

IMI

IMI plc
Annual Report
and Accounts
2013

INSIDE THIS REPORT

IMI plc, the specialist engineering company, designs, manufactures and services highly engineered products that control the precise movement of fluids. Its innovative technologies, built around valves and actuators, enable vital processes to operate safely, cleanly, efficiently and cost effectively. The Group works with industrial customers across a range of high growth sectors, including energy, transportation and infrastructure, all of which are benefiting from the impact of long-term global trends including climate change, urbanisation, resource scarcity and an ageing population. IMI employs over 12,000 people, has manufacturing facilities in more than 20 countries world-wide and operates a global service network. The Company is listed on the London Stock Exchange and is a member of the FTSE100. Further information is available at www.implc.com

STRATEGIC REPORT

GROUP OVERVIEW

02-17

A welcome from our Chairman, an overview of who we are and what we do, the markets we work in, how we do business in a responsible way and our people.

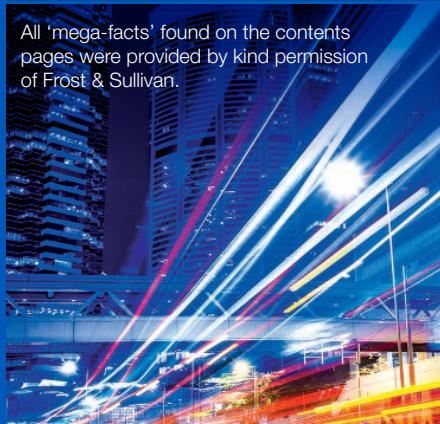
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The Strategic Report on pages 2 to 35 has been approved by the Board of Directors and signed on their behalf by:

Mark Selway
Chief Executive
5 March 2014

MEGA-FACTS

Section dividers



Front cover photo:
Hong Kong, China.

Fact:

"There will be 35 Mega Cities in 2025 with a population over eight million and a GDP of over \$250 billion."

BUSINESS REVIEW

18-27

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ONLINE

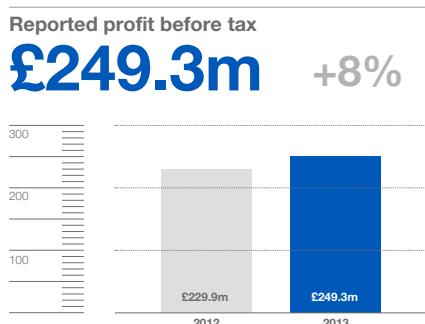
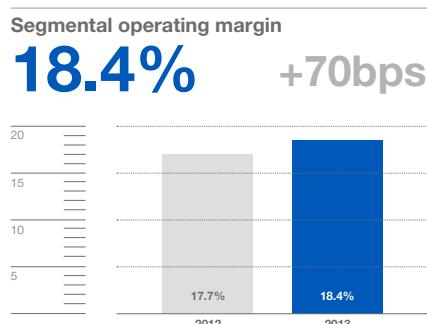
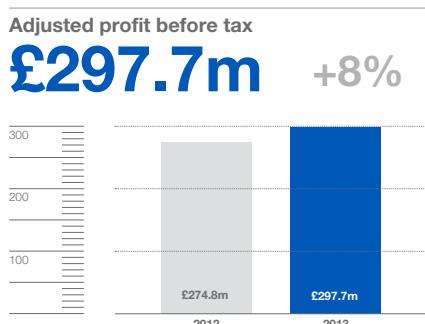
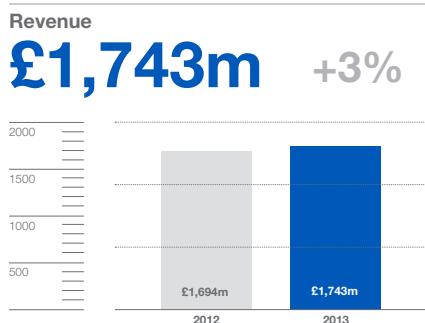
The IMI plc website
www.implc.com

HIGHLIGHTS

“2013 was a year of significant progress on a number of fronts. We continued to deliver positive results for our shareholders and during the course of the year, reshaped our business creating a strong platform for future growth.”

Roberto Quarta, Chairman

All items are shown on a continuing basis (excluding the results of the Beverage Dispense and Merchandising divisions which were sold on 1 January 2014).



Highlights

- The disposal of Beverage Dispense and Merchandising creates specialist flow control business
- Announced the return of £620m of cash to shareholders
- Transitioned the Group's leadership following the retirement of Martin Lamb and the appointment of Mark Selway as new Chief Executive
- Delivered another set of positive results with organic revenue growth of 1% and adjusted EPS up 12%
- Recommended a 9% increase in the full year dividend

GROUP OVERVIEW

In this section we give an overview of our results and take a look at the significant strategic developments that have taken place over the past 12 months. We give a summary of the Group, details of our international reach and an outline of global trends and how they are creating growth opportunities across our businesses. Our core corporate values of integrity, innovation and excellence underpin everything we do and you will learn more about our business approach and our people in this section of the Report.

CHAIRMAN'S STATEMENT

Significant strategic developments

Chairman, Roberto Quarta, takes us through IMI's year of significant progress.

→ Page 04



GROUP OVERVIEW

A summary of IMI's three fluid controls businesses and a map of our locations around the world.

→ Page 08

UNDERSTANDING OUR NICHE MARKETS

We focus on the key niche markets which are helping support IMI's growth.

→ Page 12

OUR PEOPLE

The Group's performance and values depend on our people who are our key asset.

→ Page 16

RESPONDING TO GLOBAL TRENDS

We highlight the opportunities arising from climate change, urbanisation, resource scarcity and an ageing population.

→ Page 10

HOW WE DO BUSINESS

We believe that we have a duty to behave responsibly towards all our stakeholders including our employees, our customers, our suppliers and the communities in which we operate.

→ Page 14

Main photo:
Chicago, USA.

Fact:

"97% of climate scientists agree that climate-warming trends over the past century are very likely due to human activities, and most of the leading scientific organisations world-wide have issued public statements endorsing this position."





Chairman's Statement

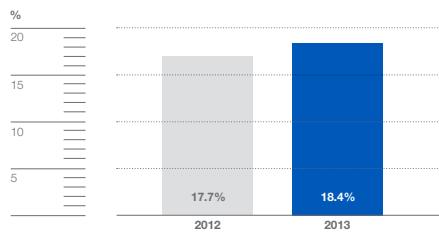
A YEAR OF SIGNIFICANT PROGRESS



“2013 was a year of significant progress on a number of fronts. We continued to deliver positive results for our shareholders and during the course of the year, re-shaped our business, creating a strong platform for future growth.”

