

The IMI logo consists of the letters 'IMI' in a bold, white, sans-serif font, set against a dark blue square background.

ENGINEERING
ADVANTAGE

IMI plc Annual Report 2012

A close-up, low-angle shot of a computer keyboard with a blue tint. The focus is on a custom key in the foreground that has the words 'engineering advantage' printed on it in a white, lowercase, sans-serif font. Other keys, including one with the number '2' and another with the 'alt' symbol, are visible in the background but are out of focus.

engineering
advantage

CONTENTS

BUSINESS OVERVIEW

Results in brief	1
At-a-glance	2
Expanding our global activities	4
Our strategy	6
Differentiated flow control technologies	7
Leadership in chosen niches	8
Focusing on long-term global growth drivers	9
Our performance	10

GROUP OPERATING REVIEW

Chairman and Chief Executive's statement	12
Fluid Controls	16
Retail Dispense	19
Financial review	20

RESPONSIBLE BUSINESS

The IMI Way	26
Our responsible business priorities	27
Community	29
Talent development and engagement	30

BOARD REPORTS

Principal risks and uncertainties	32
Board of directors	34
Directors' report	36
Chairman's governance letter	40
The Board's corporate governance report	41
Letter from the Chairman of the Remuneration Committee	48
Remuneration report	49
Statement of directors' responsibilities	70

FINANCIAL STATEMENTS

Independent auditor's report (Group)	71
Consolidated income statement	72
Consolidated statement of comprehensive income	73
Consolidated balance sheet	74
Consolidated statement of changes in equity	75
Consolidated statement of cash flows	76
Notes to the financial statements	77
Independent auditor's report (Company)	131
Company balance sheet	132
Company notes to the financial statements	133
Subsidiary undertakings	138
Five year summary	140
Shareholder information	142
General information	143
Index	144

Find out more about IMI

For more information about us, visit our regularly updated website www.imiplc.com

We have used the following icon through the report to help you navigate to further information.



IMI is a global engineering group focused on the precise control and movement of fluids in critical applications. It delivers innovative solutions, built around valves and actuators, custom engineered for leading international companies to help them respond to global trends such as climate change, resource scarcity, urbanisation and ageing populations. It has manufacturing facilities in more than 20 countries and a worldwide service network. IMI employs over 15,000 people, is listed on the London Stock Exchange and is a member of the FTSE100.

Our goal is to become the world leading engineering company in each of the global niche markets we serve and to be admired for our innovation, applications expertise and global service.

Revenue

£2,190m +3%
2011 £2,131m

Adjusted basic earnings per share²

84.3p +3%
2011 81.5p

Adjusted profit before tax¹

£366.3m +1%
2011 £363.4m

Segmental operating margin

17.0%
2011 17.5%

Reported profit before tax

£317.0m +5%
2011 £301.4m

Total dividend for year

32.5p +8%
2011 30.0p

¹ before exceptional items (restructuring costs, acquired intangible amortisation, financial instruments, net credit on special pension events, other acquisition-related costs) totalling £49.3m (2011: £62.0m) and including economic hedge contract gains and losses totalling £6.8m (2011: £4.1m)

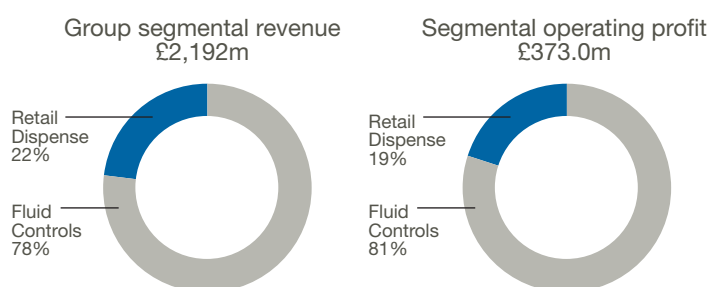
² before the after-tax cost of exceptional items totalling £37.4m (2011: £57.9m)

IMI AT-A-GLANCE

IMI comprises five platform businesses with leadership positions in a number of well defined niche markets. Listed on the London Stock Exchange since 1966, IMI plc is the ultimate holding company of the Group and as at 31 December 2012, had a market value of £3.5bn and shareholders' funds of £636m. The five businesses, which are described below, include a strong portfolio of brands which are leaders in their specialist fields.

PLATFORM BUSINESSES

		Segmental revenue	Segmental operating profit
SEVERE SERVICE 	Highly engineered valves and controls, used in critical applications and extreme operating environments, enabling vital industrial and energy production processes to operate safely, cleanly and more efficiently.	 31% £686m	 26% £96.3m
FLUID POWER 	Specialists in motion and fluid control technologies, both pneumatic and electric, custom engineered for critical applications requiring precision, speed and reliability.	 33% £717m	 38% £142.3m
INDOOR CLIMATE 	Experts in hydronic distribution systems and room temperature control which deliver optimal and energy efficient indoor climate systems.	 14% £293m	 17% £61.5m
BEVERAGE DISPENSE 	Specialists in innovative beverage cooling and dispense solutions that contribute to increased sales and lower operating costs.	 14% £313m	 12% £45.0m
MERCHANDISING 	Specialists in bespoke permanent point of sale merchandising solutions and technologies which improve retailer and brand owner profitability by driving impulse purchase.	 8% £183m	 7% £27.9m



Factfile

Key brands

CCI, BTG, IMI Nuclear, Orton, Truflo Rona, STI, Z&J, THJ, Remosa, InterAtiva

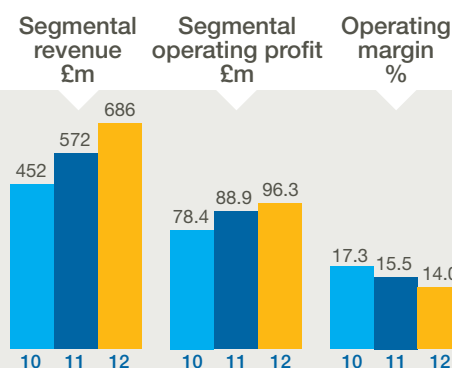
Main markets

Fossil power; nuclear power; liquefied natural gas (LNG); iron & steel; petrochemical and refining.

Major operational locations

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

Employees 4,350



Key brands

Norgren, FAS, Kloehn, Herion, Buschjost, Maxseal

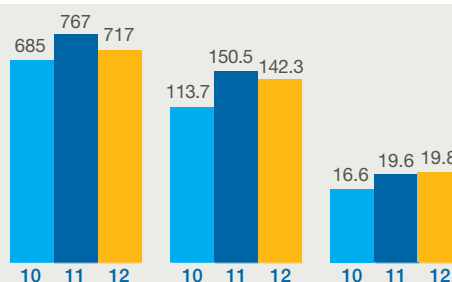
Main markets

Commercial vehicles; food and beverage; life sciences; rail; energy and industrial pneumatic applications.

Major operational locations

Brazil, China, Czech Republic, Germany, Mexico, Switzerland, UK and USA.

Employees 5,950



Key brands

TA Hydronics, Heimeier, Pneumatex, FDI

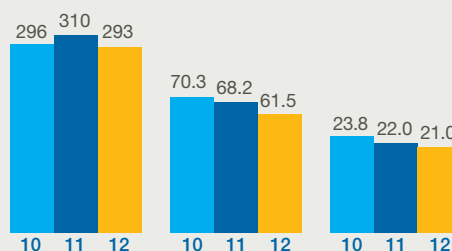
Main markets

Water based heating; cooling systems for commercial buildings; and temperature control for residential buildings.

Major operational locations

Germany, Poland, Sweden, Switzerland and USA.

Employees 1,950



Key brands

Cornelius, 3Wire

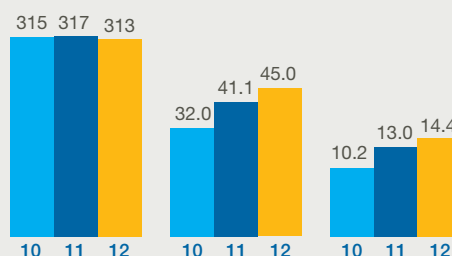
Main markets

Cooling for soft drinks, health and wellness drinks and alcoholic beverages; and dispense and point of sale equipment for bars, restaurants and retail outlets.

Major operational locations

China, Germany, Mexico, UK and USA.

Employees 2,250



Key brands

Artform, Cannon Equipment, DCI Marketing, Display Technologies*

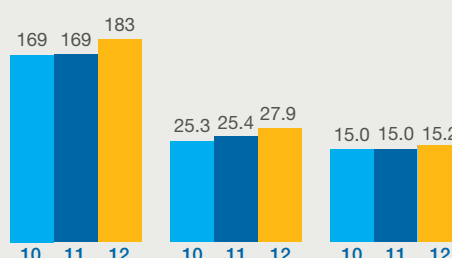
Main markets

Global brand owners and retail sales outlets.

Major operational locations

UK and USA.

Employees 850



* with effect from 1 January 2013, the beverage activities of Display Technologies were transferred to Beverage Dispense.

EXPANDING OUR GLOBAL ACTIVITIES

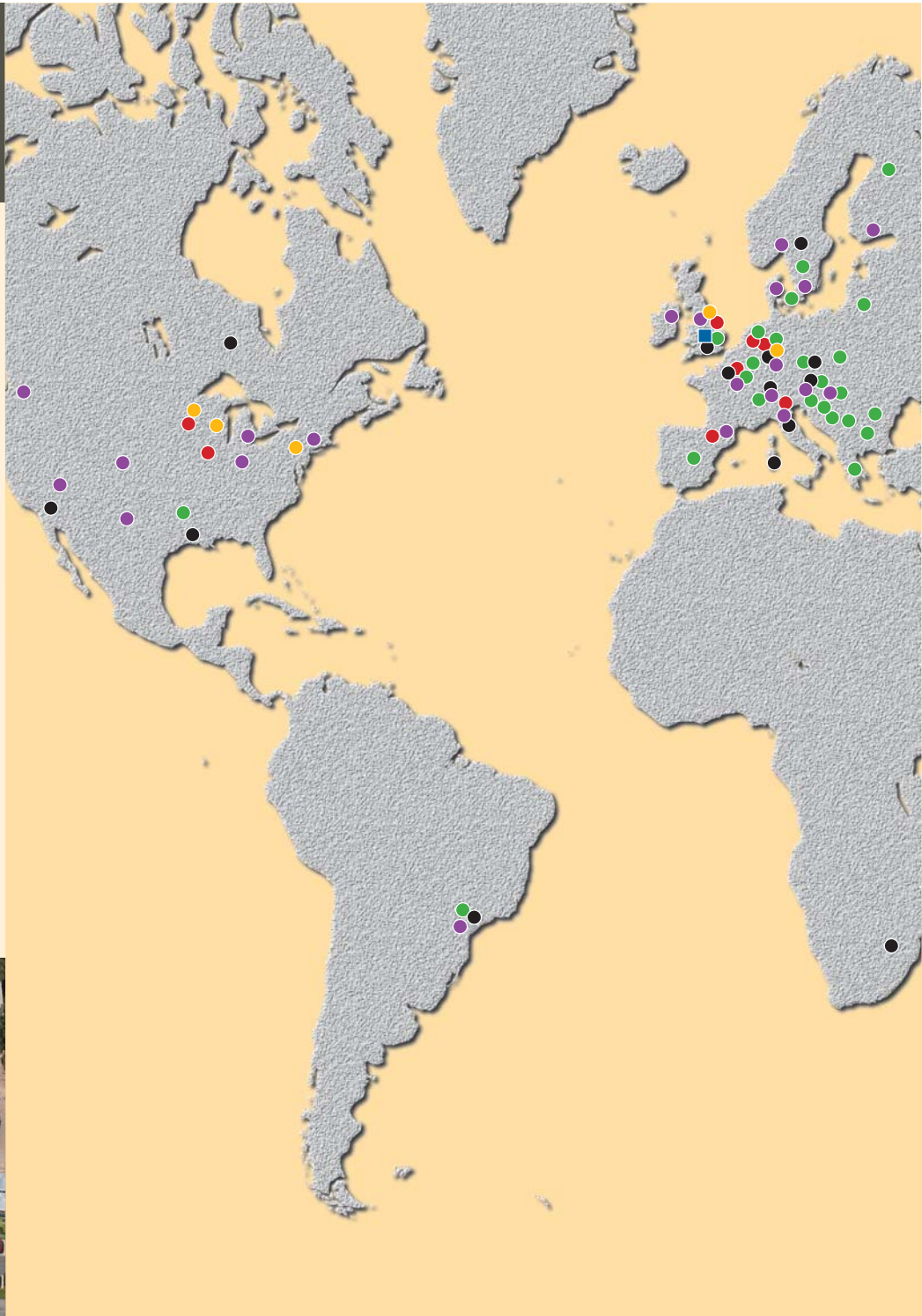
We are already a firmly established global organisation, working with leading international companies in over 50 countries. Our goal is to become the world leading engineering company in each of the global niche markets we serve and to be admired for our innovation, applications expertise and global service. We are accelerating our investments in sales and engineering to increase our exposure to the higher growth emerging markets.

HIGHLIGHT

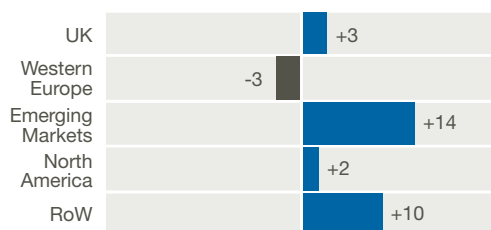
IMI Company: InterAtiva
Location: Brazil

In 2012 IMI Severe Service expanded its presence in one of its key growth markets, Brazil, through the acquisition of InterAtiva. Founded in 1992, InterAtiva is based in Sorocaba and supports key accounts in Brazil (such as Petrobras) and a number of niche sectors including Petrochemical & Refining and Oil & Gas.

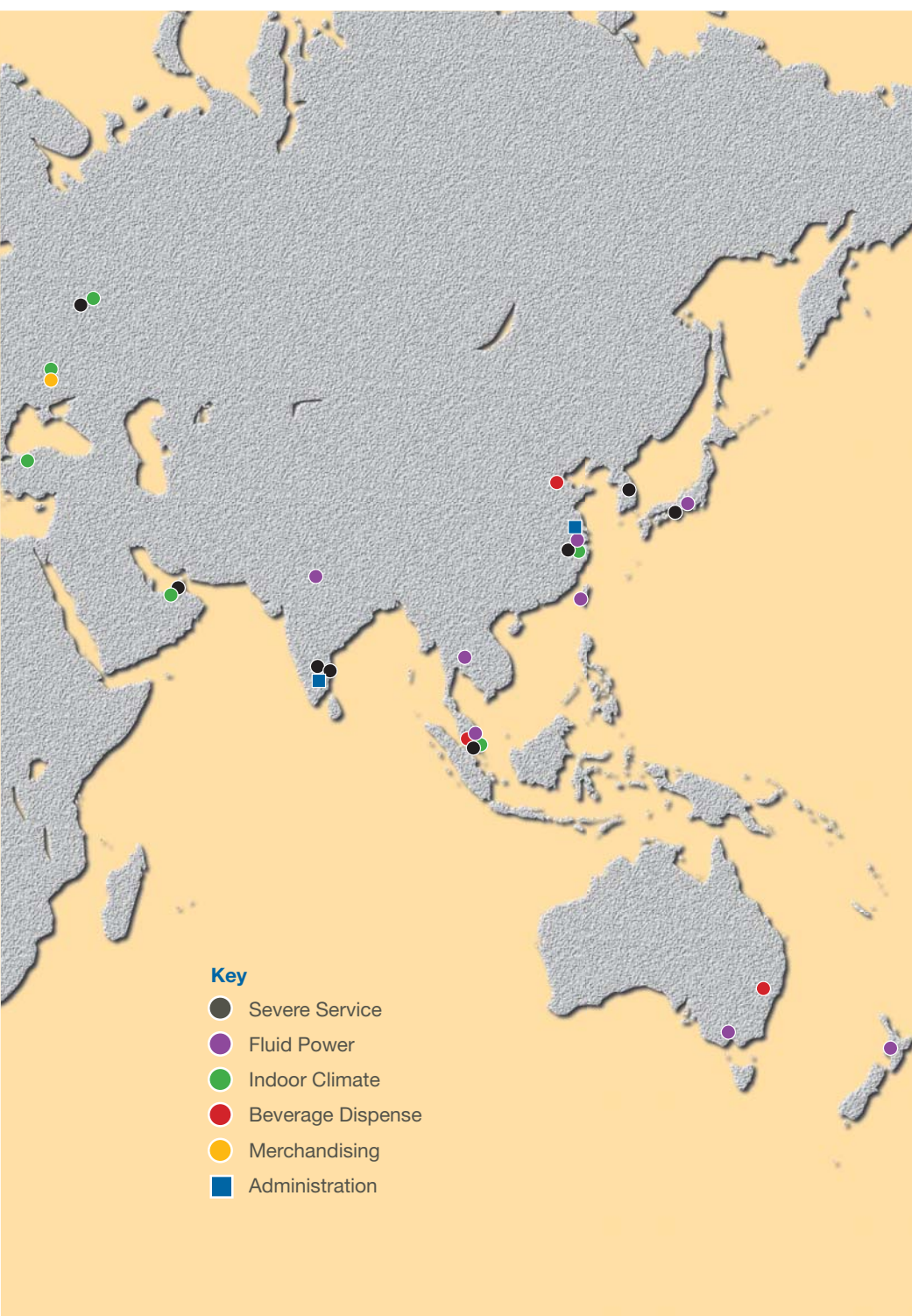
InterAtiva is already working with other companies within IMI Severe Service including Orton, who together with InterAtiva resolved a critical valve issue for Anglo Gold Ashanti. Competitor valves were unable to withstand the harsh environment and 750°C temperatures within Anglo Gold Ashanti's production process. Orton and InterAtiva together designed and supplied new valves that operated effectively.



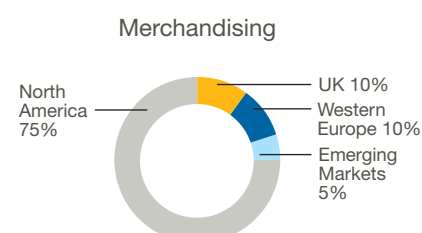
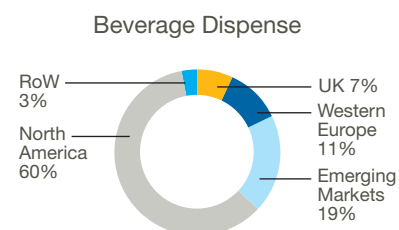
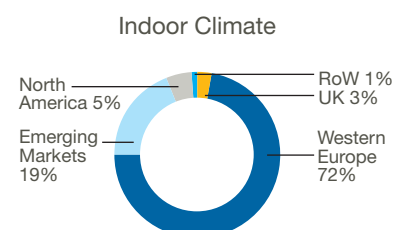
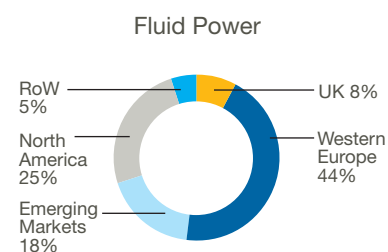
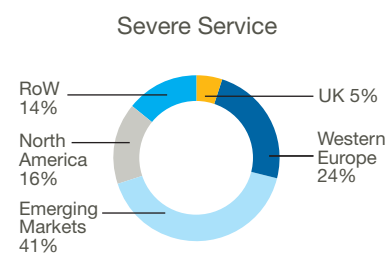
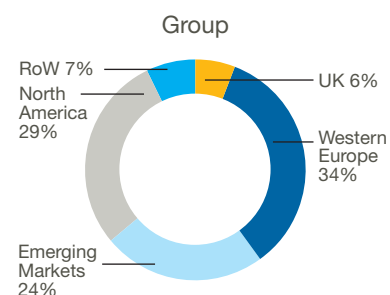
Organic revenue growth by region %



The reason our customers continue to work with us? Our people. They set us apart from the competition. IMI employees provide innovative engineering solutions for our customers around the world. This creates long-term customer loyalty and competitive advantage.



Revenue by geographical destination

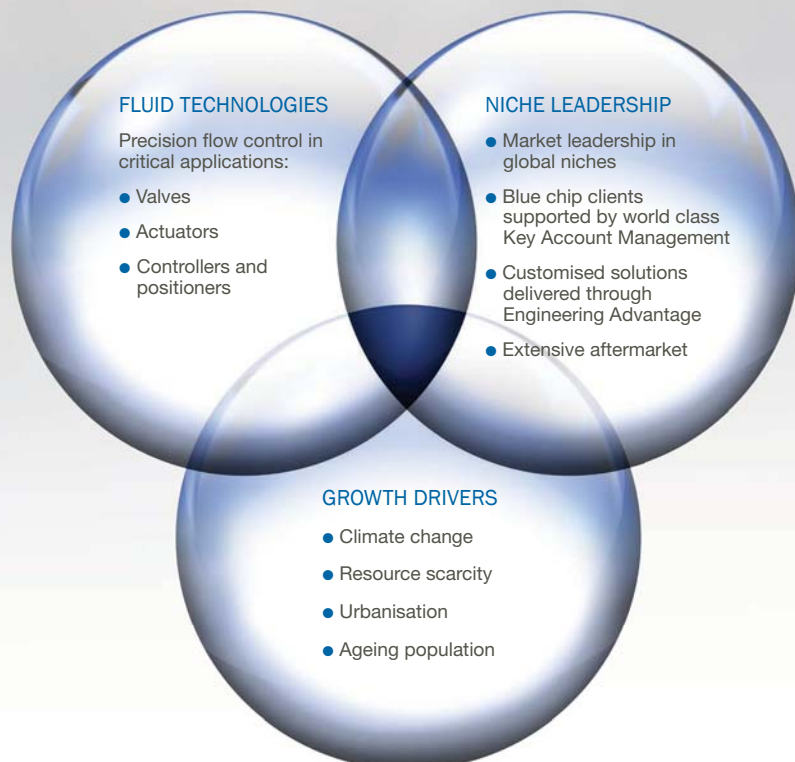


Our strategy is to concentrate a higher proportion of our business in our 'sweetspot' of operation. For IMI this sweetspot is where we can deploy our differentiated fluid technologies in global market niches where we already have, or can aspire to, a leadership position and which benefit from a heightened exposure to the long-term mega-trends of climate change, resource scarcity, urbanisation and an ageing population.

OUR STRATEGY

FOCUSING ON THE SWEETSPOT

STRATEGIC CONVERGENCE

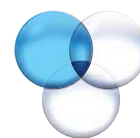


'We have set out an objective to increase the proportion of our revenues in this sweetspot of operation, which was 58% in 2012, to around 75% over five years. The pathway to that convergence requires an acceleration in output from new product development, greater participation in the higher growth emerging markets, a highly disciplined approach to the allocation of internal resources, and a step change in corporate activity, involving both acquisitions and disposals.'

Martin Lamb, Chief Executive
6 March 2013

DIFFERENTIATED FLOW CONTROL TECHNOLOGIES

For over forty years we have been at the forefront of flow control technology. We combine technical expertise, application know-how and innovative custom designed products to deliver value and competitive advantage for our customers.



Our product portfolio includes some of the world's most complex valve and control systems. Our products are engineered to the highest specification enabling them to operate in flow paths with orifice diameters from as little as

0.5mm to over 4m; to withstand extreme pressures up to 1,660 bar; temperatures as low as -163°C and as high as +1,650°C; and to handle a wide range of corrosive or hazardous fluids and gases.

CASE STUDY

IMI Company: TA Hydronics
Customer: Markus Stolz GmbH & Co KG
Location: Austria

Working in collaboration with design firm Stolz Kramsach, IMI's Indoor Climate business, TA Hydronics, has designed an energy efficient system solution to address the specific pressurisation and flow requirements of the water that heats and cools a new

building in Salzburg that houses a renowned institute for over 5,000 young musicians.

The solution involved hydronic balancing valves, pressurisation vessels and air and dirt separators and delivers correct system conditions, water quality and pressurisation at all times. The continual support, design improvements and high level of technical assistance provided by TA Hydronics' Engineering Support Centre team ensured delivery of an optimal energy efficient system.

HIGHLIGHT

IMI Company: STI



STI, an IMI Severe Service company specialising in linear actuators to support the global valve market, has designed a new range of quarter turn actuators specifically targeting a niche in the ball valve market, a new sector for them. The actuator utilises STI's FasTrak positioner incorporating pneumatics from IMI sister company Norgren, to deliver a level of precision previously unavailable in the market, whilst facilitating simple testing for correct operation and easier maintenance. The first application for the new STI actuator has been in combination with a new ball valve for critical applications recently launched by Truflo Rona, another IMI Severe Service business.



LEADERSHIP IN OUR CHOSEN NICHES

We are focused on developing clear leadership positions in a number of well defined global market niches.



We invest considerable time and energy, working closely with our customers, in developing an intimate knowledge of the markets they serve, and the challenges they face. We translate that insight into bespoke and highly engineered solutions, deploying our in-house fluid technologies to deliver

real value and competitive advantage for our customers. We invest heavily in our own people to hone their own skills in gathering market insight and deploying it effectively through extensive Key Account Management and engineering applications training.

CASE STUDY

IMI Company: Remosa
Niche: Petrochemical and Refining
Customer: Takreer Ruwais Refinery
Location: Abu Dhabi



CASE STUDY

IMI Company: Norgren
Niche: Commercial Vehicle Sector – Powertrain and Chassis Cab
Customer: TML Drivelines Ltd
Location: India

TML Drivelines, a wholly-owned subsidiary of Tata Motors, is currently the market leader in medium and heavy commercial vehicles' axles and transmissions in India, with a manufacturing capacity of over 200,000 axles and transmissions per annum. TML wanted to introduce a new 9-speed planetary range gearbox with high and low ranges. In order to prevent abusive shift of such transmissions caused by drivers shifting to low range whilst driving at higher speed, a solution was needed to block the range shift when running above a set speed.

IMI's Norgren business was asked to quote for parts for a solution designed in-house by Tata. However, by applying

our commercial vehicle expertise we were able to propose an integrated solution combining solenoid valve, actuator, fitting and silencer in a compact single unit.

Controlled by a new electronic control unit specifically designed by Tata to meet the application requirements, the Norgren solution offers Tata a longer life product as well as reducing their assembly time, sourcing and logistics costs.

Remosa, an IMI Severe Service business, engineered and manufactured the largest plug valve in the world for the Takreer Ruwais Refinery in Abu Dhabi. Plug valves are used to control the regenerator in the Fluid Catalytic Cracking process. The valve incorporated an innovative design which reduced the required vertical space by 40% allowing a much smaller regenerator foundation, resulting in significant cost savings for the customer. The new design is powered by two separate hydraulic pistons and is able to self-align without the use of conventional hydraulic load balancing devices that are unsuitable for this fast acting application which is capable of performing quick emergency shutdowns.



FOCUSING ON LONG-TERM GLOBAL GROWTH DRIVERS

Environmental and demographic trends are shaping our future. IMI is developing products and services to help our customers respond to the challenges presented by global mega-trends such as climate change, resource scarcity, urbanisation and an ageing population.



We support our customers in many different ways including developing solutions for cleaner energy (such as LNG and nuclear) as well as designing products which improve energy efficiency and provide better and more effective environmental control. We supply other innovations to improve building design and mass transit infrastructure in rapidly expanding cities in the emerging economies. We also design advanced engineered solutions for medical equipment which support healthier lifestyles and improve the quality and longevity of life.

CASE STUDY

IMI Company: Norgren
Growth driver: Ageing Population
Customer: Spacelabs Healthcare Inc
Location: USA



IMI's Norgren business designed and produced 20 bespoke components for Spacelabs' new ARKON anaesthetics system, a reliable and efficient machine which allows clinicians to put the comfort of the patient first. Many of the components were integrated into sub-assembly manifolds for simpler installation and a smaller footprint.

'Norgren not only provided us with a great variety of components, but also carried out levels of customisation and testing that delivered cost savings and helped our decision making process.'
 Andy Levi, Lead System Architect for Spacelabs

CASE STUDY

IMI Company: TA Hydronics
Growth driver: Climate Change/Urbanisation
Customer: Grupo JCPM (Investor), Interplan (HVAC consultant), Arclima (Installer)
Location: Brazil



Over 4,000 hydronic balancing and conditioning products from TA Hydronics have been installed at the new Rio Mar shopping centre in Recife, Brazil, the largest of its kind in the country and the first building to feature the next generation of energy efficient dissipation cooling systems.

Having delivered a 17% energy saving on a previous project, the Salvadore Norte Shopping Centre, the developers again turned to TA Hydronics to provide an effective hydronic balancing solution to achieve challenging flow requirements and a hydronic conditioning system to reduce the impact of poor quality water. These solutions helped the customer meet their ambitious energy efficiency targets.

OUR PERFORMANCE

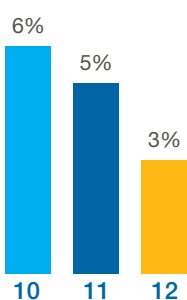
Business performance is measured against six elements of our strategy, through group-wide targets and improvement measures.

Each IMI business unit participates in an annual round of planning meetings with the Executive Committee of the Board, during which performance and future plans for that business are reviewed and updated. These business plans are all aligned with the Group business strategy and include specific local, regional and sector targets and Key Performance Indicators (KPIs). In addition, individual business reviews take place throughout the year on a regular basis enabling the Board to assess performance against tactical and strategic milestones.



Sweetspot convergence

Our strategy, which is described on page 6, is to increase the proportion of our business that sits in our 'sweetspot' of operation. For IMI this sweetspot is where we can deploy our differentiated fluid technologies in global market niches where we already have, or can aspire to, a leadership position and which benefit from a heightened exposure to the long-term mega-trends of climate change, resource scarcity, urbanisation and an ageing population. We have set a long term objective to increase the percentage of our revenue which sits within this sweetspot to 75%. Having conducted a detailed bottom-up analysis of all of our operations we calculate that in 2012 the sweetspot percentage was 58%. We will update shareholders on how this percentage changes in future annual reports.



Organic revenue growth

Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2012, the Group's revenue grew by 3% on an organic basis, reflecting more challenging second half conditions in certain markets after the Group achieved organic growth of 5% in the first half.



Operating margins

Operating margins are defined as the ratio of segmental operating profit as a percentage of segmental revenues. IMI has a strong track record of improving margins over the last decade. In March 2011, we raised our long-term objective for operating margins to 20% for each of our Fluid Controls businesses whilst retaining a 15% target for each of our Retail Dispense businesses. In 2012, our Retail Dispense businesses achieved a margin of 14.7% (2011: 13.7%) and the Fluid Controls businesses achieved a margin of 17.7% (2011: 18.7%) mainly reflecting the weaker performance in Severe Service. Overall, Group operating margins were 17.0% compared to 17.5% in 2011.

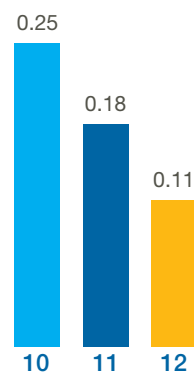
Economic value added

Economic value added (EVA) is defined as the segmental operating profit (before exceptional items) after-tax less a capital charge. The capital charge is arrived at by applying the Group's after-tax weighted average cost of capital of 8% to the average invested capital. Invested capital is net assets plus net debt, accumulated acquired intangible amortisation previously written off, and the IAS19 pension deficit (net of deferred tax) and excluding exceptional items in the balance sheet (being restructuring provisions and net derivative liabilities). The 2012 EVA is £161.1m, which is a decrease of 1.5% over 2011 (£163.5m). The 2012 EVA has been calculated on a different basis to previous years and prior year figures have therefore been restated. The major changes are in respect of the treatment of the accumulated amortisation of acquired intangibles.



Lost time accident rates

The Group takes seriously its responsibility for the safety of all employees, contractors and visitors. In 2009 we set a target of reducing our lost time accident (LTA) rate to no more than 0.22 accidents per 100,000 hours worked. In 2012 our three-day LTA rate was 0.11*, a 39% improvement compared to 0.18 in the previous year and a performance well ahead of the target we set in 2009. As a result of this encouraging performance, we have decided to report on two metrics, >3 day LTAs and >1 day LTAs which will provide a more challenging target. Our new target is to achieve a 15% reduction on LTAs by the end of 2015.



CO₂ emissions

Our CO₂ emissions in 2012 amounted to approximately 90,000 tonnes, a fall of 2% on last year (2011: 92,000 tonnes). Normalised against hours worked, our performance improved to 3.1 CO₂ tonnes/1,000 hours worked* (2011: 3.3 CO₂ tonnes/1,000 hours worked). This has mainly resulted from Project 20:20 which began in 2011 and identified 20 best practice projects to implement across our top 20 energy-using sites. This performance means that we have achieved our longer term target to reduce this KPI to no more than 3.2 CO₂ tonnes/1,000 hours worked by 2012. Given this good performance, we have set an ambitious new target to reduce our normalised CO₂ emissions by a further 7.5% to no more than 2.8 tonnes/1,000 hours worked over the period 2012 to 2015. For this new target period we will be using international CO₂ conversion factors which give a slightly lower normalised figure for 2012 of 3.0 tonnes/1,000 hours.



* The 2012 figures exclude new subsidiaries acquired after the target baseline years. Including these new subsidiaries, our gross and normalised CO₂ figures for 2012 are 95,000 tonnes and 3.1 respectively and the LTA rate is 0.16.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

SUMMARY

- Delivered a resilient set of results in 2012
- Organic revenue growth of 3%
- Full year dividend increased by 8%
- Strong balance sheet with net debt of £144m

“A high level of confidence in the future prospects of the Group lead the Board to recommend that the final dividend be increased by 9% to 20.7p.”



www.imiplc.com/investors

Results overview

In 2012 IMI delivered organic revenue growth of 3%, operating margins of 17%, strong cash conversion and adjusted earnings per share of 84.3p, up 3% over last year despite currency headwinds associated with a stronger sterling.

This was an encouraging performance, with growth from new products and emerging markets more than offsetting the impact of weaker economic conditions in the second half; and good underlying progress on margins in a number of areas reflecting continued improvements in the quality and differentiation of our products.

Our Fluid Controls business recorded organic revenue growth of 3%, with double digit revenue growth in Severe Service offsetting second half weakness in Fluid Power and a flat year in Indoor Climate. Margins for the Fluid Controls businesses reduced from 18.7% to 17.7%, impacted primarily by the shipment of a large backlog of lower margin projects within Severe Service secured in earlier years. As indicated in the Interim Results, prospects going forward are much improved, with margins in the Severe Service order book at the year-end notably higher than 12 months ago. Margins in Fluid Power and Indoor Climate reflected pleasing resilience in the face of weaker end-markets, supporting increased investments in emerging markets and in new products which continue to improve their differentiated positions.

Within Retail Dispense we made further good progress in improving the underlying quality of the Beverage Dispense and Merchandising businesses, accelerating the development of new products at higher margins and exiting low margin or commoditised product lines. As a result, operating margins for the Retail Dispense businesses increased to 14.7% from 13.7% last year. Overall revenues increased 2% on an organic basis, despite a number of low margin product exits, pointing to a reasonably healthy level of underlying demand.

Contributions from our two acquisitions during the year, Remosa and InterAtiva, were encouraging, with both businesses recording an improvement in margins and both providing scope for considerable growth over the coming years.

These results together with a strong performance on cash conversion and a high level of confidence in the future prospects of the Group lead the Board to recommend that the final dividend be increased by 9% to 20.7p. This makes a total dividend for the year of 32.5p, an increase of 8% over last year's 30.0p.

Accelerating our strategic plans

Over the last few years we have developed a very detailed understanding of the end-market niches that offer the greatest scope for IMI in terms of growth, margins and long-term resilience – our so-called ‘sweetspot’ of operation.



ROBERTO QUARTA Chairman

MARTIN LAMB Chief Executive

For IMI this sweetspot is where we can deploy our differentiated fluid technologies in global market niches where we already have, or can aspire to, a leadership position and which benefit from a heightened exposure to the long-term mega-trends of climate change, resource scarcity, urbanisation and an ageing population.

We understand the long-term drivers for growth, the key requirements for establishing barriers to the competition and the scope for building market share. Furthermore, we have established clear customer and technology roadmaps to take full advantage of the new product opportunities arising from favourable mega-trends and to deliver market share gain. Accordingly, sweetspot

convergence and the prioritisation of assets and resources is the central theme in progressing both the quality, as reflected by operating margins, and growth of the business over the medium-term.

We have set out an objective to increase the proportion of our revenues in this sweetspot of operation, which was 58% in 2012, to around 75% over five years. The pathway to that convergence requires an acceleration in output from new product development, greater participation in the higher growth emerging markets, a highly disciplined approach to the allocation of internal resources, and a step change in corporate activity, involving both acquisitions and disposals.

Over the period we expect to increase our investments in both new products, as framed by the sweetspot and technology roadmaps we have developed, and in greater penetration of the emerging markets. These investments for higher growth will be funded through a continued determination to keep winning our 'inflation equation', with a focus on value-selling techniques and on driving down manufacturing and supply chain costs. We are also targeting a significant increase in investment in acquisitions, firmly positioned in our sweetspot, and have boosted our internal M&A resource accordingly.

“ ... IMI delivered organic revenue growth of 3%, operating margins of 17%, strong cash conversion and adjusted earnings per share of 84.3p, up 3% over last year. ”



MOVING FORWARD

- Increasing investments in new products and the emerging markets
- Increased resources for M&A to accelerate our strategic plans
- Exploring options for the divestment of the majority of the Merchandising business
- Share buyback programme of up to £175m to maintain efficient balance sheet

Retail Dispense reorganisation

As part of the convergence process, since the year-end we have concluded that the majority of the Merchandising business should be divested, and we are exploring options accordingly. The part of the Merchandising business serving the beverage market, contained within our Display Technologies subsidiary, presents a number of synergies with the Beverage Dispense business, including a shared customer base and significant potential to develop a more compelling and high impact interface between the consumer and our beverage dispense equipment. Accordingly this beverage activity has been transferred to the Beverage Dispense business with effect from the start of this year. In 2012, Display Technologies had revenues in these product areas of £36m and segmental operating profit of £8.5m.

Capital allocation priorities

As part of our strategic acceleration plans we have reviewed our capital allocation priorities. The Group continues to be very cash generative and net debt at the year-end reduced from the half-year to £144m, with net debt to EBITDA at 0.4 times, after having financed £105m for the acquisitions earlier in the year of Remosa and InterAtiva.

Our priorities for capital allocation are the acceleration of investments for growth in new product development and emerging markets, the maintenance of a progressive dividend policy, with dividend cover being maintained at above two times earnings and an increase in acquisition activity to support sweetspot convergence.

The Board remains focused on maintaining an efficient balance sheet and given the uncertainty over the timing of acquisitions, there may be periods when net debt falls below current levels which becomes inefficient. Accordingly we intend to commence a share buyback programme over the next 12 months of up to £175m to ensure that gearing remains at or above the current level.

People and organisation

In support of efforts to accelerate growth and deliver against our sweetspot convergence objectives, we are making a change to the senior leadership team. Peter Spencer, who has a track record of delivering significant growth, including a very successful period in charge of the Merchandising business, will lead the Indoor Climate Group with effect from 7 March, reporting directly to Martin Lamb. Sean Toomes, who has made an excellent contribution to the Group over a long career with IMI, stepped down from the Board on 6 March, and will be leaving the company at the end of June. We would like to thank Sean for his significant contribution to IMI over many years.

We also announced during the year a number of changes to our non-executive structure. In the autumn we appointed three new non-executive directors, Carl-Peter Forster and Phil Bentley with effect from 1 October 2012 and Birgit Nørgaard with effect from 6 November 2012. They have tremendous international business leadership experience across a range of relevant end-markets and I am sure we will value their contribution at Board level as we strengthen and grow our businesses worldwide.

Kevin Beeston retired as a non-executive director at the end of September 2012 and we announced in December that Terry Gateley will retire as a non-executive director at this year's AGM in May. On Terry's retirement, Phil Bentley will assume the chair of the Audit Committee and Anita Frew will become the senior independent director. We are extremely grateful to both Terry and Kevin for their valuable contribution, considered judgment and wise counsel over the many years that they have both spent on the Board.

Ian Whiting, the corporate development director, also stepped down from the Board in August last year.

Our ongoing success is fundamentally linked to the skills, energy, initiative and commitment of our people across the world. We are again grateful to them for their continued hard work and enthusiasm which have helped to deliver another good set of results in 2012.

The IMI Way

The IMI Way is our code of responsible business which sets the very highest standards of ethical business and compliance. The Group has been reinforcing the core values and messages of The IMI Way since its launch in 2009. On 13 June 2012, we held our first global IMI Way Day when the vast majority of our workforce, which encompasses over 15,000 employees, participated in interactive training and engaged in a number of worthwhile projects in their local communities.

