all UK employees and permits savings up to a maximum of £250 per month on the same terms as all other eligible staff (including the grant of options at a discount of up to 20 per cent below the market price).

The executive directors also participate in a profit sharing scheme covering most UK employees but whereas employees may take up their entitlement in cash or IMI shares, executive directors are required to take their entitlement in the form of shares.

Directors' share options

Directors' share options outstanding at 31 December 1997 were as follows:-

Scheme Code	G J Allen	M J Lamb	N C Paul	R B Pointon	T J Slack
B		2,112			
C	3,631	3,631	3,097		1,565
D	1,643	1,643			2,316
E	3,223		3,107	4,276	1,425
F		1,206	1,206		723
G					659
H	100,000				
I			73,000		
J		5,700			
K	60,000		60,000		
L	50,000	5,500	50,000	10,000	5,500
M				3,000	8,000
N	50,000	1,500	40,000	80,000	15,000
O	30,000	30,000	20,000	30,000	19,000
P	150,000	50,000	100,000	75,000	1,000
Q					50,000
Total	448,497	101,292	350,410	202,276	105,188

Please refer to page 54 for the respective scheme codes.

Directors' interests

The interests (all being beneficial) of the Directors and their families in the share and loan capital of the Company are shown below, together with their interests in options granted to them pursuant to the rules of the IMI Savings-Related Share Option Schemes (marked a) and the rules of the IMI Executive Share Option (1985) Scheme (marked b) and the rules of the IMI Executive Share Option (1995) Scheme (marked c).

Directors at December 1997	Shares held and options granted over ordinary shares	Interest at 31 December 1997	Interest at 1 January 1997 or date of appointment if later	Options during the year granted	Options during the year exercised	Option price	Mid-market price at date of exercise
G J Allen	Ordinary shares	**93,441**	87,102				
	Options a	**8,497**	12,655	–	4,158	202p	377.5p
	Options b	**260,000**	260,000	–	–		
	Options c	**180,000**	30,000	150,000	–		
Sir Chips Keswick	Ordinary shares	**10,000**	10,000				
M J Lamb	Ordinary shares	**3,426**	2,734				
	Options a	**8,592**	8,592	–	–		
	Options b	**12,700**	12,700	–	–		
	Options c	**80,000**	30,000	50,000	–		
I A N McIntosh	Ordinary shares	**7,500**	7,500				
Sir Eric Pountain	Ordinary shares	**30,000**	30,000				
N C Paul	Ordinary shares	**14,211**	12,806				
	Options a	**7,410**	7,410	–	–		
	Options b	**223,000**	223,000	–	–		
	Options c	**120,000**	20,000	100,000	–		
R B Pointon	Ordinary shares	**2,252**	1,169				
	Options a	**4,276**	4,276	–	–		
	Options b	**93,000**	113,000	–	20,000	247.7p	452.5p
	Options c	**105,000**	30,000	75,000	–		
T J Slack	Ordinary shares	**10,465**	9,409				
	Options a	**6,688**	7,744	–	1,056	213p	443p
	Options b	**28,500**	28,500	–	–		
	Options c	**70,000**	20,000	50,000	–		

During the period 31 December 1997 to 9 March 1998 there were no changes in the interests of any current Director from those shown.

The closing price of the Company's ordinary shares at 31 December 1997 was 405.5p per share and the price range during the year was 285p to 452.5p.

The gains made by the directors on the exercise of share options during the year were: G J Allen £7,297; R B Pointon £40,960; T J Slack £2,429; which in aggregate amounted to £50,686.

Non-executive directors

The remuneration (including fees) of the non-executive directors is determined, after reference to external comparisons, by the Board. Non-executive directors do not participate in, or vote on, any discussion relating to their own remuneration, nor do they participate in any bonus, pension or share schemes and they receive no other benefits. Non-executive directors are appointed for an initial period of three years. The remuneration, which had remained unchanged since April 1994, was reviewed in the light of current responsibilities. Accordingly from 1 July 1997 the remuneration was increased, in the case of the chairman from £40,000 to £60,000 per annum and for the other non-executive directors from £15,000 to £22,500 per annum.

Eric Pountain, Chairman of the
Appointments and Salaries Committee
9 March 1998

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are required to prepare financial statements for each financial period which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of affairs of the Company and the Group as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements.

Applicable accounting standards have been followed and as the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, the financial statements have been prepared on a going concern basis.

The Directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the Company and the Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITOR'S REPORT

TO THE MEMBERS OF IMI plc

We have audited the financial statements on pages 38 to 61 and the detailed information set out on pages 33 to 36 of the report of the Appointments and Salaries Committee.

Respective responsibilities of directors and auditor

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
9 March 1998

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	Notes	Before exceptional items 1997 £m	Exceptional items 1997 £m	Total 1997 £m	Before exceptional items 1996 £m	Exceptional items 1996 £m	Total 1996 £m
Turnover	1,2						
Continuing operations		1250.4		1250.4	1260.4		1260.4
Acquisitions		160.4		160.4			
Total continuing operations		1410.8		1410.8	1260.4		1260.4
Discontinued operations		23.1		23.1	56.0		56.0
Total turnover		1433.9		1433.9	1316.4		1316.4
Operating profit	1,2						
Continuing operations		133.4		133.4	140.2		140.2
Acquisitions		18.9		18.9			
Total continuing operations		152.3		152.3	140.2		140.2
Discontinued operations		–		–	(1.3)		(1.3)
Total operating profit		152.3		152.3	138.9		138.9
Share of profits of associates		–		–	3.2		3.2
Profit on disposal	3		0.2	0.2		64.3	64.3
Provision for losses on closure and sale of businesses	4		2.2	2.2		(40.7)	(40.7)
Profit before interest		152.3	2.4	154.7	142.1	23.6	165.7
Net interest payable	6	(5.8)		(5.8)	(4.6)		(4.6)
Profit before taxation		146.5	2.4	148.9	137.5	23.6	161.1
Tax on profit	7	(39.6)	(0.5)	(40.1)	(49.0)	(3.4)	(52.4)
Profit after taxation		106.9	1.9	108.8	88.5	20.2	108.7
Minority interests		(0.2)		(0.2)	–		–
Profit for the financial year	8	106.7	1.9	108.6	88.5	20.2	108.7
Dividends paid and proposed	9			(48.8)			(45.1)
Transfer to reserves	21			59.8			63.6
Earnings per share	10			31.2p			31.5p
Adjusted earnings per share	10			30.7p			25.7p

The movements in reserves are set out in note 21.