Continuing operating margin

+70bps



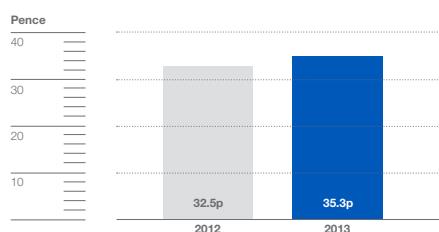
Results overview

2013 was a year of significant progress on a number of fronts. We continued to deliver positive results for our shareholders and, during the course of the year, reshaped our business through the disposal of the Beverage Dispense and Merchandising divisions which completed on 1 January 2014.

On a continuing basis, excluding the Beverage Dispense and Merchandising divisions, reported revenues were £1,743m, up 1% on an organic basis (2012: £1,694m). Segmental operating profits grew 7% to £321.6m (2012: £300.1m), and operating margins improved from 17.7% to 18.4%. Adjusted basic earnings per share increased 12% to 72.6p (2012: 64.7p).

Dividend per share

+9%



The Severe Service division delivered a strong performance with organic revenue growing 8% to £394m in the second half (2012 H2: £360m) and 3% to £716m for the full year (2012: £686m). In the year orders were up 12% with good momentum in the Petrochemical sector and we won a record single order in Oil & Gas. Operating margins improved from 14.0% in 2012 to 16.3% in 2013 with a significant uplift to 17.2% in the second half. While Fluid Power revenues at £723m were down 1% on an organic basis for the full year (2012: £717m), momentum improved in the second half when organic revenues increased 3% to £360m (2012 H2: £344m). Operating margins were slightly down at 19.4% (2012: 19.8%). Indoor Climate saw a return to growth in the second half with organic revenues up 2% to £159m (2012 H2: £151m) and increasing 1% for the full year to £305m (2012: £293m). Operating margins were slightly ahead of last year at 21.1% (2012: 21.0%).

The Beverage Dispense and Merchandising divisions delivered mixed results during the year. Merchandising performed strongly but the Beverage Dispense business saw a decline in revenues. The segmental operating profit from these discontinued businesses increased 11% to £81.0m (2012: £72.9m), and the operating margin increased to 15.9% (2012: 14.7%).

Given the strong overall results, the Board is recommending that the final dividend be increased by 9% to 22.5p (2012: 20.7p). This makes a total dividend for the year of 35.3p, an increase of 9% over last year's 32.5p.



Full results
Turn to page 80

Strategic developments

In March 2013 we announced our objective to focus more of the Group's business in those areas where we would achieve higher returns and faster growth.

As part of this strategy, we began exploring options to divest the majority of our Merchandising business. During this process we received an unsolicited offer from The Marmon Group, a Berkshire Hathaway company, for both our Beverage Dispense business and our Merchandising business for an enterprise value of \$1,100m (£690m).

We successfully concluded this transaction in early January 2014 and, in line with our capital allocation policy and the Board's commitment to maintain an efficient balance sheet, £620m of cash is being returned to shareholders. An additional cash contribution of £70m is being made to the IMI UK Pension Fund (the Fund) to support the on-going strategy to reduce the Fund's volatility risk, and move towards self-sufficiency funding levels over the next few years.

During the year, the Group also bought back £164m of shares, in the share repurchase programme that was announced in March 2013. This programme was introduced to ensure that net debt was maintained at an efficient level. At the end of 2013 the Group's net debt was £199m, with the ratio of net debt to continuing EBITDA at 0.6 times. A further programme of share buy backs is not proposed for the time being.

Following the sale of our Beverage Dispense and Merchandising divisions, IMI is now a specialist flow control business focused entirely on industrial end markets, all of which are set to benefit from favourable long-term growth trends. This is a strong platform for future growth.

“During 2013 we made good progress in terms of our financial and strategic agendas. The Group delivered another strong set of results and, following the completion of the disposal of the Beverage Dispense and Merchandising divisions, IMI is now a specialist flow control company focused entirely on industrial end markets.”

Chairman's Statement (cont'd)

Martin Lamb

Another significant event during the year was the announcement of Martin Lamb's retirement.

Martin has been with IMI for 33 years. He has served on the Board for 17 years and was Chief Executive for 13 years. He joined the business in 1980 at the age of 18 on a work placement as part of his four year engineering degree. In the early stages of his career, Martin worked for the Beverage Dispense division including running the UK business. At the same time as he was appointed President of Beverage Dispense in 1996, he was also appointed to the Board and he became Chief Executive in 2001.

During his time as Chief Executive, Martin did a tremendous job transforming IMI from a lowly rated building materials conglomerate into a specialist engineering business, with an innovative product portfolio, leading positions in a number of attractive end markets and a truly global footprint. Over the period, operating margins more than doubled, earnings more than trebled, and market capitalisation increased by nearly six fold, with IMI entering the FTSE100 for the first time in its history in December 2010.

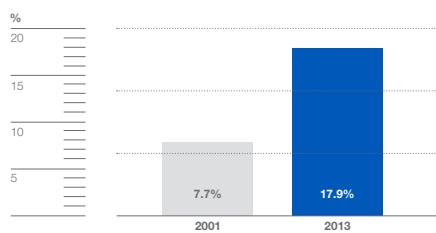
As a result of Martin's strategic vision, his hard work and his relentless dedication, IMI is now widely recognised as one of the UK's leading engineering companies. We have a healthy balance sheet, a strong platform for future growth and excellent prospects for the long-term. We owe Martin a huge debt of gratitude for what he has done for our Company throughout his long career. On behalf of everyone at IMI and all our shareholders I would like to thank him for the enormous contribution he has made to IMI's success.



"I have been enormously privileged to lead IMI. It is an outstanding business at the heart of which are exceptional people and world-class technologies. All of our employees have contributed to what we have achieved over the years and I would like to thank them for their unswerving loyalty, commitment, and energy. And looking to the future I would also like to wish Mark and everyone at IMI the greatest of success."

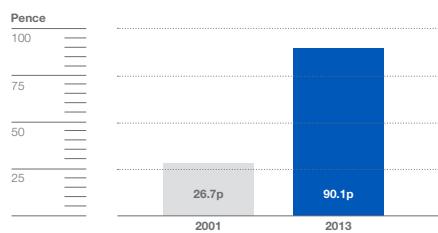
Operating margins more than doubled

+132%



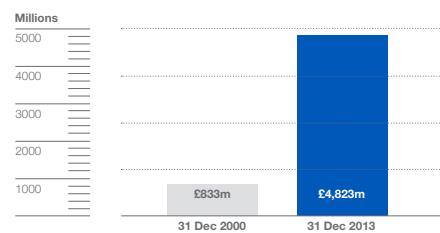
Earnings per share more than trebled

+237%



Market capitalisation increased almost six fold

+479%



Chief Executive succession

Martin's successor is Mark Selway, a very experienced chief executive with a proven track record, who is well placed to build on the platform for growth Martin has been instrumental in creating.