Outlook

IMI has proved itself to be a strong and resilient business, capable of securing growth even in difficult markets. Whilst the macro-economic environment has stabilised over recent months, we expect market conditions to remain subdued in the first half of 2013, but to improve gradually as the year progresses, with increased momentum in the second half, benefitting from an improving sales mix and the commercialisation of a number of new products. Over the longer term, we remain confident of delivering organic revenue growth well in excess of global GDP, with very attractive margins, as the benefits from the execution of our strategy fully materialise.



Roberto Quarta
Chairman
6 March 2013



Martin Lamb
Chief Executive
6 March 2013



“ IMI has proved itself to be a strong and resilient business, capable of securing growth even in difficult markets... over the longer term we remain confident of delivering organic revenue growth well in excess of global GDP. ”

FLUID CONTROLS SEVERE SERVICE

Our Severe Service business delivered revenue growth of 20% on a reported basis, including the results of Remosa and InterAtiva since acquisition. Revenue, on an organic basis, increased by 14% for the full year, reflecting a strong shipment performance throughout the year. We saw good growth in shipments in Fossil Power, Oil & Gas and in the aftermarket, whilst shipments in the Petrochemical market were down. Shipments also benefitted from a catch up in backlog that existed at the end of 2011.

The order book remained unchanged from a year ago despite record shipments, and overall order intake was down 1% for the year on an organic basis. Bookings momentum has been particularly positive in the Petrochemical sector which has offset lower activity in the Nuclear sector and reduced bookings for new construction fossil power projects in China and India where we continue to exercise greater selectivity on project bids.

Operating margins of 14.0% were down on the 15.5% achieved in 2011. As we explained in our Interim Results, this reflects an adverse mix of lower margin

projects secured in prior years and higher than expected costs associated with our Brno manufacturing facility in the Czech Republic. Margins in the order book continued to improve throughout the year as the backlog of lower margin projects was shipped, and was replaced by new projects at better margins. In addition we have continued to achieve improvements in productivity in the second half at the Brno facility. Whilst there remain some lower margin contracts still to ship in 2013, mainly in the first half, we continue to expect margins to show progressive improvement through 2013.

The acquisition of Remosa in February 2012 significantly strengthened our capabilities in the downstream Petrochemical sector which is enjoying renewed investment in North America on the back of the availability of low cost shale gas. The acquisition of InterAtiva, also completed in February 2012, has significantly improved our sales and service infrastructure in South America, opening up new sales opportunities across the Severe Service business.

The strong order book position at the beginning of the year gives us confidence that the business will deliver modest growth in 2013.

HIGHLIGHT

IMI Company: CCI
Customer: Archer Daniels Midland
Location: USA

Archer Daniels Midland (ADM) is one of the world's leading agricultural processors. For nearly 10 years, excessive and uncontrolled valve trim velocities within the boiler system at their Illinois HQ had caused erosion and increased vibration, which compromised performance. To maintain levels of control and productivity, valves were regularly replaced and complete maintenance procedures undertaken at great cost.

The Valve Doctor team recommended installing nine 100 feedwater control valves and eleven 100 spray water valves using CCI's DRAG® technology. The tortuous flow paths in the heart of the valve (disk stacks) reduced exit velocity eliminating erosion damage and reduced the pressure drop on each stage. Installation of CCI's valves helped ADM significantly reduce costs as maintenance intervals are expected to extend from 18 months to five years and have provided added control and dependability to increase productivity.



FLUID CONTROLS FLUID POWER

As anticipated, Fluid Power markets weakened in the second half after a flat performance in the first half. Overall revenues declined, on an organic basis, by 5% in the second half and by 3% for the full year.

Our sector business, which focuses on bespoke solutions for key original equipment manufacturer (OEM) customers in global niche markets, continued to show greater resilience. This was down 1% on an organic basis, compared to 4% down for the rest of Fluid Power. The Commercial Vehicle sector was down around 10% in the second half and 2% down for the full year. The US truck market was notably weaker in the second half after a strong performance in the first half. We saw good revenue growth in the Energy sector, more stable performances in Food & Beverage and Life Sciences and a decline in the Rail sector. Overall our sector businesses represented 46% of total Fluid Power revenues in 2012.

We continued to make good progress with the ongoing development of our internet, phone and catalogue-based aftermarket solution, Norgren Express.

Fluid Power has continued to demonstrate good underlying margin momentum, with value engineering and supplier rationalisation initiatives, together with our ongoing transfers of production to lower cost sites, delivering further cost reductions. This has resulted in a further improvement in margins, despite lower activity levels, with full year margins of 19.8% compared to 19.6% last year.

Second half margins were slightly down at 19.6% compared to 20.0% in the second half of last year on the reduced volumes.

We are seeing more optimistic feedback from major customers in our regular conversations with them, although there has been a slow start to the year in the Commercial Vehicle sector as some destocking continues. Based on our latest customer insight and current order

trends we expect revenues in the first half to be similar to the second half of last year with first quarter destocking in the Commercial Vehicle sector offsetting a gradually improving trend elsewhere. We expect a return to stronger growth in the second half, as Commercial Vehicle volumes normalise, and the contribution from a number of recently launched products accelerates.

HIGHLIGHT

IMI Company: Norgren

Product: Redundant Valve Manifold

Norgren's innovative Redundant Valve Manifold (RVM) system for the oil, gas and chemical sectors is the first product of its kind to incorporate all key safety and availability functions in a single integrated unit making installation and maintenance easier and eliminating unplanned shutdowns.



FLUID CONTROLS INDOOR CLIMATE

Indoor Climate revenues were flat on an organic basis for the full year, with growth in a number of emerging markets offsetting a decline in Western Europe, which suffered from some wholesaler destocking at the year-end after a more positive third quarter. The new construction market in Europe remained subdued, whilst refurbishment activity continued to be more resilient.

During the year we significantly increased our investments in sales resource outside of Europe, opening up four new hydronic demonstration centres and increasing the number of new seminar participants by 16%. This investment is starting to gain some traction, with strong double digit growth in Turkey, Russia, China and Brazil, but disappointing results thus far in North America. We also invested heavily in a new range of control valves with integrated balancing, which is being

rolled out to the global market in the first half of 2013, opening up a new and adjacent market sector for the Indoor Climate business.

Operating margins in the second half of 2013 were in line with our expectations, leaving full year margin at 21.0%, down from the 22.0% achieved in 2011. As previously highlighted this reflects the incremental investments for growth and some additional costs associated with the centralising of the management structure in Switzerland.

Looking at the general macro-economic background, and taking note of customer sentiment, we expect the new construction market in Europe to remain subdued but refurbishment activity to remain resilient. We do however expect an improving trend in both Asia and the Americas which, coupled with the increased sales presence we now have in these markets and a progressively improving contribution from the newly launched control valves, should mark a return to growth in 2013.

HIGHLIGHT

IMI Company: TA Hydronics
Customer: PWI Engineering
Location: USA

TA Hydronics, working with PWI Engineering and Victaulic, supplied hydronic solutions to the Albert Einstein Medical Center in Philadelphia, a building in which comfort, safety and peace of mind was an essential priority. To ensure the acute care centre met the required operational functionality, TA Hydronics worked closely with the construction manager and mechanical contractor from the outset. The system solution, comprising 900 balancing and differential pressure control valves, was engineered with the customer to meet specifications for energy savings, water efficiency and improved indoor environmental quality. This led to the building gaining Leadership in Energy and Environmental Design (LEED) certification.



RETAIL DISPENSE BEVERAGE DISPENSE

Full year revenues in Beverage Dispense were down 1% on both an organic and reported basis. The continued focus on improving the quality of the business delivered a 9% increase in operating profit to £45.0m and resulted in another strong uplift in returns with an overall operating margin for the year of 14.4% (2011: 13.0%). Operating margins in the second half were ahead of the long held target of 15%.

The important Americas market ended the year flat and we achieved a more positive performance in continental Europe. We saw good growth in Asia Pacific, with a particularly strong performance in China. The most challenging market for Beverage Dispense was in the UK where revenues were significantly below last year, reflecting in part the exit of a low margin contract at the half-year. We have recently taken actions to restructure the UK business, reducing the cost base and concentrating our efforts on a more focused customer base. Our parts business, 3Wire, has continued to win new national food-service accounts in North America.

During the year we remained focused on improving the quality of the overall sales

mix in the business, accelerating the growth of higher margin new products and continuing to exit commoditised low margin product lines, like the UK contract referenced above. These low margin exits reduced revenues by around 2% and have resulted in an exit from around 10% of the product portfolio over the last three years. This programme is now largely complete, notwithstanding the full year impact in 2013 of actions taken partway through 2012.

We continue to focus our efforts on delivering successful new products for our customers to meet their growing demand for innovative solutions to dispense health and wellness beverages such as smoothies, water, juice and frozen beverages and also a greater variety and choice of drinks. We are working on several major new product development opportunities which have the potential to accelerate growth and drive further margin improvement over the medium-term. We were recently awarded the contract to design and manufacture the next generation of automated beverage dispensers to be sited in McDonald's drive-thru restaurants on a global basis over the next few years.

MERCHANDISING

Merchandising performed strongly throughout the year with revenues up 8% on an organic basis. In the summer we commenced shipments for two large multi-year contracts secured in our European cosmetics business. We have also continued to perform well in the US automotive sector where customers are upgrading their showrooms.

We continue to focus on higher value projects where we are able to leverage our extensive consumer insight in our target end-markets to deliver valuable and compelling merchandising solutions for our customers. This focus is being

supported by further investment in developing our In-Vision retail science laboratory which opened in the US in 2011.

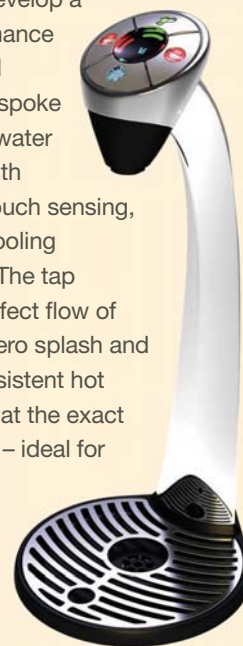
Segmental operating profits increased by 10% to £27.9m and operating margins at 15.2% were ahead of last year.

As mentioned in the Chairman and Chief Executive's statement, with effect from January 2013 the beverage business of Display Technologies has been transferred into Beverage Dispense and we are exploring options for the divestment of the remainder of the Merchandising business.

HIGHLIGHT

IMI Company: IMI Cornelius
Customer: Vivreau
Location: UK

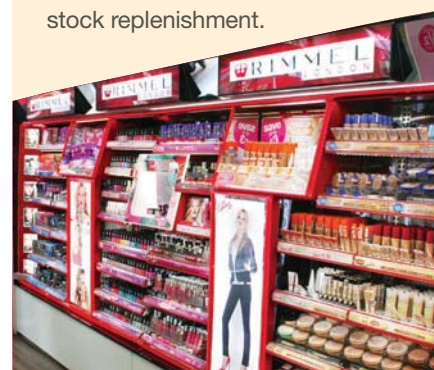
IMI Cornelius partnered with Vivreau to develop a high performance hot/cold and sparkling bespoke single-pour water dispenser with integrated touch sensing, boiler and cooling electronics. The tap boasts a perfect flow of water with zero splash and delivers consistent hot water safely at the exact temperature – ideal for tea drinkers.



HIGHLIGHT

IMI Company: Artform
Customer: Coty
Location: UK

Coty needed a fresh and impactful in-store display for Rimmel cosmetics. Artform created an adaptable and unique merchandising design for effortless shopping navigation and quick stock replenishment.



FINANCIAL REVIEW

In 2012 the Group's revenues were up 3% on a reported basis. Excluding an adverse exchange impact of £63m revenues grew by 6%, the contribution from acquisitions to revenue growth was 3%, giving an organic sales growth of 3%.

Acquisitions

On 16 February 2012, the Group acquired Remosa SpA and related companies (collectively Remosa), a leading engineering business specialising in valves and related flow control products for severe applications, for an enterprise value of approximately £83.1m, being cash consideration of £68.4m and net debt assumed of £14.7m. The consideration was funded out of IMI's existing resources and banking facilities. The main Remosa manufacturing facility is located in Sardinia. Segmental revenue of £32m and segmental operating profit of £5.4m for the period since acquisition has been reported for Remosa within the Severe Service segment.

On 17 February 2012, the Group acquired the InterAtiva Group (InterAtiva), a Brazilian isolation valve business located in Sorocaba, near Sao Paulo, from its founding partners for an initial cash consideration of £22.0m and contingent consideration up to a maximum of BR\$55.5m (£16.7m at 31 December 2012 rates) to be paid based on its performance over the period to 31 December 2014. Consideration paid to date has been funded out of IMI's existing resources and banking facilities and a further £4.0m has been accrued for payments relating to 2012 performance. Segmental revenue of £11m and segmental operating profit of £2.4m for the period since acquisition has been reported for InterAtiva within the Severe Service segment.

Segmental performance

The following review of our business areas for 2012 compares the performance of our operations as reported under IFRS8 'Operating Segments' with 2011. In the below analysis, revenue growth has been stated on a constant currency basis.

As part of the convergence process, since the year-end we have concluded that the majority of the Merchandising segment should be divested, and we are exploring options accordingly. The part of the Merchandising segment serving the beverage market, contained within our Display Technologies subsidiary, presents a number of synergies with the Beverage Dispense segment, including a shared customer base and significant potential to develop a more compelling and high impact interface between the consumer and our beverage dispense equipment. Accordingly this beverage activity has been transferred to the Beverage Dispense segment with effect from the start of this year.

In Fluid Controls, excluding both Remosa and InterAtiva's contributions, Severe Service revenues increased by 14% in the year reflecting strong shipments in Fossil Power, Oil & Gas and the aftermarket. Margins fell to 14.0% (2011: 15.5%) reflecting an adverse mix variance on historical contracts and costs associated with our Brno facility in the Czech Republic.

Fluid Power revenues fell 3% on an organic basis due to anticipated market weaknesses in the second half but the sector business, which is focused on the key OEMs, was more resilient, falling only 1% on an organic basis. The sector business now represents 46% (2011: 45%) of Fluid Power revenues. Operating margins remained buoyant in spite of lower volumes and improved to 19.8% from 19.6% in 2011 due to the successful delivery of cost improvements through supplier rationalisation, value engineering and increased production in lower cost regions.

The Indoor Climate business performed strongly but growth in emerging markets was offset against a backdrop of declining revenues in Western Europe leading to flat organic revenues year on year. Second half margins were strong at 22.8% but full year margins fell from 22.0% to 21.0%, reflecting incremental investments for growth and additional costs resulting from the centralisation of this segment's head office in Switzerland.

In Retail Dispense, Beverage Dispense operating margins improved to 14.4% (2011: 13.0%) for the year in spite of a decrease in revenues of 1% on an organic basis as lower revenues in the UK and flat revenues in the USA were only partially offset by stronger performances in continental Europe and the Asia Pacific region, particularly in China. The revenue performance in the UK was adversely impacted by the mid-year exit of one particular low-margin contract, which reduced revenue by 2% in the year but which now concludes this three year programme of exits.

In Merchandising, organic revenues grew by 8% for the year, driven by the commencement of deliveries on two major long-term European cosmetics contracts and a strong performance in our American automotive sector. Operating margins increased to 15.2% (2011: 15.0%).



DOUGLAS HURT Finance Director

The Group's segmental operating profit margin was 17.0%, compared to 17.5% in 2011. In the traditionally stronger second half, the Group delivered an operating margin of 17.4% (2011 H2: 18.0%). Segmental operating profit was broadly flat at £373.0m (2011: £374.1m).

Non-operating and exceptional items

Net interest costs of £17.7m (2011: £16.9m) on net debt were covered 22 times (2011: 23 times) by earnings before interest, tax, depreciation and amortisation of £393.9m (2011: £391.7m).

Profit before tax and exceptional items increased to £366.3m (2011: £363.4m).

A net gain arose on the revaluation of financial instruments and derivatives under IAS39 of £5.8m (2011: loss of £2.1m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

The net credit arising on special pensions events in the period comprised a £9.0m past service credit in relation to the pension increase exchange exercise implemented in January and a similar £3.2m past service credit relating to plan changes in two of our Swiss schemes. These income statement credits are offset by a £1.3m charge in relation to the exit of a Japanese state-sponsored scheme.

Restructuring costs in the year were £23.3m (2011: £23.5m) as the Group continued to seek operational efficiencies and move more activity to lower cost manufacturing locations.

Of this amount the largest costs were in the Severe Service (£13.8m), Indoor Climate (£3.5m) and Merchandising (£3.0m) businesses and principally related to the costs of relocating manufacturing activities to low cost manufacturing locations and other value chain improvements. The Group expects to continue to incur restructuring costs in 2013 of about £15m which should substantially complete this multi-year programme.

Acquired intangible amortisation decreased to £29.6m (2011: £32.3m) primarily because the first-year charge relating to Remosa and InterAtiva was lower than the 2011 Z&J equivalent. The 2013 charge will reduce to about £21m before taking into account the impact of any further acquisitions.

Other acquisition related costs included a £4.0m charge in the year relating to the accrual of earn-out payments payable in relation to the acquisition of InterAtiva, which are required to be expensed to the income statement as remuneration under IFRS because they are forfeitable in certain of the instances in which the vendors might cease employment. The remaining charge of £2.3m in the year related to the costs arising on the successful InterAtiva and Remosa acquisitions in the year.

Profit before tax from continuing operations was £317.0m (2011: £301.4m).

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

	Revenue £m	Segmental operating profit £m
2011 full year	2,131	374.1
First half		
Effects of currency translation	(18)	(4.4)
Acquisitions	28	4.2
Volume	25	8.6
Inflation equation	21	19.9
Operating improvements/ low-cost manufacturing		3.0
Investments for growth		(10.0)
Investments - overheads		(1.3)
Mix		(14.2)
Other/effects of transactional exchange differences	2	(1.3)
	58	4.5
Second half		
Effects of currency translation	(45)	(9.0)
Acquisitions	26	4.4
Volume	1	(5.7)
Inflation equation	19	22.3
Operating improvements/ low-cost manufacturing		6.9
Investments for growth		(7.5)
Investments - overheads		(3.0)
Mix		(8.8)
Other/effects of transactional exchange differences		(5.2)
	1	(5.6)
2012 full year	2,190	373.0

Half year analysis

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

	Change %	2012 £m	2011 £m
Revenue			
First half	+6	1,090	1,032
Second half	-	1,100	1,099
	+3	2,190	2,131
Segmental operating profit			
First half	+3	180.9	176.4
Second half	-3	192.1	197.7
	-	373.0	374.1
PBTE*			
First half	+4	177.7	171.3
Second half	-2	188.6	192.1
	+1	366.3	363.4
Profit before tax			
First half	+7	154.4	144.3
Second half	+4	162.6	157.1
	+5	317.0	301.4
Financial instruments excluding economic hedge contract gains and losses			
First half		0.8	0.3
Second half		(1.8)	(6.5)
		(1.0)	(6.2)
Net credit on special pension events			
First half		9.0	-
Second half		1.9	-
		10.9	-
Restructuring costs			
First half		(13.5)	(9.9)
Second half		(9.8)	(13.6)
		(23.3)	(23.5)
Acquired intangible amortisation			
First half		(16.4)	(17.4)
Second half		(13.2)	(14.9)
		(29.6)	(32.3)
Other acquisition related costs			
First half		(3.2)	-
Second half		(3.1)	-
		(6.3)	-

* Profit before tax and exceptional items

Taxation

The effective tax rate for the Group before exceptional items reduced to 26% (2011: 28%) during the year as a result of further business reorganisation, a strong focus on global tax incentives, tax compliance management and the reduction in the UK corporation tax rate. The recent UK Government reforms to Corporation Tax have been welcome and are expected to further improve IMI's taxation profile. In addition, exceptional tax relief of £11.9m (2011: £4.1m) arose in connection with business restructuring and other exceptional costs. The total tax charge for the year was therefore £83.3m (2011: £97.7m) and profit after tax was £233.7m (2011: £203.7m). Taxes of £102.9m (2011: £90.9m) were paid in the year. We fully support the principle of transparency in our tax affairs and wherever possible seek to agree as early as possible with tax authorities the tax outcomes of our commercial arrangements, thereby minimising tax risks in our accounts. Furthermore, we have sought to provide additional and clearer information in note 7 on our corporate income taxes.

Earnings per share (EPS)

Basic EPS increased 14.9% to 72.6p (2011: 63.2p) and diluted EPS was 71.6p (2011: 62.1p). The Board considers that a more meaningful indication of the underlying performance of the Group is provided by earnings before charging/(crediting) exceptional items after tax. Details of this calculation are given in note 8 to the Group financial statements. On this basis the adjusted EPS from continuing operations was 84.3p, an increase of 3% over last year's 81.5p.

The revision to IAS19 '*Employee Benefits*' will apply to the Group from 1 January 2013. The principal effect on the Group of the revisions to this standard is to change the basis for the calculation of the return on assets reported as financial income in the Group's income statement, whereby the amount reported in the income statement is reduced and the amount reported in other comprehensive income is increased by an equivalent amount. Had this change been effective for the year ended 31 December 2012, we estimate that the net finance income reported of £11.0m would have been a net finance charge of £7.8m, which after tax, would have resulted in a 4.6p reduction in basic and adjusted earnings per share. The equivalent finance charge is estimated at £8m for 2013.

Cash flow

The Group's consolidated statement of cash flows is shown on page 76. The change in net debt is summarised in the table opposite.

The operating cash flow from continuing operations was £298m (2011: £307m). This represents a conversion rate of segmental operating profit after restructuring costs into operating cash flow of 85% (2011: 88%). Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £47m (2011: £59m) which was equivalent to 1.0 times (2011: 1.2 times) depreciation and amortisation thereon. Expenditure on research and development in the year was £44m (2011: £43m). Of this amount development costs capitalised in the year were £5m (2011: £4m).

After payment of interest and tax, the free cash flow generated from operations was £191m (2011: £208m). Additional pension contributions of £17m were made in accordance with the repayment plan agreed following the 2008 actuarial valuation of the UK Fund. After Severe Service investigation costs and the outflow in early 2012 of pension transfer incentive payments accrued in 2011, free cash flow before corporate activity was £162m (2011: £153m). The cash outflow on acquisitions of £83m principally comprised £62m in respect of Remosa and £22m in respect of InterAtiva, the latter is also subject to earn-out arrangements as described earlier in this report. Dividends paid to shareholders totalled £98m (2011: £89m) and there was a cash outflow of £1m in respect of the net of shares purchased and issued (2011: £7m). The net cash outflow was £25m (2011: £44m inflow) which resulted in net debt of £144m (2011: £108m).

	2012 £m	2011 £m
EBITDA from continuing operations*	393.9	391.7
Working capital requirements	(30.6)	(13.0)
Capital expenditure (including development expenditure)	(46.9)	(58.9)
Other	(18.9)	(13.0)
Operating cash flow**	297.5	306.8
Tax paid	(102.9)	(90.9)
Interest/derivatives	(3.8)	(8.3)
Operating cash flow after interest and tax	190.8	207.6
Severe Service investigation costs and fine	(2.8)	(2.1)
Additional pension scheme funding	(16.8)	(52.9)
Pension transfer incentive payments	(9.6)	-
Free cash flow before corporate activity	161.6	152.6
Acquisitions (including non-controlling interests)	(83.1)	(8.9)
Dividends paid to equity shareholders	(97.8)	(88.8)
Dividend paid to non-controlling interest	(0.1)	-
Payment to non-controlling interest	(4.4)	(4.4)
Net purchase of own shares	(1.4)	(6.6)
Net cash flow (excluding debt repaid/drawdown)	(25.2)	43.9
Opening net debt	(108.2)	(145.4)
Net debt acquired	(20.8)	(2.5)
Foreign exchange translation	10.4	(4.2)
Closing net debt	(143.8)	(108.2)

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

** Operating cash flow is the cash generated from the operations shown in the consolidated statement of cash flows less cash spent acquiring property, plant and equipment, other non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments

Balance sheet

Net debt at the year-end was £144m compared to £108m at the end of the previous year. The year-end net debt to EBITDA ratio was 0.4 times (2011: 0.3 times).

At the end of 2012 the US loan notes totalled £231m (2011: £255m), with a weighted average maturity of 4.8 years (2011: 5.8 years) and other loans totalled £16m (2011: £1m). Total committed bank loan facilities available to the Group at the year-end were £273m (2011: £250m), none of which was drawn in either 2012 or 2011.

Intangible assets

The value of the Group's intangible assets increased to £545m at 31 December 2012 (2011: £498m) as a result of the two acquisitions in the period, offset by the amortisation of acquired intangibles on both these and previous acquisitions. Before any further M&A activity, the amortisation charge is expected to reduce to £21m in 2013 because of its front-loaded nature.

Property, plant and equipment

The net book value of the Group's investment in property, plant and equipment at 31 December 2012 was £245m (2011: £248m). The decrease arose because capital expenditures of £39m were held to a lower level than depreciation and impairments of £42m.

Shareholders' equity

Shareholders' equity at the year-end was £636m, an increase of £71m since the end of 2011, which includes the profit attributable to the shareholders for the year of £231m, less an after-tax actuarial loss on the defined benefit pension plans of £64m and the 2011 final and 2012 interim dividends totalling £98m.

Share buybacks

No shares were repurchased by the Company during the year. 1.0m (2011: 0.8m) shares costing £10.0m (2011: £8.0m) were purchased by the IMI Employee Benefit Trust for use in relation to employee share schemes.

Dividends

The Board has recommended a final dividend in respect of 2012 of 20.7p per share, an increase of 9% over the 2011 final dividend. This makes the total dividend for the year 32.5p (2011: 30.0p). The cost of the final dividend is expected to be £66.1m, leading to a total dividend cost of £104m in respect of the year ended 31 December 2012. Dividend cover based on adjusted earnings is 2.6 times.

Pensions

As a result of the acquisitions in the year, the Group has 79 (2011: 75) defined benefit obligations in operation as at 31 December 2012. It recognises there is a funding and investment risk inherent within defined benefit arrangements and seeks to continue its programme of closing overseas defined benefit plans where they are neither mandatory nor an operational necessity.

The net liability for defined benefit obligations at 31 December 2012 was £232m compared to £204m at the end of 2011. The increase principally arose from the use of lower discount rates as a result of the reduction in corporate bond yields. The impact of this was offset by strong asset returns, our adoption of a slightly lower long-term inflation assumption, liability management initiatives and cash contributions.

The largest defined benefit arrangement is the IMI Pension Fund in the UK ('the Fund') which has been closed to future accrual since 31 December 2010. This constitutes 82% of the total defined benefit liabilities and 89% of the total defined benefit assets. The last formal triennial actuarial valuation of the Fund was carried out as at 31 March 2011 and the next will be conducted as at 31 March 2014. The statement of funding principles agreed with the Trustee resulted in an actuarial deficit of £120m whereupon it was agreed to pay contributions of £16.8m each July from 2012 to 2016 inclusive as part of the recovery plan to close the deficit by 2016. An exercise was also carried out whereby Fund pensioners were given the option, with effect from 1 January 2012, to exchange future increases on their pensions for a higher current pension. This resulted in a reduction in the Fund's IAS19 defined benefit obligation of £9.0m as at 1 January 2012, and is reflected as a past service credit in the income statement for 2012. The Group continues to explore various options with the Trustee to reduce further the funding and investment risk in respect of the Fund.

Treasury policy

IMI's centralised Treasury function provides treasury services to Group companies including funding liquidity, credit, foreign exchange, interest rate and base metal commodity management. It ensures that the Group operates within Board-approved guidelines in order to minimise the major financial risks and provide a stable financial base. The use of financial instruments and derivatives is permitted where the effect is to minimise risk to the Group. Compliance with approved policies is monitored through a control and reporting system. There have been no changes in the year or since the year-end to the major financial risks to the Group or the way in which they are managed.

Foreign exchange and interest rate risk

Further information on how the Group manages its exposure to these financial risks is shown in note 18 to the financial statements. The translation impact on the 2012 segmental operating profit was a reduction of £13.4m. The most important foreign currencies for the Group remain the euro and the US dollar and the relevant rates of exchange were:

	Average		At 31 December	
	2012	2011	2012	2011
Euro	1.23	1.15	1.23	1.20
US dollar	1.59	1.60	1.62	1.55

If the exchange rates as at 4 March 2013 of US\$1.51 and €1.16 had been applied to our 2012 results, it is estimated that segmental revenue and segmental operating profit would have been 4% and 3% higher respectively.

The IMI Pension Fund's interest in the IMI Scottish Limited Partnership

As a result of discussions with the Financial Reporting Review Panel, which are ongoing, we have re-assessed the basis for the valuation of the IMI Pension Fund's interest in the IMI Scottish Limited Partnership for the purpose of that asset's inclusion within the net defined benefit obligation reported in our 31 December 2012 balance sheet under IAS19. The effect of the re-assessment was to reduce the value of this plan asset by £22.6m, recognised as an actuarial loss in the

period, thereby increasing the reported net defined benefit obligation by the same amount. The deferred taxation asset relating to the net defined benefit obligation increased by £5.2m. The effect of this change on the comparative period would have been significantly lower and is not sufficiently material to require a prior year adjustment.

Change of accounting estimate for the amortisation of customer relationships

During the period, the Group amended its estimate for the phasing of the future consumption of the economic benefits associated with its customer relationships, by changing the amortisation of these assets to a sum of digits approach from a straight-line approach. This change was made because the Group's experience with recent acquisitions has been that the economic benefits of these assets are demonstrably consumed to a greater extent in the periods more directly following the acquisition. The effect of this change of accounting estimate on the period was to increase the amortisation charge relating to acquisition intangibles by approximately £10m. The estimated effect for the year ending 31 December 2013 is an increase of £5m in the charge compared to the charge on a straight-line basis.

Restatement in relation to the allocation of taxation to items of other comprehensive income

The allocation of taxation to items of other comprehensive income in the period has been corrected in the period following a review of these balances. The net effect on reserves and total comprehensive income for the period, net of tax, is £nil in the comparative periods and the opening balance sheet as at 1 January 2011. In the 2011 comparatives the income tax effect on exchange differences on translation of foreign operations net of hedge settlements and funding revaluations has been restated from a £0.3m credit to a £0.1m credit, the income tax effect on the fair value gain on available for sale financial assets has been restated from £nil to a £0.5m charge and the income tax effect on the actuarial loss has been restated from a £15.5m credit to a £16.2m credit. This change also resulted in a decrease of £0.2m in the translation reserve and a corresponding increase in retained earnings.

The goodwill on acquisition of THJ has been finalised, resulting in the 2011 year-end balance sheet being restated. Further details of these changes are disclosed in note 3.2.

Economic value added

Economic value added (EVA) is defined as segmental operating profit (before exceptional items) after tax less a capital charge. The methodology for calculating the invested capital used to derive the capital charge has been amended during the year to better reflect the treatment of acquired intangible amortisation and the prior year comparative has been restated. The capital charge is arrived at by applying the after tax weighted average cost of capital to the average invested capital. Invested capital is defined as net assets plus net debt, accumulated acquired intangible amortisation previously written off, the IAS19 pension deficit (net of deferred tax) and exceptional items in the balance sheet (being restructuring provisions and net derivative liabilities).

For 2012 the segmental operating profit was £373.0m (2011: £374.1m), and after applying the effective tax rate on pre-exceptional profits of 26% (2011: 28%) the Net Operating Profit after Tax (NOPAT) was therefore £276.0m (2011: 269.4m).

The Group's invested capital at the end of 2012 was £1,514.1m (2011 restated: £1,357.7m) comprising £1,370.3m (2011 restated: £1,249.5m) net assets and £143.8m (2011: £108.2m) of net debt. The average invested capital was £1,435.9m (2011 restated: £1,323.6m). Applying the 2012 WACC of 8.0% (2011: 8.0%) to the average invested capital gives a charge of £114.9m (2011 restated: £105.9m). The economic value added in 2012 was therefore £161.1m (2011 restated: £163.5m).

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Overview and Group Operating Review on pages 1 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in this Financial Review. In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Note 19 to the financial statements addresses the management of the funding risks of the Group's employee benefit obligations.

The Group has considerable financial resources together with long-standing relationships with a number of customers, suppliers and funding providers across different geographic areas and industries. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its current bank facilities without needing to renew facilities expiring before March 2014. As a consequence, the directors believe that the Group is well-placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook.

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

Share price and shareholder return

The share price at 31 December 2012 was 1097p (2011: 760p), an increase of 44% over the year. Based on the year-end share price, the proposed total dividend of 32.5p represents a yield of 3.0%.



Douglas Hurt
Finance Director
6 March 2013

RESPONSIBLE BUSINESS



It is our desire to become the most admired and innovative engineering solutions business of our size anywhere in the world. We want to be admired for what we do - creating market leading products and solutions and for the way we do it - being a responsible business.

In the running of our businesses we have a duty to behave responsibly to all our stakeholders, including our employees, our customers, our suppliers and the communities and the environments we operate within. We believe that high standards of responsibility impact positively on profitability, returns to shareholders, reputation and growth.

Our commitment to responsible business starts with The IMI Way, our code of conduct which sets out our core values of excellence, innovation and integrity and is part of our roadmap to success. It directly supports our responsible business priorities, guides our decision making and helps us do business in the right way so that we are focused on not only what we want to achieve, but also on how we go about achieving it.

The values of The IMI Way are reinforced by the face-to-face IMI training we provide for more than 15,000 of our employees each year. On 13 June 2012; for the first time ever, all of our employees were given four hours of dedicated IMI Way training on exactly the same day followed by an afternoon of voluntary work at a local charity or other community projects.



Norgren employees training on The IMI Way Day in Osaka, Japan

Our responsible business priorities

To reflect the values and standards that underpin The IMI Way, we have chosen four responsible business priorities:

Health and safety promotes the importance of a safe culture which protects our people, the environment and adjacent communities. Over the last five years we have continued to improve our key lost time accident measures. This year we launched our 'From Compliance to Competitive Advantage' campaign with the objective of reaching world class health, safety and environment (HS&E) status by the end of 2015.

Supporting our customers' responsible business priorities is essential if we are to continue to occupy leadership positions in global niche markets. We are committed to helping our customers meet their own responsible business objectives just as they value the high ethical standards set out in The IMI Way.

Supply chain risk management provides an opportunity to work in partnership with our suppliers to share best practice and drive improvement. In 2012 we added a new process to our supplier risk management systems which is designed to ensure that our suppliers remove 'conflict minerals' from our supply chain.

Energy efficiency and carbon management support our growth drivers of climate change, resource scarcity and urbanisation; all of which are central to delivering responsible solutions. Integral to this is managing our own facilities and we have various programmes in place to reduce energy consumption and normalised CO₂ emissions across our locations around the world.

It is our duty to manage our business in a responsible and ethical way and in a manner in which IMI and our stakeholders can be justifiably proud. The above priorities are reviewed annually by the Executive Committee to ensure they remain relevant. In addition each of our businesses must align their management plans to address these priorities and any other responsible business objectives that are relevant to their operation and their local community. Typical local objectives may include waste minimisation, increase in recycling volumes and steps to gain relevant HS&E or quality accreditation in particular facilities.

OUR PRIORITIES

Health and safety

Over the last five years our health and safety culture and performance have both improved significantly. Since 2007 the incidence of >3 day lost time accident rates per 100,000 hours worked has improved by 78%. This performance demonstrates our commitment to providing a safe working environment throughout the entire Group. To achieve this we employ more than 60 full-time health, safety and environmental professionals across the Group, up 30% on 2011.

This performance demonstrates the continued clear focus on and commitment to health and safety matters at all levels across the Group. Not only are we interested in the welfare of our employees but there is a clear business benefit from investing in health and safety as we reduced the number of lost time days from 2,400 in 2010 to 850 in 2012, a 65% improvement over the past two years.



A bus with the slogan 'your safety is our goal' travels to IMI employees in Germany to offer advice on workplace safety

Health and safety excellence

In 2012, we launched an internal campaign called 'From Compliance to Competitive Advantage' with the objective of becoming a world class HS&E operation by 2015. Our goal is to promote exceptional behaviours and to move from a top-down management approach to a culture where our people not only look out for themselves but also watch out for their colleagues.

As part of the campaign, we launched a standardised HS&E management framework alongside a set of group-wide targets. We also enhanced our HS&E web-based reporting tool to include dashboard capability and increased resource across the organisation from 50 health and safety professionals in 2011 to over 60 in 2012.

The high standard and consistency of HS&E reporting and feedback is driving considerable performance improvement. For instance, all of our businesses are now required to track and report on hazards and near misses which has resulted in the increase in reporting of such incidents from 9,500 in 2011

to 14,800 in 2012. Tool box talks are also becoming more commonplace at the start of shifts as a way of communicating key messages about health and safety to employees.

In 2012, the campaign allowed us to focus on key safety initiatives but as we move towards our new target of 2015, we will focus on other important health-related initiatives such as workplace well-being.

Supporting our customers' responsible business priorities

We place significant emphasis on helping our customers meet their own responsible business commitments, which we believe builds both long-term value and customer loyalty.

Long-term global trends including climate change, urbanisation and resource scarcity, together with related legislation, are driving customer demand for our products and services, many of which are focused on achieving an energy efficient operation. Our customers also value the high standard of ethical business practices set out in The IMI Way, which is particularly relevant in emerging markets where responsible business risks can be higher.

HIGHLIGHT

IMI Company: TA Hydronics

Title: Energy Insights launch

Up to 40% of the world's energy consumption occurs in buildings and 50% of that is accounted for by heating ventilation and air conditioning (HVAC) systems. In 2012, TA Hydronics launched an 'Energy Insights' campaign to increase the awareness of the benefits of hydronic optimisation which can reduce the energy consumption of a building's HVAC system by an average of 30%.

Key elements of the campaign included:

- a book incorporating 20 separate hydronic energy facts (each explaining how much energy can be saved as a result of key specifications in a system);
- evidence from real case studies and independent studies;
- a three-hour seminar targeted at global sales teams to equip them with the skills and knowledge to engage local customers in the energy saving features of hydronic optimisation.

The 'Energy Insights' campaign built customer awareness of the products that are available to cut energy consumption in buildings and promoted the benefits of optimised hydronic distribution.

OUR PRIORITIES

Supply chain risk management

We source components, materials and services for our manufacturing and sales operations from all over the world but with one commitment; to procure only from suppliers that meet or exceed a minimum set of standards. If our suppliers do not currently meet requirements, then they must demonstrate progression towards the minimum standard over an agreed and suitable timescale.

Every year we audit our supplier base using our bespoke three-step audit process which challenges our suppliers on a range of issues including labour standards, ethics, health and safety and the environment, in keeping with The IMI Way.

In 2012, we started to work with our suppliers to remove conflict minerals from our supply chain. The continuing conflict and the escalating humanitarian disaster in the Democratic Republic of the Congo (DRC) is part financed by the trade in the ores from which tin, tantalum, tungsten, and gold ('3TG') are derived. These elements are now commonly referred to as 'conflict minerals' whereas minerals known to originate in mines which are not operated or taxed by the warring factions may be called 'conflict-free'.

With long and complex international relationships, it can be difficult to ascertain whether our extended supply chain is conflict-free. To address this concern, we have asked all of our suppliers to identify and remove any conflict mineral traces. To date no conflict minerals have been found in any part of our supply chain.

We are keeping our suppliers updated about all new legislation in this area and helping them put in place their own audit procedures to ensure their own supply chains are conflict-free.

Last year we developed and embedded a Conflict Mineral Sourcing Policy across the organisation, in accordance with section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.



We remain respectful of human rights and continue to sign up to the UN Global Compact, which establishes standards for human rights, labour practices and anti-corruption.

Energy efficiency and carbon management

In addition to meeting our customers' demands for cleaner and more energy efficient energy solutions, reducing our own CO₂ emissions and becoming more energy efficient is an integral part of our responsible business agenda.

In 2011 we launched Project 20:20 which is focused on our 20 largest energy-using sites which together account for more than 70% of the Group's total energy consumption. We committed to achieving a 10% reduction in normalised CO₂ emissions at each facility and to introducing an intensive programme of energy surveys, best practice sharing, and tracking project implementation.



TA Heimeier saved 400 tonnes of CO₂ and reduced site overheads by £90k per annum simply by replacing existing lighting with LED lighting

In 2010 we targeted a 10% reduction in our key carbon usage indicator to 3.2 CO₂ tonnes per 1,000 hours worked. We achieved this in 2012 and are now aiming to reduce our normalised CO₂ emissions to no more than 2.8 tonnes per 1,000 hours worked by 2015.



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

COMMUNITY

We are a global business with a local presence in many countries. We take our role as a responsible corporate citizen seriously and aim to support the needs of the communities in which we operate by implementing high social and environmental standards across the Group. We also recognise the importance of organising fundraising events and community volunteering not just for the positive impact it has on local charities but also for the positive impact it has on our employees.