GROUP BALANCE SHEET

AT 31 DECEMBER 1997

	Notes	1997 £m	1996 £m
Fixed assets			
Tangible assets	12	332.2	275.1
Current assets			
Stocks	14	272.9	247.8
Debtors	15	275.9	208.5
Investments		11.5	10.2
Cash and deposits		63.5	89.3
		623.8	555.8
Creditors: amounts falling due within one year			
Borrowings and finance leases	16, 18	(49.1)	(11.7)
Other creditors	16	(299.3)	(253.5)
Net current assets		275.4	290.6
Total assets less current liabilities		607.6	565.7
Creditors: amounts falling due after more than one year			
Borrowings and finance leases	17, 18	(203.5)	(120.5)
Other creditors	17	(28.2)	(23.3)
Provisions for liabilities and charges	19	(50.5)	(48.0)
Net assets		325.4	373.9
Capital and reserves			
Called up share capital	20	87.2	86.7
Share premium account	21	125.3	121.3
Revaluation reserve	21	1.0	1.0
Other reserves	21	(419.0)	(313.7)
Profit and loss account	21	530.9	478.6
Equity shareholders' funds		325.4	373.9

Approved by the Board of Directors on 9 March 1998 and signed on its behalf by:

Eric Pountain **Gary Allen**

Directors

Eric Pountain Gary Allen

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1997

	1997		1996	
	£m	£m	£m	£m
Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit		152.3		138.9
Depreciation		48.0		43.1
Stocks decrease		9.3		15.0
Debtors increase		(12.6)		(14.4)
Creditors and provisions decrease		(1.2)		(13.8)
Exceptional items		(2.4)		-
Net cash inflow from operating activities		193.4		168.8

CASH FLOW STATEMENT

	1997		1996	
	£m	£m	£m	£m
Net cash inflow from operating activities		193.4		168.8
Return on investments and servicing of finance		(6.0)		(3.8)
Taxation		(37.0)		(41.5)
Capital expenditure and financial investment		(52.2)		(61.0)
Acquisitions and disposals		(162.6)		(90.0)
Equity dividends paid		(46.6)		(41.0)
Cash flow before use of liquid resources and financing		(111.0)		(68.5)
Management of liquid resources		5.4		12.8
Net cash inflow/(outflow) from financing				
Issue of ordinary shares	4.5		4.3	
Increase/(decrease) in borrowings	72.1		(17.1)	
		76.6		(12.8)
Decrease in cash in the year		(29.0)		(68.5)

Reconciliation of net cash to movement in net borrowings

	1997		1996	
	£m	£m	£m	£m
Decrease in cash in the year	(29.0)		(68.5)	
Cash (inflow)/outflow from borrowings	(72.1)		17.1	
Cash inflow from decrease in liquid resources	(5.4)		(12.8)	
Change in borrowings resulting from cash flows		(106.5)		(64.2)
Borrowings assumed with acquisitions		(53.3)		(0.4)
Currency translation differences		13.6		33.9
Movement in net borrowings in the year		(146.2)		(30.7)
Net borrowings at 1 January		(42.9)		(12.2)
Net borrowings at 31 December		(189.1)		(42.9)

Notes to the cash flow appear in note 23.

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £m	1996 £m
Profit for the financial year	108.6	108.7
Currency translation differences	0.5	(8.5)
Total recognised gains and losses for the financial year	109.1	100.2

GROUP HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1997

There is no material difference between the profit before taxation and the retained profit for the year as shown in the Group profit and loss account and their historical cost equivalent.

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1997

	1997 £m	1996 £m
Profit for the financial year	108.6	108.7
Dividends	(48.8)	(45.1)
	59.8	63.6
Other recognised gains and losses relating to the financial year	0.5	(8.5)
New ordinary share capital issued	4.5	9.5
Goodwill on acquisitions deducted from reserves	(113.3)	(176.4)
Previously acquired goodwill taken through the profit and loss account in arriving at the profit for the financial year	–	21.0
Net decrease in shareholders' funds for the year	(48.5)	(90.8)
Shareholders' funds at 1 January	373.9	464.7
Shareholders' funds at 31 December	325.4	373.9

COMPANY BALANCE SHEET

AT 31 DECEMBER 1997

	Notes	1997 £m	1996 £m
Fixed assets			
Investments	13	**322.7**	281.6
Current assets			
Debtors	15	**231.3**	268.6
Cash and deposits		**1.0**	1.0
		232.3	269.6
Creditors:			
amounts falling due within one year			
Borrowings	16	**(12.3)**	(8.4)
Other creditors	16	**(44.4)**	(37.0)
Net current assets		**175.6**	224.2
Total assets less current liabilities		**498.3**	505.8
Creditors:			
amounts falling due after more than one year			
Borrowings	17	**(106.2)**	(111.4)
Other creditors	17	**(45.1)**	(52.4)
		347.0	342.0
Capital and reserves			
Called up share capital	20	**87.2**	86.7
Share premium account	21	**125.3**	121.3
Other reserves	21	**1.6**	1.6
Profit and loss account	21	**132.9**	132.4
		347.0	342.0

Approved by the Board of Directors on 9 March 1998 and signed on its behalf by:

Eric Pountain **Gary Allen**

Directors

Eric Pount

Gary Allen

ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain tangible fixed assets and in accordance with applicable UK accounting standards.

(b) Consolidation

The consolidated financial statements incorporate the accounts of IMI plc and its subsidiary undertakings made up to 31 December 1997 and the Group's share of the results and reserves of associated undertakings. The results of subsidiary undertakings acquired or sold during the year are included from the date of acquisition or to the date of disposal. Acquisitions during the year have been recognised by the acquisition method of accounting.

The Company has not presented a separate profit and loss account as is permitted by Section 230 of the Companies Act 1985.

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies have been translated into sterling at the rate of exchange ruling on 31 December 1997. The profit and loss accounts 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. Exchange differences arising on the retranslation of the opening net assets of foreign subsidiaries, foreign currency loans used for overseas investment and transactions executed solely for the purpose of hedging foreign currency assets exposure are taken directly to reserves. Differences arising on revenue transactions in the year are reflected in profit before taxation.

(d) Goodwill

Purchased goodwill including goodwill on consolidation, being the excess of the fair value of consideration given over the fair value of the net assets acquired, has been deducted from reserves. The net assets of businesses acquired are incorporated into the consolidated financial statements at their fair value to the Group. Goodwill previously deducted from reserves is taken through the profit and loss account when acquired businesses are sold or closed.