Mark was Chief Executive at Boral Limited, Australia's leading building materials company between 2010 and 2012. Prior to that, between 2001 and 2009, he was Chief Executive of The Weir Group PLC. During his tenure at Weir he led the transformation of the business into an international engineering company with leadership positions in high growth attractive end markets. He has significant UK and international engineering experience, exceptional leadership skills, extensive experience of global markets and a deep knowledge of many of the sectors in which IMI operates. These skills and experience, together naturally, with a fresh perspective, will help drive IMI forward.



"I am delighted to take up this opportunity. Martin and his team have built a great business which has significant opportunities for further growth. I am excited about taking IMI forward and leading it into its next phase of development."

Corporate governance

We have made a number of changes in the format and content to this Annual Report and Accounts compared with previous years. This includes the introduction of a business model on page 23, and new formats for the Corporate Governance section and the Financial Statements which start on page 36 and page 38 respectively. The objective of these changes is threefold: firstly to ensure that we meet all of the latest regulatory standards relating to annual reports; secondly to help the reader easily navigate their way around the document; and thirdly and most importantly, to improve understanding for

shareholders in line with the Company's on-going commitment to transparency and openness. We would be grateful to receive any feedback from shareholders on this new structure so that we can continue to improve the document in future years.

Our people

In the past year the Board and I have visited a number of our operations around the world and have had the opportunity to meet many of our employees. Our people are our key asset. Their first class skills, knowledge and commitment are a critical factor in IMI's success and the entire Board and I are grateful for their hard work.

The Outlook

As IMI moves into the next phase of its development a review of all parts of the Group has been initiated. While this review work is ongoing, positive early findings are already emerging. These findings, together with IMI's inherent strengths, including its robust balance sheet, indicate that the Group is well positioned to exploit a range of growth opportunities over the medium term.

Looking at the year ahead: in 2014, based on current market conditions and excluding the adverse impact of exchange rates, we expect the Group to deliver modest organic revenue growth in the first half with margins slightly lower than in the first half of last year and an improved overall performance in the year.



Performance Review
Turn to page 28

Roberto Quarta

Chairman

GROUP OVERVIEW

IMI plc

IMI now operates through three divisions – Severe Service, Fluid Power and Indoor Climate – all of which are focused on industrial end markets. Prior to their disposal the Group included two other divisions – Beverage Dispense and Merchandising (together ‘Retail Dispense’).

The sale of the Retail Dispense business was negotiated during 2013 and completed on 1 January 2014. Full details of the Retail Dispense businesses performance during 2013 and information about the disposal are provided on pages 104 and 105.

SEVERE SERVICE

Revenue
£716m

% of continuing Group revenue
41%

Operating profit
£116.8m

Number of employees
4,300

The Severe Service division is a world leading provider of highly-engineered flow control solutions for critical applications that are able to withstand temperature and pressure extremes and intensely abrasive and corrosive cyclical operations.

Key brands

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

Main markets

Liquefied natural gas (LNG); petrochemical and refining; fossil power, nuclear power and iron & steel

Major operational locations

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



→ Find out more about Severe Service
Turn to page 30

FLUID POWER

Revenue
£723m

% of continuing Group revenue
42%

Operating profit
£140.5m

Number of employees
6,000

The Fluid Power division specialises in developing motion and fluid control technologies for applications where precision, speed and reliability are essential.

Key brands

Norgren, FAS, Kloehn, Herion, Buschjost, Maxseal

Main markets

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

Major operational locations

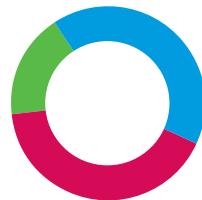
Brazil, China, Czech Republic, Germany, Mexico, Switzerland, UK and USA.



→ Find out more about Fluid Power
Turn to page 32

Continuing revenue by division

Severe Service
Fluid Power
Indoor Climate



INDOOR CLIMATE

Revenue
£305m

% of continuing Group revenue
17%

Operating profit
£64.3m

Number of employees
2,000

The Indoor Climate division designs and manufactures technologies which deliver optimal and energy efficient heating and cooling systems inside buildings.