The 2012 CEO Awards: Voluntary work with St George's Crypt
IMI Company: Norgren (Watson Smith)

St George's Crypt is a charitable organisation local to our Norgren facility near Leeds. Operating in the heart of Leeds city centre, St George's Crypt works with the homeless, vulnerable and those suffering from addiction to drugs and alcohol. The charity offers immediate shelter, cooked meals, clean clothes and facilities in which to wash as well as bedroom accommodation, advice and assistance to overcome addiction and find more long-term housing solutions.

In June 2012, Norgren employees organised a day of activities and spent time cooking and serving hot meals and sandwiches to the guests and hosted a number of indoor games, including bowling, darts, ping-pong throw and a raffle. The business is now building a long-term relationship with the charity and has launched a volunteering programme staffed by its employees. Based on feedback from the Crypt that guests often struggle with self-esteem and communication, Norgren is planning to leverage the skills of people within its business to run confidence-building workshops.

The IMI Way runner-up award is presented by CEO Martin Lamb to Chris Prince representing Norgren



Project: 'Reach Out' Initiative

IMI Company: CCI Bangalore



CCI employees volunteer to paint and decorate the school



CCI employees hand out toys and clothes to children

In 2012, CCI in Bangalore launched a new Corporate Social Responsibility group called 'Reach Out', a programme which focused on schools with poor infrastructure and which are attended by students from impoverished families or those with more acute needs such as learning difficulties or physical disability or who had suffered neglect or abuse.

The Reach Out team took over the running and operation of a remote Government school, in Bangalore, which supports 135 students from poor families. A team of 25 employees from CCI volunteered to paint and decorate the school on The IMI Way Day and provided basic materials such as sitting mats and shoes for every child.

In addition, CCI employees donated clothes, toys and stationery to local families, and hope to undertake more voluntary activities and fundraising for the Reach Out programme in 2013.



TALENT DEVELOPMENT AND ENGAGEMENT

Our people are crucial to the success of our business. Development programmes operate across the Group at all levels to ensure that we have the right skill sets to achieve our growth plan.

Our talent management strategy is underpinned by our 'Leadership Blueprint' which defines leadership activities and behaviours for success. The Leadership Blueprint is the cornerstone of all our talent development initiatives including recruitment and selection, performance management reviews, training and development, succession planning and reward programmes.

Leadership programmes

Over 70 of our senior leaders have participated in the leadership development programme, the 'IMI Leaders Boot Camp', which is designed to develop our business leaders in a highly pragmatic and participative way. The programme is delivered over a 12–18 month period and includes business relevant projects to support the learning and to contribute real benefits to the business. Previous projects have included the development of a Group knowledge management strategy and the creation of a post acquisition business integration model. The programme is sponsored by the Executive team and Board members.

Over 150 of our 'rising stars' (middle managers with high potential) participate in the Management Fundamentals programme. This prepares managers for greater responsibility and to date over 40% of the participants have been promoted to more senior roles.

In 2012 we piloted our Emerging Managers' Programme, designed to support the development of our junior managers. In 2013 we will deliver the programme for around 100 delegates, with a focus on the emerging markets.

Global Graduate Development and IMI Academy

Our Global Graduate Development Programme provides a high calibre and high potential engineering talent pool. In 2012 we recruited 10 engineers onto our development programmes and 10 interns. They each have four exciting assignments across the businesses and across the different business disciplines, are assigned mentors and have tailored training and development. Many also go on to develop a post-graduate chartered engineering qualification. At the end of the two-year programme they move into a permanent role in the business but their career development continues to be supported centrally, through the IMI Academy to ensure they are retained and fulfil their potential. This group of future business leaders

Name:

Kiet Huynh

Company:

Norgren

Position:

General Manager of Webber,
(a Norgren business) in Bristol



Kiet joined our Global Graduate Development (GGD) programme in 2001 after graduating from the University of Birmingham with a first-class honours degree and a Masters in Mechanical Engineering. As part of the GGD, Kiet worked in a variety of functions and businesses across the organisation before securing the position of Project Engineer at Norgren's Lichfield facility. Kiet's rise through the ranks of Norgren has been swift. First he was promoted to Technical Manager and then to Technical Director within the Food and Beverage sector before he was approached to take on the management of Webber in Bristol where he was challenged to grow the business by over 10% year on year. Kiet believes the GGD is perfect for graduates like him who aren't just passionate about engineering but who have a genuine commercial focus and an aspiration to become an IMI leader of the future. It is this drive and development programmes like the Management Fundamentals which has supported Kiet's rise to General Manager of Webber.

are then monitored and supported into roles with increasing accountability across the business.

Diversity

Our policy is to recruit the very best people to execute our strategic priorities and to reflect the diverse nature of the global footprint of our businesses, reflecting where our customers and markets are. To do this we are ensuring that our 'talent pipelines' are diverse, in the broadest sense of the word. Today, 40% of our graduate programme intake is female engineers and we are developing more targeted actions to increase the number of female and international business leaders in pivotal roles across the Group. At the highest level, excluding the Chairman, one third of our six non-executive directors are female and five nationalities are represented.

Engagement

Whilst our 2011 employee survey showed high levels of engagement across the Group, feedback suggested that we could be more effective at performance management, personal development and career management. We listened to this feedback and in 2012 we introduced a new performance management process and implemented career ladders and 'job families' in many functions.

The new group-wide performance management process is simple to use and focuses on both managing performance through clear objectives and measures and on the personal development of our employees. Training was delivered to over 650 managers to ensure they implemented the new process effectively and a Train the Trainer programme enables our businesses to continue the training at a local level.

We have a programme of common 'job family frameworks' for our Supply Chain, Health & Safety, Finance and Commercial & Sales functions. The frameworks help us to assess the talent we have in the 'job family' across the Group, to consistently assess and develop our employees, and to provide transparent career development opportunities and career paths for our people. We embedded the job family work in our new enhanced recruitment and selection tools to raise the calibre of new hires into the functions. During 2013 we will develop job families for the Engineering, Project Management and HR functions. We will also repeat the employee engagement survey in 2013 to measure the progress we have made since 2011 and to identify new opportunities and those areas where further improvement is required.

Divisional Development Programmes

Norgren University is the global provider of learning for Norgren's employees. In 2012, Norgren University provided more than 19,000 hours of training to over 1,600 Norgren people globally through its four faculties. The Norgren University Online, launched in 2012, provides a cloud-based university learning portal for managers and employees globally.

Established in 2009 as the flagship offer from Norgren University, the IMI Fluid Power Engineering Advantage Master Class is a four-day training programme that brings together people from commercial and technical disciplines to work in teams focused on live customer case studies. These sessions focus on developing a deep understanding of customer needs and of how the Fluid Power Advantage Engineering and Sales communities can engineer innovative solutions to meet those needs. This deep understanding of our customers' businesses better enables Norgren to provide high value products for our niche sector clients. Since 2009, over 1,400 Norgren employees have participated in the Master Class programme.

In Severe Service our Valve Doctor programme is designed to develop a pool of next generation experts in our products and their application. There are currently over 50 Valve Doctors and a further 83 in training.

The programme takes seven years to complete and ensures that our best engineers are equipped with extensive technical expertise and practical application knowledge enabling them to deliver value-adding solutions to customers. In 2012 we launched the Severe Service University which is focused on providing technical training for our people to enhance value for the customer.

In Indoor Climate the mission of the TA Hydronics College is to ensure that we have the system knowledge and capability in our Sales team to live up to the proposition that we are 'the Leader in Hydronic Solutions'. For our people we develop this knowledge and capability through continuous internal training and assessment in pressurisation and water quality, balancing & control and thermostatic control. In 2012 we delivered over 400 training sessions and over 16,000 hours of development to our people.

Name:
Martine De Sutter

Company:
IMI Cornelius

Position:
Sales Director Western
Europe and Africa



Martine joined Cornelius as Area Manager of the Nordics at the beginning of 2005 and has since held a broad range of sales roles including Key Account Manager for the Heineken Group and General Manager of North East Europe.

Martine completed the 18-month long Management Fundamentals programme in July 2011 during which time she received training in areas of finance, operations and team management and development. Martine also completed a group assignment which focused on ways to enhance IMI's recruitment process by reducing time and costs relating to the attraction of talent and implementation of tools to retain our people.

Whilst the Management Fundamentals programme was intense, Martine believes she now understands what it is she does really well which has given a real boost to her self-confidence. Indeed, she was one of the 40% of participants on IMI development programmes who secured a promotion as a result of the course. In Martine's case, she was promoted to Sales Director for Western Europe and Africa in January 2012 which she hopes will be a launchpad for a General Manager role in the future.

PRINCIPAL RISKS & UNCERTAINTIES

IMI could be affected by a number of risks which might have a material adverse effect on our reputation, operations and financial performance. The Group has in place an established risk management structure and internal controls framework which together are designed to identify, manage and mitigate business risk. A summary of the Group's risk management processes is given on page 45 and the Group's approach to corporate social responsibility and associated risks is described on pages 26 to 31. In addition to the risks described here, the Group is also exposed to a number of financial market risks including credit risk, liquidity risk, counterparty risk, fluctuations in foreign exchange rates, interest rates and commodity prices. A description of these risks and the Group's centralised approach to managing them is described in note 18 to the financial statements. Further information about pension liabilities is given in note 19 to the financial statements.

The following table shows the principal risks, the potential impacts and mitigation actions. For each principal risk the current risk rating and change in risk in the year is shown, the latter by means of an arrow.

Risk	Description of risk and potential impact	Examples of mitigating actions
Failure in health, safety and environmental controls resulting in employee fatality/serious injury High ▼	The Group recognises that it has a duty of care to all of its employees. The Group has made significant progress in the past year in relation to health, safety and environmental key metrics as detailed elsewhere in this report. However in the event of any failure in the Group's health, safety and environmental procedures there is a potential risk of injury or death to IMI's employees or others; or environmental damage, with the consequential impact on the operations and the risk of regulatory action against the Group.	- Established systems in place under the 'IMI Safety First, Safety Always' slogan, to ensure that health, safety and environmental matters are appropriately addressed and any such risks are minimised including monthly reporting to, and review at, the Executive and quarterly review at the IMI Board - Increase of full-time health, safety and environmental officers across the Group to ensure policies are embedded and measured - Regular review of Group safety performance including introduction of new incident reporting metrics - Group Environment, Health and Safety function with experienced specialist employees to provide support and guidance to businesses - including the conduct of regular risk control and health and safety audits - Maintenance of insurance for costs associated with any employers' liability, workers' compensation or equivalent claims and also certain environmental incidents
Non-compliance with legislation and regulation High ◀▶	The Group's worldwide operations and expansion in emerging markets expose it to different legal and regulatory requirements and standards in each of the jurisdictions in which it operates. If the Group fails to understand and comply with all applicable legislation it could lead to a breach of anti-trust, anti-bribery, fraud or tax laws. Any breach could have a financial impact and damage the Group's reputation.	- Commitment to good governance practices which are embodied in The IMI Way providing a guiding set of values that exemplify how IMI employees should behave - The IMI Way was refreshed in 2012 and a corporate IMI Way Day was held in June which included face-to-face training for all employees - Policies, manuals, training, business processes and monitoring of key compliance, tax and legal risks - Increase in resources dedicated to legal and regulatory compliance - Training of employees on The IMI Way and key risk areas such as competition law and anti-corruption - Availability and promotion of the IMI Hotline to report concerns anonymously - Internal control audits by IMI Group Assurance - Anti-bribery, corruption and fraud workshops carried out
Economic and market environment High ▼	The status of the global economy could adversely affect the Group's revenues. The Group's cost base includes many costs that cannot be reduced in the short-term in line with reductions in profitability. The Group may also be required to reassess the carrying value of acquired goodwill and other assets if certain end markets deteriorate further or for longer, which may result in impairment charges.	- Regular updating of contingency plans - Regular Treasury monitoring of southern Europe receivables and cash held - Diverse business portfolio serving different customers and markets - Accelerate growth agenda: Investment in new product development and emerging markets - Monitoring of customer and supplier financial security with particular focus on southern Europe - Cost base reduction initiatives - Effective cash management - Allocation of resource to more resilient customers, markets and geographies and focus on global growth trends (climate change, resource scarcity, urbanisation and ageing population)
Pension funding High ▼	The Group's defined benefit pension arrangements are exposed to the risk of changes in interest rates and the market values of investments as well as inflation, increased longevity of members and statutory requirements. This may result in the cost of funding defined benefit pension arrangements becoming an increasingly significant burden on the Group's financial resources.	- Deficit reduction plans where appropriate - Closure of overseas defined benefit plans to new members and future accrual where permissible - Active management of pension scheme assets and long term view of liability assumptions

Risk	Description of risk and potential impact	Examples of mitigating actions
Loss of a key facility Medium ◀▶	Temporary or permanent loss of a key manufacturing site or warehouse as a result of a natural disaster or any other reason. A stoppage in production or supply could have a material adverse effect on the Group.	Development and regular testing of robust business continuity plans
Products and technology Medium ◀▶	The Group is exposed to risks associated with the commercial failure of products, projects and technologies such as product liability and warranty claims. The quality and safety of our products is of the highest importance and there is an associated risk if they are below standard. For product claims not covered by insurance, the costs that cannot otherwise be recovered may be material to the Group.	- Continued focus on quality and safety, including audits to appropriate quality standards - Processes to mitigate the reputational and legal implications of any failure - Maintenance of insurance cover for product liability claims - Upgrade of talent and focus on functional excellence in quality and product development - Contract management resources for both sales and purchases
IT failure/ computer system collapse Medium ◀▶	The Group utilises a significant number of IT systems ranging from web-based sales systems to enterprise resource planning systems. Failure of any of the systems could impact business performance and key customer relationships.	- Development and regular testing of Disaster Recovery plans - Ensuring Business Continuity Plans are robust and address temporary unavailability of IT systems - Strategy to upgrade or replace key systems
Supply chain Medium ◀▶	The Group has a significant number of contracts with a broad base of suppliers. In the current economic environment there is a risk that their access to credit or adverse trading conditions could lead to an inability to meet their contractual commitments to the Group. In addition, poor quality materials could impact overall product quality. The increasing use of suppliers in low cost economies could introduce risks related to quality or responsible business practices. All this could have a material impact on the Group's results.	- Monitoring of risk and development of contingency plans to mitigate the impact of any supplier failure or increased prices - Review of supply base to reduce over-reliance on key suppliers - Moves to new lower cost manufacturing facilities, ongoing review of alternative low cost suppliers and, where appropriate, supplier consolidation - Training and audit programme to validate suppliers' business processes, quality and standards
Major project execution Medium ▲	The Group will need to undertake a number of major change projects in line with its strategic objectives including business reorganisation and implementation of IT systems. If these projects fail to deliver the desired objectives in the required time frame it would have an adverse financial impact on the Group.	- Upgrade of resources and talent in project management - Regular review of project progression by Executive - Enhanced risk assessment process including full mitigation action plans for all major change projects - Group Assurance reviews
Failure to attract and retain talent Medium ◀▶	A loss of key personnel or the inability of the Group to recruit and retain high calibre managers and engineering talent may lead to the Group not being able to effectively implement its business plans and strategy and experiencing delays, or increased difficulty, in the strategic development of the Group, including in developing and selling its products and services.	- Succession plans in place and regularly reviewed - Group-wide training and development programmes - Increased resources in emerging markets - Regular Group-wide employee surveys and action plans targeted by company or geography

Risk Appetite

The Board has considered the Group's risk appetite and it is considered appropriate to achieve the Group's strategic objectives. The level of risk appetite varies according to the rewards associated with each of the above risk categories. Risk appetite is higher for new product development, emerging market growth and bolt-on acquisitions, in keeping with our objective for further strategic convergence and is lower for employee safety and compliance with regulatory requirements and our code of business ethics.

NON-EXECUTIVE DIRECTORS



ROBERTO QUARTA Chairman

Age 63; non-executive director; joined the IMI Board in 2011.

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



ANITA FREW

Age 55; non-executive director; joined the IMI Board in 2006.

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



TERRY GATELEY

Age 59; non-executive director; joined the IMI Board in 2003.

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



BOB STACK

Age 62; non-executive director; joined the IMI Board in 2008.

Bob Stack is a Trustee of Earthwatch Europe and on the Board of Earthwatch International. Past directorships include J Sainsbury plc where he was chairman of the Remuneration Committee for 8 years and Cadbury plc where he was an executive director for 12 years.



CARL-PETER FORSTER

Age 58; non-executive director; joined the IMI Board in 2012.

Carl-Peter Forster holds non-executive directorships at Geely Automobile in Hong Kong and Volvo Cars Corporation in Sweden. He has worked in the automotive industry for over 25 years and was most recently Group CEO and Managing Director of Tata Motors Ltd including Jaguar Land Rover.



PHIL BENTLEY

Age 54; non-executive director; joined the IMI Board in 2012.

Phil Bentley has been Managing Director of British Gas since March 2007 and on the main Board of Centrica since November 2000. Phil joined Centrica from Diageo where he was Global Finance Director for Guinness-UDV. Prior to Diageo, he spent 15 years at BP in international roles.



BIRGIT NØRGAARD

Age 54; non-executive director; joined the IMI Board in 2012.

Birgit Nørgaard serves as non-executive director on a number of boards including the listed companies DSV A/S and Lindab AB as well as being non-executive chairman of the contractor E. Pihl & Son A.S. and the engineering company NNE Pharmaplan A/S.

EXECUTIVE DIRECTORS



MARTIN LAMB

Chief Executive

Age 53; joined IMI in 1986.

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

ROY TWITE

Executive Director

Age 45; joined IMI in 1988.

Roy Twite joined IMI's Graduate Engineering Development Programme in 1988. During his career with IMI, Roy has held a number of senior roles in all five of IMI's platform businesses and was appointed to the Board in February 2007. In 2011, Roy retained responsibility for Fluid Power, whilst accepting the additional management accountability for the Severe Service business.

DOUGLAS HURT

Finance Director

Age 56; joined IMI and the Board in 2006.

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



DIRECTORS' REPORT

The directors present their report, together with the audited financial statements, for the year ended 31 December 2012.

Business review

The information that fulfils the business review requirements of the Companies Act 2006 can be found on pages 4 to 33 and 45, which are incorporated into this report by reference. This includes a review of the development and performance of the business of the IMI group of companies (the 'Group'), including the financial performance during the financial year ended 31 December 2012, key performance indicators, the principal risks and uncertainties facing the Group and our risk management processes.

Principal activities

IMI is a global engineering group focused on the precise control and movement of fluids in critical applications. IMI plc is the ultimate holding company of the Group. The Group's businesses comprise five operating segments organised into two principal activities: Fluid Controls, comprising Severe Service, Fluid Power and Indoor Climate; and Retail Dispense, comprising Beverage Dispense and Merchandising. The main subsidiary companies operating within these two principal activities are listed on pages 138 and 139. The revenue, profit and capital employed attributable to each of these operating segments is shown in note 2 on pages 90 to 92.

Results and dividend

The Group consolidated income statement is shown on page 72. Segmental operating profit amounted to £373.0m (2011: £374.1m) and profit before taxation amounted to £317.0m (2011: £301.4m).

The directors recommend a final dividend of 20.7p per share (2011: 19.0p per share) on the ordinary share capital payable, subject to shareholder approval, on 20 May 2013 to shareholders on the register at the close of business on 12 April 2013. Together with the interim dividend of 11.8p per share paid on 12 October 2012, this final dividend will bring the total distribution for the year to 32.5p per share (2011: 30.0p per share).

Research and development

Expenditure on research and development in the year was £44.4m (2011: £43.2m): of this amount £5.2m (2011: £4.4m) has been capitalised.

Shareholders' funds

Shareholders' funds increased from £564.8m at the end of 2011 to £635.5m at 31 December 2012.

Share capital

As at 31 December 2012, the Company's share capital comprised a single class of share capital which is divided into ordinary shares of 25p each. Details of the share capital of the Company are set out in note 22 to the financial

statements on pages 127 and 128. The ordinary shares are listed on the London Stock Exchange.

The Company has a Level 1 American Depositary Receipt ('ADR') programme for which Citibank, N.A. acts as depositary. The ADRs are traded on the US over-the-counter market under the symbol IMIAY, where each ADR represents two ordinary shares.

As at 31 December 2012, 2,233,832 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.7% of the issued share capital (excluding treasury shares) at that time. The voting rights attached to these unallocated shares held in the employee trust were not exercised during the year.

During the year, 471,119 new ordinary shares were issued under employee share schemes: 424,029 under the all employee share ownership scheme and save as you earn plans and 47,090 under executive share plans. Shares acquired through Company share schemes and plans rank equally with the shares in issue and have no special rights.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK, from the Company's website www.imiplc.com or by writing to the Company Secretary. Changes to the articles of association must be approved by a special resolution of the shareholders (75% majority required) in accordance with the legislation in force at the time. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide.

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

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

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

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

Own shares acquired by the Company

At the annual general meeting of the Company held on 4 May 2012 authority was given for the Company to purchase up to 48,161,000 of its ordinary shares of 25p each. The Company did not use this authority to make any purchases of its own shares during the period. At the next annual general meeting of the Company, shareholders will be asked to give a similar authority, details of which are contained in the separate notice of annual general meeting.

As at 31 December 2012, 19,124,700 ordinary shares (nominal value £4,781,175) were held in treasury representing 6% of the issued share capital (excluding treasury shares) at that time.

Substantial shareholdings

Information provided to the Company pursuant to the FSA's Disclosure and Transparency Rules is published on a regulatory information service. As at 31 December 2012, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules, had been notified to the Company:

	% held ¹
Standard Life Investments Limited	7.98%
Ameriprise Financial, Inc.	5.02%
AXA Investment Managers UK Limited	4.86%
Newton Investment Management Limited	3.96%

¹ As of the date in the notification to the Company

Subsequent to 31 December 2012 the Company was notified that the interests of Standard Life Investments Limited had changed to 6.98%.

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

Statement on corporate governance

The required disclosures are contained in the corporate governance report on pages 40 to 47 and are incorporated into this report by reference.

Employment policies

The Group continues to support employee involvement at all levels in the organisation and strongly encourages each of its businesses to keep its employees informed on Group and individual business developments and to make its employees aware of the financial and economic factors affecting the performance of the business in which they work, using their own consultation and communication methods. A European Works Council has been in operation since 2003 and meets at least once a year to exchange views on pan-European issues facing the Group. At the date of this annual report, there are 15 members of the European Works Council comprising 13 employee representatives nominated from among employees from each of our European businesses, covering 11 countries, with the balance being Company appointees. The Group's financial results and important initiatives such as Health & Safety, training and development, and employee engagement are communicated through a number of mechanisms including the Works Council, newsletters and intranets for the individual businesses and the Company's website and 'town hall' meetings.

Share schemes are a long established and successful part of our total reward package, encouraging and supporting employee share ownership. Full details of employee share schemes are set out in the Remuneration Report on pages 48 to 69 and in note 20 to the financial statements on pages 123 to 126.

A number of people development initiatives are co-ordinated across the Group, which are based on the Company's values of excellence, innovation and integrity. These initiatives include succession and development planning, leadership development programmes, the IMI Global Graduate Development programme and the embedding of the 'Leadership Blueprint', our competency model, in recruitment and selection, performance management processes, and training programmes. In 2012 we launched a global performance management process and trained over 700 managers globally to support the performance management of their people. These initiatives and the Company's approach to employee investment and talent development are explained on pages 30 and 31.

Our policy on employee diversity and equal opportunity is to comply with relevant legislation in the countries in which we operate and to actively promote our diversity goal to recruit the very best people to execute our strategic priorities and to reflect the diverse nature of our global business. We ensure that our 'talent pipelines' are diverse, for example our Global Graduate Development and Alumni Programme includes people from more than 20 countries, with, in recent years, over 40% of our graduate intake being female.

DIRECTORS' REPORT

Employment policies (continued)

At all levels we are focused on increasing our diversity as reflected in the composition of our Board; with the addition of Birgit Nørgaard, we now have two female non-executive directors, and with our Chairman Roberto Quarta and recent recruit Carl-Peter Forster, our Board makes up a highly international and diverse team. When recruiting we strive to ensure that our shortlists of candidates are diverse and that our people are trained to avoid bias in the process in order to ensure fair selection criteria and in 2012 we piloted a Master Class in Selection Interviewing globally with over 100 managers taking part. This programme will now form part of our ongoing training curriculum and we will launch our on-line tool kit for recruitment and selection in 2013. One way we measure progress is through the Employee Engagement Survey. The 2011 survey confirmed that over 80% of our employees feel highly valued and respected for the diversity they bring to the business and the opportunities they have within our meritocracy. We will run the survey again in 2013.

Every effort is made to ensure that applications for employment from disabled employees are fully and fairly considered and that disabled employees have equal opportunity in training and promotion.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment. Information on our key performance indicators in this area is given on pages 11 and 27 and further information is available on pages 26 to 28 and on our website www.imiplc.com.

Policy and practice on the payment of trade creditors

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

Donations

£209,000 was given during 2012 (2011: £214,000) for charitable purposes. The Group supports a range of selected national charities and smaller charitable organisations operating in communities where the Group has a presence. Our approach to charitable and other donations is explained on page 29. No political donations were made during the year.

Directors

The membership of the Board and biographical details of the directors are given on pages 34 and 35 and are incorporated into this report by reference. Ian Whiting and Kevin Beeston retired from the Board on 22 August 2012

and 1 October 2012 respectively. Carl-Peter Forster and Phil Bentley were appointed to the Board as non-executive directors on 1 October 2012 and Birgit Nørgaard was appointed to the Board as a non-executive director on 6 November 2012. Terry Gateley will be retiring from the Board on 9 May 2013 when Phil Bentley will assume the chair of the Audit Committee and Anita Frew will become the senior independent director. Sean Toomes stepped down as a director with effect from 6 March 2013.

The rules for the appointment and replacement of directors are set out in the Company's articles of association. Each new appointee to the Board is required to stand for election at the next annual general meeting following their appointment and Carl-Peter Forster, Phil Bentley and Birgit Nørgaard will seek election having been appointed to the Board during the year. In addition, the Company's articles of association require each director to stand for re-election at least once every three years. However, in accordance with the UK Corporate Governance Code, all continuing directors will submit themselves for re-election at the next annual general meeting and are recommended for re-election.

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

Directors' powers

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

Directors' interests

The interests of the persons (including the interests of any connected persons) who were directors at the end of the year, in the share capital of the Company, and their interests under share option and incentive schemes, are shown on pages 65 to 67 and 69.

Essential contracts and change of control

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

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

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

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

Going concern

A statement in relation to the adoption of the going concern basis in preparing the financial statements appears on page 25 and is incorporated into this report by reference.

Disclosure of information to the auditor

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

Cautionary statements

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

Sections of this annual report may contain forward-looking statements about the Group including, for example, statements relating to: future demand and markets for the Group's products and services, research and development relating to new products and services, tax rates, liquidity and capital resources and the implementation of restructuring plans and efficiencies. Any forward-looking statements are by their nature subject to numerous risks and uncertainties that could cause actual results to differ materially from those

expressed or implied by such statements depending on a variety of factors including, for example, those described in this annual report under the heading 'Principal risks and uncertainties'. IMI undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this annual report should be construed as a profit forecast.

Annual general meeting

The annual general meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Thursday 9 May 2013. Notice of the meeting will be published on the Company's website, www.imiplc.com.

Auditor

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

By order of the Board

John O'Shea

Company Secretary

6 March 2013

IMI plc is registered in England No. 714275



CHAIRMAN'S GOVERNANCE LETTER

Dear shareholder

During my first 16 months as Chairman I have thoroughly enjoyed building on my understanding of IMI's great people and businesses. For me, IMI's ethical culture and business resilience are among its strongest characteristics and I intend to work with the Board to realise its full potential as a platform for profitable growth.

In 2012 we added three new non-executive directors to strengthen the Board and provide for succession: Carl-Peter Forster, with outstanding leadership experience in the automotive industry; Phil Bentley, with over 12 years at Centrica, first as CFO and since 2007 as Managing Director of British Gas, and Birgit Nørgaard, with a distinguished career in consulting, engineering and broad experience on the Boards of a number of public and private companies in Denmark. Two of our longer standing non-executives are moving on; Kevin Beeston, who retired in September, and Terry Gateley, who will step down after the annual general meeting in 2013. I am delighted that Anita Frew has agreed to become senior independent director after Terry's departure and that we have a strong successor in Phil Bentley for Terry as chair of the Audit Committee.

To enhance the effectiveness of the Board, a number of changes in practice were made during the year; including a fresh approach to planning and agendas for meetings, better time allocation and the addition of a further Board meeting in the Autumn with strategy as the core business.

Looking ahead to 2013, the Board has three clear objectives, in addition to supporting the executive management in realising the challenging business plans and performance targets set by the Board.

- First, continuing the process for Board review of strategy and embedding the outcomes in the long term business plans for the Group.
- Secondly, strengthening management talent and establishing the resources and organisational structure required to accelerate our growth ambitions; and
- Thirdly, continuing to set the right tone and culture through investment in The IMI Way.

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

Yours faithfully,

Roberto Quarta

Chairman

6 March 2013

THE BOARD'S CORPORATE GOVERNANCE REPORT

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

Compliance Statement

The Board is committed to high standards of corporate governance and confirms that throughout the year ended 31 December 2012 the Company has applied the principles of good governance contained in the UK Corporate Governance Code issued in June 2010 (the 'Code') and complied with its best practice provisions as set out below in the Board's report on corporate governance and in its Remuneration Report on pages 48 to 69. The Board is able to report compliance with the Code throughout 2012 subject to the balance of the Board being affected by the loss of one non-executive director in November 2011 when Roberto Quarta became Chairman, and restored through the new appointments announced in August 2012.

The Board notes the various recent developments in corporate governance including revisions in 2012 to the UK Corporate Governance Code, the Listing Rules, the FRC Guidance on Audit Committees, the UK Stewardship Code and the UK government's proposed new regulations in relation to directors' remuneration and narrative reporting. Action to respond to such developments will be taken as appropriate to maintain the Company's high standard of governance practice.

The Board

Composition

At the end of the year the Board comprised eleven directors: the Chairman; the Chief Executive; six independent non-executive directors; the Finance Director and two operational executive directors.

The six non-executive directors are all free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of them meet the criteria for independence under the Code and are regarded by the Board as independent of the Group's executive management. The Chairman, Roberto Quarta, was also regarded as independent at the date of his appointment to the Board. The non-executive directors are from varied backgrounds and bring with them a wide range of skills and experience of senior management in commerce and industry. Terry Gateley is the senior independent director and will retire at the annual general meeting in May 2013, when Anita Frew will take up that position. Kevin Beeston stepped down in October. Phil Bentley and Carl-Peter Forster were appointed with effect from 1 October 2012 and Birgit Nørgaard joined the Board on 6 November 2012. Ian Whiting retired as an executive director with effect from 22 August 2012 and Sean Toomes stepped down as an executive director with effect from 6 March 2013.

Biographical details of the continuing directors are shown on pages 34 and 35.

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

Role

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

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

Division of responsibilities

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

THE BOARD'S CORPORATE GOVERNANCE REPORT

The Board (continued)

Division of responsibilities (continued)

The Chairman is responsible for ensuring that the Board meetings operate to an appropriate agenda, and that adequate information is provided sufficiently in advance of meetings to allow proper consideration. He is supported by the Company Secretary, who also assists in ensuring that the Board operates in accordance with good corporate governance under the Code and relevant regulatory requirements. The Company Secretary acts as secretary to all of the standing committees of the Board. The Board has a recognised procedure for any director to obtain independent professional advice at the Company's expense and all directors have access to the Company Secretary who is a solicitor.

The three executive directors are: the Chief Executive, Martin Lamb; Finance Director, Douglas Hurt; and Roy Twite, an operational executive director. Martin Lamb leads the executive team and has direct responsibility for Indoor Climate and Retail Dispense and for corporate development, including M&A and emerging markets. Roy Twite has responsibility for Fluid Power and Severe Service businesses and for the Group procurement function.

Meetings

The Board met on nine occasions during the year including four quarterly reviews, strategy discussions, visits to operations and meetings convened for special purposes as the need arose. All members of the Board were in attendance at each of the meetings held during their tenure.

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

Board induction, continuing professional development and evaluation

A formal induction process for new directors has been well-established for several years and is the responsibility of the Chairman with support from the Chief Executive, Company Secretary and the Group Human Resources Director. A revised, standard induction programme for new directors was set by the Chairman following his own experience of joining the Board. During and after induction directors are expected to visit business units around the Group and to meet with operating management and corporate staff. Non-executive directors are supported in becoming familiar with the businesses during and after induction and there is regular contact between management and non-executive directors during site visits, formal meetings and events like the annual management conference. Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in some appropriate training during the year at Board meetings.

In line with the Code the Board has agreed that the Chairman should arrange an externally facilitated evaluation process at least once every three years. An internal evaluation of the Board and its committees was completed in 2012, the results of which were reported to the Board and a series of actions agreed. To better assess and find ways to improve Board effectiveness, we held effectiveness workshops with the non-executive directors and with the executive directors, facilitated by an external consultant. We used this input to develop some changes in practice aimed at enhancing the role of the Board. The internal process also involves a series of face to face discussions including individual meetings between the Chairman and the non-executive directors. In addition, the other directors were consulted by the senior independent director regarding the performance of the Chairman. The Board received the findings of the evaluation in the year and the directors confirmed that the Board is fulfilling its responsibilities appropriately. The evaluation concluded that the Board and its committees were effective and that each director demonstrated a valuable contribution. The contribution and performance of the directors, all of whom are standing for election or re-election at the 2013 annual general meeting, is further commented on in the notice of the annual general meeting.

A full, externally facilitated Board evaluation exercise will be conducted later in 2013.

Key Board activities in 2012

Highlights of 2012 were the progress made in improving the focus and effectiveness of the Board under the leadership of a new Chairman. This included refinements to the agenda and practices of the Board, the addition of three new non-executive directors and a dynamic strategy development process.

Business performance and risk are regularly reviewed during the year and the annual business planning and strategic risk review meeting of the Board took place over two days in December. The approach to the Group's risk management process and the Board's review of strategic risks was revised to place more emphasis on mitigation action plans and tracking progress against them.

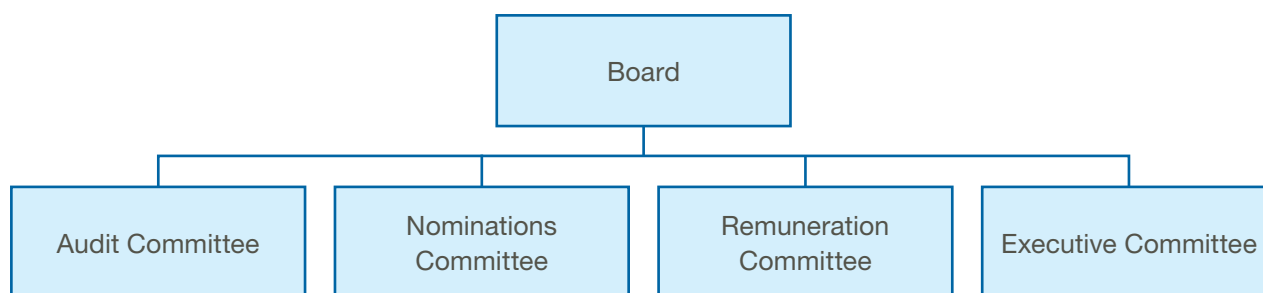
2013 Board objectives

As highlighted in the Chairman's governance letter, the Board established for itself three specific objectives for 2013, as well as supporting the management in delivering the plans and forecasts set by the Board. These objectives are as follows:

- (i) Continuing the process for Board review of strategy and embedding the outcomes in longer term business plans for the Group;
- (ii) Strengthening management talent and establishing the resources and organisational structure required to accelerate our growth plans; and
- (iii) Continuing to set the right tone and culture through investment in the IMI Way.

Standing committees of the Board

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



Audit Committee

The Audit Committee is chaired by Terry Gateley. Anita Frew and Bob Stack were members of the Audit Committee throughout the year. Kevin Beeston was a member until he left the Board in October. Phil Bentley joined the committee on 1 October 2012. Terry Gateley is a qualified Chartered Accountant and has significant recent and relevant financial experience. Phil Bentley will become Chairman of the committee when Terry Gateley retires in May. Phil Bentley is a qualified accountant and his previous career includes twelve years on the board of Centrica plc, the first seven as Finance Director, and time as chair of the audit committee of Kingfisher plc. The committee acts in an oversight role in respect of the financial statements and reports that are prepared by executive management. The committee received reports from the external auditor who attended its meetings when required to do so. The committee's work included reviewing the financial statements, accounting policies, significant issues of judgement and, as described below under the section headed 'Internal Control' starting on page 46, looking at the effectiveness of internal financial controls. Key issues reviewed by the committee included; financial control issues in parts of Fluid Controls, assurance reviews in respect of major change projects, the accounting treatment of certain non-recurring items as exceptional, accounting in respect of pensions, plans for building functional excellence in finance roles across the Group and accounting for acquisitions.

The committee considered the independence and objectivity of the external auditor. In assessing auditor independence the committee had regard to the Smith Guidance for audit committees and required the auditor to confirm that its ethics and independence policies complied with the requirements of the Institute of Chartered Accountants in England and Wales. The Group policy on the use of the auditor for non-audit work is monitored by the committee and requires approval by the Chairman of the committee for any non-audit engagement where fees exceed £150,000 and does not allow work to be placed with the auditor if it could compromise auditor independence, such as functioning in the role of management or auditing its own work. The committee also receives reports from and monitors the work of the internal audit function, known as the IMI Group Assurance Department, and reviews the operation of the Group whistle-blowing policy and the independent hotline (www.imihotline.com). During 2011 the committee received an independent report on the effectiveness of the internal audit function and has since been monitoring progress of the implementation of agreed recommendations.

THE BOARD'S CORPORATE GOVERNANCE REPORT

Audit Committee (continued)

The committee approved the proposed external audit approach and scope as well as the internal audit programme. The committee takes a risk based approach to audit and other assurance activity. The committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor and believes the work has been satisfactory. The committee recommended and the Board approved the proposal to re-appoint Ernst & Young as the external auditor at the forthcoming annual general meeting. Ernst & Young was first appointed as auditor in 2009 following a formal selection process. The term of appointment is annual and there are no contractual restrictions on the committee's choice of auditor. The committee met on four occasions during the year with all members in attendance. Minutes and papers are normally circulated to all members of the Board. The committee normally calls upon the Chairman, all of the executive directors, the Group Financial Controller and the Group Assurance Director to attend meetings but holds at least part of several meetings each year alone with the auditor and Group Assurance Director. The committee reviewed its own performance and terms of reference and approved the foregoing report on its work.

Remuneration Committee

The Remuneration Committee is chaired by Bob Stack and Roberto Quarta, Anita Frew and Terry Gateley were members throughout the year. Kevin Beeston was a member until he left the Board in October 2012. Birgit Nørgaard and Carl-Peter Forster joined the committee on 6 November 2012 and 1 October 2012 respectively. The committee's main responsibilities are to determine the remuneration policy and individual terms and conditions in respect of the executive directors including new appointments and to set the Chairman's remuneration. As well as salary and annual bonuses, the committee is responsible for the structure and level of the performance related elements of executive remuneration and other benefits. The committee also reviews the packages of those at the next most senior level of management and has regard to pay for employees across the Group when determining executive remuneration. The committee met on five occasions during the year with all members in attendance. External consultants are engaged by the committee to provide independent advice and the Chief Executive, Finance Director and the Group Human Resources Director attended its meetings when required. The committee reviewed its own performance and terms of reference and approved the summary report on its work. More details in respect of remuneration matters and the work of the committee are given in the Remuneration Report.

Nominations Committee

The Nominations Committee comprises the Chairman, Roberto Quarta, who chairs the committee, all of the independent non-executive directors and the Chief Executive. During the year the committee reviewed the composition of the Board and its committees and made nominations for appointments to the Board and its committees. External consultants are engaged by the committee in relation to any search for successor non-executive directors. Appointments of non-executive directors are made on the basis of a standard form of appointment letter. Each non-executive director and the Chairman were appointed on the basis of a stated minimum time commitment judged appropriate by the committee. The committee considers that the time given by each non-executive was sufficient. The committee also reviewed the roles of the non-executive directors and during the year it made recommendations, which were approved by the Board, concerning the appointment of three new non-executive directors and the succession for Terry Gateley as Chairman of Audit Committee and senior independent director. It also agreed on the changes to executive responsibilities recommended to the Board following the departure of Ian Whiting. The committee met on six occasions during the year with all members in attendance and also held informal workshop sessions. During 2012 the committee spent a substantial part of its time on executive talent development, succession planning and the organisation structure of the executive management.