(e) Tangible fixed assets

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 to their residual values over the period of their estimated useful lives within the following ranges:

Freehold buildings	25 to 50 years
Leasehold land & buildings	period of lease
Plant & machinery	3 to 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 fixed assets which is capitalised and depreciated in the normal manner.

(g) 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.

(h) Turnover

Turnover represents amounts invoiced by the Group in respect of goods and services provided during the year, excluding sales between group companies and sales related taxes.

(i) Taxation

Provision is made for deferred taxation in respect of timing differences to the extent that such liabilities are expected to become payable in the foreseeable future. Full provision is made for timing differences arising on pensions and other post-retirement benefits.

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.

(j) Pensions and post-retirement benefits

The Group operates a number of pension plans throughout the world which cover the majority of Group employees. With certain exceptions referred to in the notes relating to the financial statements the funds of the plans are administered by Trustees and are separate from the Group. Valuations are normally carried out every three years by independent actuaries and annual contributions are paid to the plans in accordance with their recommendations.

The amount charged to the profit and loss account in respect of defined benefit pension plans is calculated so as to spread the cost of pensions over the average remaining service life of the employees in accordance with the advice of qualified actuaries. The amount charged in respect of defined contribution plans is in accordance with the rules of the plans.

Full provision is made for the current actuarial liability for US post-retirement medical and life assurance plans.

(k) Leasing

Assets acquired under hire purchase and finance leasing contracts are recorded in the balance sheet as fixed assets at their equivalent capital value and are depreciated over the useful life of the asset. The corresponding liability is recorded as a creditor and the interest element of the amount paid is charged against profits. Payments under operating leases are charged to the profit and loss account as they arise. The majority of leasing transactions entered into by the Group are operating leases.

NOTES RELATING TO THE FINANCIAL STATEMENTS

1 Segmental analysis

by activity

	1997			1996		
	Turnover	Operating Profit	Net Assets	Turnover	Operating Profit	Net Assets
	£m	£m	£m	£m	£m	£m
Building Products						
Continuing operations	459	53.4		479	59.4	
Acquisitions	55	6.6				
Building Products total	514	60.0	158	479	59.4	141
Drinks Dispense						
Continuing operations	320	33.8		305	33.8	
Acquisitions	25	1.9				
Drinks Dispense total	345	35.7	118	305	33.8	106
Fluid Power						
Continuing operations	281	28.9		289	30.4	
Acquisitions	55	9.1				
Fluid Power total	336	38.0	236	289	30.4	167
Special Engineering						
Continuing operations	191	17.3		187	16.6	
Acquisitions	25	1.3				
Special Engineering total	216	18.6	62	187	16.6	63
Total continuing operations	1,411	152.3	574	1,260	140.2	477
by geographical origin						
UK	533	53.5	196	511	59.5	202
Rest of Europe	396	49.2	216	367	49.5	125
The Americas	410	46.6	140	311	26.8	126
Asia/Pacific/Other	72	3.0	22	71	4.4	24
Total continuing operations	1,411	152.3	574	1,260	140.2	477

Acquisitions

Building Products – Tour & Andersson Hydronics *Sweden* included principally within Rest of Europe.

Drinks Dispense – Wilshire Corporation *USA* included within Americas.

Fluid Power – ISI Automation *USA* (acquired in December 1996) included principally within Americas.

– Herion-Werke *Germany* (acquired November 1997). No turnover or operating profit are included for 1997. Net operating assets of £78m are included principally within Rest of Europe.

Special Engineering – Industrial valve division of Sulzer Thermtec *Switzerland* included principally within Rest of Europe.

Discontinued operations

Discontinued operations of IMI Yorkshire Alloys and Conax Buffalo were previously included by activity within Special Engineering and by geographical origin within UK and Americas. The reported figures for 1996 have been restated in respect of these discontinued operations.

1 Segmental analysis (continued)

turnover by geographical destination

	1997 £m	1996 £m
UK	418	385
Rest of Europe	466	454
The Americas	393	295
Asia/Pacific	77	69
Australasia	38	42
Rest of World	19	15
Continuing operations	1,411	1,260

reconciliation of net assets

	1997 £m	1996 £m
Operating assets of continuing operations	574	477
Discontinued operations	(3)	(10)
Investments	12	10
Net borrowings	(189)	(43)
Taxation liabilities and dividend payable	(69)	(60)
Net assets per Group balance sheet	325	374

2 Operating profit

	1997			1996		
	Continuing Operations £m	Discontinued Operations £m	Total £m	Continuing Operations £m	Discontinued Operations £m	Total £m
Turnover	1410.8	23.1	1433.9	1260.4	56.0	1316.4
Cost of sales	(969.7)	(21.9)	(991.6)	(872.0)	(48.1)	(920.1)
Gross profit	441.1	1.2	442.3	388.4	7.9	396.3
Distribution costs	(166.3)	(0.8)	(167.1)	(152.7)	(6.5)	(159.2)
Administrative expenses	(124.0)	(0.4)	(124.4)	(98.0)	(2.7)	(100.7)
Other operating income	1.5	-	1.5	2.5	-	2.5
	152.3	-	152.3	140.2	(1.3)	138.9

Continuing operations for 1997 include the following amounts relating to acquisitions: cost of sales £111.1m, distribution costs £12.8m, administrative expenses £17.6m.

3 Profit on disposal

Profit on disposal represents the surplus arising on the sale of Conax Buffalo in July 1997.

In 1996 profit on disposals comprised £70.6m (after deducting £5.2m for previously acquired goodwill) from the sale of fixed asset investments in Titanium Metals Corporation (Timet) and International Radiator Services and £6.3m loss for other disposals.

4 Provision for losses on closure and sale of businesses

In 1996 provision totalling £25m was made for the estimated closure costs and asset write-downs in respect of IMI Yorkshire Alloys and for previously acquired goodwill in respect of businesses to be sold or terminated. In 1997 provisions of £4.2m in respect of IMI Yorkshire Alloys have been released and a provision of £2.0m has been established in respect of the disposal of certain businesses within the continuing operations of Special Engineering which was completed in February 1998.