Key brands

TA Hydronics, Heimeier, Pneumatex, FDI

Main markets

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

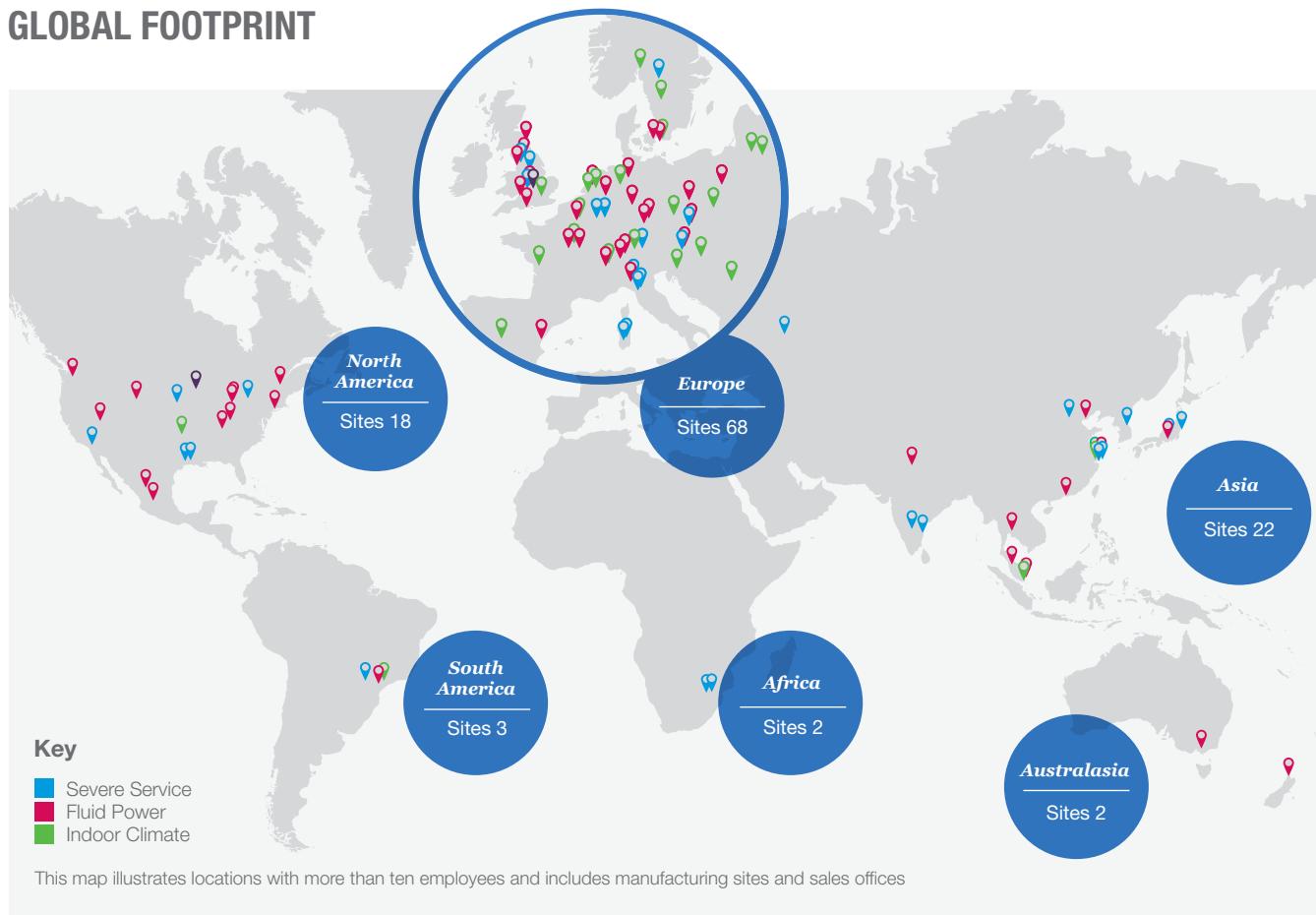
Major operational locations

Germany, Poland, Slovenia, Sweden, Switzerland and USA.

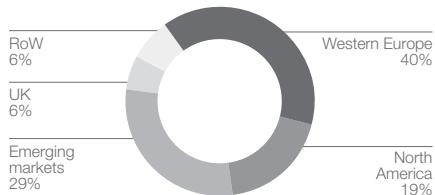


→ Find out more about Indoor Climate
Turn to page 34

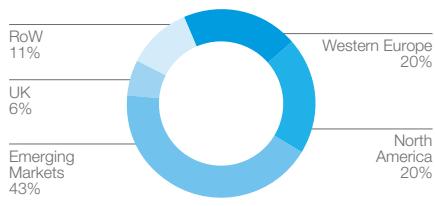
GLOBAL FOOTPRINT



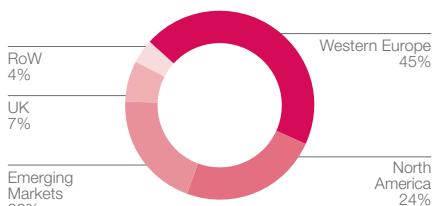
Continuing revenue by geography



SEVERE SERVICE



FLUID POWER



INDOOR CLIMATE



RESPONDING TO GLOBAL TRENDS

The world today is being shaped by a number of long-term global trends including climate change, resource scarcity, urbanisation and an ageing population. These trends are driving heightened demand for increasingly sophisticated engineering solutions which deliver cleaner energy, greater fuel efficiency and more effective resource utilisation.

This on-going demand for innovative products and engineering expertise plays to our core strengths and is creating increased growth opportunities across the Group.

THE GLOBAL TRENDS

CLIMATE CHANGE



By 2030 greenhouse gases are expected to increase by between 25% and 90% from the levels they were at in 1990.

Carbon dioxide in the atmosphere will also continue to increase and the market for low-carbon energy products is likely to be worth at least \$500bn by 2050.

RESOURCE SCARCITY



Demand for energy will continue to increase. A 40% increase is forecast by 2030 and to support that increasing demand, 26 trillion dollars of investment will be required.

In particular, China and India will require significant amounts of extra power over the next decades, adding between them 50 gigawatts of installed capacity each year.

URBANISATION



Between 2009 and 2050 the number of people living in cities will have doubled to 6.4bn.

By 2050 there will be 75 cities with a population of more than one million people.

AGEING POPULATION



Between the years 2000 and 2050, the proportion of people over 60 will double to 22%.

Today two-thirds of health care spending now relates to people over 65 years old.

HOW WE ARE HELPING CUSTOMERS RESPOND TO THE GLOBAL TRENDS

Climate change is driving demand for better environmental control and improved energy efficiency

The concerns around excessive carbon dioxide levels are driving demand for cost effective ways to increase fuel economy and cut CO₂ emissions. Nowhere is this more evident than in the Commercial Vehicle sector, where our Fluid Power division is developing technology which enables heat to be taken from the vehicle exhaust and recycled into energy to power the vehicle. This innovative waste heat recovery process helps reduce engine emissions and improves fuel efficiency.

Resource scarcity is driving demand for better environmental control and improved energy efficiency

Resource scarcity is underpinning a rapid growth in a number of new sources of energy including liquefied natural gas ('LNG'). However, the capital costs associated with building and running an LNG plant are extensive and increasing. The energy industry has responded by developing floating LNG platforms, a modular approach which substantially cuts capital costs and lowers the break-even point for investment. These floating LNG platforms require lighter weight components which still meet every technical requirement and performance criteria. Using its engineering expertise and proprietary technologies, our Severe Service division has designed and manufactured new control valves of the optimum size and weight for incorporation in floating LNG platforms. During 2013, the division won the contract to supply all critical application valve packages for Prelude, the first floating LNG facility in the world.

Urbanisation is driving demand for energy efficiency

As the number of people living in cities continues to increase and the size of the world's cities grow, energy efficiency within buildings, which consume around 40% of the world's energy, is critical. In response to the requirement for greater energy efficiency and lower energy costs, our Indoor Climate division works with building designers to create optimal indoor heating and cooling systems incorporating our sophisticated valve products.

Most recently TA Hydronics delivered an energy efficient and sustainable heating, ventilation and air conditioning (HVAC) solution to the Spine Tower in Turkey – set to become the second tallest building in Istanbul. Not only does the solution ensure all users can work and reside in a comfortable and well managed environment, but it also significantly reduces annual energy consumption by up to 30%.

An ageing population is driving demand for better management of resources

An ageing population is putting increasing demands on global health care provision. This demand is leading to substantial increases in health care costs which is driving an increasing trend towards out-of-hospital treatment and a greater focus by healthcare providers on prevention rather than cure. As a result, our Fluid Power division is seeing an increasing demand for miniature, lower power and yet more robust valves, such as Chipsol, for point-of-care devices such as portable ventilators. The compact 8mm footprint, Chipsol, was developed for critical fluid applications where space and power are at a premium.