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

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

Executive Committee

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

Investor relations

The annual general meeting is regarded by the Board as an important opportunity to meet and communicate with shareholders, particularly private investors. The 2012 annual general meeting was chaired by the Chairman, and attended by the chairmen of the standing committees of the Board and all of the other directors. The Chairman encouraged debate and questions at the formal meeting and informally during refreshments afterwards.

Each substantially separate issue was put to the 2012 annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the directors' report for 2011. A separate resolution for the approval of the Remuneration Report was also put to the meeting. Notice of the 2012 annual general meeting was issued more than twenty working days in advance and the level of proxy votes lodged for and against each resolution, together with details of abstentions, were disclosed at the meeting and are shown on the Company website. The Board values its good relations with shareholders and resolutions proposed at the 2012 annual general meeting received great support.

In addition to the annual report, the Company issues preliminary results and interim results announcements in March and August, respectively, as well as interim management statements. The Company website includes recordings of certain key presentations made by senior management, recent annual and interim reports, interim management statements, other corporate announcements and links to the websites of Group businesses. The Company has arranged a dealing service for the convenience of shareholders with Equiniti (details are shown on page 142). A sponsored Level 1 American Depositary Receipt programme has been established for which Citibank, N.A. acts as depositary (details on page 142).

The Board as a whole seeks to maintain a balanced understanding of the issues and concerns of major shareholders and to assist them in the stewardship of their investments. Dialogue is maintained with shareholders and the executive directors meet regularly with institutional investors. The Chairman also meets with investors and the senior independent director is also available to shareholders. The Chief Executive and Finance Director have primary responsibility at board level for investor relations and report to the Board at least quarterly. They are supported by the Investor Relations Director, Will Shaw. During 2012, IMI continued its programme of capital market day presentations, the materials for which are on the Company website. Financial analysts' notes are circulated to the directors and regular feedback reports from the Company's brokers are supplemented by periodic, independent surveys of major investors' views. The Chairman, senior independent director and other non-executives meet with major shareholders upon request and meetings of this type did take place in the year. There were also consultations with the larger shareholders and institutional shareholder representative bodies in respect of remuneration matters.

Information about share capital, substantial shareholdings, voting and other rights of shareholders, directors' appointments, removal and powers is set out in the Directors' Report on pages 36 to 39.

Risk management processes

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

The annual strategic risk review process is integrated into the annual forecasting and business planning requirements of the Group and monitoring and updates are carried out between annual reviews. Each operating unit and corporate function is therefore required to undertake a regular process of business risk assessment and reporting. The President of each business division has appointed a Risk Champion with responsibility for embedding the Group risk assessment process in their business. The businesses' risk reports, including mitigation action plans for significant risks, are reviewed by the most senior

THE BOARD'S CORPORATE GOVERNANCE REPORT

Risk management processes (continued)

executive within the relevant business and then considered by the Group Assurance Director who puts regular reports to the Executive Committee, which in turn submits a full annual risk review and at least two updates each year to the Board. The other corporate functions go through a similar process and their input is reflected in these reports. The Chairman and Terry Gateley, the chair of the Audit Committee, attended the Executive Committee's annual risk review meeting. The divisional business Presidents present their strategic risks to the Board as part of the annual business plan session and the Board explicitly considers the risks associated with the Company's strategic objectives. The Executive Committee also reports to the Board on major business and other risks involved in specific investment decisions including acquisitions.

During the year the Board received reports on risk issues from the Executive Committee and reviewed the effectiveness of the Group's system of internal control in relation to financial, operational and compliance controls and risk management. In addition, the Audit Committee considered and reported to the Board on the financial aspects of internal control and monitored progress in addressing financial control issues and implementing remediation plans for certain locations where controls had deteriorated following major business changes. The Audit Committee reviewed the nature and scope of the external audit and of the internal audit work carried out by the IMI Group Assurance Department. As a result, major business change projects are to be subject to specific internal assurance review at the planning stage and during implementation. The Remuneration Committee conducted a risk review of incentive arrangements with particular reference to their alignment with strategic objectives and appropriate risk-taking.

Through these processes significant risks are identified, assessed and ranked according to their probability and materiality and, following Executive Committee review, the Board considers what measures are appropriate in order to mitigate, transfer or avoid such risks. Risk appetite across the range of strategic objectives of the Group was also reviewed by the Board. Principal risks and uncertainties are described on pages 32 and 33.

Financial reporting processes

The use of the Group accounting manual and prescribed reporting requirements by finance teams throughout the Group are important in ensuring that the Group's accounting policies are clearly established and that information is appropriately reviewed and reconciled as part of the reporting process. The use of a standard reporting package by all entities in the Group ensures that information is presented in a consistent way that facilitates the production of the consolidated financial statements.

Internal control

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

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

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

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

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

Through the procedures outlined above the Board has considered the effectiveness of all significant aspects of internal control for the year 2012 and up to the date of this annual report. The Board believes that the Group's system of internal control, which is designed to manage rather than eliminate risk, provides reasonable but not absolute assurance against material misstatement or loss.

Business model

A description of how the Group preserves and generates value and the strategy for delivering its long-term objectives is given in the Business Overview section on pages 1 to 11.

Responsible business

A major ethics and compliance program, known as The IMI Way, has been adopted across the Group and is led by the Chief Compliance Officer, Jo Morgan. Reports on compliance and The IMI Way programme are considered at every regular meeting of the Board and the Executive Committee. In 2012, IMI was awarded the prestigious Investing in Integrity award by the Institute of Business Ethics and the Chartered Institute for Securities & Investment.

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

The Company satisfies the FTSE4Good global corporate responsibility criteria and has been awarded membership of the FTSE4Good Index. In addition, IMI has membership of the Dow Jones Sustainability Index and is a signatory to the UN Global Compact. More information on corporate social responsibility matters is given on pages 26 to 31 and on the Company website.

By order of the Board

John O'Shea

Company Secretary

6 March 2013



LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

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

Dear shareholder

It is often said that remuneration reports are too long and complicated to be understood. There are many legal and best practice disclosure obligations that give rise to all these pages, but the challenge that I set myself this year was to tell you all you need to know about pay at IMI in one page. Here it is:

What did the executive directors get paid in 2012?

	Salary paid £000	Value of benefits £000	Value of pension allowance £000	Annual incentive for 2012 results £000	Vesting of 2009 performance share plan award (excluding dividends)	Vesting of 2009 share matching plan award (excluding dividends)	Gain on vesting of options under 2009 Share Option Plan
M J Lamb	740	34	259	524	285,800 shares	655,841 shares	n/a
D M Hurt	405	27	142	238	156,800 shares	166,171 shares	n/a
S Toomes	330	206	116	174	n/a	59,249 shares	£377,613*
R M Twite	405	26	142	222	148,100 shares	139,313 shares	n/a

*S Toomes received Share Option Plan awards during 2009 prior to his executive director appointment. The gain of the vesting is calculated using the grant price and closing price on vesting.

Ian Whiting ceased to be an executive director and employee on 22 August 2012 and therefore is not included in the table above. He had a contract with a 12 month notice period and the termination arrangements reflected that but did not include any bonus in respect of the part of 2012 he had worked or the notice period. All of his outstanding and unvested share awards lapsed, except the 2009 share options and the 2010 matching share award which will vest in full during his notice period. Further details of the termination arrangements are described in section 8 of the following report. S Toomes resigned as an executive director on 6 March 2013 and his employment will terminate on 30 June 2013. S Toomes' remuneration for 2012 is included in the table above.

The 2012 annual bonus was earned for performance against a pre-set range of targets of: profit before tax; adjusted EPS; organic revenue growth; cash conversion; and a range of non-financial measures including health and safety measures, compliance with the IMI Way and specific personal objectives. As you have read, IMI has performed well against some, but not all of these measures.

The 2009 performance share plan awards shown above vested because IMI's total shareholder return (TSR) over three years was 124%. This was a clear demonstration of 'pay for performance' as it is above the upper quartile benchmark of the comparator companies of 87%.

In May 2012 we granted performance share plan and matching share plan awards in line with our normal policy. These awards will vest in May 2015 depending on the executive's continued employment at that time and to the extent that EVA, adjusted EPS growth, relative TSR and organic revenue growth targets are met. Full payment requires outstanding performance against all four of these measures.

What did the non-executive directors get paid in 2012?

The Chairman, Roberto Quarta was paid a fee of £250,000. Each non-executive director received an annualised base fee of £52,500. I received an additional £10,000 for chairing the Remuneration Committee. Terry Gateley was paid an incremental fee of £15,000 for chairing the Audit Committee and for being the senior independent director. These extra fees reflect the greater time commitment of these roles. The non-executive directors do not receive annual bonuses or participate in the share plans.

What is changing for 2013?

Consistent with the approach we have taken across the whole Group, the salaries of the current executive directors have increased on average by 2.6%. The base fee for non-executive directors has been increased to £55,000, the first change for three years. The additional fee for chairing each of the Remuneration and Audit Committees will be £15,000 reflecting how the responsibilities have increased over the past three years.

We are maintaining the structure of the annual bonus plan and the long term incentive share plans in respect of the 2013 awards for executive directors. We will be undertaking a detailed review of our incentive arrangements during this year to ensure alignment with our strategic goals and we will present our proposals in next year's report.

What about employee pay?

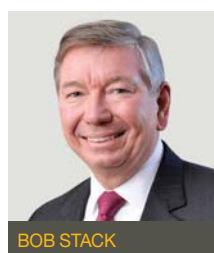
In 2012 our average employee salary increase was 2.8%. A total of 1.6 million share options vested in 2012 (these were granted in 2009 to 157 managers) and the average gain per share option on vesting was £4.19. We continue to offer all employee share plans and as at 31 December 2012, 22% of our employees are participants and/or shareholders. We believe strongly in employee share ownership and aim to increase participation over time.

There it is, all on one page. I hope you will continue to take an interest in remuneration at IMI and will approve this report at the annual general meeting.

Thank you,



Bob Stack



BOB STACK



CARL-PETER FORSTER



TERRY GATELEY



ANITA FREW



BIRGIT NØRGAARD



ROBERTO QUARTA

1. The Remuneration Committee

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

1.1 The Remuneration Committee's composition

The members of the Remuneration Committee during the year were Bob Stack (Chairman), Kevin Beeston (until 1 October 2012), Carl-Peter Forster (with effect from 1 October 2012), Terry Gateley, Anita Frew, Birgit Nørgaard (with effect from 6 November 2012) and Roberto Quarta. In accordance with the UK Corporate Governance Code, all of the foregoing non-executive directors were regarded by the Board as independent and Roberto Quarta was considered independent on his appointment as Chairman of the Company.

1.2 Remuneration Committee's role

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

1.3 Remuneration Committee's advisors

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

Independent remuneration advisors, PwC, were engaged by the committee to provide advice on directors' remuneration to the committee during 2012. These advisors also attended certain meetings at the request of the committee. During the year, PwC also provided advice to the Group Human Resources Director in relation to the implementation of the committee's decisions. The terms of engagement with the committee's advisors for 2012 are available on request from the Company Secretary.

The committee has appointed Towers Watson as its advisor for 2013. Towers Watson are actuaries and administrators in relation to the IMI Pension Fund. During 2013 the committee will be undertaking a strategic review of its performance-related pay policies and input will be taken from Kepler Associates (remuneration consultants).

1.4 Chairman's remuneration

The Chairman's sole remuneration consists of a fee of £250,000 per annum inclusive of all committee and other work. The fee was set on the appointment of Roberto Quarta as Chairman, on 1 November 2011. There was no increase in 2012 and none is proposed for 2013. The Chairman is a non-executive.

1.5 Non-executive directors' remuneration

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

The policy on non-executive remuneration is to pay an appropriate level on a comparative basis for their time and work on the Board and its committees. They do not participate in any bonus or employee share schemes of the Company and no part of their remuneration is conditional upon the performance of the Company. The remuneration of the non-executive directors is shown in the table on page 64. Annual remuneration in 2012 was as follows:

- Non-executive director's fee £52,500
- Additional fee for chairing a committee £10,000
- Additional fee for the senior non-executive director £5,000

Non-executive director's fees are reviewed annually with the last increase being awarded in 2010. The fees have been increased with effect from 1 January 2013 which is reflective of how responsibilities have increased over the last three years.

- Non-executive director's fee £55,000
- Additional fee for chairing a committee £15,000
- Additional fee for the senior non-executive director £5,000 (no change)

REMUNERATION REPORT

1. The Remuneration Committee (continued)

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

Letters of appointment set out the key duties and expectations for the non-executive Chairman and the independent non-executive directors. They include appropriate time commitments, provisions for induction and familiarisation with the businesses and wider senior management team and require approval for other directorships and potential conflicts of interest. The dates and unexpired terms of the letters of appointment for the non-executive directors in office at 31 December 2012, which are available for inspection at the annual general meeting and at the Company's registered office, are as follows:

	Date of letter of appointment	Unexpired term at 01.01.13 or date of letter of appointment if later	Date of appointment as a director
P Bentley	01.02.13	2 years 9 months	01.10.12
C P Forster	01.02.13	2 years 9 months	01.10.12
A M Frew	05.03.13	12 months	02.03.06
T M Gateley	01.02.13	4 months	01.11.03
B Nørgaard	01.02.13	2 years 10 months	06.11.12
R Quarta	01.09.11	1 year 10 months	01.06.11
R J Stack	01.02.13	1 year 5 months	13.06.08

The normal period from initial appointment to first renewal is three years. After six years, renewal is usually considered on an annual basis. This applied to T M Gateley whose final term expires after the 2013 annual general meeting, to ensure he continues to be available as senior independent director to support the Chairman and A M Frew, whose term was put on an annual basis in March 2013. Appointments are made under a letter of agreement subject to removal under the Company's articles of association, and all directors will be submitting themselves for annual re-election at the annual general meeting in accordance with the new UK Corporate Governance Code. There are no provisions for the Company to give notice or pay compensation in relation to the early termination of the appointment of the Chairman or any non-executive director. There is a provision in the appointment letters to the effect that a non-executive director is normally expected to give at least one month's prior notice of termination to the Company and, in the case of the Chairman, three months' notice.

2. Executive Directors' remuneration and terms of appointment

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

2.1 Statement of policy

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

The policy is to provide competitive remuneration packages to attract, motivate, reward and retain executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to performance. During 2012 the committee reviewed the structure and metrics of the incentive arrangements for the executive directors from a risk perspective and concluded that they were aligned with an appropriate level of risk-taking and with shareholders' interests.

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

In setting the remuneration of each executive director, the Remuneration Committee takes into account their role and responsibilities, skills and individual performance and makes reference to market rates as evidenced by published studies and comparisons with international UK-based groups of a similar size and complexity.

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

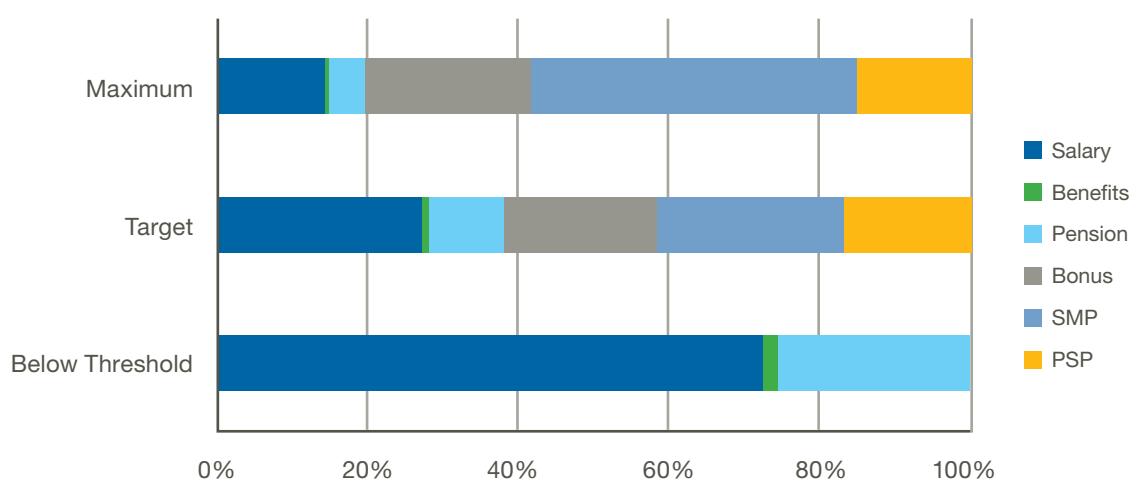
2.2 Executive Director remuneration

The chart below shows the composition of the Chief Executive's remuneration package at below threshold, target and maximum scenarios under the IMI remuneration policy. The total remuneration package links corporate and individual performance with an appropriate balance between short and long-term elements, and fixed and variable components. This supports the committee's policy that a significant proportion of remuneration should be performance-related and that the Company rewards executives for investing in and retaining shares within IMI.

The committee considers that the targets set for the different elements of performance-related remuneration are both appropriate and demanding in the context of the business environment and the challenges with which the Group is faced.

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

Composition of the Chief Executive's remuneration package



REMUNERATION REPORT

2. Executive Directors' remuneration and terms of appointment (continued)

2.3 The key elements of pay

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

Table A: Executive Remuneration 2012 and 2013

Element of Remuneration	How this supports the strategy	Name/Position	Level		Details	Changes for 2013
			31/12/12	01/01/13		
Base Salary	Salaries reflect individual performance and personal contribution to delivering the Group strategy. Set at a level to ensure that there is no risk that management believe that the incentive plans have to pay out.	Chief Executive M J Lamb	£740,000	£765,000	• Benchmarked against companies of a similar size and complexity and other companies in the same industry sector. • Reviewed annually from 1 January.	• Base salary increased by 3.4% from 1 January 2013.
		Finance Director D M Hurt	£405,000	£417,150		• Base salary increased by 3% from 1 January 2013.
		Executive Director S Toomes*	£330,000	£330,000		• Base salary not increased.
		Executive Director R M Twite	£405,000	£417,150		• Base salary increased by 3% from 1 January 2013.
		Executive Director I W Whiting	£230,000	n/a		• Not applicable.
Pension	Provides for retirement and supports succession planning.	All Executives	35% of salary cash allowance.		Paid monthly.	No proposed changes for 2013.
Annual Incentive Bonus	Drives and rewards performance against annual financial, strategic and operational goals, which are consistent with the medium to long-term strategic needs of the business also taking into account individual behaviours and contributions.	Chief Executive	Maximum of 150% of salary (on target performance results in a payment of 50% of the maximum bonus).		• 2012 bonus metrics were based on 80% financial performance: 35% adjusted profit before tax, 15% Group adjusted EPS, 15% organic revenue growth, 15% cash conversion. • 20% on a range of non-financial measures: 5% IMI Way, 5% health & safety and 10% personal objectives. • Half of any bonus is paid in shares (with reference to the Share Matching Plan) if the executive does not already meet the 'Share Ownership Guidelines'.	• No change in the maximum award for 2013. • No change to the 2013 performance measures.
		Finance Director	Maximum of 125% of salary (on target performance results in a payment of 50% of the maximum bonus).			
		Executive Directors	Maximum of 115% of salary (on target performance results in a payment of 50% of the maximum bonus).			
Share Matching Plan (SMP)	Incentivise long-term value creation. Aligns the interests of executives and shareholders through the delivery of awards in shares and provides a retention tool for key executives. Performance metrics support the longer term strategy.	Chief Executive	Investment to maximum 100% of annual incentive opportunity. Matching awards for voluntarily invested shares is 200% and lower level of match is 125%.		• 100% EVA. • Three year vesting period subject to continued employment and achievement of performance conditions.	• No proposed changes for 2013 to maximum investment levels or level of Company matching. • EVA will be retained for 100% of the 2013-2015 award.
		Finance Director	Investment to maximum 100% of annual incentive opportunity. Matching awards for voluntarily invested shares is 200% and lower level of match is 100%.			
		Executive Directors				
Performance Share Plan (PSP)		All Executives	The PSP allows for share-based awards worth up to the maximum of 100% of annual salary.		• Three year vesting period subject to continued employment and performance conditions. • 50% adjusted EPS CAGR%. • 25% relative TSR. • 25% organic revenue growth.	• No proposed changes for 2013.
Share Ownership Guidelines (SOG)	Ensures alignment with shareholder interests.	All Executives	Shareholding guidelines are 125% of salary for all executive directors.		• All executives met the guidelines at the year end.	• No change to the shareholding guidelines for Executives for 2013.

* S Toomes resigned as an executive director on 6 March 2013.

2.4 Base salary

Salary reviews for the executive directors are conducted annually with increases, if any, normally effective from 1 January. Salaries are set by the Remuneration Committee taking into account the executive's role, responsibilities and individual performance and external benchmark data (looking at UK listed companies of similar size, complexity and international presence). The committee uses such external benchmark data with caution in view of the risk of an upward ratchet of remuneration levels.

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

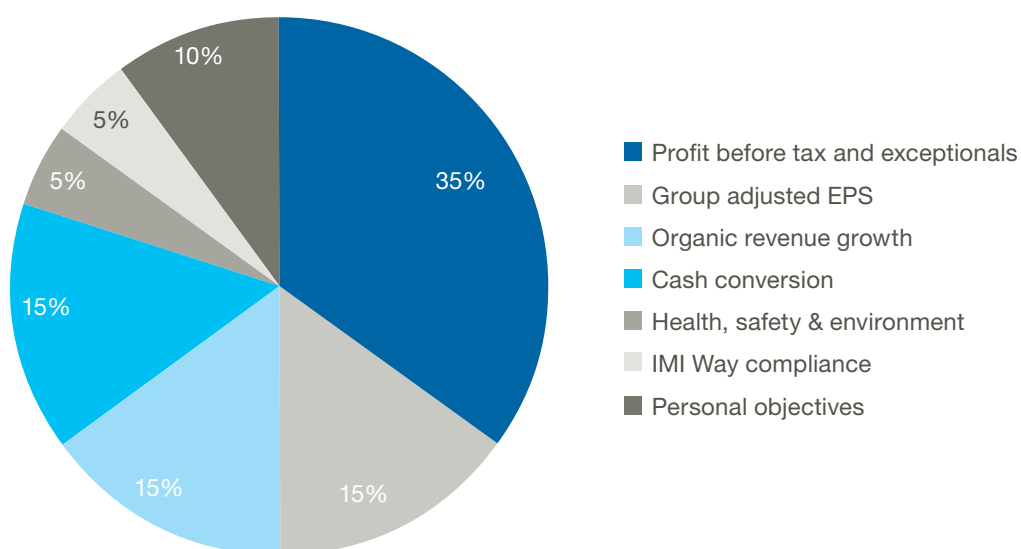
The salaries for the 2012 financial year were reviewed in December 2011 and increases for January 2013 were agreed in December 2012 taking into account the financial performance of the Group, uncertain economic conditions, comparative market data and the need to balance internal relativities across the IMI Group. The changes taking effect from 1 January 2013 are shown in Table A on page 52.

2.5 Annual Incentive Plan

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

The 2012 Annual Incentive Plan metrics were weighted as follows: 80% on financial performance and 20% on a range of non-financial measures including personal objectives. Achievement of the 2012 Annual Incentive Plan is set out in Table B on page 54. The structure of the 2013 Annual Incentive Bonus will remain the same as in 2012.

Weighting of annual bonus performance metrics 2012 & 2013



REMUNERATION REPORT

2. Executive Directors' remuneration and terms of appointment (continued)

2.5 Annual Incentive Plan (continued)

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

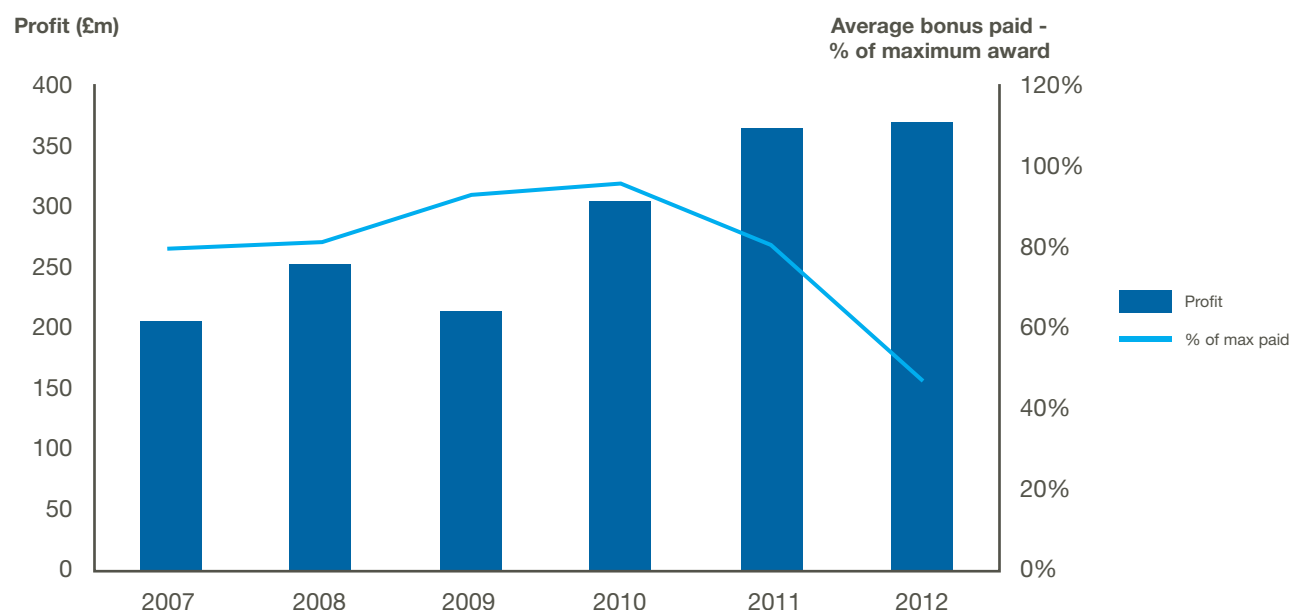
Table B: Annual Incentive Bonus maximum

Annual bonus	Maximum bonus (% of salary)			Actual bonus (% of salary)			Actual bonus (% of max)		
	CEO	FD	Executives*	CEO	FD	Executives*	CEO	FD	Executives*
2012	150%	125%	115%	71%	59%	54%	47%	47%	47%
2011	150%	125%	115%	127%	105%	86%	85%	84%	75%
2010	150%	125%	115%	143%	119%	110%	95%	95%	96%
2009	130%	115%	100%	118%	105%	92%	91%	91%	92%
2008	150%	125%	100%	116%	101%	85%	77%	81%	85%
2007	100%	100%	100%	80%	80%	80%	80%	80%	80%

*This is the average achievement across all executive directors, excluding the CEO and FD.

There are no changes proposed for the 2013 Annual Incentive Bonus maxima.

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



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

The committee retains power to reduce or withhold annual bonus payments in exceptional circumstances and in line with best practice it has reserved the power to seek claw-back of bonuses in certain circumstances.

The 2012 annual bonuses will be paid in March 2013 on the usual payroll date.

2.6 Long-term incentive plans

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

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

2.6.1 Share Matching Plan

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

Under the SMP individuals may invest up to 100% of their maximum annual bonus potential into shares; the limit being set on an annual basis by the Remuneration Committee. The committee intends to allow such a maximum level of investment in 2013.

By investing in the SMP, matching shares may be earned, which vest after three years, subject to the achievement of stretching performance conditions. Current policy is that awards made under the share matching arrangements, where settled in shares, will be satisfied through shares purchased in the market but the committee retains the flexibility to use new issue and treasury shares.

Matching awards allow for a higher level of match of up to 200% for shares that are purchased through the voluntary investment of bonus or other monies. Lower levels of match, up to 125% for the Chief Executive and 100% for other executive directors, apply when the annual bonus is required to be invested in shares, in the event that the executive had not met their share ownership guideline.

The matching share awards are subject to improvement in Economic Value Added (EVA) over a three year period.

The calculation of EVA is based on segmental operating profit after tax with appropriate adjustments, less a capital charge on the invested capital in the business reflecting IMI's cost of capital. Further details of the performance conditions attaching to existing awards are set out in the notes to the table on page 67.

The performance period for the 2010 SMP awards ended on 31 December 2012 and EVA over the three years to this date was £511m. This is above the top end of the vesting schedule and consequently the 2010 SMP awards will fully vest in March 2013.

In line with best practice, the committee retains power to claw-back awards in exceptional cases (see Section 6.1 for further details on discretionary powers).

2.6.2 Performance Share Plan

The Performance Share Plan (PSP) aligns the interests of the executives and shareholders through the delivery of awards in shares and provides a retention tool for key executives. The PSP allows for share-based awards worth up to a maximum of 100% of annual salary. The vesting of awards is subject to the satisfaction of stretching performance conditions over a three year period. The current policy is for PSP awards, where settled in shares, to be satisfied through shares purchased in the market but the committee retains the flexibility to use new issue and treasury shares. The 2010 PSP awards are due to vest in March 2013 at 100% of maximum.

The performance conditions for the PSP awards granted since 2009 and to be granted in 2013 are shown below:

Grant	Vest	Performance Conditions	% of award
2009	2012	Relative total shareholder return (TSR)	100%
2012	2013	Earnings per share (EPS)	50%
2011	2014	Return on operating capital employed (RoOCE)	25%
		Relative total shareholder return (TSR)	25%
2012	2015	Earnings per share (EPS)	50%
2013	2016	Relative total shareholder return (TSR)	25%
		Organic revenue growth (CAGR)	25%

REMUNERATION REPORT

2. Executive Directors' remuneration and terms of appointment (continued)

2.6.2 Performance Share Plan (continued)

2.6.2.1 EPS performance condition

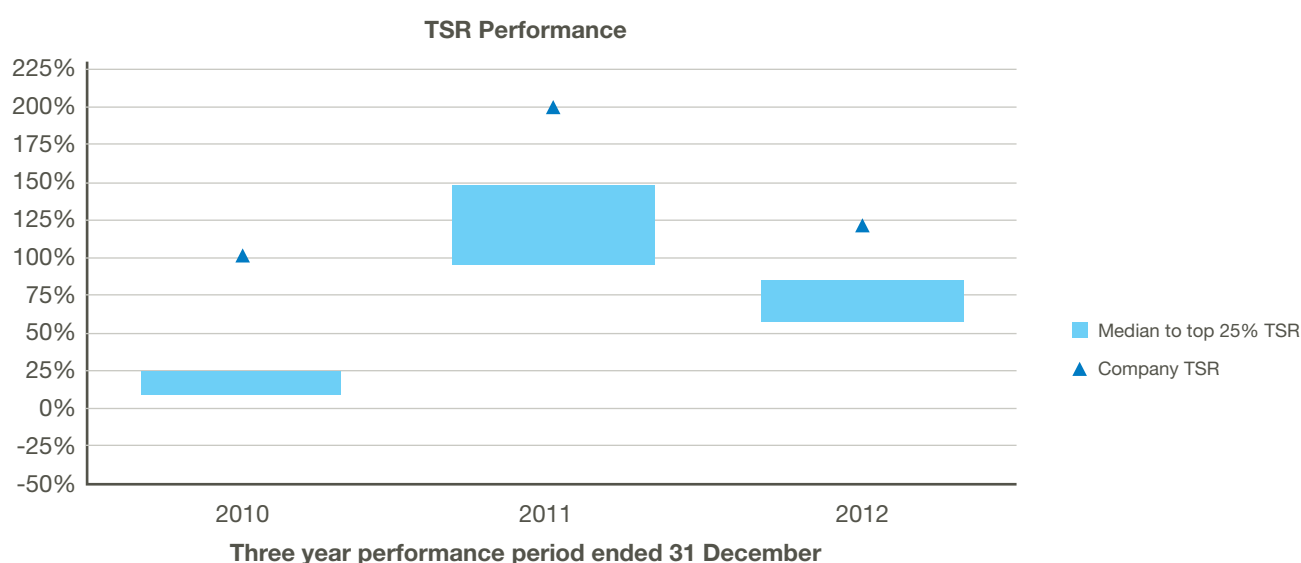
EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings and because the Remuneration Committee believed it worked well in combination with TSR which is a comparative measure. The performance condition for one half of the 2012 PSP awards and the intended 2013 PSP awards will be based on the Company's compound annual earnings per share growth over a three year period. The Remuneration Committee sets the EPS targets in respect of each annual award at the level it considers appropriately stretching given the conditions in which the Company is operating. The vesting schedule for the awards subject to the EPS performance condition proposed to be granted in 2013, which is the same for the 2012 awards, is as follows:

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

As for the 2012 awards, the EPS measure for intended 2013 PSP awards will be based on adjusted basic earnings per share which includes adjustment for the elimination of the after-tax cost of restructuring, acquired intangible amortisation, financial instruments, but including economic hedge contract gains and losses, and excluding any other items meeting the definition of an exceptional item as defined in the Group Accounting Policies.

2.6.2.2 Total Shareholder Return performance condition

Total Shareholder Return (TSR) is well understood and accepted as a performance measure for long-term incentives and links rewards to shareholder value. IMI's relative TSR performance at the end of the three year performance period ended 31 December 2012 placed it at the top end of the upper quartile of the comparator group.



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

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

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

The TSR comparator group as at 31 December 2012 is as follows:

Name	Country*	Name	Country*
Amada	Japan	Manitowoc	United States
Atlas Copco 'A'	Sweden	Meggitt	United Kingdom
BBA Aviation	United Kingdom	Metso	Finland
Bodycote International	United Kingdom	NSK	Japan
Borgwarner	United States	Parker-Hannifin	United States
Cobham	United Kingdom	Pentair	United States
Eaton	United States	Rotork	United Kingdom
Emerson Electric	United States	Sandvik	Sweden
Fanuc	Japan	SKF 'B'	Sweden
Flowserve	United States	SMC	Japan
GKN	United Kingdom	Spectris	United Kingdom
Halma	United Kingdom	Spirax-Sarco	United Kingdom
Heidelb.Druckmaschinen	Germany	Sulzer 'R'	Switzerland
Honeywell Intl.	United States	THK	Japan
IDEX	United States	Tyco International	United States
Illinois Tool Works	United States	Vesuvius ⁺	United Kingdom
Ingersoll-Rand	United States	Weir Group	United Kingdom
Invensys	United Kingdom	Yaskawa Electric	Japan
Johnson Matthey	United Kingdom		

* Country is shown as country of primary listing.

⁺ Note: Cookson Group demerged in December 2012 to form two entities: Vesuvius and Alent. The flow control business that is relevant to IMI is owned by Vesuvius and accordingly the Remuneration Committee has determined that Cookson Group will be removed from the listing at the point of demerger and Vesuvius will be added to the list for new awards.

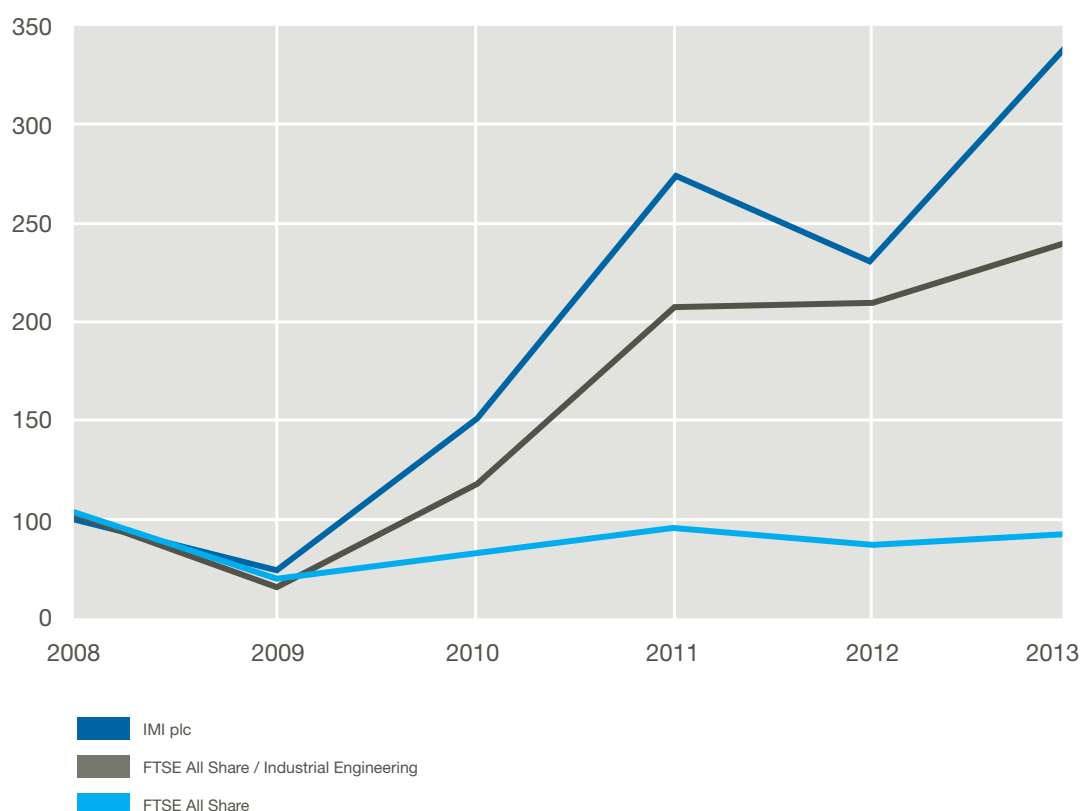
The 2013 comparator group will be the same as it was in 2012 subject to any delisting.

REMUNERATION REPORT

2. Executive Directors' remuneration and terms of appointment (continued)

2.6.2.2 Total Shareholder Return performance condition (continued)

The graph below compares the Company's total shareholder return over the five years ended 31 December 2012 with that of the FTSE All Share Industrial Engineering Index and the FTSE All Share Index. The FTSE All Share Industrial Engineering Index was chosen as a comparator index because it is the industry share index in which the Company is classified and provides a reasonable benchmark for assessment of its relative performance. The FTSE All Share Index was chosen as it is a relevant broad equity market index. Over the past five years the IMI share price has outperformed the FTSE All Share Industrial Engineering Index by 38% and outperformed the FTSE All Share Index by 184%. Over the same period, total shareholder return has outperformed the FTSE All Share Industrial Engineering Index by 100% and outperformed the FTSE All Share Index by 247%.



2.6.2.3 Organic revenue growth performance condition

Given the focus on organic revenue growth, and the acceptance that strong margin discipline is firmly embedded across the Company, in 2012 the Remuneration Committee decided that for the 2012 PSP award (and this will apply to the 2013 award as well), the RoOCE element was to be replaced with a three year compound growth in organic revenue.

Organic revenue growth % (calculated as a compound annual growth rate - CAGR) has been adopted for 25% of the 2012 and the 2013 PSP awards to encourage continued focus on organic growth.

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

Details of the awards made under the PSP are contained in the table of director's awards on page 65.

In line with best practice, the committee retains the power to claw-back awards in exceptional circumstances (see section 6.1 for further details on discretionary powers).

2.6.2.4 Return on Operating Capital Employed performance condition

Return on Operating Capital Employed (RoOCE) was adopted as a performance measure for a portion of PSP awards in 2010 and 2011 to incentivise sustained working capital improvement. For the 2010 award which vests in March 2013, following the acquisition of Z&J, the RoOCE targets attached to the 2010 PSP awards were adjusted as follows:

Average RoOCE	Vesting
30%	100%
Between 24% and 30%	Pro-rata between 25% and 100%
24%	25%
Less than 24%	0%

For the 2011 award which vests in 2014, RoOCE has been defined to exclude intangible assets and has been calibrated as follows:

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

REMUNERATION REPORT

2. Executive Directors' remuneration and terms of appointment (continued)

2.6 Long-term incentive plan (continued)

2.6.3 Share ownership guidelines

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

The shareholding guidelines were increased in 2009 to 125% of salary for all the executive directors (to be achieved by those in office at that time by 30 June 2011 or, for new appointments, within a five year period after joining the Board). When assessing compliance with this guideline the committee review both the level of beneficial share ownership and vested but unexercised share incentive awards on a post tax basis.

All of the executive directors met the guidelines at the year end. The levels of holdings for continuing executive directors at the end of 2012 relative to basic salaries (calculated using the average share price in December 2012) were as follows:

Executive Director	Level of share ownership
M J Lamb	1007%
D M Hurt	989%
S Toomes	329%
R M Twite	526%

3. All Employee Share Plans

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

3.1 UK SAYE plan

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

3.2 Share Incentive Plan (SIP)

UK executive directors also participate in an All Employee Share Ownership Plan which is open to the majority of the Group's UK employees. Shares to a value equal to the lower of £3,000 and 0.6% of each participant's basic salary will be acquired in 2013 at market value by the Trustee of the plan in respect of their participation during 2012. The plan is not operated subject to specific performance conditions. Eligible employees are able to invest up to £1,500 annually in a tax-efficient manner in purchasing partnership shares under the plan. Each of the UK executive directors makes the maximum contribution from their salary towards partnership shares under the plan. Matching shares may be awarded in respect of partnership shares acquired under the plan although the policy to date has been not to award any matching shares.