5 The following have been charged in arriving at profit before taxation

	1997 £m	1996 £m
Depreciation on tangible fixed assets	48.0	49.1
Bonus under employees' profit sharing scheme	2.5	2.7
Auditor's remuneration:		
Fees and expenses	1.7	1.8
Non-audit services (mainly overseas)	0.7	0.7
Property rents	9.4	7.1
Research and development expenditure	16.1	12.8
Hire of plant and machinery	2.3	2.2

6 Net interest payable

	1997 £m	1996 £m
Bank loans and overdrafts	7.5	12.0
Interest on finance leases	0.2	0.2
Other loans	1.6	0.1
	9.3	12.3
Interest receivable	(3.5)	(7.7)
	5.8	4.6

7 Taxation

	1997 £m	1996 £m
UK corporation tax	7.8	19.7
Overseas taxes	32.3	34.5
Associated undertakings	-	0.8
Adjustment for previous years	-	(2.6)
	40.1	52.4

Current UK corporation tax has been provided at the average rate for the year of 31.5% (1996 : 33%). Deferred tax has been provided at the closing year end rate of 31.0% (1996 : 33%). The charge for UK corporation tax has been reduced by double taxation relief of £39.5m (1996 : £11.8m). A charge of £2.3m (1996 : £1.1m) is included in respect of deferred taxation. UK corporation tax includes a credit of £11.9m (1996 : charge £4.0m) for advance corporation tax.

8 Profits applicable to shareholders of IMI plc

Of the Group profit of £108.6m (1996 : £108.7m), £49.3m (1996 : £46.6m) has been dealt with in the profit and loss account of the Company.

9 Dividends

	1997 £m	1996 £m
Ordinary dividend:		
Interim 5.4p (1996 : 5.0p)	18.8	17.3
Proposed final 8.6p (1996 : 8.0p)	30.0	27.8
	48.8	45.1

10 Earnings per ordinary share

The weighted average number of shares in issue during the year was 347.9m (1996 : 345.0m). Earnings per share have been calculated on earnings of £108.6m (1996 : £108.7m) and adjusted earnings per share have been calculated on earnings of £106.7m (1996 : £88.5m) being the profit for the year before exceptional items. The impact on the tax charge of paying Foreign Income Dividends has increased both earnings per share and adjusted earnings per share by 2.5p. Adjusted earnings per share figures have been shown because the directors consider that they give a more meaningful indication of the underlying performance. Dilution arising from the exercise of outstanding share options is not material.

11 Employee information

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

	1997	1996
Building Products	4,516	4,127
Drinks Dispense	4,187	3,723
Fluid Power	5,153	4,867
Special Engineering	2,858	3,205
Other	231	241
	16,945	16,163

The aggregate employment cost for the year was:	£m	£m
Wages and salaries	346.7	324.0
Social security costs	44.6	39.3
Pension costs	9.9	13.8
	401.2	377.1

Directors' emoluments for the year were:	£000	£000
Emoluments for qualifying service	1,534	1,658
Gains on exercise of share options	51	307

The detailed information concerning directors' emoluments, shareholdings and options is shown in the Report of the Appointments and Salaries Committee on pages 33-36.

12 Tangible fixed assets

	Land and buildings			Plant and machinery			Assets in course of construction	Total
	Gross book value	Depre-ciation	Net book value	Gross book value	Depre-ciation	Net book value	Net book value	Net book value
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 December 1996	138.9	58.3	80.6	494.8	322.5	172.3	22.2	275.1
Exchange adjustments	(5.0)	(1.6)	(3.4)	(11.0)	(6.3)	(4.7)	(0.7)	(8.8)
Acquisitions	38.3	3.1	35.2	51.5	23.6	27.9	0.6	63.7
Disposal of subsidiaries	(2.9)	(0.5)	(2.4)	(3.1)	(2.4)	(0.7)	–	(3.1)
Additions	3.3		3.3	39.3		39.3	14.0	56.6
Disposals	(4.8)	(2.9)	(1.9)	(16.1)	(14.7)	(1.4)	–	(3.3)
Transfers	5.8		5.8	16.5		16.5	(22.3)	–
Depreciation for year	–	3.7	(3.7)	–	44.3	(44.3)	–	(48.0)
At 31 December 1997	173.6	60.1	113.5	571.9	367.0	204.9	13.8	332.2

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

	1997	1996
	£m	£m
Freehold: land	13.0	12.7
buildings	91.2	57.3
Long leasehold	6.6	7.5
Short leasehold	2.7	3.1
	113.5	80.6

(ii) Gross book value represents cost except for £1.0m in respect of revaluations of land and buildings in certain overseas subsidiaries.

(iii) Included in the total net book value is £2.4m (1996 : £2.7m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.3m (1996 : £0.2m).

13 Fixed assets – investments

Company

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
At 31 December 1996 at cost	83.1	198.5	281.6
Transfer to other group companies	(2.5)	–	(2.5)
Movements during the year	–	43.6	43.6
At 31 December 1997 at cost	80.6	242.1	322.7

(i) Details of subsidiary undertakings at 31 December 1997 are shown on pages 60 and 61.

(ii) 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 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.

14 Stocks

The main categories of stock are as follows:

	1997 £m	1996 £m
Raw materials and consumables	99.5	91.6
Work in progress	67.8	48.8
Finished goods	114.8	110.3
Payments on account	(9.2)	(2.9)
	272.9	247.8

The replacement value of stocks is not considered to be significantly different from the amount stated above.

15 Debtors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Receivable within one year:				
Trade debtors	226.6	179.7	–	–
Amounts owed by subsidiary undertakings	–	–	218.2	256.8
Prepayments and accrued income	10.4	7.7	0.9	1.8
Other debtors	21.4	12.9	4.7	–
	258.4	200.3	223.8	258.6
Receivable after more than one year:				
Amounts owed by subsidiary undertakings	–	–	–	10.0
Pension fund prepayment	7.0	4.9	–	–
Other debtors	10.5	3.3	7.5	–
	17.5	8.2	7.5	10.0
	275.9	208.5	231.3	268.6

16 Creditors: amounts falling due within one year

Borrowings and finance leases

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Bank loans and overdrafts	**48.7**	11.2	**12.3**	8.4
Obligations under finance leases	**0.2**	0.4	**–**	–
Other loans	**0.2**	0.1	**–**	–
	49.1	11.7	**12.3**	8.4

The Group borrowings include bank loans and overdrafts of £2.8m (1996 : £5.1m) and obligations under finance leases of £0.2m (1996 : £0.4m) which are secured by charges over the assets of certain overseas subsidiary companies.