UNDERSTANDING OUR NICHE MARKETS

IMI is focused on developing clear leadership positions in a number of well-defined global market niches, which have good exposure to the key global trends which are driving growth. We work closely with industry and sector leading customers, to develop a deep knowledge of their markets and the challenges they face. We use this knowledge to design and manufacture highly engineered fluid control solutions that deliver real value and competitive advantage for our customers.

The key niche markets for our three divisions are as follows:

SEVERE SERVICE

Oil & Gas	Fossil Power	Nuclear Power	Petrochemical
			

Anti-surge valve and actuator systems and highly engineered isolation valves for critical processes in liquefied natural gas (LNG) plants.

For combined cycle, fossil power plants, combined heat and power and renewable industries with a focus on turbine bypass and de-superheating.

Valves and other flow control solutions for both the primary and secondary cycles of the nuclear reactor and fuel enrichment plants with particular focus on safety related applications.

Integrated flow control systems for critical applications in fluid catalytic cracking (FCC), ethylene and polypropylene production processes and delayed coking.

FLUID POWER

Industrial Automation	Commercial Vehicle	Energy	Life Sciences	Rail	Food & Beverage
					

A broad range of actuators, valves and air preparation products designed for increased automation in factories.

Customised flow control solutions for engine management, transmission control, and chassis cab air management applications for the Commercial Vehicle industry.

High integrity solenoid valves, air preparation and instrumentation equipment for the global energy markets, including upstream Oil & Gas, Refining, Petrochemical, Chemical and Power Generation.

Bespoke fluid handling and control solutions for customers in the medical device, analytical, and clinical diagnostic equipment markets.

Pneumatic applications for the rail industry including internal door systems, brake controls, and auxiliary air systems to improve rail car and engine performance and life.

Differentiated and unique valving solutions for manufacturing PET bottling equipment, ink jet printing equipment and commercial coffee machines.

INDOOR CLIMATE

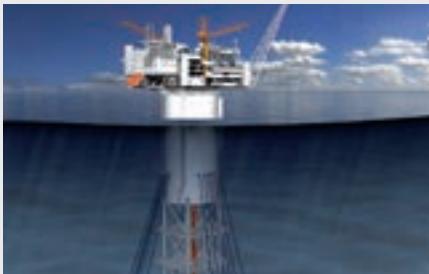
Hydronic Balancing	Hydronic Conditioning	Thermostatic Control
		

Balancing hydronic systems critical to the overall performance and energy efficiency of heating, ventilation and air conditioning (HVAC) solutions in buildings.

Solutions that deliver the correct pressure and water quality in hydronic HVAC systems, and control overall system performance, energy efficiency and life.

Thermostatic radiator valves (TRVs), to ensure the overall system performance, and deliver optimal comfort and temperature at a room level.

CASE STUDIES



The IMI Severe Service business, CCI was recently awarded a contract by Korean building contractor Hyundai Heavy Industries (HHI), to supply nine severe-service control and choke valves for Statoil's Aasta Hansteen field. The production choke valves will be some of the most advanced ever designed and manufactured by CCI, utilising our bespoke solid tungsten-carbide multi-stage trim technology to meet extremely stringent noise requirements of less than 75 dBA. Production of the choke valves will take place in our state-of-the-art manufacturing facility in the Czech Republic.



Air inlet throttle technologies for passenger cars are unable to meet the more severe operating conditions required by heavy duty engine applications. Fluid Power's Norgren business has designed a new air throttle technology which meets a number of key design parameters including speed, resolution, repeatability and durability required for commercial vehicles.



Brazil's famous Maracanã stadium in Rio de Janeiro has undergone a complete renovation in preparation for the hosting of the 2014 World Cup finals. IMI Indoor Climate designed and installed a new cooling system which helped deliver energy savings of 4% and improved operational efficiency.



IMI Severe Service companies have designed and manufactured a range of severe service valves for Prelude, the world's first floating liquefied natural gas (FLNG) platform. At 600,000 tonnes, Prelude is the largest man made floating vessel ever built. Valves supplied to the project include ball and butterfly isolation valves for the cryogenic process, which are required to operate safely at temperatures as low as -162°C, and anti-surge valves for the liquefaction compressors. IMI has designed new bespoke solutions for this FLNG project to minimise size, weight and noise while ensuring our technology continues to provide world-class precision and response to ensure the most efficient and reliable performance.



Fluid Power's Norgren business designed and manufactured a complex fluidic circuit incorporating its industry leading precision valves in a multi-layer, multi-channel manifold for Bio-Rad, a customer operating in the life science research and clinical diagnostics sectors. The manifold for the autosampler system is used in the analysis of DNA. Norgren's solution helped to reduce the size and weight of the overall device while enhancing accuracy, throughput and the overall fluid control performance.



The Tuxer Fernerhaus, a multipurpose building nestled at the heart of the glacier ski resort of Hintertux, Austria, underwent a complete overhaul and extension in 2013. The IMI Indoor Climate team, working together with the designer and installer, provided a complete hydronic concept including the revolutionary new TA-FUSION combined control and balancing valve range. The new system delivered improved operational efficiency, better energy usage and consistent and accurate temperature regulation, all of which were key priorities for the customer.

HOW WE DO BUSINESS: OUR APPROACH

Our ambition is to become the most admired innovative engineering company of our size anywhere in the world. We aspire to be admired for what we do, the products and services we provide to our customers, and for the way we do it – how we approach business. Our core corporate values of integrity, innovation and excellence underpin everything we do.

We believe that we have a duty to behave responsibly towards all our stakeholders including our employees, our customers and suppliers and the communities in which we operate. We also believe that sound ethical principles and high standards of responsibility impact positively on profitability, returns to shareholders, reputation and growth.

RobecoSAM is the Swiss sustainable investment company responsible for production of the Dow Jones Sustainability Index. In January 2014, it published its sustainability yearbook, which focuses on corporate sustainability drivers and lists the world's most sustainable companies. IMI was included in the top 15% of sustainable businesses in the global machinery electrical equipment sector. IMI is also a member of the FTSE4Good Index and a signatory to the UN Global Compact.



← ENVIRONMENT

Becoming more energy efficient and minimising the environmental impact of what we do is an integral part of our day-to-day business operations. Our energy and carbon efficiency programme 'Project 20:20' continued throughout 2013 and has led to further reductions in our CO₂ emissions. Collectively, the initiatives completed in 2013 will bring savings of some 1,500 tonnes of CO₂ and £400k per annum. Our key locations continue to identify further improvement opportunities to enable our reduction targets to be met by the end of 2015. Our Norgren facility in Queretaro, Mexico recently installed a high efficiency aluminium re-melt furnace that is expected to save 120 tonnes of CO₂ per annum in gas consumption. IMI Components in Birmingham, UK has taken advantage of a voltage optimisation system to reduce energy usage. The installation has been a success with a payback period of less than five years and an estimated saving of 150 tonnes of CO₂ by the end of 2014. TA Hydronics, in Olkusz, Poland replaced a welding machine for a more efficient model, which has a payback of one year and estimates annual savings of 120 tonnes of CO₂.