3.3 Global Employee Share Purchase Plans (GESPP)

New 'all-employee' share plans intended to encourage employee investment in IMI shares were approved by shareholders at the 2011 annual general meeting and save as you earn type plans were launched in the USA and Germany with extension into China underway for 2013 grants.

3.4 Share Option Plan

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

4. Share dilution

The Association of British Insurers has set recommended guidelines on the number of new issue and treasury shares that can be used under a company's share plans. The guidelines are 10% of the issued share capital in any 10 year period for all share plans, with an inner limit of 5% in 10 years for executive schemes. IMI operates within these limits and its standing as at 31 December 2012 was 2.36% and 1.24% respectively.

5. Pension entitlement

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

The IMI Pension Fund was closed to all employees in respect of future service from 31 December 2010 and alternative pension arrangements were established including an Executive Retirement Plan (ERP), which was intended to be a tax-efficient long-term savings vehicle for UK senior managers to save for retirement outside the registered pensions regime. Discretionary contributions were made to the ERP in 2010 and 2011 but it has since been rendered tax ineffective and no contributions were made during 2012 (or are expected to be made in future).

5.1 Pension benefits provided for 2012 service

Executive directors are entitled to receive a taxable cash allowance instead of pension benefits. With the Remuneration Committee's approval the executive directors may, at their discretion, redirect part or all of their allowance into any defined contribution pension arrangement in the country in which they are contracted. The 2012 pension allowances were 35% of salary and were as follows:

M J Lamb	£259,000
D M Hurt	£141,750
R M Twite	£141,750
I W Whiting	£80,500*
S Toomes	£115,500

*pro-rated to date of leaving

S Toomes participates in a company pension arrangement in Switzerland and the Company contributions to this arrangement are met wholly from the pension allowance described above. The key elements of this pension arrangement are:

- a retirement age of 65, with the accumulated retirement funds at that time converted to a pension on rates in force at that time;
- contributions on salary up to a specified limit (£84,081 for 2012) are invested in a fund that has a minimum growth rate, which is prescribed by law and is currently 1.5% a year;
- contributions on salary over this specified limit (£84,081 for 2012) are invested in a fund with no investment return guarantees and
- benefits (which are insured) are also payable on death or disability before the age of 65.

REMUNERATION REPORT

5. Pension entitlement (continued)

5.2 Pension benefits for past service

M J Lamb, R M Twite and S Toomes were previously active members of the defined benefit IMI Pension Fund. M J Lamb opted out with effect from 6 April 2006; R M Twite opted out with effect from 1 February 2007 and S Toomes from 31 August 2010. As a result they retain past pensionable service benefits up to these dates and the value of this is shown in the table on page 68. The nature of these benefits is more complicated than the pension benefits provided in respect of 2012, but the key elements are summarised below:

- The normal retirement age under the Fund is 60 for M J Lamb, and 62 for R M Twite and S Toomes. M J Lamb may elect to retire from employment with IMI and receive a pension at any time after age 55 with Company consent and age 57 without any actuarial discount, and R M Twite and S Toomes may retire from employment with IMI any time after age 60 without actuarial discount.
- On death after retirement, a dependant's pension is provided equal to two-thirds of the member's pension for M J Lamb and 50% of the member's pension for R M Twite and S Toomes.
- Should M J Lamb die within the first five years of retirement, a lump sum is also paid equal to the balance of five years' pension payments. For R M Twite and S Toomes, the dependant's pension is increased to 100% of the member's pension for the remainder of the five year period.
- Pensions in payment, in excess of any guaranteed minimum pension, are increased each year in line with price inflation up to a maximum of 5% in respect of pension built up before 1 January 2006, and 2.5% in respect of pension built up after 1 January 2006.
- M J Lamb's past pension benefits generally continue to be linked to final salary inflation (averaged over the past three years) and equivalent benefits to those provided for under the Fund rules immediately prior to closure are preserved in relation to ill-health retirement, death in service and early retirement at the Company's instance. The difference between these benefits and those automatically provided under the Fund, the Enhanced Protection Member ('EPM') benefits, is assessed as at 31 December each year until death in service or retirement on ill-health grounds or at the Company's instance and there may be a payment to the Fund (to augment Fund benefits) or a payment in lieu to M J Lamb (or his estate) or by way of contribution to the ERP or another pension arrangement shortly after each year end until a final augmentation or payment is made following death in service or relevant early retirement event. No EPM benefits were payable as at 31 December 2012 or 31 December 2011.

I W Whiting is eligible for benefits under two arrangements in the US. The first is a defined contribution arrangement, the IMI 401(k) Plan. The second is a defined benefit arrangement, the Control Components Inc Employees' Pension Plan. His pension from this plan is payable from age 65 without further increase. I W Whiting was also a member of the IMI Americas Supplemental Executive Retirement Plan (a defined benefit arrangement) but on leaving the Group with fewer than 10 years' service no benefits are due to him from this Plan.

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

6. Termination clauses

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

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

These contracts do not include any specific provision for compensation payable upon early termination save that, as a consequence of the closure of the IMI Pension Fund on 31 December 2010, the Company has made alternative contractual arrangements in lieu of certain contractual entitlements to pension benefits, which, but for the closure, would have been provided through the IMI Pension Fund to all members in the same membership category as the Chief Executive. The alternative contractual arrangements for all these members include augmentation of Fund benefits (to the level that would have been provided save for the closure) or payment in lieu for benefits arising on early retirement by reason of redundancy or other termination at the Company's instance. Had such benefits arisen for the Chief Executive as at 31 December 2012, the estimated cash cost to the Company would have been approximately £5.0m. The payment in lieu computation is designed to be neutral to the Company on a net of tax basis when compared to the cash contributions that would otherwise have been expected to provide the benefits through the Fund.

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

	Date joined Group	Date of appointment to Board	Date of service contract	Date of resignation from Board	Notice period	Period to contractual retirement age as at 31.12.12
M J Lamb	31.10.86	18.07.96	01.01.11	-	12 months	12 years
D M Hurt	01.05.06	01.07.06	01.10.06	-	12 months	8 years 5 months
S Toomes	18.02.85	01.06.11	01.09.11	06.03.13	12 months	20 years 5 months
R M Twite	26.09.88	01.02.07	01.02.07	-	12 months	19 years 5 months
I W Whiting	18.07.05	01.09.10	01.01.10	22.08.12	12 months	16 years

6.1 Discretionary Powers

The committee retains power to reduce or withhold Annual Incentive Bonus payments and awards under the long-term incentive share plans in exceptional circumstances (as described below). In line with best practice it has also reserved the power to seek claw-back of bonuses in certain cases (as explained below). Claw-back conditions feature in all incentive share plan schemes and annual incentive bonus rules.

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

7. External appointments

Executive directors may accept one external appointment with the consent of the Board, and are normally allowed to retain fees from external non-executive directorships. M J Lamb was appointed a non-executive director of Severn Trent Water plc & Severn Trent Water Ltd on 29 February 2008 and received fees in the year to 31 December 2012 of £49,087 (2011: £46,350). D M Hurt was appointed a non-executive director of Tate & Lyle PLC on 10 March 2010 and received fees in the year to 31 December 2012 of £58,438 (2011: £55,800).

REMUNERATION REPORT

8. Summary of directors' remuneration

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

	Salary and fees £000	Non-cash benefits £000	Sums by way of taxable allowances £000	Pension allowance £000	Compensation Payments to former Directors £000	Bonus 2012 £000	Total 2012 £000	Total 2011 £000
Non-executives								
N B M Askew								163
P Bentley*	13						13	
K S Beeston**	39						39	53
C P Forster*	13						13	
A M Frew	53						53	53
T M Gateley	68						68	68
B Nørgaard***	8						8	
R Quarta	250						250	64
R J Stack	63						63	63
Executive								
D M Hurt	405	7	20	142		238	812	972
M J Lamb	740	7	27	259		524	1,557	1,912
S Toomes	330	10	196	116		174	826	557
R M Twite	405	7	19	142		222	795	921
I W Whiting****	230	6	183	81	738		1,238	841
Total	2,617	37	445	740	738	1,158	5,735	5,667

*P Bentley and C P Forster were appointed as non-executive directors on 1 October 2012.

**K S Beeston stepped down as a non-executive director on 1 October 2012.

***B Nørgaard was appointed as non-executive director on 6 November 2012.

****I W Whiting stepped down from the Board on 22 August 2012, with his executive responsibilities ceasing with immediate effect. Under the terms of his severance arrangement, he received termination payments totalling £738,000. This included:

- £345,000 being 12 months' salary in lieu of notice (contractual notice period) paid in instalments.
- £253,000 being 12 months' benefits and pension in lieu of notice (contractual notice period) paid in instalments.
- £140,000 being contractual relocation entitlement paid in instalments.
- Also in recognition that certain share awards would have vested during his notice period, the Remuneration Committee exercised its discretion to allow him to retain the 2009 Share Option Plan award he was granted before becoming a director and the Share Matching Plan award granted on 7 May 2010. All of his other outstanding share awards lapsed in full. Details in respect of such awards appear in the share tables in section 9. I W Whiting did not receive an annual incentive bonus payment with respect to 2012.

Non-executive remuneration shown above of £507,000 (2011: £464,000) represents fees rather than salary.

Certain directors receive their salaries in currencies other than sterling. The salary figures reported above reflect their contractual entitlements, which may differ slightly to the amounts they actually receive due to movements in exchange rates during the year.

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

All executive directors elected for a cash alternative, instead of a company car. Sums paid by way of taxable allowances in the above table include cash allowances in lieu of a company car, certain pension benefits and tax assistance.

Relocation allowances were provided to S Toomes and I W Whiting in respect of their moves to Switzerland.

9. Directors' share awards

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

Share awards/options are outstanding under the following schemes:

UK SAYE - IMI Savings-Related Share Option Scheme

PSP - Performance Share Plan

SMP - Share Matching Plan

SOP - Share Option Plan

US SAYE - IMI US Stock Purchase Plan 2011

9.1 Table of SAYE, PSP and SOP awards

Director	Scheme	Performance condition	Date of grant/award	Award price*	As at 01.01.12 (or date of appointment if later)	During the year				As at 31.12.12 (or at 22.08.12)	Date from which exercisable/ vesting date	Expiry date	Date of exercise	Mid market price at date of exercise
						Granted	Vested	Exercised	Lapsed					
M J Lamb	UK SAYE	a)	09.04.09	201.36p	4,544		4,544	4,544		Nil	01.08.12	31.01.13	01.08.12	833.00p
		b)	10.04.12	890.01p	Nil	1,011				1,011	01.08.15	31.01.16		
	PSP	c)	11.03.09	229.50p	285,800		285,800	69,564		216,236	11.03.12	11.03.19	03.05.12	980.50p
		d)	04.05.12	949.50p	Nil	41,867	36,987	1,347	4,880	35,640	04.05.12	11.03.19	09.05.12	906.50p
		e)	07.05.10	679.00p	96,600					96,600	22.03.13	22.03.20		
		f)	10.03.11	956.17p	75,300					75,300	10.03.14	10.03.21		
		g)	04.05.12	949.50p	Nil	75,450				75,450	04.05.15	04.05.22		
D M Hurt	UK SAYE	a)	09.04.09	201.36p	7,772					7,772	01.08.14	31.01.15		
	PSP	c)	11.03.09	229.50p	156,800		156,800			156,800	11.03.12	11.03.19		
		d)	04.05.12	949.50p	Nil	22,969	19,553		3,416	19,553	04.05.12	11.03.19		
		e)	07.05.10	679.00p	53,000					53,000	22.03.13	22.03.20		
		f)	10.03.11	956.17p	41,300					41,300	10.03.14	10.03.21		
		g)	04.05.12	949.50p	Nil	41,250				41,250	04.05.15	04.05.22		
R M Twite	UK SAYE	a)	09.04.09	201.36p	4,544		4,544	4,544		Nil	01.08.12	31.01.13	01.08.12	833.00p
		b)	10.04.12	890.01p	Nil	1,011				1,011	01.08.15	31.01.16		
	PSP	c)	11.03.09	229.50p	148,100		148,100	148,100		Nil	11.03.12	11.03.19	03.05.12	980.50p
		d)	04.05.12	949.50p	Nil	21,695	21,695	21,695		Nil	04.05.12	11.03.19	09.05.12	906.50p
		e)	07.05.10	679.00p	50,100					50,100	22.03.13	22.03.20		
		f)	10.03.11	956.17p	39,000					39,000	10.03.14	10.03.21		
		g)	04.05.12	949.50p	Nil	41,250				41,250	04.05.15	04.05.22		
I W Whiting	US SAYE	a)	19.12.11	631.85p	977					977	25.08.13	18.03.14		
	PSP	f)	10.03.11	956.17p	36,000				36,000	Nil	10.03.14	10.03.21		
		g)	04.05.12	949.50p	Nil	17,550			17,550	Nil	04.05.15	04.05.22		
	SOP	h)	03.09.09	440.93p	120,000		120,000			120,000	03.09.12	03.09.19		
		i)	22.03.10	645.00p	75,000				75,000	Nil	22.03.13	22.03.20		
S Toomes	PSP	f)	10.03.11	956.17p	21,100					21,100	10.03.14	10.03.21		
		g)	04.05.12	949.50p	Nil	33,650				33,650	04.05.15	04.05.22		
	SOP	h)	03.09.09	440.93p	90,000		90,000			90,000	03.09.12	03.09.19		
		i)	22.03.10	645.00p	57,500					57,500	22.03.13	22.03.20		

REMUNERATION REPORT

9. Directors' share awards (continued)

9.1 Table of SAYE, PSP and SOP awards (continued)

- a) & b) No performance conditions are attached to the UK SAYE or US SAYE options.
- c) 2009 PSP awards were entirely based on comparative TSR (subject to the Remuneration Committee being satisfied that the relative TSR position reflects underlying performance) with vesting at median (25% vests) to upper quartile (full vesting). 2009 PSP awards vested in full in 2012.
- d) The 2009 PSP awards carried a right to receive dividend equivalents. The performance condition was satisfied in full (see above) and technically the award vested in March 2012. However, at this time IMI was in a prohibited period and consequently the executive directors were not permitted to exercise their 2009 awards. The share rights described in the table above against this note include the dividend equivalent of the 2011 final dividend paid in May 2012 as a result of this legal constraint on exercise.
- e) & f) 2010 and 2011 awards were based on 25% TSR measures with the vesting scales as described in c) above; 50% on EPS growth of between 6% per annum (25% vests) to 15% per annum (full vesting) over the three-year performance period; and, the other 25%, on RoOCE with vesting on a linear scale from 24% (originally 25% before adjustment made in 2011 following the acquisition of Z&J) 25% vests to maximum for RoOCE of 30% (originally 32% before adjustments made in 2011 following the acquisition of Z&J).
- g) The 2012 awards were based on 50% EPS, 25% TSR as described in e) and c) above with the remaining 25% upon organic revenue growth with vesting on a linear scale from 2.7% (25% vests) to 8% per annum (100% vests).
- h) & i) SOP awards shown were made to I W Whiting and S Toomes prior to their appointment as executive directors and are not subject to performance conditions. Executive directors are not eligible to participate in the SOP. The 2009 SOP Award vested on 3 September 2012.

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

The closing price of the Company's ordinary shares at 31 December 2012 was £10.97 per share and the closing price range during the year was £7.76 to £11.07.

9.2 Table of SMP awards

Director	Performance condition	Date of grant/award	Mid market price at date of award	As at 01.01.12 (or date of appointment if later)	During the year				As at 31.12.12 (or at 22.08.12)	Date from which exercisable/ vesting date	Date of exercise/ vesting	Mid market price at date of exercise
					Granted	Vested	Exercised	Lapsed				
M J Lamb	a)	01.06.09	357.75p	690,359		655,841		34,518	655,841	26.03.12	03.05.12	
	b)	04.05.12	949.50p	Nil	96,079	81,788	27,453	14,291	54,335	04.05.12	09.05.12	906.50p
	c)	07.05.10	640.50p	330,090					330,090	22.03.13		
	d)	28.03.11	1016.00p	212,530					212,530	28.03.14		
	e)	10.05.12	922.00p	Nil	289,850				289,850	10.05.15		
D M Hurt	a)	01.06.09	357.75p	174,917		166,171		8,746	166,171	26.03.12	03.05.12	
	b)	04.05.12	949.50p	Nil	24,340	20,720	6,954	3,620	13,766	04.05.12	09.05.12	906.50p
	c)	07.05.10	640.50p	160,246					160,246	22.03.13		
	d)	28.03.11	1016.00p	97,190					97,190	28.03.14		
	e)	10.05.12	922.00p	Nil	132,512				132,512	10.05.15		
R M Twite	a)	01.06.09	357.75p	146,645		139,313	61,087	7,332	78,226	26.03.12	03.05.12	980.50p
	b)	04.05.12	949.50p	Nil	20,403	18,551	7,011	1,852	11,540	04.05.12	09.05.12	906.50p
	c)	07.05.10	640.50p	131,602					131,602	22.03.13		
	d)	28.03.11	1016.00p	84,448					84,448	28.03.14		
	e)	10.05.12	922.00p	Nil	121,908				121,908	10.05.15		
I W Whiting	a)	01.06.09	357.75p	122,370		116,252	116,252	6,118	Nil	26.03.12	04.05.12	949.50p
	b)	04.05.12	949.50p	Nil	17,026	17,026	17,026		Nil	04.05.12	09.05.12	906.50p
	c)	07.05.10	640.50p	63,729					63,729	22.03.13		
	d)	28.03.11	1016.00p	72,238				72,238	Nil	28.03.14		
	e)	10.05.12	922.00p	Nil	95,854			95,854	Nil	10.05.15		
S Toomes	a)	01.06.09	357.75p	62,367		59,249		3,118	59,249	26.03.12	03.05.12	
	b)	04.05.12	949.50p	Nil	8,674	7,384	2,477	1,290	4,907	04.05.12	09.05.12	906.50p
	c)	07.05.10	640.50p	34,487					34,487	22.03.13		
	d)	28.03.11	1016.00p	35,109					35,109	28.03.14		
	e)	10.05.12	922.00p	Nil	83,654				83,654	10.05.15		

- a) Performance measures for the 2009 SMP awards were exceptional, and included one third TSR (on the same basis as for the 2009 PSP awards), one third profit before tax (measured annually) and one third annual priority targets (measured annually). The annual priority targets were weighted equally in 2009, between cash conversion and profit drop-through and, in 2010 and 2011, between cash conversion and return on sales. The 2009 SMP awards vested in 2012 at 95%.
- b) Dividend awards relating to the vesting of the 2009 SMP award. If the 2009 SMP award was not exercised or was partially exercised the dividend missed due to the delay in vesting in 2012 is accrued into the vested unexercised award and is paid on exercise.
- c) The performance measures for the 2010 SMP award was EVA over the years 2010 to 2012. Vesting is tiered (with linear progression in each band) as follows: 0% to 25% of maximum for positive EVA up to £235m, 25%-50% for £235m to £335m, 50%-75% for £335m to £369m (originally £395m before adjustment made in 2011 following the acquisition of Z&J) and 75% to 100% for between £369m (originally £395m before adjustment made in 2011 following the acquisition of Z&J) and £475m.
- d) The performance measures for the 2011 SMP was compound annual growth in EVA over the years 2011 to 2013 compared to EVA in the preceding three years. No awards will vest if compound growth is negative. 10% of awards will vest for positive compound annual growth over the period, with subsequent vesting being tiered (with linear progression in each band) as follows: 10%-25% vesting for compound annual growth between 0% and 6% and 25% to 100% vesting for compound growth between 6% and 17%.
- e) The performance measured for the 2012 SMP was the compound annual growth rate of the average EVA of the Group over the performance period 2012 to 2014. No awards will vest if compound growth is negative. 10% of awards will vest for positive compound annual growth over the period, with subsequent vesting being tiered (with linear progression in each band) as follows: 10%-25% vesting for compound annual growth between 0% and 6% and 25% to 100% vesting for compound growth between 6% and 17%.

REMUNERATION REPORT

10. Summary of directors' pension arrangements

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

Details of the pension benefits earned in the IMI Pension Fund or, in relation to I W Whiting, the Control Components Inc.

Employees' Pension Plan and the IMI Americas Supplemental Executive Retirement Plan are summarised in the following table:

Director	Age at 31.12.12 Years	Pensionable service to 31.12.12 ¹ Years	Accrued pension at 31.12.12 ² £000 pa	Transfer value of accrued pension at 31.12.12 £000	Transfer value of accrued pension at 31.12.11 £000	Difference between transfer values at 31.12.11 and 31.12.12 £000	Increase in accrued pension over the year ² £000 pa	Increase in accrued pension over the year (net of inflation) £000 pa	Value of increase in accrued pension at 31.12.12 (net of inflation) £000
M J Lamb	52	20	318	7,914	6,424	1,490	8	-	-
S Toomes	44	24	72	1,036	849	187	3	-	-
R M Twite	45	18	64	963	786	177	3	-	-
I W Whiting ³	48	5	6	43	187	(144)	(32)	-	-

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

² For M J Lamb, S Toomes and R M Twite the increase in the accrued pension during the year reflects the increase under the IMI Pension Fund, which is generally in line with inflation. No allowance has been made for the value of benefits that may be derived by the payment of additional voluntary contributions. For I W Whiting the reduction shown over 2012 relates to the IMI Americas Supplemental Executive Retirement Plan (see note 3 below), in US dollar terms the benefit under the Control Components Inc. Employees' Pension Plan does not change from year to year.

³ Figures have been converted using exchange rates of £1:\$1.62 as at 31 December 2012 (£1:\$1.55 as at 31 December 2011). The transfer value as at 31 December 2011 includes £153,000 in respect of the value of benefits accrued under the IMI Americas Supplemental Executive Retirement Plan. On leaving the Group in August 2012 having completed fewer than 10 years' service no benefits are due under this Plan. The transfer value as at 31 December 2012 relates solely to the benefits under the Control Components Inc. Employees' Pension Plan.

The transfer values that would be payable from the IMI Pension Fund at the relevant date are also shown in the table, together with the transfer value (at the end of the year) of the increase in the accrued pension over the year (net of inflation). The transfer value shown is the estimated capital value of the future pension payments in retirement, determined by the Fund's Trustee in accordance with the appropriate statutory requirements. During 2012 the actuarial assumptions were reviewed and amended, resulting in increases in transfer values of around 15% for categories of membership including the above individuals.

In respect of I W Whiting's benefits under US pension arrangements, the transfer value quoted is based on the method and assumptions used by the Company to account for the costs associated with US defined benefit pension schemes (see note 19 to the financial statements on pages 116 to 122).

Under the method and assumptions used by the Company to account for the costs associated with its defined benefit pension schemes, the aggregate value of the accrued benefits as at 31 December 2012 for the executive directors was £12.5m (2011: £11.8m).

11. Directors' interests

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

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

Director during 2012	Shares held	Interest as at 31.12.12 or date of retirement if earlier	Interest as at 01.01.12 or date of appointment if later
K S Beeston	Ordinary shares	20,000	20,000
P Bentley	Ordinary shares	-	-
C P Forster	Ordinary shares	-	-
A M Frew	Ordinary shares	7,500	7,500
T M Gateley	Ordinary shares	7,500	7,500
D M Hurt	Ordinary shares*	201,369	193,928
M J Lamb	Ordinary shares*	229,198	390,834
B Nørgaard	Ordinary shares	-	-
R Quarta	Ordinary shares	4,000	-
R J Stack	Ordinary shares	15,000	15,000
S Toomes	Ordinary shares	69,494	68,049
R M Twite	Ordinary shares*	156,045	121,757
I W Whiting	Ordinary shares*	425,311	292,033

* Including shares held within Company share plans.

During the period 31 December 2012 to 6 March 2013 there were no changes in the interests of any current director from those shown save for purchases within the IMI All Employee Share Ownership Plan on 8 January 2013 of 11 shares on behalf of each of M J Lamb, D M Hurt and 12 shares on behalf of R M Twite at 1114p per share and 12 February 2013 of 11 shares on behalf of M J Lamb and 10 shares on behalf of D M Hurt and R M Twite at 1185p per share.

Approved by the Board on 6 March 2013 and signed on its behalf by:

Bob J Stack

Chairman of the Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of the annual report and the financial statements

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

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

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

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

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

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

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

Directors' responsibility statement under the Disclosure and Transparency Rules

Each of the directors listed on pages 34 and 35 confirms that:

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

By order of the Board

John O'Shea

Company Secretary

6 March 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

We have audited the Group financial statements of IMI plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 70, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

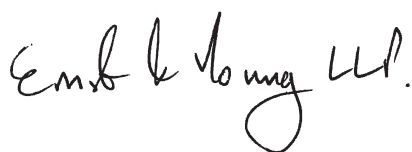
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 25, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of IMI plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.



John C Flaherty (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

6 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012			2011		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2,4	2,192	(2)	2,190	2,135	(4)	2,131
Segmental operating profit	2	373.0		373.0	374.1		374.1
Reversal of net economic hedge contract gains	2		(6.8)	(6.8)		(4.1)	(4.1)
Net credit on special pension events	19		10.9	10.9		-	-
Restructuring costs	2,4		(23.3)	(23.3)		(23.5)	(23.5)
Acquired intangible amortisation	12		(29.6)	(29.6)		(32.3)	(32.3)
Other acquisition-related costs	3		(6.3)	(6.3)		-	-
Operating profit	2,4	373.0	(55.1)	317.9	374.1	(59.9)	314.2
Financial income	5	3.7	13.9	17.6	3.3	13.9	17.2
Financial expense	5	(21.4)	(8.1)	(29.5)	(20.2)	(16.0)	(36.2)
Net finance credit relating to defined benefit pension schemes	19	11.0		11.0	6.2		6.2
Net financial (expense)/income	5	(6.7)	5.8	(0.9)	(10.7)	(2.1)	(12.8)
Profit before tax	6	366.3	(49.3)	317.0	363.4	(62.0)	301.4
Taxation	7	(95.2)	11.9	(83.3)	(101.8)	4.1	(97.7)
Total profit for the year		271.1	(37.4)	233.7	261.6	(57.9)	203.7
Attributable to:							
Owners of the parent				230.6			200.4
Non-controlling interests	10			3.1			3.3
Profit for the year				233.7			203.7
Earnings per share	8						
Basic - from profit for the year				72.6p			63.2p
Diluted - from profit for the year				71.6p			62.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012		Restated (Note 1) 2011	
	£m	£m	£m	£m
Profit for the year		233.7		203.7
Other comprehensive income/(expense)				
Change in fair value of effective net investment hedge derivatives	1.3		1.9	
Related tax effect	(0.3)		(0.5)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	(14.1)		(9.7)	
Related tax effect	(0.1)		0.1	
		(13.2)		(8.2)
Fair value gain on available for sale financial assets	0.2		1.2	
Related tax effect	(0.1)		(0.5)	
		0.1		0.7
Actuarial loss on defined benefit plans	(75.2)		(84.8)	
Related tax effect in current year	17.2		20.5	
Effect of rate change on previously recognised items	(5.6)		(4.3)	
		(63.6)		(68.6)
Other comprehensive expense for the year, net of tax		(76.7)		(76.1)
Total comprehensive income for the year, net of tax		157.0		127.6
Attributable to:				
Owners of the parent		153.9		123.9
Non-controlling interests		3.1		3.7
Total comprehensive income for the year, net of tax		157.0		127.6

CONSOLIDATED BALANCE SHEET

At 31 December 2012

	Notes	2012 £m	Restated (Note 1) 2011 £m
Assets			
Intangible assets	12	544.5	498.1
Property, plant and equipment	13	245.3	248.3
Employee benefit assets	19	-	1.9
Deferred tax assets	7	65.6	75.7
Other receivables		6.0	5.5
Other financial assets	18	1.8	4.9
Total non-current assets		863.2	834.4
Inventories	14	301.3	323.6
Trade and other receivables	15	407.3	387.2
Other current financial assets	18	6.3	7.2
Current tax	7	23.1	12.1
Investments	18	20.4	20.4
Cash and cash equivalents	18	102.8	147.9
Total current assets		861.2	898.4
Total assets		1,724.4	1,732.8
Liabilities			
Bank overdraft	18	(6.3)	(0.4)
Interest-bearing loans and borrowings	16,18	(3.1)	(13.3)
Provisions	21	(19.3)	(21.6)
Current tax	7	(7.4)	(31.4)
Trade and other payables	17	(430.1)	(475.7)
Other current financial liabilities	18	(2.7)	(7.1)
Total current liabilities		(468.9)	(549.5)
Interest-bearing loans and borrowings	16,18	(237.2)	(242.4)
Employee benefit obligations	19	(232.2)	(205.7)
Provisions	21	(19.8)	(33.2)
Deferred tax liabilities	7	(36.7)	(39.6)
Other payables		(46.1)	(48.2)
Total non-current liabilities		(572.0)	(569.1)
Total liabilities		(1,040.9)	(1,118.6)
Net assets		683.5	614.2
Equity			
Share capital	22	85.2	85.0
Share premium		170.3	169.3
Other reserves		45.6	58.8
Retained earnings		334.4	251.7
Equity attributable to owners of the parent		635.5	564.8
Non-controlling interests	10	48.0	49.4
Total equity		683.5	614.2

Approved by the Board of Directors on 6 March 2013 and signed on its behalf by:

Roberto Quarta

Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

					Restated (Note 1)	Restated (Note 1)			
	Share capital	Share premium account	Capital redemption reserve	Hedging reserve	Translation reserve	Retained earnings	Total parent equity	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2011	85.0	168.1	7.9	2.7	56.8	205.2	525.7	50.1	575.8
Profit for the year						200.4	200.4	3.3	203.7
Other comprehensive income				1.4	(10.0)	(67.9)	(76.5)	0.4	(76.1)
Total comprehensive income				1.4	(10.0)	132.5	123.9	3.7	127.6
Issue of share capital	-	1.2					1.2		1.2
Dividends paid						(88.8)	(88.8)		(88.8)
Share-based payments (net of tax)						10.6	10.6		10.6
Shares acquired for employee share scheme trust						(7.8)	(7.8)		(7.8)
Income earned by partnership								(4.4)	(4.4)
At 31 December 2011	85.0	169.3	7.9	4.1	46.8	251.7	564.8	49.4	614.2
Changes in equity in 2012									
Profit for the year						230.6	230.6	3.1	233.7
Other comprehensive income				1.0	(14.2)	(63.5)	(76.7)	-	(76.7)
Total comprehensive income				1.0	(14.2)	167.1	153.9	3.1	157.0
Issue of share capital	0.2	1.0					1.2		1.2
Dividends paid						(97.8)	(97.8)	(0.1)	(97.9)
Share-based payments (net of tax)						16.0	16.0		16.0
Shares acquired for employee share scheme trust						(2.6)	(2.6)		(2.6)
Income earned by partnership								(4.4)	(4.4)
At 31 December 2012	85.2	170.3	7.9	5.1	32.6	334.4	635.5	48.0	683.5

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 £m	2011 £m
Cash flows from operating activities		
Profit for the year from continuing operations	233.7	203.7
Adjustments for:		
Depreciation	41.3	43.6
Impairment/(reversal of impairment) of property, plant and equipment	0.7	(2.5)
Amortisation	34.0	36.4
Loss on sale of property, plant and equipment	2.0	0.2
Financial income	(17.6)	(17.2)
Financial expense	29.5	36.2
Net finance income relating to defined benefit pension scheme	(11.0)	(6.2)
Equity-settled share-based payment expenses	10.1	8.9
Income tax expense	83.3	97.7
Increase in trade and other receivables	(19.4)	(45.1)
Decrease/(increase) in inventories	29.4	(35.7)
(Decrease)/increase in trade and other payables	(40.6)	67.8
Decrease in provisions and employee benefits	(31.9)	(25.3)
Cash generated from the operations	343.5	362.5
Income taxes paid	(102.9)	(90.9)
	240.6	271.6
CCI investigation costs	(2.8)	(2.1)
Additional pension scheme funding	(16.8)	(52.9)
Pension transfer incentive payments	(9.6)	-
Net cash from operating activities	211.4	216.6
Cash flows from investing activities		
Interest received	3.7	3.3
Proceeds from sale of property, plant and equipment	1.7	2.8
Sale of investments	0.6	1.1
Purchase of investments	(1.4)	(0.7)
Settlement of transactional derivatives	5.5	3.0
Settlement of currency derivatives hedging balance sheet	8.4	5.6
Acquisitions of controlling interests	(83.1)	(8.9)
Acquisition of property, plant and equipment	(39.1)	(52.1)
Capitalised non-acquired intangibles	(7.8)	(6.8)
Net cash from investing activities	(111.5)	(52.7)
Cash flows from financing activities		
Interest paid	(21.4)	(20.2)
Payment to non-controlling interest	(4.4)	(4.4)
Net purchase of own shares	(2.6)	(7.8)
Proceeds from the issue of share capital for employee share schemes	1.2	1.2
Net repayment of borrowings	(25.1)	(16.0)
Dividends paid to non-controlling interest	(0.1)	-
Dividends paid to equity shareholders	(97.8)	(88.8)
Net cash from financing activities	(150.2)	(136.0)
Net (decrease)/increase in cash and cash equivalents	(50.3)	27.9
Cash and cash equivalents at the start of the year	147.5	120.4
Effect of exchange rate fluctuations on cash held	(0.7)	(0.8)
Cash and cash equivalents at the end of the year*	96.5	147.5

* Net of bank overdrafts of £6.3m (2011: £0.4m)

Notes to the cash flow appear in note 23

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

Introduction

IMI plc (the 'Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company financial statements present information about the Company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRSs). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP and these are presented on pages 132 to 137. The financial statements were approved by the Board of Directors on 6 March 2013.

a) Restatements and changes in accounting estimates

i) Restatement relating to TH Jansen Armaturen GmbH (THJ) acquisition

In accordance with IFRS3 (revised), following the finalisation of the balances relating to the THJ acquisition reported in the 2011 consolidated financial statements, the 2011 balance sheet has been restated. The details of this restatement are set out in note 3.2.

ii) Restatement relating to taxation on items included in other comprehensive income

Following a review of the allocation of taxation to items of other comprehensive income, comparative amounts for the year ended 31 December 2011 have been revised. There is neither any net effect on equity nor on total comprehensive income for the period net of tax.

In the 2011 comparatives the income tax effect on exchange differences on translation of foreign operations net of hedge settlements and funding revaluations has been restated from a £0.3m credit to a £0.1m credit, the income tax effect on the fair value gain on available for sale financial assets has been restated from £nil to a £0.5m charge and the income tax effect on the actuarial loss has been restated from a £15.5m credit to a £16.2m credit. This change also resulted in a decrease of £0.2m in the translation reserve and a corresponding increase in retained earnings.

iii) The IMI Pension Fund's interest in the IMI Scottish Limited Partnership

As a result of discussions with the Financial Reporting Review Panel, which are ongoing, we have re-assessed the basis for the valuation of the IMI Pension Fund's interest in the IMI Scottish Limited Partnership for the purpose of that asset's inclusion within the net defined benefit obligation reported in our 31 December 2012 balance sheet under IAS19. The effect of the re-assessment was to reduce the value of this plan asset by £22.6m, recognised as an actuarial loss in the period, thereby increasing the reported net defined benefit obligation by the same amount. The deferred taxation asset relating to the net defined benefit obligation increased by £5.2m. The effect of this change on the comparative period would have been significantly lower and is not sufficiently material to require a prior year adjustment.

iv) Change of accounting estimate for the amortisation of customer relationships

During the period, the Group amended its estimate for the phasing of the future consumption of the economic benefits associated with its customer relationships, by changing the amortisation of these assets to a sum of digits approach from a straight-line approach. This change was made because the Group's experience with recent acquisitions has been that the economic benefits of these assets are demonstrably consumed to a greater extent in the periods more directly following the acquisition. The effect of this change of accounting estimate on the period was to increase the amortisation charge relating to acquisition intangibles by approximately £10m. The estimated effect for the year ending 31 December 2013 is an increase of £5m in the charge compared to the charge on a straight-line basis.

b) Basis of accounting

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

b) Basis of accounting (continued)

The policies described in this section and in the accompanying notes have been applied consistently throughout the Group for the purposes of these consolidated financial statements except as discussed below.

i) New or amended EU Endorsed Accounting Standards adopted by the Group during 2012

The following standards were adopted in these financial statements but had no impact on the financial statements.

- IAS12 '*Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*'
- IFRS1 '*First-Time Adoption of International Financial Reporting Standards*' (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS7 '*Financial Instruments: Disclosures – Transfers of Financial Assets*'

ii) Issued Accounting Standards which are not effective for the year ended 31 December 2012

Accounting impacts

- IAS19 '*Employee Benefits (Amendment)*'

The IASB has issued numerous amendments to IAS19. These include a fundamental change which will affect the basis by which the Group apportions finance income between the income statement and other comprehensive income from 1 January 2013. Had this change been effective for 2012 we estimate that the financing cost would have increased by £18.8m. The main impact on the Group of the other changes is to increase the disclosure requirements.

Presentational impact only

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

The amendments to IAS1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendment will only have a presentational effect on the Group when it is adopted from 1 January 2013.

- IFRS12 '*Disclosure of Interests in Other Entities*'

IFRS12 includes all of the disclosures that were previously included in IAS27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS28 and IAS31. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities and also include a number of new disclosures. This standard will only have a presentational effect on the Group when it is adopted from 1 January 2013.

Impact to be confirmed

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

IFRS9 as issued reflects the first phase of the IASB's work on the replacement of IAS39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS39. The adoption of the first phase of IFRS9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. This new standard will be effective from accounting periods beginning on or after 1 January 2015.

No impact anticipated

- IFRS7 '*Financial Instruments: Disclosures – Right of Set-Off (Amendment)*': Effective for our 2013 financial statements
- IFRS10 '*Consolidated Financial Statements*': Effective for our 2013 financial statements
- IFRS11 '*Joint Arrangements*': Effective for our 2013 financial statements
- IFRS13 '*Fair Value Measurement*': Effective for our 2013 financial statements
- IAS28 '*Investments in Associates and Joint Ventures (revised)*': Effective for our 2013 financial statements
- IAS32 '*Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*': Effective for our 2014 financial statements

In addition the following May 2012 Annual Improvements are effective for our 2013 financial statements but will have no impact on the Group.

- IFRS1 '*First-time Adoption of International Financial Reporting Standards*'
- IAS1 '*Presentation of Financial Statements*'
- IAS16 '*Property, Plant and Equipment*'
- IAS32 '*Financial Instruments: Presentation*'
- IAS34 '*Interim Financial Reporting*'

The Group intends to adopt all the above standards and improvements when they become effective.

c) Subsidiaries and non-controlling interests

The Group financial statements consolidate the financial statements of IMI plc and the entities it controls (its subsidiaries) for the year to 31 December. The Group has no significant interests which are accounted for as associates or joint ventures as at 31 December 2012.

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including any goodwill relating to the subsidiary) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Taxation on the above accounting entries would also be recognised where applicable.

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

d) Use of estimates and judgements

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

i) Judgements

In the process of applying the Group's accounting policies, the following judgements have the most significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of the Scottish Limited Partnership and inclusion of the IMI Pension Fund's interest in this special purpose entity as a non-controlling interest

In June 2010, the Group made a special contribution to the IMI Pension Fund of £48.6m which the Trustee agreed to invest in the IMI Scottish Limited Partnership, an entity controlled by the Group, which confers upon the Fund conditional rights to receive income of £4.4m a year for twenty years, or until the Fund becomes fully funded.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

d) Use of estimates and judgements (continued)

i) Judgements (continued)

One of the judgements involved in this issue was whether this entity qualified as a special purpose entity as defined by SIC12: *Consolidation – Special Purpose Entities*, and whether, in applying this interpretation, the entity should be consolidated. It was determined that the entity meets the definition of a special purpose entity under SIC12 and furthermore, upon consideration of the criteria in this interpretation, it was determined that consolidation was appropriate.

There are certain conditions under which the Group can defer the amounts payable to the Pension Fund, in particular, the Partnership Agreement includes a clause under which the payments in the year are deferred in the event that the Group has not paid a dividend in the preceding year. Because the Group has the ability to defer such payments indefinitely and is in control of the circumstances under which the arrangement can be terminated, the payments envisaged by the agreement are discretionary and therefore do not constitute a liability under IAS32. As such the Pension Fund's interest in the IMI Scottish Limited Partnership has been recorded as a non-controlling interest, as a component of equity.

Contingent liability

As discussed in note 26, in May 2012 companies belonging to a British builders' merchant served damages claims against IMI plc and others relating to alleged financial losses incurred in the UK as a result of anticompetitive behaviour undertaken by a number of manufacturers of copper plumbing tubes and copper plumbing fittings. As a result of significant uncertainties inherent in this position, we determined that (as at 31 December 2012) it was not possible to assess properly whether any losses can be established by the claimant and, if so, the potential quantum or timing of such losses and if necessary, the contributions recoverable from other parties, including IMI's former tubes and fittings subsidiaries.

ii) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group bases its assumptions and estimates on information available when the consolidated financial statements are prepared. Market changes or circumstances arising beyond the control of the Group are reflected in the assumptions when they occur. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use is based on a discounted cash flow model. Cash flows are derived from the Group's long-term forecasts for the next three years. The principal sensitivities in this calculation are the discount rate, the expected future cash inflows and the growth rate used to calculate the terminal value. Further information on this process and the assets affected are included in note 12.