Other creditors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Trade creditors	**129.3**	112.2	**–**	–
Bills of exchange payable	**0.9**	1.3	**–**	–
Corporation tax	**5.6**	9.1	**–**	–
Other taxation	**31.7**	21.8	**12.2**	7.0
Social security	**6.3**	5.8	**–**	–
Accruals and deferred income	**92.4**	72.1	**2.2**	2.2
Proposed dividend	**30.0**	27.8	**30.0**	27.8
Other creditors	**3.1**	3.4	**–**	–
	299.3	253.5	**44.4**	37.0

17 Creditors: amounts falling due after more than one year

Borrowings and finance leases

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Bank loans				
Secured	**18.5**	2.3	**–**	–
Unsecured	**116.3**	110.2	**104.6**	109.8
	134.8	112.5	**104.6**	109.8
Loan stock				
Unsecured				
5.5% loan stock 2001/06	**1.6**	1.6	**1.6**	1.6
US loan notes (6.7% to 7.17%) 2007/22	**61.0**	–	**–**	–
	62.6	1.6	**1.6**	1.6
Other loans				
Secured	**4.9**	4.9	**–**	–
Obligations under finance leases	**1.2**	1.5	**–**	–
	6.1	6.4	**–**	–
Total loans	**203.5**	120.5	**106.2**	111.4

Security consists of charges over the assets of certain overseas subsidiary companies.

17 Creditors: amounts falling due after more than one year (continued)

Total borrowings and finance leases

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Secured	24.6	8.7	–	–
Unsecured	178.9	111.8	106.2	111.4
Total loans	203.5	120.5	106.2	111.4

Repayment of loans

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Bank loans				
Between one and two years	11.0	2.3	–	–
Between two and five years	115.1	15.4	104.6	15.0
In five years or more	8.7	94.8	–	94.8
	134.8	112.5	104.6	109.8
Loan stock and other loans				
Between one and two years	0.4	0.4	–	–
Between two and five years	1.8	1.2	0.6	–
In five years or more	66.5	6.4	1.0	1.6
	68.7	8.0	1.6	1.6
Total loans	203.5	120.5	106.2	111.4

Other creditors

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Amounts owed to subsidiary undertakings	–	–	45.1	52.4
Overseas taxation	21.8	15.3	–	–
Accruals and deferred income	6.4	8.0	–	–
	28.2	23.3	45.1	52.4

18 Financial Instruments

Currency profile of assets and liabilities

	Assets excluding gross borrowings 1997	Gross borrowings 1997	Exchange contracts 1997	Net asset exposure 1997	Net asset exposure 1996
	£m	£m	£m	£m	£m
Sterling	139	(20)	147	266	363
US Dollars	162	(77)	(43)	42	(2)
Rest of Europe	240	(148)	(92)	–	(3)
Rest of World	37	(8)	(12)	17	16
Total	578	(253)	–	325	374

Exchange contracts are financial instruments used as currency hedges of overseas net assets.

18 Financial Instruments (continued)

Currency profile of interest exposure

	Interest bearing assets/(liabilities) £m	Floating and short term fixed £m	Fixed for more than 1 year £m	Weighted averaged fixed rate %	Weighted average time for which rate is fixed Years
Sterling	148	118	30	7.39	2.0
US Dollars	(113)	(34)	(79)	6.86	11.7
Rest of Europe	(211)	(180)	(31)	5.60	4.4
Rest of World	(13)	(13)	–	–	–
Total	**(189)**				

Interest rates are managed using fixed and floating rate debt and financial instruments including interest rate swaps.

Interest bearing assets and liabilities comprise cash, debt and financial instruments used to hedge the balance sheet exchange rate exposure.

19 Provisions for liabilities and charges

	Deferred taxation £m	Post-retirement liabilities £m	Other £m	Total £m
At 31 December 1996	0.7	15.8	31.5	48.0
Exchange adjustment	–	(1.6)	–	(1.6)
Acquisitions	–	8.7	1.5	10.2
Utilised during the year	–	(0.3)	(14.2)	(14.5)
Profit and loss account	2.3	1.5	4.6	8.4
At 31 December 1997	**3.0**	**24.1**	**23.4**	**50.5**

(i) Post-retirement liabilities are in respect of overseas pension liabilities and US post-retirement benefits which have not been separately funded. At 31 December 1997 other provisions comprise mainly rationalisation and closure costs (£15.4m) (1996 : £23.5m) and warranties given in the normal course of trade (£7.4m) (1996 : £6.5m).

(ii) The potential liability for deferred tax calculated at 31% (1996 : 33%) is analysed as follows:

	1997		1996	
	Provided £m	Not provided £m	Provided £m	Not provided £m
Accelerated capital allowances	8.4	6.5	9.6	7.1
Other timing differences	0.1	–	(7.7)	–
Advance corporation tax recoverable	(5.5)	(3.5)	(1.2)	(4.3)
	3.0	3.0	0.7	2.8

The total advance corporation tax not considered recoverable at 31 December 1997 amounted to £3.5m (1996 : £15.4m).

20 Share Capital

	1997 £m	1996 £m
Authorised		
440m ordinary shares of 25p each	**110.0**	110.0
Issued and fully paid		
348.7m (1996 : 346.9m) ordinary shares of 25p each	**87.2**	86.7

During the year 1,765,071 shares were issued under employee share schemes realising £4.5m.

Share Options

All 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. At 31 December 1997 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	Scheme Code
IMI Savings Related	19.04.91	144,028	223p	01.07.98	A
Share Option Scheme	16.04.92	187,002	213p	01.07.97 or 01.07.99	B
	21.04.93	828,426	213p	01.06.98 or 01.06.00	C
	08.04.94	745,467	280p	01.08.99 or 01.08.01	D
IMI SAYE Share Option	11.04.95	1,036,009	242p	01.07.00 or 01.07.02	E
(1994) Scheme	04.04.96	993,710	286p	01.07.01 or 01.07.03	F
	08.04.97	1,109,074	314p	01.07.00, 01.07.02 or 01.07.04	G
IMI Executive Share	20.04.89	100,465	226.1p	20.04.92 to 20.04.99	H
Option (1985) Scheme	19.04.90	73,000	224.4p	19.04.93 to 19.04.00	I
	19.04.91	300,300	247.7p	19.04.94 to 19.04.01	J
	16.04.92	196,000	236.1p	16.04.95 to 16.04.02	K
	15.04.93	359,200	265.7p	15.04.96 to 15.04.03	L
	07.04.94	259,100	349.9p	07.04.97 to 07.04.04	M
	11.04.95	536,200	301.3p	11.04.98 to 11.04.05	N
IMI Executive Share	19.09.96	423,200	398.9p	19.09.99 to 19.09.06	O
Option (1995) Scheme	26.03.97	741,500	390.8p	26.03.00 to 26.03.07	P
	18.09.97	791,700	384.9p	18.09.00 to 18.09.07	Q