While waste generation varies across all of our businesses depending on activity we made further progress in the year and recycling levels increased to 81% compared with 80% in 2012.

Wykres energetyczny



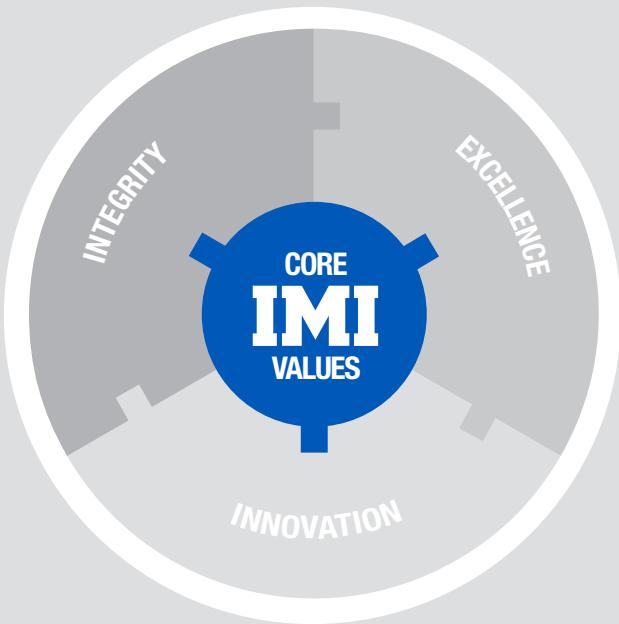
← HEALTH AND SAFETY

The health and safety of our employees is paramount.

In 2013 we made good progress towards achieving our objective of becoming a world-class health & safety operation, under the banner of our 'From Compliance to Competitive Advantage' campaign.

In particular, during the year we further reduced the time lost to accidents by 17% year-on-year and achieved our internal target for the year. To ensure that we continue to improve our performance in this very important area, we have launched a new programme which will run until the end of 2015 at which time our aim is to have reduced time lost to accidents even further.

Throughout the year our businesses continued to develop and run projects to reinforce the importance of health and safety at all times. By way of example, Norgren's Queretaro facility in Mexico ran a safety campaign which was extended to employees' family members to cultivate a '24-hour safety mentality'. Family members were given the opportunity to record videos, which were shared with the workforce, reminding them to be safe, follow proper procedures and wear the necessary personal protection equipment.



← BUSINESS INTEGRITY AND ETHICS

The IMI Way, our code of conduct, sets out the standards we expect everyone in the Group to comply with.

Every employee at their induction is provided with a copy of the IMI Way, which to date has been translated into 21 local languages. In addition, on-going and refresher training in relation to ethical practices and procedures takes place every year on what has become known as the IMI Way Day. On this date every employee across the Group participates in a face-to-face training session which focuses on how to apply the code in everyday situations.

Through our whistleblowing policy we encourage employees to speak up where they see behaviours that are inconsistent with our values. Where employees feel that they are unable to raise issues with their relevant manager or someone in the Human Resources team, they can contact the IMI Hotline – a service provided by a third party. Issues raised are reviewed by an appropriate member of the senior management team and where necessary, an investigation is undertaken and appropriate action taken.



← COMMUNITY

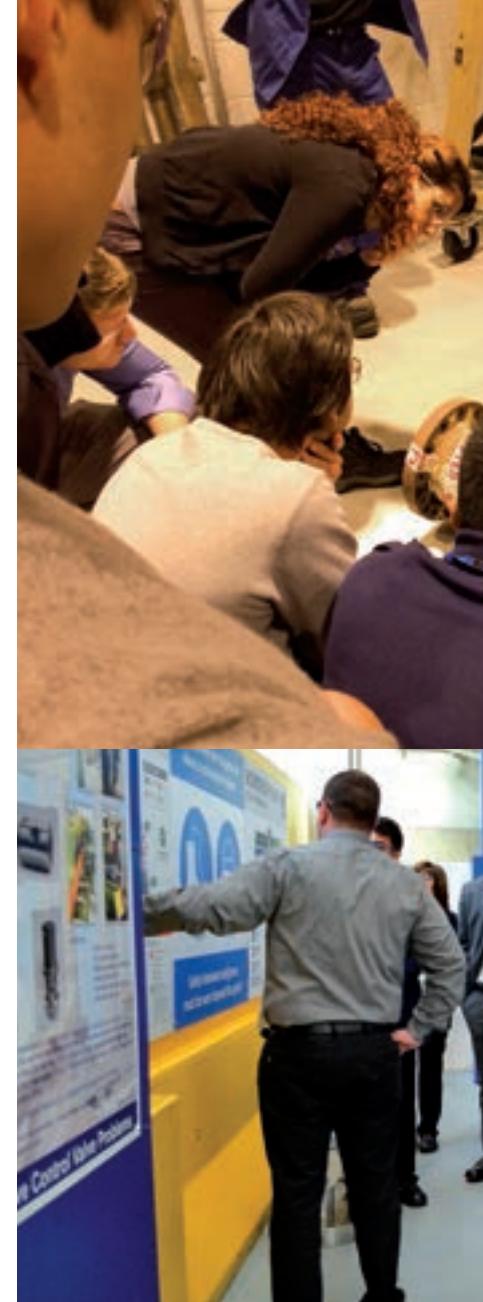
We have a significant local presence in over 20 countries around the world. As well as contributing to these local communities by providing employment, we actively participate in charitable and educational programmes that are run adjacent to our facilities. On the afternoon of the IMI Way Day, following the training that takes place in the morning, employees across the Group spend time supporting local charities and causes. The team at our Norgren facility in Louisville, USA, held a bike building competition for local under-privileged children from the charity 'Big Brothers, Big Sisters' and gifted the bicycles built during the day to the children. In the Czech Republic, the 300 CCI employees at our manufacturing facility in Brno helped renovate a day centre for children and adults with disabilities. The momentum of the IMI Way Day community activities is maintained through the year with employees in each of our businesses devoting time to support their chosen charities including arranging fund-raising activities and running initiatives such as food and toy collections.

HOW WE DO BUSINESS: OUR PEOPLE

Our performance and our ability to harness the Group's full potential rely heavily on having the right people in the right places at the right times. This means recruiting and developing the best people, who have excellent relevant skills and who are clearly aligned to both our values and our ambitions.