Valuation of intangibles

Accounting standards require separately identifiable intangible assets to be recognised on acquisitions. This process involves a number of different valuation techniques for the classes of intangible asset recognised, which, for the Group's recent acquisitions, have principally related to customer-related and technology-related assets. The principal estimates required in valuing these intangible assets generally relate to predicting the future cash flows to be generated by the assets as well as the rates used to discount them.

Disposed businesses

The Company has disposed of a number of its previous businesses. The sale agreements contained various warranties and indemnities. In some cases, the agreements also include the potential for adjustment to the purchase price, sometimes contingent on future events. At the time of disposal, the accounts reflect the best estimate of the likely future impact of these agreements. These estimates are then regularly reviewed and provisions are recognised where necessary.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and related assumptions. These assumptions and the models used for estimating fair value for share-based payment transactions are disclosed in note 20.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to the tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Trading provisions

The Group sells a wide range of highly technical products and although its products are designed and engineered to a high degree of precision and to customer specifications, there will always be a risk of products requiring modification, which can lead to warranty claims as well as excess or obsolete inventory, collection risk regarding receivables and other trading provisions. Provisions are held against these risks, which are estimated based on past experience of claims and by measuring the likely use of inventory in the future against past usage. The degree of dependence on future events makes these estimates inherently subjective.

Employee benefits

The present value of the Group's defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. In particular, the valuation of the IMI Pension Fund's interest in the Scottish Limited Partnership is a highly subjective area because its valuation depends on an actuarial assessment of the amount a third party might be willing to pay for the asset, taking into account the risk that the associated income stream could either cease in the event that the IMI Pension Fund became fully funded or become deferred in any year in which no dividend was paid to the shareholders.

These assumptions, accompanied by sensitivity analysis thereon, are included in note 19.

Fair value measurement of contingent consideration

Because they are forfeitable in some of the instances in which the vendors might leave the business, certain amounts payable under contingent consideration arrangements resulting from business combinations in these consolidated financial statements have been treated as remuneration in accordance with IFRS3 (Revised). These are assessed at fair value and charged to the income statement in the period over which the Group receives the benefit of the vendors' employment services. The determination of this fair value is based on an estimate of the future performance of the business which is dependent on the acquired business's performance over a specific future timeframe and is therefore subject to estimation uncertainty. These amounts are treated as exceptional items in accordance with note (f) to these accounting policies and further details are disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

d) Use of estimates and judgements (continued)

ii) Estimates and assumptions (continued)

Development costs

Development costs are capitalised in accordance when they meet the criteria set out in IAS38: '*Intangible Assets*'. Initial capitalisation of costs is based on management's judgement regarding the technological and economical feasibility of the asset, and only when a product development project has reached a point where such determinations can be made. In testing these assets for impairment, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. Further details are disclosed in note 12.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and that the revenue can be reliably measured. The nature of the machinery, valve and other contracts into which the Group enters means that:

- the contracts usually contain discrete elements, each of which transfers risks and rewards to the customer. Where such discrete elements are present, revenue is recognised on each element in accordance with the policy on the sale of goods.
- the service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.

As a result of the above, the significant majority of the Group's revenue is recognised on a sale of goods basis.

The specific methods used to recognise the different forms of revenue earned by the Group are set out below:

i) Sale of goods

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

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 2010, are recognised as revenue when the Group has completed the primary duties required to transfer risks as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside Incoterms 2010 are generally recognised on delivery to the customer.

ii) Rendering of services

As noted above, because revenue from the rendering of services is usually insignificant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

Where this is not the case, revenue from services rendered is recognised in proportion to the stage of completion of the service at the balance sheet date. The stage of completion is assessed by reference to the contractual agreement with each separate customer and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured. Installation fees are similarly recognised by reference to the stage of completion on the installation unless they are incidental to the sale of the goods, in which case they are recognised when the goods are sold.

When a transaction combines a supply of goods with the provision of a significant service, revenue from the provision of the service is recognised separately from the revenue from the sale of goods by reference to the stage of completion of the service unless the service is essential to the functionality of the goods supplied, in which case the whole transaction is treated as a construction contract. Revenue from a service that is incidental to the supply of goods is recognised at the same time as the revenue from the supply of goods.

iii) Construction contracts

As noted above, customer contracts usually contain discrete elements separately transferring risks and rewards to the customer. Where such discrete elements are present, revenue is recognised on each element in accordance with the policy on the sale of goods.

Where such discrete elements are not in place, revenue from significant contracts is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms and the costs incurred on the contract to date in comparison to the total forecast costs of the contract.

Variations in contract work, claims and incentive payments are included in revenue from construction contracts when certain criteria are met. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that the customer is certain to accept the claim. Incentive payments are included when a contract is sufficiently advanced that it is probable that the performance standards triggering the incentive will be achieved.

Profit attributable to contract activity is recognised if the final outcome of such contracts can be reliably assessed. On all contracts, full provision is made for any losses in the year in which they are first foreseen.

f) Exceptional items

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

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

- Restructuring costs, which comprise significant costs associated with the closure of activities or factories and the cost of significant reductions in workforce due to excess capacity or the reorganisation of facilities;
- Acquisition-related costs, which comprise:
 - Contingent consideration payments which (because they might be forfeited in some of the instances in which the vendors' post-acquisition employment contracts may be terminated) are required by IFRS3 (Revised) to be treated as remuneration;
 - Transaction costs on successful acquisitions;
- Special pension events, which comprise the past service credits relating to the UK Scheme (arising from the pension increase exchange exercise) and two Swiss Schemes and the exit of a state-sponsored scheme in Japan;
- The amortisation of acquired intangible fixed assets; and
- Gains and losses (including fair value adjustments) on derivative financial instruments.

The tax impact of the above items is also shown within Exceptional items.

g) Financial income and expense

Financial income comprises interest receivable on funds invested, income from investments and gains on hedging instruments that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

Financial expense comprises interest payable on borrowings calculated using the effective interest rate method, the interest related element of derivatives and losses on financial instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Net finance income or expense relating to defined benefit pension schemes represents the difference between the assumed interest on employee benefit plan liabilities and the assumed returns on employee benefit plan assets.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

h) Income tax

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

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

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

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

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

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

j) Foreign currencies

i) Foreign currency transactions

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

ii) Foreign operations

The income statements of overseas subsidiary undertakings are translated at the appropriate average rate of exchange for the year and the adjustment to year-end rates is taken directly to reserves.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at foreign exchange rates ruling at the balance sheet date.

Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. Since 1 January 2004, the Group's date of transition to IFRSs, such differences have been recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

k) Financial instruments and fair value hedging

Financial instruments are initially recorded at fair value plus directly attributable transaction costs unless the instrument is a derivative not designated as a hedge (see below). Subsequent measurement depends on the designation of the instrument, which follows the categories in IAS39:

- Fixed deposits, comprising principally funds held with banks and other financial institutions are classified as 'available for sale assets' under IAS39, and held at fair value. Short-term borrowings and overdrafts are classified as financial liabilities at amortised cost.

- Derivatives, comprising interest rate swaps, foreign exchange contracts and options, metals futures contracts and any embedded derivatives, are classified as 'fair value through profit or loss' under IAS39, unless designated as hedges. Derivatives not designated as hedges are initially recognised at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, changes in fair value of such derivatives and gains or losses on their settlement are recognised in net financial income or expense.
- Long-term loans and other interest-bearing borrowings are generally held at amortised cost using the effective interest rate method. Where the long-term loan is hedged, generally by an interest rate swap, and the hedge is regarded as effective, the carrying value of the long-term loan is adjusted for changes in fair value of the hedge.
- Trade receivables are stated at cost as reduced by appropriate allowances for estimated irrecoverable amounts.
- Trade payables are stated at cost.
- Financial assets and liabilities are recognised on the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.
- Available for sale financial assets are carried at fair value with gains and losses being recognised in equity, except for impairment losses which are recognised in the income statement.

l) Other hedging

i) Hedge of monetary assets and liabilities, financial commitments or forecast transactions

Where a derivative financial instrument is used as an economic hedge of the foreign exchange or metals commodity price exposure of a recognised monetary asset or liability, or financial commitment or a forecast transaction, no hedge accounting is applied and any gain or loss resulting from changes in fair value of the hedging instrument is recognised in net financial income or expense.

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

ii) Hedge of net investment in foreign operation

Where a foreign currency liability or derivative financial instrument is a formally designated hedge of a net investment in a foreign operation, foreign exchange differences arising on translation of the foreign currency liability or changes in the fair value of the financial instrument are recognised directly in equity to the extent the hedge is effective.

The Company assesses the effectiveness of its net investment hedges based on fair value changes of its net assets, including relevant goodwill designated as foreign currency assets, and the fair value changes of both the debt designated as a hedge and the relevant financial instrument.

m) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition-related costs incurred are expensed and included in administrative expenses unless their quantum, nature or volatility meets the definition of an Exceptional item as set out in accounting policy (f) above.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

m) Business combinations and goodwill (continued)

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

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

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

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

n) Intangible assets

Intangible assets are further sub-divided in the notes to these accounts between acquired intangible assets and non-acquired intangible assets. Amortisation of acquired intangible assets is treated as an exceptional item as described in section (f) of these accounting policies, because of its inherent volatility. The accounting policy for goodwill is described in section (m) above.

i) Research and development

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

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

ii) Software development costs

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

iii) Customer relationships and other acquired intangible assets

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

iv) Amortisation of intangible assets other than goodwill

Amortisation is charged to the income statement on a straight-line basis (other than for customer relationships and order book, which are charged on a sum of digits basis) over the estimated useful lives of intangible assets. Amortisation commences from the date the intangible asset becomes available for use. The estimated maximum useful lives are as follows:

- Capitalised development costs Life of the intangible asset (usually a maximum of 10 years)
- Software development costs Life of the intangible asset (up to 10 years)
- Customer relationships Life of the intangible asset (up to 10 years)
- Other intangible assets Life of the intangible asset (up to 10 years)

o) Property, plant and equipment

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

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

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Costs in respect of tooling owned by the Group for clearly identifiable new products are capitalised net of any contribution received from customers and are included in plant and equipment.

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

- Freehold buildings 25 to 50 years
- Plant and equipment 3 to 20 years

p) Leased assets

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

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

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

Lease incentives received are recognised in the income statement over the period of the lease unless a different systematic method is more appropriate under the terms of the lease. The majority of leasing transactions entered into by the Group are operating leases.

q) Inventories

Inventories are valued at the lower of cost and net realisable value. Because of the varying nature of the Group's operations, both first in, first out (FIFO) and weighted average methodologies are employed. In respect of work in progress and finished goods, cost includes all direct costs of production and the appropriate proportion of production overheads.

r) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies (continued)

s) Impairment

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

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

For goodwill and assets that are not yet available for use, the recoverable amount is evaluated at each balance sheet date.

i) Calculation of recoverable amount

The recoverable amount of the Group's receivables other than financial assets held at fair value is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration of less than one year are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use an individual assessment is made of the estimated future cash flows generated for each cash-generating unit (based upon the latest Group three year plan and extrapolated using an appropriate long-term growth rate for each cash generating unit in perpetuity consistent with an estimate of the relevant geographic long-term GDP growth). These are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management believe that this approach, including the use of the indefinite cash flow projection, is appropriate based upon both historical experience and because it is one of the bases management utilise to evaluate the fair value of investment opportunities. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash-generating unit to which the asset belongs.

ii) Reversals of impairment

As required by IAS36: '*Impairment of Assets*', any impairment of goodwill or available for sale financial assets is non-reversible. In respect of other assets, an impairment loss is reversed if at the balance sheet date there are indications that the loss has decreased or no longer exists following a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

t) Dividends

Final dividends payable are recognised as a liability at the date at which they are approved by the Company's shareholders or by the subsidiary's shareholders in respect of dividends to non-controlling interests. Interim dividends payable are recognised on the date they are declared.

u) Employee benefits

i) Defined contribution pension plans

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

ii) Defined benefit pension plans

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

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

iii) Long-term service and other post-employment benefits

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

iv) Equity and equity-related compensation benefits

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

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

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

v) Provisions

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

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

2. Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that is presented to the chief operating decision-maker, being the Executive Committee. Inter-segment revenue is insignificant.

The Group comprises the following five operating segments and activities:

Fluid Controls

Severe Service

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

Fluid Power

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

Indoor Climate

Design, manufacture and supply of indoor climate control systems, principally balancing valves (and, in 2013, control valves) for large commercial buildings, thermostatic radiator valves for residential buildings and water conditioning equipment.

Retail Dispense

Beverage Dispense

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

Merchandising

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

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental information (continued)

As part of the convergence process, since the year end we have concluded that the majority of the Merchandising segment should be divested, and we are exploring options accordingly. The part of the Merchandising segment serving the beverage market, contained within our Display Technologies subsidiary, presents a number of synergies with the Beverage segment, including a shared customer base and significant potential to develop a more compelling and high impact interface between the consumer and our beverage dispense equipment. Accordingly, this beverage activity has been transferred to the Beverage Dispense segment with effect from the start of this year. In 2012, Display Technologies had revenues in these product areas of £36m and segmental operating profit of £8.5m.

Information regarding the operations of each reporting segment is included below on the current basis of segmentation. Additional information is presented at the end of this note indicating the effect of the transfer of Display Technologies to the Beverage Dispense segment in 2013. Performance is measured based on segmental operating profit which is the profit reported by the business, stated before exceptional items including the reversal of economic hedge contract gains and losses, the net credit on special pension events, restructuring costs, acquired intangible amortisation and other acquisition-related costs. Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. In accordance with IAS39, these contracts do not meet the technical provisions required for hedge accounting and gains and losses are reversed out of segmental profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

	Segmental revenue		Segmental operating profit	
	2012 £m	2011 £m	2012 £m	2011 £m
Fluid Controls	1,696	1,649	300.1	307.6
Severe Service	686	572	96.3	88.9
Fluid Power	717	767	142.3	150.5
Indoor Climate	293	310	61.5	68.2
Retail Dispense	496	486	72.9	66.5
Beverage Dispense	313	317	45.0	41.1
Merchandising	183	169	27.9	25.4
Total	2,192	2,135	373.0	374.1

Reconciliation of reported segmental revenue and operating profit

	Revenue		Profit	
	2012 £m	2011 £m	2012 £m	2011 £m
Segmental result	2,192	2,135	373.0	374.1
Reversal of net economic hedge contract gains	(2)	(4)	(6.8)	(4.1)
Net credit on special pension events			10.9	-
Restructuring costs			(23.3)	(23.5)
Acquired intangible amortisation			(29.6)	(32.3)
Other acquisition-related costs			(6.3)	-
Total revenue/operating profit reported	2,190	2,131	317.9	314.2
Net financial expense			(0.9)	(12.8)
Profit before tax			317.0	301.4

Balance sheet

	Segmental assets		Segmental liabilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Fluid Controls	1,243.0	1,183.4	337.2	377.9
Severe Service	675.6	595.5	184.7	201.6
Fluid Power	409.0	436.0	94.4	114.9
Indoor Climate	158.4	151.9	58.1	61.4
Retail Dispense	264.4	283.4	75.6	91.4
Beverage Dispense	125.7	137.3	44.8	58.6
Merchandising	138.7	146.1	30.8	32.8
Total	1,507.4	1,466.8	412.8	469.3

Reconciliation of segmental assets and liabilities to Group balance sheet

	Assets		Liabilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Segmental assets and liabilities	1,507.4	1,466.8	412.8	469.3
Corporate items	5.1	8.0	72.9	87.6
Employee benefits	-	1.9	232.2	205.7
Investments	20.4	20.4	-	-
Net borrowings	102.8	147.9	246.6	256.1
Net taxation and others	88.7	87.8	76.4	99.9
Per Group balance sheet	1,724.4	1,732.8	1,040.9	1,118.6

Other information

	Restructuring costs		Capital expenditure		Depreciation & amortisation	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Fluid Controls	18.9	21.4	38.9	50.7	67.4	70.7
Severe Service	13.8	11.9	12.8	11.4	37.4*	39.2
Fluid Power	1.6	5.5	16.4	26.2	22.3**	23.3
Indoor Climate	3.5	4.0	9.7	13.1	7.7***	8.2
Retail Dispense	4.4	2.1	6.8	8.0	7.5	8.8
Beverage Dispense	1.4	2.1	4.1	5.3	5.1	6.3
Merchandising	3.0	-	2.7	2.7	2.4	2.5
Subtotal	23.3	23.5	45.7	58.7	74.9	79.5
Corporate	-	-	1.2	0.2	0.4	0.5
Total	23.3	23.5	46.9	58.9	75.3	80.0

* Included for Severe Service is £26.1m (2011: £28.9m) amortisation of acquired intangibles

** Included for Fluid Power is £3.1m (2011: £3.1m) amortisation of acquired intangibles

*** Included for Indoor Climate is £0.4m (2011: £0.3m) amortisation of acquired intangibles

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental information (continued)

Revenue by geographical destination

	2012 £m	2011 £m
UK	143	136
Germany	282	296
Rest of Europe	551	577
USA	589	580
Asia Pacific	398	319
Rest of World	229	227
Total segmental revenue	2,192	2,135
Reversal of economic hedge contract gains	(2)	(4)
Total	2,190	2,131

No individual customer, or group of customers under common control, represents more than 10% of Group revenue in either this year or last.

Geographical analysis of intangible assets and property, plant and equipment

	2012 £m	2011 £m
UK	101.1	103.7
Germany	159.5	165.1
Rest of Europe	254.6	187.2
USA	208.7	232.1
Asia Pacific	40.1	46.6
Rest of World	25.8	11.7
Total	789.8	746.4

Proforma disclosure following the segmental reorganisation on 1 January 2013

	2012			
	As reported		Post reorganisation*	
	Beverage Dispense £m	Merchandising £m	Beverage Dispense £m	Merchandising £m
Segmental revenue	313	183	349	147
Segmental operating profit	45.0	27.9	53.5	19.4
Segmental assets	125.7	138.7	164.8	99.6
Segmental liabilities	44.8	30.8	47.4	28.2
Restructuring costs	1.4	3.0	1.7	2.7
Capital expenditure	4.1	2.7	4.7	2.1
Depreciation and amortisation	5.1	2.4	6.0	1.5

*This note demonstrates the segmental disclosures that would have been reported had the segmental reorganisation of the business, which resulted in the beverage activities of the Display Technology business moving to the Beverage Dispense segment from the Merchandising segment, taken place on 1 January 2012 rather than in early 2013.

3. Acquisitions

3.1 Acquisitions in the period

Remosa

On 16 February 2012, the Group acquired the entire share capital of Remosa SpA and related companies (collectively Remosa), a leading engineering business specialising in the manufacture and service of valves and related flow control products for severe applications in the downstream Petrochemical sector, for an enterprise value of £83.1m (€100m), being cash consideration of £68.4m and net debt assumed of £14.7m.

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

Segmental revenue of £32m and segmental operating profit of £5.4m for the period since acquisition has been reported for Remosa within the Severe Service segment.

InterAtiva

On 17 February 2012, the Group acquired the entire share capital of the InterAtiva Group (InterAtiva), a Brazilian isolation valve business, from its founding partners. Founded in 1992 by Wilson Gabriel and Mauro Bilbao, InterAtiva was privately owned and designs, assembles and distributes isolation valves to various end-markets including oil and gas, sugar and ethanol production, and water treatment. All of the 2011 sales were in the fast-growing South American markets.

InterAtiva joined IMI's Severe Service division and actively engages with major engineering, procurement and construction firms and also with the major oil and gas companies in Brazil. With an experienced management team, and capacity for final assembly, it represents a strong platform for IMI's existing Severe Service isolation valve brands, including Orton and Truflo Rona, to enter this market.

Initial cash consideration of £22.0m was paid and further consideration up to BR\$55.5m (£16.7m at 31 December 2012 rates) may be paid on a deferred basis dependent upon the achievement of targets for earnings before interest, tax, depreciation and amortisation for the three years ending 31 December 2014.

Because these contingent payments might be forfeited in some of the instances in which the vendors' post-acquisition employment contracts may be terminated, in accordance with IFRS3 (Revised), the whole of the amount accrued to date for their payment has been expensed to the income statement. In order to provide a clearer understanding of the underlying performance of the business, these costs, which amount to £4.0m in the period to 31 December 2012, are separately disclosed within other acquisition-related costs in the income statement, together with the £2.3m transaction costs discussed below.

Segmental revenue of £11m and segmental operating profit of £2.4m for the period since acquisition has been reported for InterAtiva within the Severe Service segment.

Disclosures for both Remosa and InterAtiva

Assuming that the acquisitions of Remosa and InterAtiva had both been completed on 1 January 2012, it is estimated that the Group segmental revenue and segmental operating profit would have been £2,198m and £374m respectively.

The methodologies for arriving at the fair values of assets acquired, intangible asset values and residual goodwill are described in note 1(m). The aggregate goodwill of £50.8m recognised on the two acquisitions principally relates to skills present within the assembled workforce, customer service capability and the synergies available to the combined business from its geographical and sector presence.

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

Transaction costs of £2.3m have been expensed in administrative expenses in 2012 and are included as exceptional charges within other acquisition-related costs together with the remuneration payment of £4.0m discussed above in accordance with the policy disclosed in note 1(f).

A further £1.3m and £0.4m was included in administrative costs in the prior year for Remosa and InterAtiva respectively, but this amount was not included in exceptional costs in the 2011 annual report, because at 31 December 2011, the successful outcome of the acquisitions had not been determined.

NOTES TO THE FINANCIAL STATEMENTS

3. Acquisitions (continued)

3.1 Acquisitions in the period (continued)

The provisional fair values of the assets and liabilities reported as at 30 June 2012 were subsequently finalised to reflect a lower valuation of the customer relationships and associated deferred taxation attributable to the Remosa acquisition.

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

	Remosa £m	InterAtiva £m	Total £m
Customer relationships	28.6	9.7	38.3
Order book	3.3	0.7	4.0
Patents and licences	0.2	-	0.2
Property, plant and equipment	10.8	0.9	11.7
Inventories	11.3	5.1	16.4
Trade and other receivables	11.8	2.2	14.0
Cash and short-term deposits	6.1	-	6.1
Bank overdraft	-	(0.1)	(0.1)
Interest-bearing liabilities	(20.8)	-	(20.8)
Trade and other payables	(11.6)	(2.5)	(14.1)
Taxation balances	(12.4)	(2.7)	(15.1)
Retirement benefit obligations	(1.3)	-	(1.3)
Other assets	0.3	-	0.3
Total identifiable net assets	26.3	13.3	39.6
Goodwill arising on acquisition*	42.1	8.7	50.8
Total purchase consideration	68.4	22.0	90.4

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

	THJ £m	Remosa £m	InterAtiva £m	Total £m
Cash consideration	-	68.4	22.0	90.4
(Cash)/overdraft acquired	-	(6.1)	0.1	(6.0)
Net cash paid on 2012 acquisitions	-	62.3	22.1	84.4
Finalisation of consideration on acquisition of THJ	(1.3)	-	-	(1.3)
Acquisition of controlling interests in the cash flow statement	(1.3)	62.3	22.1	83.1
Transaction costs (included in cash flows from operating activities)	-	1.0	1.3	2.3
Total cash flow on acquisition of controlling interests	(1.3)	63.3	23.4	85.4

*The goodwill arising on the Remosa acquisition is not tax deductible. The goodwill arising on the InterAtiva acquisition, in addition to the contingent consideration amounts payable to the vendors described earlier in this note, may be tax deductible in the future.

Remosa trade and other receivables of £11.8m are stated net of a provision for bad debts of £0.3m. InterAtiva trade and other receivables of £2.2m are stated net of a provision for bad debts of £0.7m. The net amounts are all expected to be collected within 12 months.

3.2 Acquisitions in the previous period

On 17 October 2011 the Group acquired THJ for a total purchase consideration of £9.0m, net of a £2.2m receivable from the vendor for amounts to be finalised in the completion accounts. Total identifiable net assets were £7.7m, resulting in goodwill of £1.3m. These amounts were deemed provisional at 31 December 2011. During the first half of 2012, these provisional amounts were finalised, resulting in a £0.9m reduction in the receivable due from the vendor, a final cash inflow of £1.3m and an increase to goodwill of £0.9m. The 2011 balance sheet has been restated accordingly.

4. Operating profit

	2012 £m	2011 £m
Segmental revenue	2,192.0	2,135.0
Cost of sales	(1,253.6)	(1,219.6)
Segmental gross profit	938.4	915.4
Selling and distribution costs	(257.0)	(244.4)
Administrative expenses	(308.4)	(296.9)
Operating profit pre-exceptionals	373.0	374.1
Exceptionals*	(55.1)	(59.9)
Operating profit	317.9	314.2

* Includes £23.3m of restructuring costs (2011: £23.5m), £29.6m of acquired intangible amortisation (2011: £32.3m), reversal of economic hedge contracts gains of £6.8m (2011: £4.1m gain), £10.9m net credit on special pension events (2011: £nil) and £6.3m of other acquisition-related costs (2011: £nil).

5. Net financial income and expense

	2012 Financial			2011 Financial		
	Interest £m	Instruments £m	Total £m	Interest £m	Instruments £m	Total £m
Recognised in the income statement						
Interest income on bank deposits	3.7		3.7	3.3		3.3
Financial instruments at fair value through profit or loss:						
Designated hedges		1.0	1.0		0.7	0.7
Other economic hedges						
- current year trading		10.2	10.2		8.1	8.1
- future year transactions		2.7	2.7		5.1	5.1
Financial income	3.7	13.9	17.6	3.3	13.9	17.2
Interest expense on interest-bearing loans and borrowings	(21.4)		(21.4)	(20.4)		(20.4)
Interest cost capitalised	-		-	0.2		0.2
Financial instruments at fair value through profit or loss:						
Designated hedges		(1.0)	(1.0)		(0.8)	(0.8)
Other economic hedges						
- current year trading		(4.5)	(4.5)		(9.0)	(9.0)
- future year transactions		(2.6)	(2.6)		(6.2)	(6.2)
Financial expense	(21.4)	(8.1)	(29.5)	(20.2)	(16.0)	(36.2)
Net finance income relating to defined benefit pension schemes	11.0		11.0	6.2		6.2
Net financial (expense)/income	(6.7)	5.8	(0.9)	(10.7)	(2.1)	(12.8)

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

NOTES TO THE FINANCIAL STATEMENTS

5. Net financial income and expense (continued)

Recognised in other comprehensive income

	2012 £m	Restated 2011 £m
Foreign currency translation differences	(14.1)	(9.7)
Change in fair value of other financial assets	0.2	1.2
Change in fair value of effective portion of net investment hedges	1.3	1.9
Income tax on items recognised directly in equity	(0.5)	(0.9)
Financial expense recognised directly in equity (net of tax)	(13.1)	(7.5)
Recognised in:		
Hedging reserve	1.0	1.4
Translation reserve	(14.2)	(10.0)
Retained earnings	0.1	0.7
Non-controlling interests	-	0.4
	(13.1)	(7.5)

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

	2012 £m	2011 £m
Depreciation of property, plant and equipment	41.3	43.6
Amortisation of acquired intangible fixed assets	29.6	32.3
Amortisation of non-acquired intangible fixed assets	4.4	4.1
Research and development *	39.2	38.8
Impairment/(reversal) of property, plant and equipment and intangible assets	0.7	(2.5)
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.2	0.2
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	2.8	2.7
Tax compliance services	0.2	0.1
Other assurance services	0.3	0.2
Rentals under operating leases:		
Property rents	21.2	21.4
Hire of plant and machinery	6.1	9.1
Exchange gains on operating activities net of hedging arrangements	(2.1)	(1.3)

* In addition to the research and development costs above, £5.2m (2011: £4.4m) has been capitalised in respect of development costs and is included in other non-acquired intangible assets in note 12.

7. Taxation

7.1 Governance and strategy

IMI seeks to effectively manage its taxation obligations worldwide and in compliance with all applicable tax laws and regulations. The Group monitors the tax contribution by the individual businesses to take into account available global tax incentives and allowances, whilst ensuring that any material commercial tax risks are promptly addressed. This approach has been approved by the Board, fully communicated to subsidiary businesses and is regularly reviewed and reported to ensure responsible tax practices across the group are maintained.

IMI aims to build positive working relationships with tax authorities around the world by fully co-operating in an open, constructive and timely manner, in accordance with The IMI Way. It is recognised that there will be areas of differing legal

interpretation with tax authorities and where this occurs IMI will engage in proactive discussion to obtain early resolution and remove uncertainty and controversy.

IMI operates through many subsidiary companies worldwide that pay many types of taxes (such as corporate income taxes, VAT, payroll taxes, import and excise duties). The profits earned by the subsidiary companies, after certain tax adjustments prescribed by local tax legislation, are subject to local corporate income tax rates. The Group tax provision shown in the consolidated accounts and explained in this taxation note is an aggregation of these resulting corporate income tax charges together with relevant accounting adjustments.

7.2 Recognised in the income statement:

	2012 £m	2011 £m
Current tax charge/(credit)		
Current year charge	73.8	86.3
Adjustments in respect of prior years	0.5	(1.1)
	74.3	85.2
Deferred taxation (note 7.5)		
Origination and reversal of temporary differences	9.0	12.5
Total income tax expense	83.3	97.7

7.3 Reconciliation of effective tax rate

The following tax reconciliation applies the Company's domestic rate of tax, which is equivalent to the UK corporation tax rate for the year as explained in note 7.7, to profit before tax, both before and after exceptional items. This resulting tax charge is reconciled to the actual tax charge for the Group, by taking account of specific tax adjustments as follows:

	2012			2011		
	Before Exceptionals £m	Exceptional Items £m	Total £m	Before Exceptionals £m	Exceptional Items £m	Total £m
Profit before tax	366.3	(49.3)	317.0	363.4	(62.0)	301.4
Income tax using the Company's domestic rate of tax of 24.5% (2011: 26.5%)	89.7	(12.1)	77.6	96.3	(16.4)	79.9
Effects of:						
Non-deductible items	1.7	0.5	2.2	1.3	1.2	2.5
Exceptional tax charge on restructuring	-	-	-	-	11.0	11.0
Utilisation of tax losses	(2.8)	-	(2.8)	(1.0)	-	(1.0)
Current year losses for which no deferred tax asset has been recognised	1.4	-	1.4	0.4	-	0.4
Differing tax rates in overseas jurisdictions	2.5	(0.3)	2.2	6.1	0.1	6.2
Under/(over)-provided in prior years	2.7	-	2.7	(1.3)	-	(1.3)
Total tax in income statement (note 7.2)	95.2	(11.9)	83.3	101.8	(4.1)	97.7
Effective rate of tax:	26.0%	24.1%	26.3%	28.0%	6.6%	32.4%

During the year, the Group made payments of current income tax of £102.9m (2011: £90.9m), mainly arising in Germany, the USA and Italy.

NOTES TO THE FINANCIAL STATEMENTS

7. Taxation (continued)

7.4 Recognised outside of the income statement

	2012 £m	2011 £m
Deferred tax:		
On equity-settled transactions	(1.8)	0.9
On change in value of effective net investment hedge derivatives	0.3	0.5
On available for sale financial assets	0.1	0.5
On actuarial losses	(11.6)	(16.2)
On foreign currency translation differences	0.1	(0.1)
	(12.9)	(14.4)
Current tax:		
On equity-settled transactions	(4.1)	(2.5)
	(17.0)	(16.9)
Of which the following amounts are credited:		
to the statement of comprehensive income	(11.1)	(15.3)
to the statement of changes in equity	(5.9)	(1.6)
	(17.0)	(16.9)

7.5 Recognised deferred tax assets and liabilities

Deferred taxes record the tax consequences of temporary differences between the accounting and taxation recognition of certain items, as explained below:

	Assets		Liabilities		Net	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Non-current assets	3.9	2.7	(59.3)	(53.2)	(55.4)	(50.5)
Inventories	5.3	8.3	(6.1)	(5.6)	(0.8)	2.7
On foreign exchange and revaluation of derivatives	0.8	0.9	(0.6)	(1.2)	0.2	(0.3)
Employee benefits and provisions	84.8	83.1	(4.3)	(4.7)	80.5	78.4
Other tax assets	4.4	5.8	-	-	4.4	5.8
	99.2	100.8	(70.3)	(64.7)	28.9	36.1
Set off of tax	(33.6)	(25.1)	33.6	25.1	-	-
Total deferred tax assets and liabilities (balance sheet)	65.6	75.7	(36.7)	(39.6)	28.9	36.1

Movement in deferred taxes during the year:

	Restated (Note 1) Balance at 1 Jan 12 £m	Recognised in the income statement £m	Recognised directly in equity £m	Exchange £m	Acquisitions/ disposals £m	Balance at 31 Dec 12 £m
Non-current assets	(50.5)	6.1	-	3.1	(14.1)	(55.4)
Inventories	2.7	(3.7)	-	0.1	0.1	(0.8)
On foreign exchange and revaluation of derivatives	(0.3)	0.9	(0.4)	-	-	0.2
Employee benefits and provisions	78.4	(10.7)	13.3	(1.1)	0.6	80.5
Other tax assets	5.8	(1.6)	-	(0.1)	0.3	4.4
Net deferred tax asset	36.1	(9.0)	12.9	2.0	(13.1)	28.9

	Balance at 1 Jan 11 £m	Recognised in the income statement £m	Recognised directly in equity £m	Exchange £m	Acquisitions/ disposals £m	Balance at 31 Dec 11 £m
Non-current assets	(53.8)	4.8	-	0.8	(2.3)	(50.5)
Inventories	1.0	1.8	-	(0.1)	-	2.7
On foreign exchange and revaluation of derivatives	(1.6)	1.8	(0.4)	(0.1)	-	(0.3)
Employee benefits and provisions	87.3	(23.8)	14.8	0.1	-	78.4
Other tax assets	2.9	2.9	-	(0.1)	0.1	5.8
Net deferred tax asset	35.8	(12.5)	14.4	0.6	(2.2)	36.1

All exchange movements are taken through the translation reserve.

7.6 Unrecognised deferred tax assets and liabilities

Deferred tax assets of £27.1m (2011: £25.4m) have not been recognised in respect of tax losses of £120.4m (2011: £99.4m). The majority of the tax losses have no expiry date, but have not been recognised as deferred tax assets due to uncertainty over their recoverability.

It is likely that the majority of unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption. However £75.4m (2011: £59.9m) of those earnings may still result in a tax liability principally as a result of withholding taxes levied by the overseas jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £7.9m (2011: £5.7m), of which only £1.5m (2011: £1.5m) has been provided as the group is able to control the timing of the dividends. It is not expected that further amounts will crystallise in the foreseeable future.

7.7 UK corporation tax

As IMI's head office and parent company is domiciled in the UK, the Group references its effective tax rate to the UK corporation tax rate, despite only a small proportion of the Group's business being now based in the UK. In recent years the Group has made substantial payments to its UK retirement benefit plans, which had the effect of reducing the Group's UK corporation tax liability. In the current year, the UK tax charge was £11.9m (2011: £1.6m credit).

The Finance Act 2012 enacted reductions in the UK corporation tax rates from 25% to 24% from 1 April 2012 and to 23% from 1 April 2013. An additional change to the main rate of UK corporation tax is proposed, to reduce the rate to 21% by 1 April 2014. This change had not been substantively enacted at the balance sheet date and consequently its effects are not included in these financial statements. Accordingly, the average weighted rate of corporation tax in the UK for the 2012 calendar year was 24.5% (2011: 26.5%). UK deferred tax assets and liabilities have been calculated using a tax rate of 23% (2011: 25%).

NOTES TO THE FINANCIAL STATEMENTS

8. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares held as treasury shares or held in trust to satisfy employee share schemes, was 317.8m, 322.1m diluted for the effect of outstanding share options (2011: 317.0m, 322.5m diluted). Basic and diluted earnings per share have been calculated on earnings of £230.6m (2011: £200.4m).

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

	2012 £m	2011 £m
Profit for the year from continuing operations	233.7	203.7
Non-controlling interests	(3.1)	(3.3)
	230.6	200.4
Charges/(credits) included in profit for the year:		
Financial instruments excluding economic hedge contract gains and losses	1.0	6.2
Net credit on special pension events	(10.9)	-
Restructuring costs	23.3	23.5
Acquired intangible amortisation	29.6	32.3
Other acquisition-related costs	6.3	-
	279.9	262.4
Taxation credit on exceptional items	(11.9)	(4.1)
Earnings for adjusted EPS	268.0	258.3
Weighted average number of shares (million)	317.8	317.0
Fully diluted average number of shares (million)	322.1	322.5
Adjusted EPS	84.3p	81.5p
Diluted adjusted EPS	83.2p	80.1p
Basic EPS	72.6p	63.2p
Diluted basic EPS	71.6p	62.1p

9. Exceptional items

As explained in note 1 f) to these financial statements, items are disclosed separately on the face of the income statement and added back in arriving at adjusted earnings when their quantum, one-off nature or volatility would otherwise distort the Group's underlying trading performance. The financial effect of the items added back to adjusted earnings is disclosed in the earnings per share note above and their general nature is explained in note 1 f). The following items are considered to be exceptional in these financial statements.

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated hedges for accounting purposes, together with the gains and losses on their settlements, are included in the segmental revenues and operating profit of the relevant business segment. The operating exceptional item reverses the effect of this treatment. The financing exceptional items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.

The net credit on special pension events comprises:

- A £9.0m past service credit arising on a pension increase exchange exercise relating to the UK pension scheme.
- A £3.2m past service credit in two of our Swiss schemes, resulting from a change in the plans' rules during the year.
- A £1.3m cost arising in Japan relating to the exit of a state-sponsored scheme during the year.

The restructuring costs arising in the year principally relate to ongoing costs associated with the move to lower cost manufacturing sites in our Severe Service business in addition to the closure of one of our Merchandising sites. An analysis of these costs by segment is included in note 2 as is the analysis by segment of acquired intangible amortisation.

Other acquisition-related costs comprise the following:

- The accrual of £4.0m additional consideration payable to the vendors of InterAtiva, discussed in note 3.
- Acquisition costs of £2.3m relating to Remosa and InterAtiva, which completed during 2012.

10. Non-controlling interests

	Shanghai CCI £m	SLP £m	Total £m
Non-controlling interests at 1 January 2012	2.6	46.8	49.4
Profit for the year attributable to non-controlling interests	0.1	3.0	3.1
Dividends paid to non-controlling interest	(0.1)	-	(0.1)
Income earned by partnership	-	(4.4)	(4.4)
2012 movement in non-controlling interest	-	(1.4)	(1.4)
Non-controlling interests at 31 December 2012	2.6	45.4	48.0

The non-controlling interest denoted Shanghai CCI in the above table represents the 30% ownership interest in the ordinary shares of Shanghai CCI Power Control Equipment Co Limited held by Shanghai Power Station Auxiliary Equipment Works Co Limited.

The non-controlling interest denoted SLP relates to an interest in the IMI Scottish Limited Partnership, presently owned by the IMI Pension Fund ('the Fund'), which provides the Fund with a conditional entitlement to receive income of £4.4m per annum unless the Group has not paid a dividend in the prior year or the Fund is fully funded. Further details regarding this non-controlling interest are disclosed in note 1 d) and note 19.

11. Employee information

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

	2012	2011
Fluid Controls	11,551	11,251
Retail Dispense	2,861	2,970
Corporate	180	182
Total	14,592	14,403

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

	£m	£m
Wages and salaries *	507.0	498.8
Share-based payments (see note 20)	10.1	8.9
Social security costs	85.5	83.1
Pension costs**	14.0	12.8
Total	616.6	603.6

* Wages and salaries include a £4.0m accrual for contingent consideration payments to the vendors of InterAtiva, as described in note 3.

**In 2012, pension costs above include the £3.2m exceptional credit in respect of the changes to the Swiss plans and the £1.3m exceptional charge in respect of the exit of the Japanese state-sponsored arrangement but exclude the £9.0m credit on the UK pension increase exchange exercise, because this latter payment is in respect of former rather than current employees. In 2011, pension costs above exclude £9.6m (including £1.2m National Insurance contributions) for committed payments to be made to deferred members in respect of the enhanced transfer value exercise and the associated settlement gain of £11.7m (both included in note 19) because these amounts are in respect of former employees.