21 Reserves

	Group				
	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	Total
	£m	£m	£m	£m	£m
At 31 December 1996	121.3	1.0	(313.7)	478.6	287.2
Retained profit for the year	–	–	–	59.8	59.8
Amounts taken directly to reserves:					
Goodwill arising on acquisitions	–	–	(113.3)	–	(113.3)
Currency translation differences	–	–	8.0	(7.5)	0.5
Share premiums received	4.0	–	–	–	4.0
At 31 December 1997	125.3	1.0	(419.0)	530.9	238.2

Other reserves include the aggregate amount of goodwill arising on acquisitions amounting to £438.9m (1996 : £333.6m) and a capital redemption reserve of £1.6m (1996 : £1.6m).

Currency translation differences include a charge of £4.8m (1996 : credit of £38.2m) in respect of currency loans and hedging transactions used for overseas investments.

	Company			
	Share premium account	Capital redemption reserve	Profit and loss account	Total
	£m	£m	£m	£m
At 31 December 1996	121.3	1.6	132.4	255.3
Retained profit for the year	–	–	0.5	0.5
Share premiums received	4.0	–	–	4.0
At 31 December 1997	125.3	1.6	132.9	259.8

22 Acquisitions

Acquisitions during the year were as follows:

February	Distribuidora Ielus, S.A. *Mexico*
March	Wilshire Corporation. *USA*
April	Industrial valves business of Sulzer's Thermtec division. *Switzerland*
May	Tour & Andersson Hydronics. *Sweden*
November	Herion-Werke. *Germany*

	Tour & Andersson £m	Herion-Werke £m	Others £m	Total £m
Book value at acquisition				
Fixed assets	14.9	20.3	4.6	39.8
Working capital	4.0	39.5	9.0	52.5
Taxation	(3.8)	(0.5)	0.1	(4.2)
Investments	0.1	0.6	–	0.7
Net cash/(borrowings)	4.8	(55.6)	(3.7)	(54.5)
Net assets	20.0	4.3	10.0	34.3
Fair value adjustments				
Fixed asset revaluations	–	20.6	3.3	23.9
Working capital	(0.6)	(2.7)	(3.1)	(6.4)
Taxation	–	–	(0.1)	(0.1)
Total	(0.6)	17.9	0.1	17.4
Fair value to the Group	19.4	22.2	10.1	51.7
Purchase consideration	92.6	37.8	35.7	166.1
Goodwill arising in year	73.2	15.6	25.6	114.4
Adjustments in respect of prior year				(1.1)
				113.3

Fixed assets were revalued on the advice of independent external valuers. Adjustments were made to achieve consistency of accounting policies with those of IMI in respect of pensions at Tour & Andersson (£0.6m) and Herion (£0.3m), to adopt a SSAP9 valuation basis for stock at Herion (£2.0m) and at other acquisitions (£1.6m), to provide against the recovery of certain assets at Herion (£0.4m) and at other acquisitions (£0.6m), and to recognise warranty and other accruals (£0.9m) in respect of other acquisitions in the year. The fair values of Herion-Werke's assets acquired are being evaluated and the goodwill figure above is provisional.

The sales and profits of the major acquisitions in the periods before acquisition, as reported by the acquired company using their accounting policies, were as follows:

	Sales £m	Operating Profit £m
Tour & Andersson		
Year ended 31 December 1996	67	9
1997 to date of acquisition	21	4
Herion-Werke		
Year ended 31 December 1996	118	5
1997 to date of acquisition	96	3

The above figures have been converted to sterling at the average rate of exchange for 1997.

23 Cash flow notes

a) Exceptional items

The closure of IMI Yorkshire Alloys resulted in a 1997 cash outflow of £2.4m (1996 : £Nil) net of the realisation of capital employed.

	1997 £m	1996 £m
b) Return on investments and servicing of finance		
Interest received	3.5	7.7
Interest paid	(9.3)	(12.4)
Dividends to minorities	(0.2)	–
Dividends received	–	0.9
Net cash outflow for return on investments and servicing of finance	(6.0)	(3.8)
c) Capital expenditure and financial investment		
Purchase of fixed assets	(56.6)	(64.0)
Sale of fixed assets	3.3	3.0
Sale of current asset investments	1.1	–
	(52.2)	(61.0)
d) Acquisitions and disposals		
Purchase of subsidiary undertakings	(165.2)	(226.0)
Net (overdrafts)/cash acquired with subsidiaries	(1.2)	(5.9)
Sale of businesses	4.3	144.8
Cash at date of disposal	(0.5)	(2.9)
	(162.6)	(90.0)
e) Purchase of subsidiary undertakings		
Net assets acquired:		
Tangible fixed assets	63.7	44.3
Stocks	48.1	24.2
Debtors	55.9	20.4
Creditors	(57.9)	(28.3)
(Borrowings)/cash	(54.5)	(6.4)
Investments	0.7	-
Taxation	(4.3)	8.2
	51.7	62.4
Goodwill	114.4	176.4
	166.1	238.8
Satisfied by:		
Cash consideration	165.2	226.0
Shares issued	-	5.2
Deferred consideration	0.9	7.6
	166.1	238.8

Acquisitions referred to on page 45 contributed a cash inflow of £18m to the Group's net operating cash flow.

23 Cash flow notes (continued)

	1997 £m
f) Sale of businesses	
Net assets disposed of:	
Tangible fixed assets	3.1
Stocks	0.9
Debtors	0.7
Creditors	(0.9)
Cash	0.5
Taxation	(0.2)
	4.1
Profit on disposal	0.2
	4.3
Satisfied by:	
Cash	4.3

g) Analysis of net borrowings

	1997 £m	1996 £m
Cash and deposits	**63.5**	89.3
Borrowings & finance leases due within 1 year	**(49.1)**	(11.7)
Borrowings & finance leases due after more than 1 year	**(203.5)**	(120.5)
	(189.1)	(42.9)

24 Post-retirement liabilities

United Kingdom

The principal pension plan operated for UK employees is the IMI Pension Fund, a defined benefit plan with assets held in separate trustee administered funds. The latest formal actuarial valuation of the fund was as at 31 March 1996 and used the Projected Unit method of valuation. The main financial assumptions adopted were that the annual investment return will exceed the increase in earnings by 2.5% and the increase in pensions by 4.5%. The actuarial value of the Fund assets was 115% of the benefits that had accrued to members and the surplus, resulting in an abatement of the company contributions, is being spread over the average remaining service life of employees. The market value of the assets of the fund at the valuation date was £780m.