To achieve this, and to ensure we have a strong talent pipeline and a world-class well motivated team with good leadership skills, we operate a number of development programmes at all levels of the Group.

Looking ahead, we will continue to improve and expand these programmes to ensure that they continue to support our growth agenda and provide our employees with the most relevant training and learning opportunities. In 2014 we will continue to develop and enhance our core framework of people processes, including elements such as performance management, communication, induction and reward systems.



← RESOURCING

We recruit on an on-going basis for key skill sets in the geographies that reflect our customer and marketplace footprints. Working closely with operational management, we assess our recruitment needs alongside our business plans and then work to identify and recruit excellent candidates.

Our Global Graduate Programme is focused on providing a talent pipeline of future senior leaders for the Group. Through this programme, in 2013 we hired 14 graduate engineers including three Chinese graduates who joined us via the bespoke programme we operate there. Over a two year period, graduates participate in a series of varied assignments and development programmes before taking a permanent role in the business. Previous projects have included a programme to assist with the integration of a newly acquired company in Canada and a project focused on production transfers across geographies. On completion of the programme, the graduates become a member of the IMI Academy, which is one of our talent pipelines, that provides on-going learning, mentoring and training opportunities to support their retention and career path progression.

To boost the quality of the mentoring in the IMI Academy and more generally across the organisation, a new training programme focused on mentoring skills was launched during the course of 2013.





← DEVELOPMENT

In terms of on-going development and, in addition to the IMI Academy, which is focused on our graduate employees, we operate a wide range of training and learning initiatives across the Group at all levels to ensure we have motivated people with world-class skills and a pool of potential leadership talent.

At the most senior level, we run an annual 'IMI Leaders Boot Camp' for our senior business leaders. This took place in May 2013 and is designed to help our managers and directors achieve excellence in both their current and future roles. It also creates a network through which 80 business leaders can develop and share best practice.

Each year we also run our Management Fundamentals Programme, which is focused on our high potential middle managers and aims to prepare them for senior management roles. In total, around 210 managers participated in this programme which runs across Europe, Asia and the Americas. In addition, over 100 employees attended our Emerging Managers Programme, designed for more junior managers, which took place across the Group.



← EMPLOYEE ENGAGEMENT AND COMMUNICATION

In 2013 we commissioned our third Employee Engagement Survey and over two-thirds of our employees participated. While the feedback suggested that there are a number of factors that contribute to making IMI a great place to work, including our approach to health and safety and our clear business strategy, it also indicated that more could be done to strengthen our performance management framework and boost support around career and personal development. These will be key areas of focus this year. Furthermore, later this year we plan to introduce a Group-wide intranet to help with collaboration, knowledge sharing and teamwork and to greatly improve communications across IMI.



← DIVERSITY

We select the very best people to help deliver our ambitions and to reflect the global footprint in which we operate. At the graduate level, 36% of our graduates are female and we will continue to focus our efforts to recruit more diverse international business leaders across the Group.

A more detailed explanation of our diversity policy is given in the Corporate Governance section of this Report on page 50.

Human Rights

This Report does not contain further information about policies of the Company in relation to human rights issues since our approach is enshrined in The IMI Way and our support for the UN Global Compact. Further detail is available on the Company's website.

BUSINESS REVIEW

In this section we review our results and take a look at the significant strategic developments that have taken place over the past 12 months. We give an overview of the Group, details of our global reach and an outline of how we are responding to the global trends of climate change, resource scarcity, urbanisation and an ageing population. Our core values of integrity, innovation and excellence underpin everything we do and you will be able to learn more about these important values here.

CHIEF EXECUTIVE'S REVIEW

Mark Selway reports on his first few months at IMI



→ Page 20

OUR STRATEGY AND BUSINESS MODEL

We explain how our strategy can deliver long-term profitable growth and illustrate our business model that supports this.

→ Page 22

PRINCIPAL RISKS AND UNCERTAINTIES

We have in place a well-established risk management structure and framework which is designed to identify, manage and mitigate the business risks we face.

→ Page 26

MEASUREMENTS & TARGETS

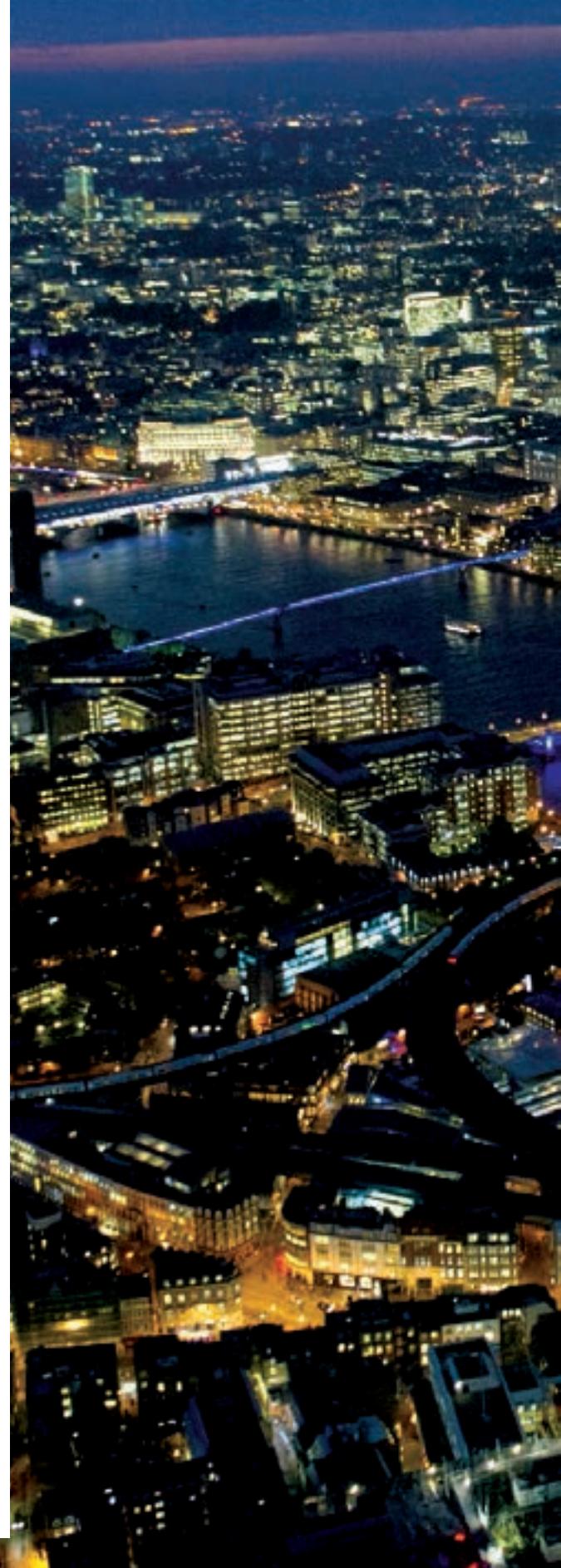
We track our Key Performance Indicators which we judge to be the best measures of our performance.