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

NOTES TO THE FINANCIAL STATEMENTS

12. Intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Sub total £m	Other Non-acquired intangibles £m	Total £m
Cost						
As at 1 January 2011	402.8	99.2	63.0	565.0	47.3	612.3
Exchange adjustments	0.1	(1.8)	(0.5)	(2.2)	(0.1)	(2.3)
Acquisitions (restated)	2.2	6.4	1.1	9.7	-	9.7
Additions	-	-	-	-	6.8	6.8
As at 31 December 2011 (restated)	405.1	103.8	63.6	572.5	54.0	626.5
Exchange adjustments	(15.5)	(5.3)	(2.6)	(23.4)	(1.6)	(25.0)
Acquisitions	50.8	38.3	4.2	93.3	-	93.3
Transfer from property, plant and equipment **	-	-	-	-	5.6	5.6
Additions	-	-	-	-	7.8	7.8
Disposals	-	-	-	-	(0.6)	(0.6)
As at 31 December 2012	440.4	136.8	65.2	642.4	65.2	707.6
Amortisation *						
As at 1 January 2011	-	26.8	36.0	62.8	30.2	93.0
Exchange adjustments	-	(0.4)	(0.5)	(0.9)	(0.1)	(1.0)
Amortisation for year	-	10.6	21.7	32.3	4.1	36.4
As at 31 December 2011	-	37.0	57.2	94.2	34.2	128.4
Exchange adjustments	-	(0.9)	(2.3)	(3.2)	(1.0)	(4.2)
Transfer from property, plant and equipment **	-	-	-	-	5.2	5.2
Disposals	-	-	-	-	(0.3)	(0.3)
Amortisation for year	-	23.7	5.9	29.6	4.4	34.0
As at 31 December 2012	-	59.8	60.8	120.6	42.5	163.1
NBV at 31 December 2011 (restated)	405.1	66.8	6.4	478.3	19.8	498.1
NBV at 31 December 2012	440.4	77.0	4.4	521.8	22.7	544.5

* During the period, the Group amended its estimate for the phasing of the future consumption of the economic benefits associated with its customer relationships, by changing the amortisation of these assets to a sum of digits approach from a straight-line approach as discussed in note 1 a) iv).

** This transfer represents software costs of £0.4m net book value historically held in PPE but reclassified to intangible assets in the year.

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

Goodwill is tested annually for impairment as part of the overall assessment of assets against their recoverable amounts. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. Value in use is determined using cash flow projections from financial budgets approved by the Board covering a three-year period. The projected cash flows reflected the latest expectation of demand for products and services.

The key assumptions in these calculations are the long-term growth rates and the discount rates applied to forecast cash flows in addition to the achievement of the forecasts themselves. Long-term growth rates are based on long-term economic forecasts for growth in the manufacturing sector in the geography in which the CGU operates. Pre-tax discount rates specific to each CGU are calculated by adjusting the Group post-tax WACC of 8% for the tax rate relevant to the jurisdiction before adding risk premia for the size of the unit, the characteristics of the segment in which it resides, and the geography from which the cash flows are derived.

In 2012, this exercise resulted in pre-tax discount rates of between 10.6% and 14.5% being applied in arriving at value in use. Long-term growth rates applied were between 2.0% and 4.2%. In the current year, no amounts of goodwill that are significant in the context of the Group's total goodwill balance were tested using the same key assumptions. For the purpose of assessing significance in this context, the Group uses a threshold of 20% of the total goodwill balance.

As at 31 December 2011, a group of CGUs within the Severe Service segment which accounted for £96m (24%) of the Group's goodwill balance was tested using the same key assumptions. The pre-tax discount rate applied to this group was 15.0% and the long-term growth rate applied was 2.25%. There was no reasonably possible change in assumptions that would have eroded the headroom between the recoverable amount and the carrying value of this group of CGUs.

The aggregate amount of goodwill arising from acquisitions prior to 1 January 2004 which had been deducted from the profit and loss reserves and incorporated into the IFRS transitional balance sheet as at 1 January 2004, amounted to £364m. Cumulative impairment recognised in relation to goodwill is £6m (2011: £6m).

As at 31 December 2012, the cumulative acquired intangible amortisation was £142.1m (2011: £112.5m).

NOTES TO THE FINANCIAL STATEMENTS

13. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Assets in the course of construction £m	Total £m
Cost				
As at 1 January 2011	189.6	689.2	19.6	898.4
Exchange adjustments	(1.6)	(9.6)	(0.3)	(11.5)
Acquisitions	1.9	1.0	-	2.9
Additions	7.4	35.0	9.7	52.1
Disposals	(2.0)	(55.2)	-	(57.2)
Transfers	0.9	10.0	(10.9)	-
As at 31 December 2011	196.2	670.4	18.1	884.7
Exchange adjustments	(6.8)	(14.5)	(0.5)	(21.8)
Acquisitions	4.6	7.0	-	11.6
Additions	3.5	21.9	13.7	39.1
Transfer to intangible assets *	-	(5.6)	-	(5.6)
Transfers from AUC	1.0	17.8	(18.8)	-
Disposals	(1.3)	(34.9)	(0.5)	(36.7)
As at 31 December 2012	197.2	662.1	12.0	871.3
Depreciation				
As at 1 January 2011	89.9	567.1	0.1	657.1
Exchange adjustments	(0.9)	(6.7)	-	(7.6)
Disposals	(0.4)	(53.8)	-	(54.2)
Impairment reversal	(1.0)	(1.5)	-	(2.5)
Depreciation	5.0	38.6	-	43.6
As at 31 December 2011	92.6	543.7	0.1	636.4
Exchange adjustments	(2.8)	(11.1)	-	(13.9)
Disposals	(1.1)	(32.1)	(0.1)	(33.3)
Transfer to intangible assets *	-	(5.2)	-	(5.2)
Impairment	-	0.7	-	0.7
Depreciation	4.4	36.9	-	41.3
As at 31 December 2012	93.1	532.9	-	626.0
NBV at 31 December 2011	103.6	126.7	18.0	248.3
NBV at 31 December 2012	104.1	129.2	12.0	245.3

* This transfer represents software costs of £0.4m net book value historically held in PPE but reclassified to intangible assets in the year.

Included in the total net book value of plant and machinery is £2.1m (2011: £1.0m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.6m (2011: £0.6m).

14. Inventories

	2012 £m	2011 £m
Raw materials and consumables	99.3	108.6
Work in progress	118.5	117.4
Finished goods	83.5	97.6
	301.3	323.6

In 2012 the cost of inventories recognised as an expense within cost of sales amounted to £1,253.6m (2011: £1,213.6m). In 2012 the write-down of inventories to net realisable value amounted to £6.1m (2011: £10.0m). The reversal of write-downs amounted to £2.7m (2011: £0.6m). Write-downs and reversals in both years relate to ongoing assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

15. Trade and other receivables

	2012 £m	Restated 2011 £m
Falling due for payment within one year		
Trade receivables	358.5	344.9
Other receivables	28.3	21.0
Prepayments and accrued income	20.5	21.3
	407.3	387.2
Receivables are stated after:		
Allowance for impairment	11.4	18.2

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

16. Interest-bearing loans and borrowings

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

	2012 £m	2011 £m
Current liabilities		
Unsecured loan notes and other loans	2.5	13.0
Current portion of finance lease liabilities	0.6	0.3
	3.1	13.3
Non-current liabilities		
Unsecured loan notes and other loans	235.7	241.8
Finance lease liabilities	1.5	0.6
	237.2	242.4

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other payables

	2012	Restated 2011
	£m	£m
Current		
Trade payables	251.2	298.0
Bills of exchange payable	8.0	5.1
Other taxation *	17.9	15.7
Social security *	9.8	8.7
Other payables	0.3	0.4
Accruals and deferred income * **	142.9	147.8
	430.1	475.7

* The 2011 social security figure has been increased by £2.4m from that reported to reflect £0.7m originally reported as accruals and deferred income in 2011 and £1.7m originally reported as other taxation in 2011. The net effect on total trade and other payables is £nil.

** An accrual of £8.4m relating to an insurance creditor originally held within current payables in 2011 has been re-classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management

Overview

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance Report on page 45 the Executive Committee is the risk committee of the Board. The other Board committees also play a part in contributing to oversight of risk, with the Audit Committee heavily engaged in the financial aspects of risk, internal controls and assurance.

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

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

- Credit risk
- Market risk
- Liquidity risk

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents held by the Group's banks and other financial assets. At the end of 2012 these totalled £489.8m (2011: restated £525.4m).

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. 4% (2011: 4%) of the Group's revenue is attributable to sales transactions with our largest single customer. Geographically there is no unusual concentration of credit risk. The Group's contract approval procedure ensures that large contracts are signed off at executive director level at which time the risk profile of the contract, including potential credit and foreign exchange risks, is reviewed. Credit risk is minimised through due diligence on potential customers, appropriate credit limits, cash flow management and the use of documentary credits where appropriate.

Counterparty risk

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the underlying credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2012 credit exposure including cash deposited did not exceed £14.0m with any single institution (2011: £20.0m).

Market risk

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

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

Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

Transactions

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

Profit translation

The Group is exposed to the translation of profits denominated in foreign currencies into the sterling-based income statement. The interest cost related to the currency liabilities hedging the asset base provides a partial hedge to this exposure. Short-term currency option contracts may be used to provide limited protection against sterling strength on an opportunistic basis. The translation of US dollar and euro-based profits represent the most significant translation exposure for the Group.

Asset translation

The Group hedges its net investments in its major overseas operations by way of external currency loans and forward currency contracts. The intention is to manage the Group's exposure to gains and losses in Group equity resulting from retranslation of currency net assets at balance sheet dates. To the extent that an instrument used to hedge a net investment in a foreign operation is determined to be an effective hedge, the gain or loss arising is recognised directly in reserves. The ineffective portion is recognised immediately in the income statement. Detail of the quantum and management of this exposure is provided in note 18.2.

Southern European risk

The Group has reviewed its risks from a potential break-up of the euro affecting Southern European countries. Local cash deposits are already minimised through the use of existing cash pooling and intercompany loan arrangements. There are regular reviews of exposure to and reliance on local banking partners, receivables management and the terms of significant contracts. In 2012 Southern Europe represented around 4.6% of the Group's revenues and a similar proportion of its costs and assets - with the majority being in Italy and Spain.

Interest rate risk

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

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

The fair value of these interest rate swaps is included in the balance sheet at £2.1m (2011: £3.1m). The hedged item is included in the value of the debt as an increase in liability of £2.1m (2011: increase £3.1m).

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

Commodity risk

The Group's operating companies purchase metal and metal components with an annual base metal material value of approximately £37m (2011: £36m). The Group manages this exposure through a centralised process hedging copper, zinc, aluminium and nickel using a combination of financial contracts and local supply agreements designed to minimise the volatility of short-term margins.

Liquidity risk

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

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US loan note issues. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12 month view by an appropriate amount taking into account market conditions and corporate activity, including acquisitions, organic growth plans and share buybacks. At the end of 2012 the Group had undrawn committed facilities totalling £273m (2011: £250m) and was holding cash and cash equivalents of £103m (2011: £148m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

Capital management

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

18.1 Capital base

	2012 £m	2011 £m
Total equity	684	614
Gross debt	247	256
Cash	(103)	(148)
Capital base	828	722
Employee benefits and deferred tax assets	182	155
Extended capital base	1,010	877
Undrawn funding facilities	273	250
Available capital base	1,283	1,127

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

The balance between debt and equity in the capital base of the Group is considered regularly by the Board in light of market conditions, business forecasts, growth opportunities and the ratio of net debt to EBITDA. Funding covenants currently limit net debt to a maximum of 3 times EBITDA. The net debt to EBITDA ratio at the end of 2012 was x0.4 (2011: x0.3). The Board would consider appropriate acquisitions which might take net debt to EBITDA to an internal limit of up to 2 to 2.5 times EBITDA as long as prevailing market conditions and the outlook for our existing businesses supported such a move. It is expected that at these levels our debt would still be perceived as investment grade. The potential benefits to equity shareholders of greater leverage are offset by higher risk and the cost and availability of funding.

As part of the capital management process, the Group ensures that adequate reserves are available in IMI plc in order to meet proposed shareholder dividends, the purchase of shares for employee share scheme incentives and any on market share buyback programme.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Risk Management (continued)

18.2 Currency profile of assets and liabilities

	Net assets / (liabilities) excluding cash & debt	Cash	Debt	Exchange contracts	Net assets	Net assets
	2012 £m	2012 £m	2012 £m	2012 £m	2012 £m	2011 £m
Sterling	(36)	11	-	522	497	412
US dollar	257	5	(234)	(18)	10	27
Euro	327	9	(11)	(317)	8	10
Other	280	78	(2)	(187)	169	165
Total	828	103	(247)	-	684	614

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

18.3 Interest rate risk profile

	Debt and exchange contracts 2012 £m	Cash and exchange contracts 2012 £m	Floating rate 2012 £m	Fixed rate 2012 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	533	533	-		
US dollar	(252)	5	(37)	(210)	6.8	5.1
Euro	(328)	9	(319)	-		
Other	(189)	78	(111)	-		
Total	(769)	625	66	(210)		

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

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

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

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

18.4 Undrawn committed facilities

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

	2012 £m	2011 £m
Expiring within one year	-	50
Expiring between one and two years	149	-
Expiring after more than two years	124	200
	273	250

The weighted average life of these facilities is 2.2 years (2011: 2.7 years).

18.5 Terms and debt repayment schedule

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

	Effective interest rate %	Carrying value £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	5 years and over £m
2012									
Cash and cash equivalents	Floating	102.8	102.8	102.8					
US loan notes 2012 - 2022	6.93-7.17%	(9.3)	(15.9)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(12.4)
US loan notes 2014	Floating	(20.6)	(21.1)	(0.3)	(20.8)				
US loan notes 2016	7.26%	(46.3)	(58.3)	(3.4)	(3.4)	(3.4)	(48.1)		
US loan notes 2018	5.98%	(92.6)	(121.1)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(93.6)
US loan notes 2019	7.61%	(61.7)	(92.6)	(4.7)	(4.7)	(4.7)	(4.7)	(4.7)	(69.1)
Finance leases	Various	(2.1)	(2.1)	(0.6)	(0.6)	(0.6)	(0.3)		
Bank overdrafts	Floating	(6.3)	(6.3)	(6.3)					
Secured bank loans	Floating	(2.7)	(2.9)	(0.4)	(0.3)	(0.3)	(0.2)	(0.3)	(1.4)
Unsecured bank loans	Floating	(5.0)	(5.1)	(2.3)	(1.2)	(1.3)	(0.1)	(0.1)	(0.1)
Total		(143.8)	(222.6)	78.6	(37.2)	(16.5)	(59.6)	(11.3)	(176.6)
2011									
Cash and cash equivalents	Floating	147.9	147.9	147.9					
US loan notes 2012 - 2022	6.93-7.17%	(22.6)	(31.0)	(14.4)	(0.7)	(0.7)	(0.7)	(0.7)	(13.8)
US loan notes 2014	Floating	(22.4)	(23.6)	(0.4)	(0.4)	(22.8)			
US loan notes 2016	7.26%	(48.4)	(64.4)	(3.5)	(3.5)	(3.5)	(3.5)	(50.4)	
US loan notes 2018	5.98%	(96.8)	(132.4)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(103.4)
US loan notes 2019	7.61%	(64.5)	(101.6)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(77.1)
Finance leases	Various	(0.9)	(0.9)	(0.3)	(0.2)	(0.3)	(0.1)		
Bank overdrafts	Floating	(0.4)	(0.4)	(0.4)					
Unsecured bank loans	Floating	(0.1)	(0.1)	(0.1)					
Total		(108.2)	(206.5)	118.1	(15.5)	(38.0)	(15.0)	(61.8)	(194.3)

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

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.6 Total financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2012 and 31 December 2011. Under IAS39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes and transacts all derivatives with suitable investment grade counterparties. All transactions in derivative financial instruments are undertaken to manage the risks arising from underlying business activities.

	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets £m	Amortised cost £m	Total carrying value £m	Fair value £m
2012						
Cash and cash equivalents	-	-	102.8	-	102.8	102.8
Bank overdrafts	-	-	-	(6.3)	(6.3)	(6.3)
Borrowings due within one year	-	-	-	(3.1)	(3.1)	(3.1)
Borrowings due after one year	(20.6)	-	-	(216.6)	(237.2)	(278.8)
Trade and other payables *	-	-	-	(415.9)	(415.9)	(415.9)
Trade receivables	-	-	-	358.5	358.5	358.5
Investments	-	-	20.4	-	20.4	20.4
Other current financial assets/(liabilities)						
Derivative assets **	3.2	4.9	-	-	8.1	8.1
Derivative liabilities ***	-	(2.7)	-	-	(2.7)	(2.7)
Total	(17.4)	2.2	123.2	(283.4)	(175.4)	(217.0)

	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets £m	Amortised cost £m	Total carrying value £m	Fair value £m
2011						
Cash and cash equivalents	-	-	147.9	-	147.9	147.9
Bank overdrafts	-	-	-	(0.4)	(0.4)	(0.4)
Borrowings due within one year	-	-	-	(13.3)	(13.3)	(13.3)
Borrowings due after one year	(22.4)	-	-	(220.0)	(242.4)	(285.5)
Trade payables and other payables *	-	-	-	(470.6)	(470.6)	(470.6)
Trade receivables	-	-	-	344.9	344.9	344.9
Investments	-	-	20.4	-	20.4	20.4
Other current financial assets/(liabilities)						
Derivative assets **	3.1	9.0	-	-	12.1	12.1
Derivative liabilities ***	(0.2)	(6.9)	-	-	(7.1)	(7.1)
Total	(19.5)	2.1	168.3	(359.4)	(208.5)	(251.6)

* Trade and other payables exclude corporation tax and other tax liabilities and include liabilities of £13.5m (2011: £19.4m) falling due after more than one year: £8.3m in 1-2 years, £2.0m in 2-3 years, £2.0m in 3-4 years, £1.2m in 4-5 years (2011: £14.9m in 1-2 years, £1.8m in 2-3 years, £2.0m in 3-4 years, £1.2m in 4-5 years).

** Includes £1.8m (2011: £4.9m) falling due after more than one year.

*** Derivative liabilities include liabilities of £0.3m (2011: £1.0m) falling due after more than one year: £nil 1-2 years and £0.3m in 2-3 years (2011: £0.8m in 1-2 years and £0.2m in 2-3 years). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The increase in value of net investment hedge derivatives in the year of £1.3m (2011: £1.9m) is shown in the consolidated statement of comprehensive income.

There are no other financial liabilities included within payables other than those disclosed above in table 18.5 and 18.6.

Valuations

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

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

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

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

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

Fair value hierarchy

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

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

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

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

Long-term borrowings which are subject to hedging arrangements of £20.6m (2011: £22.4m) and derivative assets of £8.1m (2011: £12.1m) and liabilities of £2.7m (2011: £7.1m) are valued by Level 2 techniques. Investments are valued by Level 1 techniques.

18.7 Exposure to credit risk

The maximum exposure to credit risk for financial assets is represented by their carrying value. At 31 December 2012 this was £131.3m (2011: £180.5m).

	Carrying amount	
	2012 £m	2011 £m
Cash and cash equivalents	102.8	147.9
Investments	20.4	20.4
Interest rate swaps	2.1	3.1
Forward exchange contracts	5.9	9.1
Metals contracts	0.1	-
	131.3	180.5

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

	Carrying amount	
	2012 £m	2011 £m
UK	20.5	30.9
Germany	27.0	28.0
Rest of Europe	106.1	101.5
USA	78.5	77.0
Asia Pacific	80.8	73.6
Rest of World	45.6	33.9
	358.5	344.9

NOTES TO THE FINANCIAL STATEMENTS

18. Financial risk management (continued)

18.7 Exposure to credit risk (continued)

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

	Carrying amount	
	2012 £m	2011 £m
Severe Service	154.4	132.1
Fluid Power	104.6	107.7
Indoor Climate	36.5	38.5
Beverage Dispense	40.2	41.0
Merchandising	22.5	25.1
Corporate	0.3	0.5
	358.5	344.9

The Group's most significant customer, a food and beverage company, accounts for 3.6% of the carrying amount of trade receivables as at 31 December 2012 (2011: 3.8%).

Impairments

The ageing of trade receivables at the reporting date was:

	2012		2011	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	301.8	(1.3)	304.9	(2.2)
Past due 1-30 days	38.3	(0.9)	29.4	(1.0)
Past due 31-90 days	13.5	(0.2)	12.6	(0.8)
Past due over 90 days	16.3	(9.0)	16.2	(14.2)
Total	369.9	(11.4)	363.1	(18.2)

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

	2012 £m	2011 £m
Net balance at 1 January	18.2	17.4
Acquisitions	1.0	-
Charged to the income statement	2.6	4.5
Utilised during the year	(3.1)	(1.8)
Released	(6.7)	(1.7)
Exchange	(0.6)	(0.2)
Net balance at 31 December	11.4	18.2

The impairment gain recognised of £4.1m (2011: loss £2.8m) relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers across all of its businesses.

18.8 Market risk sensitivity analysis on financial instruments

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

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

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

Financial instruments sensitivity table

The outputs from the sensitivity analysis are estimates of the impact of market risk assuming that the specified changes occur only to the financial instruments and do not reflect the opposite movement from the impact of the specific change on the underlying business that they are designed to hedge.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in sterling £m	10% strengthening in sterling £m	10% increase in base metal costs £m	10% decrease in base metal costs £m
At 31 December 2012						
Impact on income statement:						
(loss)/gain	-	-	(2.2)	2.2	(0.3)	0.3
Impact on equity: (loss)/gain	-	-	(65.7)	65.7	-	-
At 31 December 2011						
Impact on income statement:						
(loss)/gain	-	-	(3.5)	3.5	(0.4)	0.4
Impact on equity: (loss)/gain	-	-	(51.2)	51.2	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits

Pension arrangements, other post-employment and other long-term employee benefit arrangements are accounted for in accordance with the requirements of IAS19. As at 31 December 2012 the Group continues to provide pension benefits through a mixture of defined benefit and defined contribution arrangements. Contributions to defined contribution arrangements are recognised in the consolidated income statement as incurred.

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

The Group also provides a number of other long-term arrangements to our employees, with benefits payable more than 12 months after the related services are rendered. These plans are generally not funded and actuarial gains and losses are recognised in the income statement in the period in which they arise.

The Group's strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible and to minimise the liability of the Group. The Group has 79 (2011: 75) different defined benefit arrangements worldwide. The increase in the number of schemes during the year resulted from the acquisition activity.

The largest defined benefit arrangement is the IMI Pension Fund in the UK ('the Fund'). This constitutes 82% of the total defined benefit liabilities and 89% of the total defined benefit assets. The last formal triennial actuarial valuation of the Fund was carried out as at 31 March 2011. The statement of funding principles agreed with the Trustee resulted in an actuarial deficit of £120m. The Group agreed to pay a special contribution of £36.1m in December 2011 and further contributions of £16.8m each July from 2012 to 2016 inclusive as part of the recovery plan to close the deficit by 2016.

The Fund was closed to future accrual on 31 December 2010. In 2010 the Trustee also purchased approximately £325m of annuities to match certain benefit payments due from the Fund. The purchase price of these annuities was greater than the value, measured using the underlying IAS19 assumptions, of the insured benefits. The Trustee also rearranged the remaining Fund assets with the objective of preserving the expected return on the total Fund assets (including the annuity policies). This was achieved, with a reduction in the funding volatility of the Fund, as measured by the Trustee's value at risk model, of approximately 25%. The purchase of the annuities also reduced the mortality risk by around 20%.

Also during 2010, the difference between the cost of the annuities and the underlying IAS19 liability was financed by a special contribution to the Fund of £48.6m which the Trustee agreed to invest in a special purpose vehicle giving them conditional rights to receive income of £4.4m a year for twenty years, or until the Fund becomes fully funded, provided the Group paid dividends to its shareholders in the previous year. As at 31 December 2012, the valuation of this asset for the purpose of its inclusion in the Group's net liability for defined benefit obligations under IAS19 was £27.1m.

The Group recognises there is a risk inherent within defined benefit arrangements that the assets do not match the liabilities at any given point in time. In advance of the IMI Pension Fund 2011 triennial actuarial valuation, the Group continued to work with the Trustee to mitigate the risk of a volatile funding position. A number of important initiatives were implemented in line with this objective.

During 2011 certain Fund members accepted the Group's enhanced transfer value offer. The 31 December 2011 defined benefit obligation in respect of the Fund reflected the liability to pay transfer values in early 2012. The transfer values payable were less than the value of the liabilities measured using the underlying IAS19 assumptions, which resulted in a curtailment gain. As part of the Group's offer, in addition to paying transfer values from the Fund (which reduced the IAS19 assets and liabilities by £27.4m each), in 2012, the Group made payments of £8.5m to the individuals in addition to paying employers' national insurance thereon of £1.1m. The curtailment gain of £11.7m reported for the year ended 31 December 2011 in this note was therefore partially offset by £9.6m additional pension costs accrued at this date, which resulted in a net gain of £2.1m, reflected in segmental operating profit.

An exercise was also carried out whereby Fund pensioners were given the option, with effect from 1 January 2012, to exchange future increases on their pensions for a higher current pension. This resulted in a reduction in the Fund's IAS19 defined benefit obligation of £9.0m as at 1 January 2012, and is reflected as an exceptional past service credit in the income statement for 2012.

Also included in the exceptional net credit on special pensions events of £10.9m is a credit of £3.2m related to a change in the scheme rules of two of our Swiss plans and a charge of £1.3m relating to the exit from a state-sponsored scheme in Japan.

Reconciliation to the balance sheet as at 31 December

	2012				2011			
	Overseas		Overseas	Total	Overseas		Overseas	Total
	UK	post employ-ment	non-post employ-ment		UK	post employ-ment	non-post employ-ment	
	£m	£m	£m	£m	£m	£m	£m	£m
Funded schemes in surplus:								
Fair value of assets	-	3.6	-	3.6	-	21.6	-	21.6
Present value of defined benefit obligation	-	(3.4)	-	(3.4)	-	(18.2)	-	(18.2)
	-	0.2	-	0.2	-	3.4	-	3.4
Restriction due to asset ceiling	-	(0.2)	-	(0.2)	-	(1.5)	-	(1.5)
Assets for defined benefit funded schemes	-	-	-	-	-	1.9	-	1.9
Funded schemes in deficit:								
Fair value of assets	1,076.2	130.7	-	1,206.9	1,061.5	112.4	-	1,173.9
Present value of defined benefit obligation	(1,184.8)	(169.6)	-	(1,354.4)	(1,159.5)	(142.9)	-	(1,302.4)
Liabilities for defined benefit funded schemes	(108.6)	(38.9)	-	(147.5)	(98.0)	(30.5)	-	(128.5)
Present value of obligation for unfunded schemes	(2.0)	(69.7)	(13.0)	(84.7)	(3.5)	(60.3)	(13.4)	(77.2)
Liabilities for defined benefit schemes	(110.6)	(108.6)	(13.0)	(232.2)	(101.5)	(90.8)	(13.4)	(205.7)
Net liability for defined benefit obligations	(110.6)	(108.6)	(13.0)	(232.2)	(101.5)	(88.9)	(13.4)	(203.8)
Total fair value of assets	1,076.2	134.3	-	1,210.5	1,061.5	134.0	-	1,195.5
Total present value of defined benefit obligation	(1,186.8)	(242.7)	(13.0)	(1,442.5)	(1,163.0)	(221.4)	(13.4)	(1,397.8)
Asset ceiling	-	(0.2)	-	(0.2)	-	(1.5)	-	(1.5)
Net liability for defined benefit obligations	(110.6)	(108.6)	(13.0)	(232.2)	(101.5)	(88.9)	(13.4)	(203.8)

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits (continued)

a) Summary of assumptions

	Weighted averages					
	31 Dec 2012		31 Dec 2011		31 Dec 2010	
	UK	Overseas	UK	Overseas	UK	Overseas
	% pa	% pa	% pa	% pa	% pa	% pa
Inflation rate - RPI	3.0	n/a	3.1	n/a	3.5	n/a
Inflation rate - CPI	2.0	1.9	2.1	1.9	n/a	2.0
Discount rate	4.25	2.8	4.8	3.7	5.5	4.1
Expected rate of salary increases	n/a	2.8	n/a	2.8	n/a	2.8
Rate of pension increases ^{1 2}	3.0	0.5	3.1	0.5	3.5	0.6
Rate of increase for deferred pensions ²	3.0	0.5	3.1	0.5	3.5	0.6
Medical cost trend rate ³	n/a	5.0	n/a	5.0	n/a	5.0
Expected return on equities ⁴	n/a	n/a	7.1	7.5	7.4	7.3
Expected return on bonds ⁴	n/a	n/a	3.8	2.8	4.8	3.1
Expected return on property ⁴	n/a	n/a	6.0	5.0	6.7	5.1
Expected return on other assets ⁴	n/a	n/a	8.4	2.4	8.4	2.4
Overall expected return on assets ⁴	n/a	n/a	6.5	4.3	7.1	4.4

¹ In excess of any Guaranteed Minimum Pension (GMP) for UK.

² The weighted average pension increase assumption for pensions in payment and pensions in deferment includes plans where pension increases are zero or not applicable.

³ Initial rate of 6.5% pa (7.0% pa in 2011, 7.5% pa in 2010) reducing by 0.5% pa each year to 5.0% pa. Assumed healthcare cost trend rates do not have a significant effect on the amounts recognised in the income statement.

⁴ As a consequence of the adoption of IAS19 (revised) for the year ending 31 December 2013, the expected returns on pension assets are no longer required to be disclosed, because the return on assets recognised in the income statement will be measured by reference to the discount rate rather than the specific returns attributable to the assets. Had this standard applied for 2012, we estimate that we would have reported a finance cost of £7.8m rather than the reported finance credit of £11.0m.

The mortality assumptions used for the IMI Pension Fund reflect its experience, together with an allowance for improvements over time. The experience was reviewed as part of the formal triennial actuarial valuation carried out as at 31 March 2011, and the assumptions used as at 31 December 2012 and 2011 reflect the results of this review. The table below shows the implied life expectancy from age 65 for the Fund's current and future pensioners based on the assumptions adopted. The allowance for future improvements in mortality rates from 2011 is in line with the CMI's 2010 Core Projection model, with a long-term rate of improvement of 1.25% pa. The CMI is a research body funded by the actuarial profession to collect and analyse UK mortality rates. The allowance for future improvements in mortality rates assumed at December 2010 was in line with the published "medium cohort" rates, with a minimum annual rate of improvement of 1%.

Implied life expectancy (years) from age 65 for:

	31 Dec 2012		31 Dec 2011		31 Dec 2010	
	Males	Females	Males	Females	Males	Females
Current pensioners	21.0	23.9	20.9	23.8	20.7	22.4
Future pensioners	22.8	25.9	22.7	25.8	22.7	24.3

The sensitivity of the balance sheet liability in respect of the IMI Pension Fund to changes in the key assumptions is shown in (j).

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

	2012				2011			
	UK	Overseas post employment	Overseas non-post employment	Total	UK	Overseas post employment	Overseas non-post employment	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Defined benefit schemes operating costs								
Current service cost	-	4.5	0.6	5.1	-	4.6	0.8	5.4
Past service (credit)/cost	(9.0)	(3.2)	-	(12.2)	-	-	0.1	0.1
Recognition of losses/(gains)	-	-	1.4	1.4	-	-	(0.1)	(0.1)
Settlement/curtailment	-	(0.4)	-	(0.4)	(11.7)	(1.8)	-	(13.5)
Total (income)/expense	(9.0)	0.9	2.0	(6.1)	(11.7)	2.8	0.8	(8.1)
Defined benefit schemes financial costs								
Interest cost	52.8	7.7	0.5	61.0	58.3	8.2	0.7	67.2
Expected return on assets	(66.3)	(5.7)	-	(72.0)	(67.5)	(5.9)	-	(73.4)
Total (income)/expense	(13.5)	2.0	0.5	(11.0)	(9.2)	2.3	0.7	(6.2)
Total defined benefit schemes pension expense/(income)	(22.5)	2.9	2.5	(17.1)	(20.9)	5.1	1.5	(14.3)
Accrued payment to deferred members *	-	-	-	-	9.6	-	-	9.6
Pension expense from defined contribution schemes **	4.0	7.1	-	11.1	3.1	6.1	-	9.2
Total pension (income)/expense	(18.5)	10.0	2.5	(6.0)	(8.2)	11.2	1.5	4.5

* As at 31 December 2011 £9.6m (including £1.1m National Insurance contributions) has been accrued for committed payments to be made to deferred members in respect of the enhanced transfer value exercise. This amount was included in operating profit for 2011. After the related settlement gain of £11.7m included above, this exercise resulted in a £2.1m net gain in the 2011 income statement.

** The overseas defined contribution expense of £7.1m includes a £1.3m charge relating to the exit of a state-sponsored Japanese scheme.

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

	2012				2011			
	UK	Overseas post employment	Overseas non-post employment	Total	UK	Overseas post employment	Overseas non-post employment	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Actuarial losses during the year	(48.4)	(28.1)	-	(76.5)	(64.9)	(19.9)	-	(84.8)
Change in the effect of the asset ceiling	-	1.3	-	1.3	-	(0.4)	-	(0.4)
Exchange gain *	-	2.0	0.5	2.5	-	0.8	-	0.8
Total losses recognised during the year	(48.4)	(24.8)	0.5	(72.7)	(64.9)	(19.5)	-	(84.4)
Cumulative amount of actuarial losses at the beginning of the year	(280.9)	(50.3)	(5.9)	(337.1)	(216.0)	(30.8)	(5.9)	(252.7)
Cumulative amount of actuarial losses at the end of the year	(329.3)	(75.1)	(5.4)	(409.8)	(280.9)	(50.3)	(5.9)	(337.1)

* Neither the 2012 nor the 2011 figure includes any gain or loss on the asset ceiling due to exchange rate movements.

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits (continued)

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

	2012				2011			
	UK	Overseas post employment	Overseas non-post employment	Total	UK	Overseas post employment	Overseas non-post employment	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Present value of DBO at the beginning of the year	1,163.0	221.4	13.4	1,397.8	1,091.9	208.0	14.4	1,314.3
Current service cost	-	4.5	0.6	5.1	-	4.6	0.8	5.4
Interest cost	52.8	7.7	0.5	61.0	58.3	8.2	0.7	67.2
Employee contributions	-	3.0	-	3.0	-	2.9	-	2.9
Past service cost	(9.0)	(3.2)	-	(12.2)	-	-	0.1	0.1
Actuarial (gain)/loss:								
from experience	(7.5)	2.2	1.0	(4.3)	(10.5)	(1.8)	(0.6)	(12.9)
from changes in assumptions	76.5	31.1	0.4	108.0	90.0	18.2	0.5	108.7
Actual benefit payments:								
from plan assets	(89.0)	(7.7)	-	(96.7)	(55.0)	(10.0)	-	(65.0)
direct from the employers	-	(3.8)	(2.4)	(6.2)	-	(3.9)	(2.5)	(6.4)
Settlement/curtailment	-	(0.4)	-	(0.4)	(11.7)	(2.9)	-	(14.6)
Purchase of business *	-	1.3	-	1.3	-	-	-	-
Exchange	-	(6.1)	(0.5)	(6.6)	-	0.1	-	0.1
Transfer to defined contribution scheme	-	(7.3)	-	(7.3)	-	(2.0)	-	(2.0)
Present value of DBO at the end of the year	1,186.8	242.7	13.0	1,442.5	1,163.0	221.4	13.4	1,397.8

* The Defined Benefit Obligation included within 'Purchase of business' relates to the Remosa acquisition.

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

	2012			2011		
	UK	Overseas post employment	Total	UK	Overseas post employment	Total
	£m	£m	£m	£m	£m	£m
Equities	58.6	40.1	98.7	54.6	37.8	92.4
Bonds	440.0	52.7	492.7	397.5	73.1	470.6
Property	36.8	8.1	44.9	38.2	8.6	46.8
Other	540.8	33.4	574.2	571.2	14.5	585.7
Total	1,076.2	134.3	1,210.5	1,061.5	134.0	1,195.5

As at 31 December 2012 'Other' UK assets include:

- the current market value of the total return equity and inflation swaps of a positive £15.7m. The total return equity swap contract provides the IMI Pension Fund with equity returns in excess of LIBOR on a notional investment of £377.5m
- £270.3m in respect of insurance (annuity) policies;
- £27.1m in respect of the IMI Pension Fund's interest in the IMI Scottish Limited Partnership;
- £152.2m in respect of hedge fund investments;
- £64.2m in respect of PFI investments; and
- £11.3m in respect of cash and currency items.

There are no assets that may be counted against the liabilities for overseas non-post employment arrangements.

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

	2012			2011		
	UK	Overseas post employ- ment	Total	UK	Overseas post employ- ment	Total
	£m	£m	£m	£m	£m	£m
Fair value of assets at the beginning of the year	1,061.5	134.0	1,195.5	981.5	134.5	1,116.0
Expected return on assets	66.3	5.7	72.0	67.5	5.9	73.4
Actuarial gain/(loss) on assets	20.6	5.2	25.8	14.6	(3.5)	11.1
Actual company contributions:						
normal	-	5.5	5.5	-	6.3	6.3
additional - as agreed under 2011 valuation funding plans	16.8	-	16.8	16.8	-	16.8
additional - other	-	-	-	36.1	-	36.1
Employee contributions	-	3.0	3.0	-	2.9	2.9
Benefit payments (met from plan assets)	(89.0)	(7.7)	(96.7)	(55.0)	(10.0)	(65.0)
Settlements	-	-	-	-	(1.1)	(1.1)
Exchange	-	(4.1)	(4.1)	-	0.9	0.9
Transfer to defined contribution scheme	-	(7.3)	(7.3)	-	(1.9)	(1.9)
Fair value of assets at the end of the year	1,076.2	134.3	1,210.5	1,061.5	134.0	1,195.5

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

	2012			2011		
	UK	Overseas post employ- ment	Total	UK	Overseas post employ- ment	Total
	£m	£m	£m	£m	£m	£m
Expected return on assets	66.3	5.7	72.0	67.5	5.9	73.4
Actuarial gain/(loss) on assets	20.6	5.2	25.8	14.6	(3.5)	11.1
Actual return on assets	86.9	10.9	97.8	82.1	2.4	84.5

NOTES TO THE FINANCIAL STATEMENTS

19. Employee benefits (continued)

h) Additional information

	UK £m	Overseas £m	Total £m
Expected employer contributions to defined benefit schemes for the year ending 31 December 2013			
Normal	-	5.5	5.5
Additional	16.8	-	16.8
Expected employee contributions to defined benefit schemes for the year ending 31 December 2013	-	3.1	3.1
Expected benefits to be paid by the Company for the year ending 31 December 2013	-	6.2	6.2

The IMI Pension Fund closed to future accrual with effect from 31 December 2010.

i) Historical information

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of the defined benefit obligation	(1,442.5)	(1,397.8)	(1,314.3)	(1,301.2)	(1,093.7)
Fair value of assets	1,210.5	1,195.5	1,116.0	1,044.8	958.2
Deficit	(232.0)	(202.3)	(198.3)	(256.4)	(135.5)
Impact of the asset ceiling	(0.2)	(1.5)	(1.1)	(1.1)	(1.6)
Net liability for defined benefit obligations	(232.2)	(203.8)	(199.4)	(257.5)	(137.1)
Experience gain arising on plan liabilities	(4.3)	(12.9)	(12.7)	(23.1)	(13.0)
Experience (gain)/loss arising on plan assets	(25.8)	(11.1)	19.6	(74.0)	245.6

j) Sensitivities

The balance sheet liability is sensitive to the long-term accounting assumptions chosen, in particular to the discount rate and implied life expectancy. These assumptions affect the value placed on the defined benefit obligation and the value placed on any insured annuity policies, but not the market value of any invested assets.

As the Fund constitutes 82% of the total liabilities and 89% of the total assets for the Group's long-term employee benefit arrangements as at 31 December 2012, it is appropriate to consider the sensitivity to changes in key assumptions adopted in respect of the Fund. The net defined benefit liability for the Fund as at 31 December 2012, based on the assumptions chosen and the market value of assets at that date, is £109m. The table below illustrates how this net defined benefit liability would move, as at 31 December 2012, for small changes in the key assumptions.

Increase in net defined benefit liability as at 31 December 2012 *	£m
Discount rate 0.1% pa lower	16
Inflation-linked pension increases 0.1% pa higher	13
Increase of one year in life expectancy from age 65	31

* in each case all other assumptions are unchanged.

The balance sheet liability is also sensitive to changes in the market value of the assets, in particular non-bond-like assets as there is no direct link between these and the assumptions used to place a value on the defined benefit obligation. To illustrate the potential sensitivity, the impact as at 31 December 2012 had the value of non-bond-like assets held by the Fund been 10% lower than they actually were is shown below.

Increase in net defined benefit liability as at 31 December 2012	£m
10% fall in non-bond-like ** assets	69

** The Fund assets excluding cash, bonds, insurance (annuity) policies and the Fund's interest in the IMI Scottish Partnership.