Overseas

Both defined contribution and defined benefit plans operate in overseas subsidiaries. The contributions to the defined contribution plans are made in accordance with the rules of the plans. The major defined benefit plans have been subject to valuation by an independent actuary within the last three years and the valuations showed that the value of the assets were sufficient to cover the benefits accrued to members.

For certain pension plans, principally in Germany and Sweden, and US post-retirement benefits, the annual actuarial liability is funded by insurance and or provisions made by the subsidiaries concerned. The provisions are shown in note 19.

25 Operating leases

Group

Annual commitments under operating leases expiring:

	1997		1996	
	Land and buildings	Others	Land and buildings	Others
	£m	£m	£m	£m
Within one year	3.0	0.4	1.0	0.5
In the second to fifth year	7.4	1.1	2.9	1.2
After five years	4.4	0.1	4.6	0.1
	14.8	1.6	8.5	1.8

26 Commitments

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date amounted to £7m (1996 : £12m).

Foreign exchange commitments at the balance sheet date amounted to £197m (1996 : £267m).

27 Contingencies

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £16m (1996 : £13m).

There is a right of set-off with three of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

SUBSIDIARY UNDERTAKINGS

AT 31 DECEMBER 1997

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.

BUILDING PRODUCTS

Copper tubes and fittings; heating and control products; air conditioners.

IMI Yorkshire Copper Tube Ltd
IMI Refiners Ltd
IMI Wolverhampton Metal Ltd
Wolverhampton Abrasives Ltd (67.5%)
Irish Metal Industries Ltd *Republic of Ireland*
YIM Scandinavia AB *Sweden*
IMI Yorkshire Fittings Ltd
Anson Cast Products Ltd
SA Eclipse NV *Belgium*
Raccord Orléanais SA *France*
Theodor Heimeier Metallwerk GmbH & Co KG *Germany*

R Woeste & Co "Yorkshire" GmbH & Co KG *Germany*
IMI Woeste SL *Spain*
IMI Épületgépész Kft *Hungary*
IMI Instalacje Sp z.o.o. *Poland*
IMI Componenti Termoidrosanitari Srl *Italy*
Yorkshire Fittings Pty Ltd *Australia*
IMI Titon Ltd *New Zealand*
IMI Waterheating Ltd
IMI Rycroft Ltd
Sentry Europa BV *Holland*
IMI Scott Ltd

IMI Air Conditioning Ltd
IMI Klimatechnic Vertriebs GmbH *Germany*
Tour & Andersson Hydronics Ltd
Tour & Andersson Hydronics GesmbH *Austria*
Tour & Andersson Hydronics A/S *Denmark*
Tour & Andersson Hydronics Oy *Finland*
Tour & Andersson Hydronics S.A. *France*
Tour & Andersson Hydronics GmbH *Germany*
Tour & Andersson Hydronics BV *Netherlands*
Tour & Andersson Hydronics AS *Norway*
Tour & Andersson Hydronics AB *Sweden*

DRINKS DISPENSE

Beverage dispensing and cooling systems; food service equipment; point of purchase displays.

†IMI Cornelius Group Ltd
IMI Cornelius (UK) Ltd
MK Refrigeration Ltd
MK Refrigeration (Ireland) Ltd *Republic of Ireland*
Gaskell and Chambers Ltd
Objex Ltd
IMI Cornelius Inc *USA*
IMI Cornelius Equipco Inc *USA*
Remcor Products Company *USA*

IMI Cornelius Brasil Ltda *Brazil*
IMI Cornelius Österreich GesmbH *Austria*
IMI Cornelius Benelux NV *Belgium*
IMI Cornelius Deutschland GmbH *Germany*
IMI Cornelius Hellas SA *Greece*
IMI Cornelius Italia Srl *Italy*
IMI Cornelius España SA *Spain*
IMI Cornelius (Tianjin) Ltd *China*
IMI Cornelius (Pacific) Ltd *Hong Kong*

IMI Cornelius (Singapore) Pte Ltd *Singapore*
IMI Cornelius Australia Pty Ltd *Australia*
IMI Cornelius (New Zealand) Ltd *New Zealand*
IMI Wilshire Inc *USA*
Cannon Equipment Co *USA*
Cannon Equipment West Inc *USA*
Cannon Equipment Southeast Inc *USA*
Cannon Equipment Midwest Inc *USA*

FLUID POWER

Pneumatic systems and components; process control and instrumentation.

IMI Norgren Group Ltd
IMI Norgren Ltd
IMI Norgren GmbH *Germany*
IMI Norgren GesmbH *Austria*
IMI Norgren NV *Belgium*
IMI Norgren A/S *Denmark*
IMI Norgren SA *France*
IMI Norgren Ltd *Ireland*
IMI Norgren BV *Holland*
IMI Norgren Kft *Hungary*
IMI Norgren SpA *Italy*
IMI Norgren A/S *Norway*
IMI Norgren SA *Spain*
IMI Norgren AB *Sweden*
IMI Norgren AG *Switzerland*
IMI Norgren Inc *USA*
IMI Norgren Ltda *Brazil*
IMI Norgren Ltd *Canada*
IMI Norgren SA de CV *Mexico*
IMI Norgren Sdn Bhd *Malaysia*
IMI Norgren Pte Ltd *Singapore*
IMI Norgren Pneumatics (Shanghai) Co Ltd *China*
IMI Norgren Ltd *Hong Kong*
IMI Norgren Pty Ltd *Australia*
IMI Norgren Ltd *New Zealand*
ISI Norgren Inc *USA*
ISI Automation GmbH *Germany*
IMI Watson Smith Ltd
†IMI Webber Ltd
Mosier Industries Inc *USA*
Herion-Werke GmbH & Co KG *Germany*

SPECIAL ENGINEERING

Minting and engineering components; sporting ammunition;
heat exchangers; industrial and severe service valves and controls.