20. Share-based payments

The Group operates the following share-based payment schemes:

SAYE savings-related share option scheme

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

Share Incentive Plan (SIP)

This scheme is open to the majority of the Group's UK employees, including the executive directors. This scheme covers two separate opportunities for employees to share in IMI's success. Partnership shares – allow employees to sacrifice up to £125 per month from pre-tax pay, which is used to buy IMI shares. Matching shares may be awarded in respect of partnership shares acquired under the plan although the policy to date has been not to award any matching shares. Free shares – allows a grant of shares to employees each year, up to a maximum of 0.6% of salary capped at £3,000. Both the Partnership and Free share schemes are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company.

Global Employee Share Purchase Plan (GESPP)

The IMI Global Savings Related Share Option Scheme was introduced in 2011 for USA and Germany. The German GESPP offers the opportunity to buy shares in IMI at a fixed price at a future date. This scheme mirrors the UK SAYE, with a minimum/maximum savings limit per month and contract duration of three or five years. The USA GESPP also offers the opportunity to buy shares in IMI at a fixed price at a future date. The USA scheme also operates in a similar way to SAYE, with a minimum/maximum savings limit per month. However the contract duration is for a fixed period of two years and different taxation conditions apply for the exercise period.

Performance Share Plan (PSP)

The Performance Share Plan is open to the Company's executive directors and selected senior managers within the Group. For awards granted prior to April 2009, 50% of these PSP awards vest subject to EPS growth while the remaining 50% of awards are subject to relative TSR (total shareholder return). For awards granted in 2009, 100% of the awards granted vest subject to relative TSR performance. For awards granted in 2010 and 2011, 50% of PSP awards vest subject to EPS growth, 25% vest subject to TSR, and 25% vest subject to RoOCE (Return on Operating Capital Employed). For awards granted in 2012 and to be granted in 2013, 50% of PSP awards will vest subject to EPS, 25% subject to TSR, and 25% subject to organic revenue growth on a compound annual growth rate basis.

Share Matching Plan (SMP)

Executive directors and selected senior managers' annual incentive payments are governed by the individual's achievement of a Share Ownership Guideline (SOG). The SOG is a requirement to hold a percentage of salary as IMI shares, and if achieved, any incentive payment earned is made in cash. If not achieved, a proportion of any earned annual incentive payment will be mandatorily deferred for three years and delivered in IMI shares in the SMP. This mandated investment (if Share Ownership Guideline is not achieved) is matched from 75% up to a maximum of 200%. These matching shares can be earned if performance conditions over the three year vesting period are met.

Qualifying employees may voluntarily elect to defer all or part of the remainder of their incentive payment, and invest personal funds, up to a maximum of 100% of their annual incentive opportunity. Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the "gross equivalent" number of shares invested in the plan) if performance conditions over the three year vesting period are met.

Performance measures for 2009 SMP awards (measured over 2009-2011) were exceptional, and included one third TSR, one third profit before tax (measured annually) and one third annual priority targets (measured annually). The annual priority targets were weighted equally, in 2009 between cash conversion and profit drop through and, in 2010 and 2011, between cash conversion and return on sales. The performance measure for SMP under the 2010-2013 schemes is economic value added.

Share Option Plan (SOP)

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

NOTES TO THE FINANCIAL STATEMENTS

20. Share-based payments (continued)

The following share-based plans are no longer operated, but awards are outstanding under them:

Executive Share Option Scheme

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

Long-term Incentive Plan (LTIP)

The LTIP awards were made in 2005 as part of the transition to new long-term incentive arrangements introduced in 2005.

The LTIP allows for cash awards to be made to executive directors and selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments can (or in the case of executive directors, must) normally be invested in market purchases of IMI shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded at the ratio of one additional share for every four invested with no further performance conditions.

Deferred Bonus Plan (DBP)

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

Analysis of options granted

Currently operated share-based payment schemes

	Employee SAYE options			Performance Share Plan ¹		Share Matching Plan ¹		Share Option Plan		
	Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Weighted average option price	Normal exercisable date
2005	464	380p	2008-2010	706	2008	-	-	-	-	-
2006	251	495p	2009-2011	716	2009	-	-	-	-	-
2007	204	517p	2010-2012	734	2010	-	-	-	-	-
2008	342	391p	2011-2013	995	2011	-	-	-	-	-
2009	832	201p	2012-2014	673	2012	1,783	2012	2,532	441p	2012
2010	190	511p	2013-2015	228	2013	1,145	2013	1,565	645p	2013
2011	111	849p	2014-2016	234	2014	821	2014	1,463	959p	2014
2012	175	890p	2015-2017	230	2015	1,220	2015	1,361	982p	2015

Global Employee Share Purchase Plan

	Number of options thousand	Weighted average option price	Normal exercisable date
2011	246	695p	2013-2016
2012	35	872p	2014-2017

Legacy share-based payment schemes

Executive Option Scheme			Long-term Incentive Plan ¹		Deferred Bonus Plan ¹	
Number of options thousand	Weighted average option price	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date
2003	2,258	257p	2006-2013	-	-	-
2004	2,199	358p	2007-2014	-	-	-
2005	484	421p	2008-2015	53	2008	-
2006	-	-	-	44	2009	117
2007	-	-	-	61	2010	184
2008	-	-	-	82	2011	183

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

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

	Options without performance conditions		Options with performance conditions	
	Number of options	Range of option prices	Weighted average option price	Number of options
Outstanding at 1 January 2011	5,347,005	201-645p	464p	4,800,876
Exercisable at 1 January 2011	344,142	201-517p	364p	18,905
Granted	1,819,496	632-972p	917p	1,054,632
Exercised	317,903	201-645p	390p	940,459
Lapsed	612,488	201-972p	573p	171,553
Outstanding at 31 December 2011	6,236,110	201-972p	575p	4,743,496
Exercisable at 31 December 2011	205,849	257-511p	386p	89,979
Granted	1,571,800	868-1,007p	970p	1,450,256
Exercised	2,159,414	201-972p	399p	792,966
Lapsed	518,337	201-981p	722p	389,070
Outstanding at 31 December 2012	5,130,159	201-1,007p	771p	5,011,716
Exercisable at 31 December 2012	182,339	201-890p	404p	2,254,154

NOTES TO THE FINANCIAL STATEMENTS

20. Share-based payments (continued)

Share options previously reported as Employee SAYE options and Executive options have been combined within options without performance conditions. The options previously reported as Long-Term Incentive Plan options, Performance Share Plan options and Deferred Bonus Plan options have been combined within options with performance conditions. In both cases these schemes have substantially similar arrangements. Options with performance conditions were granted with an option price of £nil.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2012 is 6.51 years (2011: 6.99 years).

Included in these balances are share options that have not been recognised in accordance with IFRS2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS2. The number of these share options outstanding was as follows:

1 January 2011: 10,022

31 December 2011 and 1 January 2012: nil

31 December 2012: nil

The weighted average share price at the date of exercise of share options exercised during the period was £9.09 (2011: £9.94).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted, based on a Black-Scholes option pricing model. The assumptions used for grants in 2012 included a dividend yield of 3.7% (2011: 3.5%), expected share price volatility of 38% (2011: 30%), a weighted average expected life of 3.6 years (2011: 3.4 years) and a weighted average interest rate of 0.5% (2011: 2.1%). The expected volatility is wholly based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Applying the assumptions noted above, the weighted average fair value of share options granted in the year at their grant date was £2.90 (2011: £2.55).

The total expenses recognised for the period arising from share-based payments are as follows:

	2012 £m	2011 £m
Equity settled share-based payment expense in employee cost in the income statement	10.1	8.9

The share-based payment expense of £10.1m (2011: £8.9m) comprises a charge of £12.4m (2011: £10.3m) for the year offset by a credit of £2.3m (2011: £1.4m) in respect of lapses. £6.0m (2011: £6.0m) of the total charge and £0.7m (2011: £nil) of the total credit is in respect of directors.

21. Provisions for liabilities and charges

	Restructuring £m	Trade Investigation warranties £m	costs £m	Other £m	Total £m
Current	6.9	13.1	1.6	-	21.6
Non-current	-	19.3	-	13.9	33.2
At 1 January 2012	6.9	32.4	1.6	13.9	54.8
Arising during the year	10.8	(2.3)	1.2	(2.4)	7.3
Acquisitions	-	0.7	-	-	0.7
Utilised during the year	(13.1)	(6.4)	(2.8)	(0.7)	(23.0)
Exchange adjustment	(0.1)	(0.6)	-	-	(0.7)
At 31 December 2012	4.5	23.8	-	10.8	39.1
Current	4.3	15.0	-	-	19.3
Non-current	0.2	8.8	-	10.8	19.8
	4.5	23.8	-	10.8	39.1

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects to reorganise operations and facilities.

Trade warranties are given in the normal course of business and cover a range of periods, typically 1-2 years, with the expected amounts falling due in less than one year separately analysed above. Amounts set aside represent management's best estimate regarding the amount of the settlements and the timing of resolution with customers.

CCI is subject to oversight by an independent compliance monitor pursuant to the terms of a settlement agreement with the US Department of Justice. The provision and spend above related to costs associated with this monitor and the cost of resolving certain investigation related matters. The three year monitoring period ends in June 2013, as such the residual costs associated with this are not expected to be significant.

Other provisions are principally environmental provisions, recognising the Group's obligation to remediate contaminated land at a number of current and former sites. Because of the long-term nature of the liability, the timescales are uncertain and the provision represents management's best estimates of these costs.

22. Share capital

	Number of ordinary shares of 25p each			
	2012 m	2011 m	2012 £m	2011 £m
Authorised	480.0	480.0	120.0	120.0
Issued and fully paid:				
In issue at the start of the year	340.2	339.9	85.0	85.0
Issued to satisfy employee share schemes	0.5	0.3	0.2	-
In issue at the end of the year	340.7	340.2	85.2	85.0
Of which held within retained earnings	21.3	22.9		

Shares issued and purchased during the year are shown in the table below:

	Employee			Total
	Benefit Trust	Treasury	Other	
	m	m	m	m
In issue at 31 December 2011	3.8	19.1	317.3	340.2
New issues	-	-	0.5	0.5
Market purchases	1.0	-	(1.0)	-
Allocations	(2.6)	-	2.6	-
At 31 December 2012	2.2	19.1	319.4	340.7

NOTES TO THE FINANCIAL STATEMENTS

22. Share capital (continued)

During the year 0.5m shares were issued under employee share schemes realising £1.2m.

The Employee Benefit Trust made market purchases of a total of 1.0m (2011: 0.8m) shares with an aggregate market value of £10.0m (2011: £8.0m) and a nominal value of £0.3m (2011: £0.2m) including dealing costs of £nil (2011: £nil). Share options exercised in 2012 were settled using the shares held in the Group's employee benefit trust. In 2012 2.6m (2011: 1.2m) shares were issued for cash of £7.4m (2011: £0.2m). Of the 21.3m (2011: 23.0m) shares held within retained earnings, 2.2m (2011: 3.8m) shares with an aggregate market value of £24.5m (2011: £29.1m) are held in trust to satisfy employee share scheme vesting.

Dividends

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2012 £m	2011 £m
20.7p per qualifying ordinary share (2011: 19.0p)	66.1	60.3
The following dividends were declared and paid by the Group during the year:		
	2012 £m	2011 £m
19.0p per qualifying ordinary share (2011: 17.0p)	60.3	53.9
11.8p per qualifying ordinary share (2011: 11.0p)	37.5	34.9
	97.8	88.8

Share options

The majority of UK employees may participate in the IMI Sharesave Plan (2004) and selected senior executives within the Group participate in the IMI Executive Share Option (1995) Scheme and the IMI Performance Share Plan. At 31 December 2012, options to purchase ordinary shares had been granted to, but not yet exercised, by participants of IMI share option schemes as follows:

	Date of grant	Number of shares	Price	Date of exercise
IMI SAYE Share Option (1994) Scheme	16.04.07	822	517.18p	01.08.12
	14.04.08	73,330	391.41p	01.08.13
	09.04.09	325,344	201.36p	01.08.12 or 01.08.14
	06.04.10	158,548	510.92p	01.08.13 or 01.08.15
	06.04.11	98,441	849.02p	01.08.14 or 01.08.16
	10.04.12	165,674	890.01p	01.08.15 or 01.08.17
Global Employee Share Purchase Plan	19.12.11	173,930	632.00p	01.08.13
	19.12.11	71,602	849.02p	01.08.14 or 01.08.16
	10.04.12	28,311	868.05p	01.08.14
	10.04.12	6,866	890.01p	01.08.15 or 01.08.17
IMI Executive Share Option (1995) Scheme	02.04.03	17,000	256.9p	02.04.06 to 02.04.13
	24.03.04	28,000	358.0p	24.03.07 to 24.03.14
	23.03.05	105,235	420.5p	23.03.08 to 23.03.15
IMI 2005 Long-Term Incentive Plan (also known as IMI Performance Share Plan)	13.05.05	3,050	-	13.05.08 to 13.05.15
	03.04.06	5,609	-	03.04.09 to 03.04.16
	05.04.07	5,253	-	29.03.10 to 05.04.17
	04.04.08	64,866	-	04.04.11 to 04.04.18
	10.03.09	416,536	-	10.03.12 to 10.03.19
	07.05.10	227,700	-	07.05.13 to 07.05.20
	10.03.11	198,000	-	10.03.14 to 10.03.21
	04.05.12	212,950	-	04.05.15 to 04.05.22
IMI Share Option Plan (2009)	03.09.09	229,806	440.93p	03.09.12 to 03.09.19
	22.03.10	1,089,250	645.00p	22.03.13 to 22.03.20
	23.03.11	1,193,000	971.83p	23.03.14 to 23.03.21
	19.12.11	52,500	719.33p	19.12.14 to 19.12.21
	04.05.12	1,243,550	980.67p	04.05.15 to 04.05.22
	27.11.12	68,950	1,007.33p	27.11.15 to 27.11.22

23. Cash flow notes

a) Reconciliation of cash and cash equivalents

	2012 £m	2011 £m
Cash and cash equivalents in current assets	102.8	147.9
Bank overdraft in current liabilities	(6.3)	(0.4)
Cash and cash equivalents	96.5	147.5

b) Reconciliation of net cash to movement in net borrowings

Net (decrease)/increase in cash and cash equivalents	(50.3)	27.9
Net repayment of borrowings	25.1	16.0
Cash (outflow)/inflow	(25.2)	43.9
Debt acquired	(20.8)	(2.5)
Currency translation differences	10.4	(4.2)
Movement in net borrowings in the year	(35.6)	37.2
Net borrowings at the start of the year	(108.2)	(145.4)
Net borrowings at the end of the year	(143.8)	(108.2)

c) Analysis of net debt

	Borrowings and finance leases due			Total net debt
	Cash and cash equivalents £m	within one year £m	after more than one year £m	£m
At 1 January 2012	147.5	(13.3)	(242.4)	(108.2)
Debt acquired	-	-	(20.8)	(20.8)
Cash flow excluding settlement of currency derivatives hedging balance sheet	(58.7)	10.2	14.9	(33.6)
Settlement of currency derivatives hedging balance sheet	8.4	-	-	8.4
Other currency translation differences	(0.7)	-	11.1	10.4
At 31 December 2012	96.5	(3.1)	(237.2)	(143.8)

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2012		2011	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	16.8	6.4	21.0	5.2
In the second to fifth year	45.3	12.4	37.6	12.2
After five years	30.2	2.5	23.4	-
	92.3	21.3	82.0	17.4

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

NOTES TO THE FINANCIAL STATEMENTS

25. Commitments

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date amounted to £5.7m (2011: £7.3m).

26. Contingent liabilities

In May 2012 companies belonging to a British builders' merchant served damages claims against IMI plc and others relating to alleged financial losses incurred in the UK as a result of anticompetitive behaviour undertaken by a number of manufacturers of copper plumbing tubes and copper plumbing fittings. An investigation by the European Commission was commenced in 2001 and found cartel activity for which it imposed fines in 2004 (tubes) and 2006 (fittings). IMI plc disposed of its former copper plumbing tubes and fittings businesses in 2002. There are separate tubes and fittings cases in the English High Court and, whilst both are at a very early stage, IMI is defending both claims robustly and has brought in all other appropriate parties as contributors. It is not possible for IMI to assess properly whether any losses can be established by the claimants and, if so, the potential quantum or timing of such losses and if necessary, the contributions recoverable from other parties, including IMI's former tubes and fittings subsidiaries.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £102m (2011: £95m).

27. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Board is considered to be the key management personnel and their remuneration is as follows:

	2012	Restated 2011
	£m	£m
Short term employee benefits *	5.6	6.3
Termination Benefits	0.7	-
Share-based payments	5.3	6.0
Total	11.6	12.3

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

* Short-term employee benefits in 2011 have been restated to include the non-executive directors' remuneration and employers' social contributions.

There are no other related party transactions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC

We have audited the Parent Company financial statements of IMI plc for the year ended 31 December 2012 which comprise the Company Balance Sheet and the related notes C1 to C11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 70, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of IMI plc for the year ended 31 December 2012.



John Flaherty (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
6 March 2013

COMPANY BALANCE SHEET

At 31 December 2012

	2012	2011
Note	£m	£m
Fixed Assets		
Investments	C6 574.0	574.0
Current assets		
Debtors (including £0.8m due after more than one year (2011: £1.9m))	C7 78.5	27.6
Cash at bank and in hand	1.0	0.9
	79.5	28.5
Creditors:		
amounts falling due within one year		
Other creditors	C8 (41.0)	(50.6)
Net current assets/(liabilities)	38.5	(22.1)
Total assets less current liabilities	612.5	551.9
Creditors:		
amounts falling due after more than one year		
Borrowings	C9 (20.6)	(22.4)
Net assets	591.9	529.5
Capital and reserves		
Called up share capital	C10 85.2	85.0
Share premium account	C10 170.3	169.3
Capital redemption reserve	C10 7.9	7.9
Profit and loss account	C10 328.5	267.3
Equity shareholders' funds	591.9	529.5

Approved by the Board of Directors on 6 March 2013 and signed on its behalf by:

Roberto Quarta
Chairman

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1. Significant accounting policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards except for certain financial instruments as defined by FRS26 '*Financial Instruments: Measurement*' which are stated at fair value.

The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006. Under FRS1 '*Cash Flow Statements*', the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

The Company has taken advantage of the exemptions contained in FRS8 '*Related party disclosures*' and has not disclosed transactions or balances with wholly owned entities which form part of the Group. Related party transactions with the Company's key management personnel are disclosed in the Remuneration Report on pages 48 to 69 and in note 27 of the Group financial statements. The Company has adopted the requirements of FRS29 '*Financial Instruments: Disclosures*' and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS7.

Foreign currencies

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

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

Investments

The Company's cost of investment in subsidiary undertakings is stated at the aggregate of (a) the cash consideration and either (b) the nominal value of the shares issued as consideration when section 612 of the Companies Act 2006 applies or (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Financial instruments

The principal financial instruments utilised by the Company are interest rate swaps. These instruments are used for hedging purposes in line with the Group's risk management policy. Interest differentials are taken to net interest in the profit and loss account.

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

Equity and equity-related compensation benefits

The Company operates a number of equity and equity-related compensation benefits as set out in note 20 to the Group financial statements. The fair value of the employee services received in exchange for the grant of the options is recharged to the principal employing company.

When a parent grants share-based payments to employees of a subsidiary, UITF41 '*Scope of FRS20*' and UITF44 '*Group and Treasury Share Transactions*' states that the parent receives services from the employees indirectly through its subsidiary which should be accounted for as an increase in the investment in the subsidiary by the parent.

Amounts recharged to subsidiaries are recognised as a reduction in the cost of investment in the subsidiary as this recharge is considered to form part of the determination of the net capital contribution from the parent in respect of the share-based payment arrangement. Accordingly, there is no overall increase in the investment in subsidiaries recorded in the Company's financial statements. The recharged amount is recognised as a debtor falling due for payment within one year.

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C1. Significant accounting policies (continued)

Equity and equity-related compensation benefits (continued)

The total amount recharged over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Black-Scholes option-pricing model.

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

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

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

Treasury shares

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

Dividends or shares presented within shareholders' funds

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

C2. Remuneration of directors

The detailed information concerning directors' emoluments, shareholdings and options are shown in the audited section of the Remuneration Report on pages 48 to 69.

C3. Remuneration of auditors

The detailed information concerning auditor's remuneration is shown in note 6 of the Group financial statements.

C4. Staff numbers and costs

The number of people employed by the Company, including Directors, during the year was 27 (2011: 27) all of whom were employed in administrative roles. The costs associated with them were borne by a subsidiary undertaking.

The Company participates in the IMI Pension Fund, which is a defined benefit scheme in which the assets are held independently. The Company is unable to identify its share of the underlying assets and liabilities of the schemes and consequently in accordance with FRS17 paragraph 9(b) the Company is required to account for pension costs as if the scheme were a defined contribution scheme. Note 19 to the Group financial statements provides further details regarding the defined benefit scheme.

C5. Dividends

The aggregate amount of dividends comprises:

	2012 £m	2011 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	60.3	53.9
Interim dividends paid in respect of the current year	37.5	34.9
Aggregate amount of dividends paid in the financial year	97.8	88.8

Dividends paid in the year of £97.8m represent 30.8p per share (2011: 28.0p).

After the balance sheet date the following dividends were proposed by the directors.

The dividends have not been provided for and there are no income tax consequences.

	2012 £m	2011 £m
20.7p per qualifying ordinary share (2011: 19.0p)	66.1	60.3

Dividends proposed after the balance sheet date may differ from the final dividend paid. This is a result of the final number of qualifying shares entitled to dividends differing from those in issue at the balance sheet date.

C6. Fixed assets - investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
At 1 January 2012 cost and net book value	170.1	403.9	574.0
Additions/(repayments) during the year	3.1	(3.1)	-
At 31 December 2012 at cost and net book value	173.2	400.8	574.0

Details of subsidiary undertakings as at 31 December 2012 are shown on pages 138 and 139.

C7. Debtors

	2012 £m	2011 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	76.0	24.1
Prepayments and accrued income	0.4	0.4
Other financial assets	1.3	1.2
	77.7	25.7
Falling due for payment after one year:		
Other financial assets	0.8	1.9
	78.5	27.6

COMPANY NOTES TO THE FINANCIAL STATEMENTS

C8. Other creditors falling due within one year

	2012 £m	2011 £m
Amounts owed to subsidiary undertakings	39.6	49.2
Other payables	0.8	0.9
Accruals and deferred income	0.6	0.5
	41.0	50.6

C9. Borrowings

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

	2012 £m	2011 £m
Due after more than one year:		
Unsecured US loan notes 2014	20.6	22.4

Terms and debt repayment schedule 2012

	2012 £m	2011 £m
Debt can be analysed as falling due:		
In one year or less, or on demand	-	-
Between one and two years	20.6	-
Between two and three years	-	22.4
	20.6	22.4

C10. Share capital and reserves

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2011	85.0	168.1	7.9	273.5	534.5
Retained profit for the year				81.5	81.5
Shares issued in the year	-	1.2			1.2
Dividends paid *				(88.8)	(88.8)
Share-based payments				8.9	8.9
Shares held in trust for employee share schemes *				(7.8)	(7.8)
At 31 December 2011	85.0	169.3	7.9	267.3	529.5
Retained profit for the year				151.5	151.5
Shares issued in the year	0.2	1.0			1.2
Dividends paid *				(97.8)	(97.8)
Share-based payments				10.1	10.1
Shares held in trust for employee share schemes *				(2.6)	(2.6)
At 31 December 2012	85.2	170.3	7.9	328.5	591.9

Share capital

	2012 £m	2011 £m
Authorised		
480.0m (2011: 480.0m) ordinary shares of 25p each	120.0	120.0
Issued and fully paid		
340.7m (2011: 340.2m) ordinary shares of 25p each	85.2	85.0

During the year 0.5m shares were issued under employee share schemes realising £1.2m.

* Details of treasury and employee trust share scheme movements are contained in note 22 to the Group financial statements and details of dividends paid and proposed in the year are shown in note C5.

C11. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £65.8m (2011: £70.0m).

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company, as parent of the IMI Group, has contingent liabilities in respect of contingencies within the Group as described in note 26 to the Group financial statements.

SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings listed are those which in the opinion of the directors principally affect the figures shown in the financial statements. A full list of subsidiary undertakings will be included in the Annual Return of IMI plc to be filed with the Registrar of Companies during 2013. Except where indicated below, the undertakings are subsidiaries incorporated in the United Kingdom and the share capital consists of ordinary shares only. The principal country in which each subsidiary operates is the country of incorporation. IMI plc's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for IMI Group Ltd which is held directly by IMI plc.

The Group has an interest in a partnership, the IMI Scottish Limited Partnership, which is fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be and have not been filed at Companies House.

Fluid Controls

Aero Dynamiek BV <i>Netherlands</i>	IMI Scott Ltd	Pneumatex SARL <i>France</i>
Asterm SAS <i>France</i>	IMI Webber Ltd	Remosa Service & Construction SpA
Buschjost GmbH <i>Germany</i>	Industrie Mecanique Pour Les Fluides	<i>Italy</i>
CCI AG <i>Switzerland</i>	SAS <i>France</i>	Remosa SpA <i>Italy</i>
CCI América do Sol Comércio de	Interativa Indústria, Comércio e	Shanghai CCI Power Control Equipment
Equipamentos Industriais Ltda <i>Brazil</i>	Representações Ltda <i>Brazil</i>	Co Ltd <i>China</i> (70%)
CCI Czech Republic sro <i>Czech Republic</i>	Newman Hattersley Ltd <i>Canada</i>	Stainless Steel Fasteners Ltd
CCI Flow Control (Shanghai) Co. Ltd	Norgren A/S <i>Denmark</i>	STI srl <i>Italy</i>
<i>China</i>	Norgren AG <i>Switzerland</i>	TA Heimeier GmbH <i>Germany</i>
CCI Italy srl <i>Italy</i>	Norgren AS <i>Norway</i>	TA Hydronics AB <i>Sweden</i>
CCI KK <i>Japan</i>	Norgren Automation Solutions LLC <i>USA</i>	TA Hydronics AS <i>Norway</i>
CCI Ltd <i>Korea</i>	Norgren BV <i>Netherlands</i>	TA Hydronics BV <i>Netherlands</i>
CCI Valve Technology AB <i>Sweden</i>	Norgren Co Ltd <i>China</i>	TA Hydronics FZE <i>Dubai, UAE</i>
CCI Valve Technology GmbH <i>Austria</i>	Norgren European Logistics Company Ltd	TA Hydronics GesmbH <i>Austria</i>
Control Components Inc <i>USA</i>	Norgren GesmbH <i>Austria</i>	TA Hydronics Ltd
Control Components India Pty Ltd <i>India</i>	Norgren GmbH <i>Germany</i>	TA Hydronics Oy <i>Finland</i>
Eley Ltd	Norgren GT Development Corporation Inc	TA Hydronics SA <i>France</i>
Flow Design Inc <i>USA</i>	<i>USA</i>	TA Hydronics SA <i>Switzerland</i>
Fluid Automation Systems GmbH	Norgren Inc <i>USA</i>	TA Hydronics Switzerland AG <i>Switzerland</i>
<i>Germany</i>	Norgren Kloehn Inc <i>USA</i>	TA Isitma ve Havalandirma Sanayi
Fluid Automation Systems SA	Norgren Ltd	Ticaret ve Servis Limited Şirketi <i>Turkey</i>
<i>Switzerland</i>	Norgren Ltd <i>Hong Kong</i>	TA Regulator d.o.o <i>Slovenia</i>
Fluid Automation Systems Technologies	Norgren Ltd <i>New Zealand</i>	Th Jansen-Armaturen GmbH <i>Germany</i>
SA <i>Switzerland</i>	Norgren Ltda <i>Brazil</i>	Thompson Valves Ltd
Herion Systemtechnik GmbH <i>Germany</i>	Norgren Manufacturing Co Ltd <i>China</i>	Tour & Andersson A/S <i>Denmark</i>
Hochdruck-Reduziertechnik GmbH	Norgren Manufacturing de Mexico SA	Tour & Andersson Ltda <i>Brazil</i>
<i>Germany</i>	<i>Mexico</i>	Tour & Andersson NV/SA <i>Belgium</i>
IMI Components Inc <i>USA</i>	Norgren NV <i>Belgium</i>	Tour & Andersson SA <i>Spain</i>
IMI Components Ltd	Norgren Pte Ltd <i>Singapore</i>	Truflo Marine Ltd
IMI Indoor Climate Trading (Shanghai)	Norgren Pty Ltd <i>Australia</i>	Truflo Rona SA <i>Belgium</i>
Co Ltd <i>China</i>	Norgren SA de CV <i>Mexico</i>	Truflo Rona srl <i>Italy</i>
IMI International Kft <i>Hungary</i>	Norgren SAS <i>France</i>	Z&J Technologies GmbH <i>Germany</i>
IMI International LLC <i>Russia</i>	Norgren SpA <i>Italy</i>	Zimmermann & Jansen Inc <i>USA</i>
IMI International sro <i>Czech Republic</i>	Norgren Sweden AB <i>Sweden</i>	Zimmermann & Jansen South Africa
IMI International Sp z.o.o. <i>Poland</i>	Orton srl <i>Italy</i>	(Pty) Ltd <i>South Africa</i>
IMI Norgren Herion Pvt Ltd <i>India</i>	Pneumatex & CIE NV <i>Belgium</i>	
IMI Norgren Oy <i>Finland</i>	Pneumatex BV <i>Netherlands</i>	
IMI Norgren SA <i>Spain</i>	Pneumatex GmbH <i>Germany</i>	

Retail Dispense

3Wire Group Inc <i>USA</i>	IMI Cornelius (Pacific) Ltd <i>Hong Kong</i>	IMI Cornelius Italia srl <i>Italy</i>
Artform International Inc <i>USA</i>	IMI Cornelius (Tianjin) Co Ltd <i>China</i>	IMI Cornelius Österreich GesmbH <i>Austria</i>
Artform International Ltd	IMI Cornelius (UK) Ltd	IMI Cornelius (Singapore) Pte Ltd
Cannon Equipment LLC <i>USA</i>	IMI Cornelius Australia Pty Ltd <i>Australia</i>	<i>Singapore</i>
DCI Marketing Inc <i>USA</i>	IMI Cornelius de Mexico SA de CV <i>Mexico</i>	IMI Cornelius Ukraine LLC <i>Ukraine</i>
Display Technologies LLC <i>USA</i>	IMI Cornelius Deutschland GmbH <i>Germany</i>	IMI Manufacturing de Mexico SA de CV
IMI Cornelius España SA <i>Spain</i>	IMI Cornelius Hellas SA <i>Greece</i>	<i>Mexico</i>
IMI Cornelius Europe SA <i>Belgium</i>	IMI Cornelius Inc <i>USA</i>	Trade Fixtures LLC <i>USA</i>

Corporate

IMI Group Ltd	IMI Fluid Controls Holdings Inc <i>USA</i>	IMI Germany Holding Limited & Co KG
IMI Kynoch Ltd	IMI Retail Dispense Holdings Inc <i>USA</i>	<i>Germany</i>
IMI Overseas Investments Ltd*	IMI Consulting (Shanghai) Co Limited	Brookvale International Insurance Ltd
IMI Property Investments Ltd	<i>China</i>	<i>Bermuda</i>
IMI Americas Inc <i>USA</i>		

* This entity has issued debt listed on the official list of the Channel Islands Stock Exchange

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES

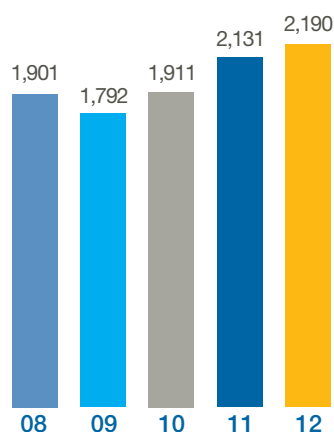
The following table shows the geographic distribution of employees as at 31 December 2012 and is not required to be audited:

United Kingdom	2,190
Continental Europe	6,849
Americas	4,516
Asia Pacific	1,957
Others	72
Total	15,584

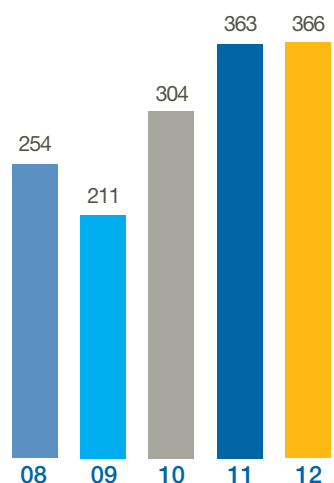
FIVE YEAR SUMMARY

Continuing operations

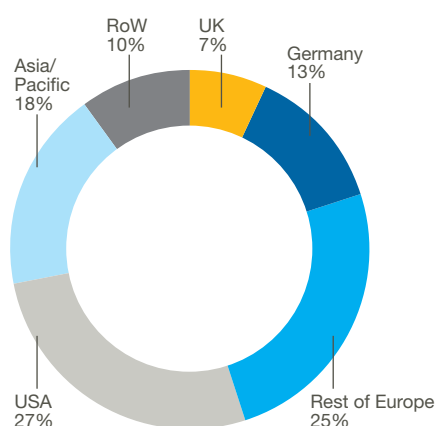
Revenue £m



Adjusted profit before tax* £m



2012 sales by geographic destination



Income statement

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Revenue	1,901	1,792	1,911	2,131	2,190
Segmental revenue*	1,897	1,785	1,917	2,135	2,192
Segmental operating profit*	266.3	234.2	319.7	374.1	373.0
Adjusted profit before tax*	254.7	211.7	304.4	363.4	366.3
Net credit on special pension events	-	-	-	-	10.9
Employee benefit curtailment	-	-	15.1	-	-
- UK scheme	-	-	15.1	-	-
Restructuring costs	(19.6)	(34.9)	(16.0)	(23.5)	(23.3)
Investigation costs and fines	(26.3)	-	-	-	-
Acquired intangible amortisation and impairment	(13.2)	(7.2)	(7.0)	(32.3)	(29.6)
Other acquisition-related costs	-	-	-	-	(6.3)
Financial instruments excluding economic hedge contract gains/losses	(19.6)	16.6	9.6	(6.2)	(1.0)
Profit before tax from continuing operations	176.0	186.2	306.1	301.4	317.0
EBITDA†	269	262	369	392	394

* before exceptional items

† earnings before interest, tax, depreciation, amortisation and impairment and other income.

Group sales by destination

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
UK	183	132	141	136	143
Germany	266	234	261	296	282
Rest of Europe	533	524	542	577	551
USA	517	491	543	580	589
Asia Pacific	249	278	285	319	398
Rest of World	149	126	145	227	229
	1,897	1,785	1,917	2,135	2,192
Reversal of economic hedge contract losses/(gains)	4	7	(6)	(4)	(2)
	1,901	1,792	1,911	2,131	2,190

Earnings and dividends

	2008	2009	2010	2011	2012
Adjusted earnings per share	54.1p	45.8p	66.3p	81.5p	84.3p
Basic earnings per share	35.4p	40.8p	70.4p	63.2p	72.6p
Ordinary dividend per share	20.7p	21.2p	26.0p	30.0p	32.5p

Balance sheet

	2008	2009	2010	2011	2012
	£m	£m	£m	£m	£m
Segmental net assets	973	850	985	997	1,095
Other net non-operating liabilities (excluding borrowings)	(212)	(276)	(264)	(275)	(267)
Net debt	(299)	(172)	(145)	(108)	(144)
Net assets	462	402	576	614	684

Statistics

	2008	2009	2010	2011	2012
Segmental operating profit as a percentage of segmental revenue	14.0%	13.1%	16.7%	17.5%	17.0%
Segmental operating profit as a percentage of segmental net assets	27.4%	27.6%	32.5%	37.5%	35.7%
Effective tax rate on adjusted profit before tax	31.0%	30.0%	30.0%	28.0%	26.0%
Net assets per share (excluding treasury and EBT shares)	144.4p	126.1p	180.5p	193.5p	214.0p
Net debt as a percentage of shareholders' funds	66.0%	43.0%	27.7%	19.2%	22.6%
Net debt: EBITDA	1.1	0.7	0.4	0.3	0.4
EBITDA: Interest	17	14	24	23	22

SHAREHOLDER INFORMATION

Announcement of trading results

The trading results for the Group for the first half of 2013 will be announced on 22 August 2013.

The trading results for the full year ending 31 December 2013 will be announced in March 2014.

Interim management statements will be issued in May and November 2013.

Dividend payment

Dividends on ordinary shares are normally paid as follows:

Interim: mid-October

Final: mid-May

Share prices and capital gains tax

The closing price of the Company's Ordinary Shares on the London Stock Exchange on 31 December 2012 was 1,097.00p (2011: 760.00p).

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

The Company's SEAQ number is 51443.

Enquiries about shareholdings

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

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Telephone 0871 384 2916*, or from overseas, +44 121 415 7047.

Lines are open 8.30am to 5.30pm, Monday to Friday.

* Calls cost 8p per minute plus network extras.

Corporate Individual Savings Accounts (ISAs)

By arrangement with Equiniti Financial Services Limited, an IMI single company ISA is now being operated. A brochure, application form and further information can be obtained by contacting the Equiniti ISA helpline on 0845 300 0430.

Lines are open 8.30am to 5.30pm, Monday to Friday.

Share Dealing Service

Managed by Equiniti, the Company's registrar, the IMI plc Share Dealing Service provides shareholders with a simple way of buying and selling IMI ordinary shares. Telephone 08456 037 037. Full written details can be obtained from the Secretary's Department, IMI plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ (telephone: 0121 717 3700).

American Depositary Receipts

IMI plc have an American Depositary Receipt (ADR) programme that trades on the Over-The-Counter ('OTC') market in the USA, using the symbol IMIAY. ADR enquiries should be directed to Citibank Shareholder Services, PO Box 43077, Providence, RI 02940-3077, USA. Toll-free number in the USA is 1-877-CITI-ADR (877-248-4237) and from outside the USA is 1-781-575-4555. You can also email citibank@shareholders-online.com.

GENERAL INFORMATION

Headquarters and registered office

Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham
B37 7XZ
Telephone: +44 121 717 3700

Website address

www.imiplc.com

Secretary

John O'Shea

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0871 384 2916*
or from overseas +44 121 415 7047
Lines are open 8.30am to 5.30pm, Monday to Friday

Solicitors

Pinsent Masons LLP	Allen & Overy LLP
3 Colmore Circus	One Bishops Square
Birmingham	London
B4 6BH	E1 6AD

Stockbrokers

J.P. Morgan Cazenove	Citi
25 Bank Street	33 Canada Square
London	Canary Wharf
E14 5JP	London
	E14 5LB

Auditor

Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

IMI plc is registered in England

No.714275

*Calls cost 8p per minute plus network extras.

INDEX

Accounting policies	77-89	IMI at-a-glance	2-3
Annual general meeting	39	Income statement	72
Audit Committee	43	Intangible assets	102
Auditor's remuneration	96	Interest income and expense	95-96
Auditor's reports	71, 131	Internal control	46
Balance sheet	74	Key Performance Indicators	10-11
Board of Directors	34-35	Nominations Committee	44
Borrowing facilities	105, 107-115	Outlook	15
Business review	16-19	Pensions	116-122
Cash flow statement	76	People	30-31
Chairman and Chief Executive's review	12-15	Principal risks and uncertainties	32-33
Community	29	Property, plant and equipment	104
Corporate governance	40-47	Registrars	142-143
Deferred tax	98-99	Remuneration Committee	44
Directors		Remuneration Report	48-69
Interests	69	Research and development	36
Remuneration summary	64	Responsible business report	26-31
Report	36-39	Segmental information	90-92
Responsibility statement	70	Share capital	36-37, 127-128
Dividends	36, 128	Shareholder information	142
Donations	38	Strategy	6
Earnings per share	100	Fluid control technologies	7
Employees	101	Niche leadership	8
Environment	11, 26-28	Growth drivers	9
Executive Committee	45	Statement of changes in equity	75
Financial review	20-25	Statement of comprehensive income	73
Five year summary	140-141	Subsidiary undertakings	138-139
General information	143	Substantial shareholdings	37
Geographic distribution of employees	139	Talent development	30-31
Global activities	4-5	Taxation	96-99
Going concern	25	The IMI Way	26-29
Goodwill	102	Treasury policy	24
Health and safety	11, 26-28, 38	Total Shareholder Return	56
		Website	143



Printed on Revive Pure Natural Silk

A recycled paper containing 100% post-consumer waste and manufactured at a mill that is certified with ISO 14001 environmental management standard.

Pulp used to produce this product is not bleached.

Using this paper has reduced our carbon emissions by 6,216 kg of CO₂ and preserved 520m² of land with the World Land Trust.

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

www.imiplc.com