IMI Components Ltd
S J & E Fellows Ltd
IMI Birmingham Mint Ltd
GDC Inc *USA*
Casino Tokens Inc *USA*
Eley Ltd
Eley Hawk Ltd
Eley Americas Inc *USA*
IMI Marston Ltd
Control Components Inc *USA*
CCI AG *Switzerland*
Mecafrance SA *France*
Mecafrance (Deutschland) GmbH *Germany*
IMI Cash Valve Inc *USA*
IMI Bailey Birkett Ltd
IMI Amal Ltd
IMI Pactrol Ltd

CORPORATE

†IMI Kynoch Ltd
IMI Property Investments Ltd

FINANCIAL INFORMATION

Five year summary	1997	1996	1995	1994	1993
	£m	£m	£m	£m	£m
Profit and loss account					
Sales	**1434**	1316	1322	1161	1065
Profit before tax and exceptional items	**147**	137	106	85	72
Exceptional items	**2**	24	(19)	(35)	(2)
Profit before taxation	**149**	161	87	50	70
Tax	**(40)**	(52)	(33)	(31)	(25)
Profit after taxation	**109**	109	54	19	45
Dividends	**(49)**	(45)	(39)	(34)	(33)
Transferred to/(from) reserves	**60**	64	15	(15)	12
Earnings and dividends					
Adjusted earnings per share	**30.7p**	25.7p	20.1p	16.4p	14.5p
Earnings per share	**31.2p**	31.5p	16.4p	6.0p	13.8p
Ordinary dividend per share	**14.0p**	13.0p	11.5p	10.5p	10.0p
Balance sheet					
Tangible assets	**514**	417	477	481	483
Net borrowings	**(189)**	(43)	(12)	(86)	(97)
Net assets	**325**	374	465	395	386
Statistics					
Profit before exceptional items as a percentage of sales	**10.3%**	10.3%	8.0%	7.3%	6.7%
Profit before exceptional items as a percentage of net assets	**45.2%**	36.6%	22.8%	21.5%	18.6%
Net borrowings as a percentage of shareholders' funds	**58.2%**	11.5%	2.6%	21.8%	25.2%

IMI overseas	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Group external sales overseas					
Sales by overseas companies	**862**	751	678	613	563
Direct exports from the UK	**133**	153	189	147	140
	995	904	867	760	703
Percentage of total external sales	**69%**	69%	66%	66%	66%
Group external sales overseas by geographical areas					
Rest of Europe	**465**	461	418	341	313
The Americas	**396**	304	319	311	283
Asia/Pacific	**77**	74	62	45	47
Australasia	**38**	44	42	44	35
Other	**19**	21	26	19	25
	995	904	867	760	703

NOTICE *of* MEETING

The thirty-sixth Annual General Meeting of IMI plc will be held at the Stakis Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Friday 8 May 1998 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 1997 be approved and adopted.

2 That a final dividend at the rate of 8.6p per share on the ordinary share capital of the Company be declared for the year ended 31 December 1997 payable as a foreign income dividend on 18 May 1998 to shareholders on the register at the close of business on 14 April 1998.

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

4 That Mr R B Pointon be re-elected a Director of the Company.

5 That Mr T J Slack be re-elected a Director of the Company.

6 That KPMG Audit Plc be re-appointed as the Company's auditor until the conclusion of the next Annual General Meeting of the Company.

7 That the Board be authorised to fix the auditor's remuneration.

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

That the Directors be given power pursuant to section 95 of the Companies Act 1985 to allot for cash equity securities (as defined for the purposes of section 89 of the Companies Act 1985) pursuant to the existing general authority conferred on them by the resolution passed at the Extraordinary General Meeting of the Company held on 12 May 1995, under section 80 of that Act as if section 89(1) of that Act did not apply to the allotment but this power shall be limited:

(i) to the allotment of equity securities in connection with an offer or issue to or in favour of ordinary shareholders on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date but the Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, shares represented by depository receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter or thing whatsoever; and

(ii) to the allotment (other than under (i) above) of equity securities having, in the case of relevant shares (as defined for the purposes of section 89), a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £4,350,000;

and shall expire fifteen months from the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may prior to such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements notwithstanding the expiry of any power conferred by this resolution.

By order of the Board
J O'Shea, Secretary
Witton, Birmingham B6 7BA
14 April 1998

Notes:

1. 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.

2. If a member has more than one holding registered in his name he should receive only one copy of the Annual Report and Accounts. However, one form of proxy will be valid in respect of all his holdings. A proxy card is enclosed.

3. The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 6pm on 6 May 1998 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 6 May 1998 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. The following information, which is available throughout the year 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 Stakis 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 provision of the Companies Act 1985; copies of contracts of service of Directors with the Company and its subsidiaries.

SHAREHOLDER INFORMATION

Announcement of trading results

The trading results for the Group for the first half of 1998 will be announced on 8 September 1998.

The trading results for the full year ending 31 December 1998 will be announced in March 1999.

Dividend payments

Dividends on ordinary shares are normally paid as follows:

Interim: mid October

Final: mid May

Interest payments on unsecured loan stock

Interest on the $5\frac{1}{2}$ per cent unsecured loan stock is payable on 30 June and 31 December.

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 1997 was 405.5p per share compared with 375.5p per share on 31 December 1996.

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, Lloyds Bank Registrars, 54 Pershore Road South, Birmingham B30 3EP.

(Telephone: 0121 433 8000).

IMI Personal Equity Plans (PEPs)

IMI PEPs are open to existing and prospective shareholders. They include a monthly savings facility. Further information concerning IMI PEPs is available from the Managers of the Plans, Bradford & Bingley (PEPs) Ltd, PO Box 50, Main Street, Bingley, West Yorkshire, BD16 2LW. (Telephone: 01274 555677).

Share Dealing Service

Managed by Cazenove & Co, the Company's stockbrokers, the IMI plc Low Cost Share Dealing Service provides shareholders with a simple, low cost way of buying and selling IMI ordinary shares. Full written details can be obtained from Secretary's Department, IMI plc, PO Box 216, Witton, Birmingham, B6 7BA. (Telephone: 0121 356 4848).

Ordinary shareholders	**At 31 December 1997**	At 31 December 1996
Holdings:		
1–1,000 shares	**14,759**	15,225
1,001–10,000 shares	**11,585**	12,317
10,001–100,000 shares	**547**	545
over 100,000 shares	**317**	336
Total	**27,208**	28,423
Registered in the names of:		
Individuals	**9%**	10%
Corporate holders	**91%**	90%

GENERAL INFORMATION

Secretary

John O'Shea

Headquarters and Registered Office

Kynoch Works

PO Box 216

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