→ Page 24

Main photo:
London, UK.

Fact:

"Urban population will account for 81% of total population in developed regions and 54% in the less developed regions by 2025."





Chief Executive's Review

A STRONG FOUNDATION FOR THE FUTURE



“Building on the Group’s inherent strengths, the positive early findings emerging from the review indicate the Group is well placed to exploit a range of growth opportunities over the medium term.”

The three month Chief Executive transition plan, formulated by the Board, provided me with an ideal opportunity to visit our operations around the world and, very importantly, meet with many of our employees. Since October I have visited our operations in Europe, the Americas and Asia Pacific including key sites for the Severe Service, Fluid Power and Indoor Climate divisions. These visits, and particularly the discussions I have had with our teams around the world, have confirmed to me that we have a skilled and passionate workforce, who are committed to making IMI a success.

A strong foundation

In January 2014, we completed the disposal of our non-core Beverage Dispense and Merchandising divisions and in doing so became a specialist flow control company concentrated on industrial end markets. This more focused business provides a firm foundation for future growth and for the next phase in the Group's development.

We have many strengths: we have a committed workforce, great engineering expertise and deep end market knowledge. We also have strong long-term relationships with world-class customers across all of our businesses and, by providing these customers with products and technologies that deliver tangible benefits, we have successfully deployed a value-based pricing strategy.

Furthermore, the Group has some excellent financial characteristics: a disciplined approach to financial performance and a balance sheet that is in excellent shape which provides both headroom and flexibility to support a range of organic and acquisitive growth opportunities.

My objective as Chief Executive is to build on this strong foundation to ensure that the Group harnesses and delivers its full potential.

Assessing full potential

As the refocused IMI business enters the next phase of its development, which coincides with my appointment as Chief Executive and the fresh perspective I bring, now is the ideal time to undertake a review of all parts of the Group. The purpose of this review is to ensure we have the plans and strategy in place to enable us to outperform in our chosen markets, deliver sustainable accelerated top and bottom line growth and build long-term shareholder value.

This review, which I initiated shortly after my arrival, is currently underway and is covering every IMI company. It is primarily being undertaken by our employees, in order to secure maximum buy-in and garner their enthusiasm for the future direction of the Group, with input from a small number of expert consultants. It includes a number of key work streams as follows:

- a review of our existing markets, customers, products, peers and competition. The findings of this work will ensure that as the Group moves forward, we fully leverage our geographic, product and process strengths;
- an assessment of the Group's current capabilities with particular emphasis on our manufacturing operations, product development processes, operating systems and controls;
- an assessment of how we can improve collaboration and exploit synergies and economies of scale across the whole of IMI regardless of geographic or divisional boundaries; and
- a process to identify where future investment could be best deployed, both within our existing businesses and through strategically complementary acquisitions focused on delivering growth and attractive returns to shareholders.

Assessing full potential – early findings

While the review is not yet complete, it is appropriate to highlight some of its early findings:

- operational performance:** to date we have undertaken a sample assessment of major manufacturing plants across a spread of geographies in the Group's three divisions. These assessments which include product development processes, operational performance and operating systems, have been benchmarked against both best-in-class world standards and best current IMI practice. Findings based on this sample benchmarking exercise indicate that there are significant opportunities to improve the Group's operational performance which will result in improved efficiencies and better working capital utilisation;
- collaboration:** until this year, throughout its history IMI has operated as a diverse engineering group with significant autonomy provided to each of the underlying businesses. Given this structure there has been limited incentive or requirement for inter-divisional collaboration. Our more focused portfolio now provides an opportunity to improve how our businesses work together. A project to develop greater collaboration amongst our talented group of engineers has already been initiated and has identified considerable opportunities for synergies and economies of scale which promise to enhance the competitiveness of many of our companies;
- product development:** the Group's competitive advantage and leading position at the forefront of flow control technology is reliant on the continued development of the existing product portfolio and an innovative new product pipeline. Investment in new products will be a key priority, as will focusing on those products and technologies which deliver sustainable competitive advantage; and
- customer alignment:** the Group has strong long-term customer relationships with some of the world's leading companies. The competitive dynamics of the industries we serve demand a continued focus on the value and benefits we bring to these customers including responsiveness to market demand and geographical alignment in terms of manufacturing.

Looking forward

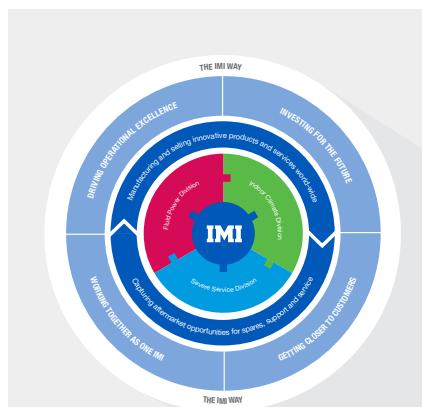
Building on the Group's inherent strengths, the positive early findings emerging from the review indicate that the Group is well placed to exploit a range of growth opportunities over the medium term. The review is planned to be completed around the time of the Group's 2014 interim results at which time we expect to share the key findings and provide an update on the Group's future direction.

I would like to close by thanking all those who have helped and supported me since I joined IMI. I look forward to leading a great team as we work together to ensure that the Company achieves its full potential to the benefit of all IMI's stakeholders.

EXECUTIVE COMMITTEE

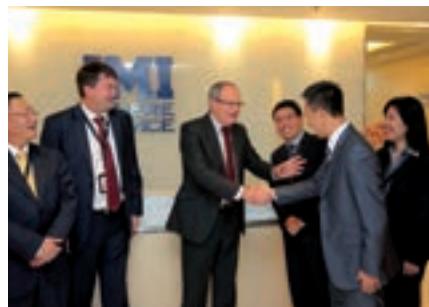
Mark Selway Chief Executive	Douglas Hurt Financial Director	Roy Twite Divisional Managing Director, Severe Service	Brendan Colgan Divisional Managing Director, Fluid Power	Peter Spencer Divisional Managing Director, Indoor Climate	Paul Roberts Group Business Development Director	Geoff Tranfield Group Human Resources Director	John O'Shea Company Secretary

BUSINESS MODEL



Our business model supports our strategy to deliver long-term profitable growth

For more information
Turn to page 23



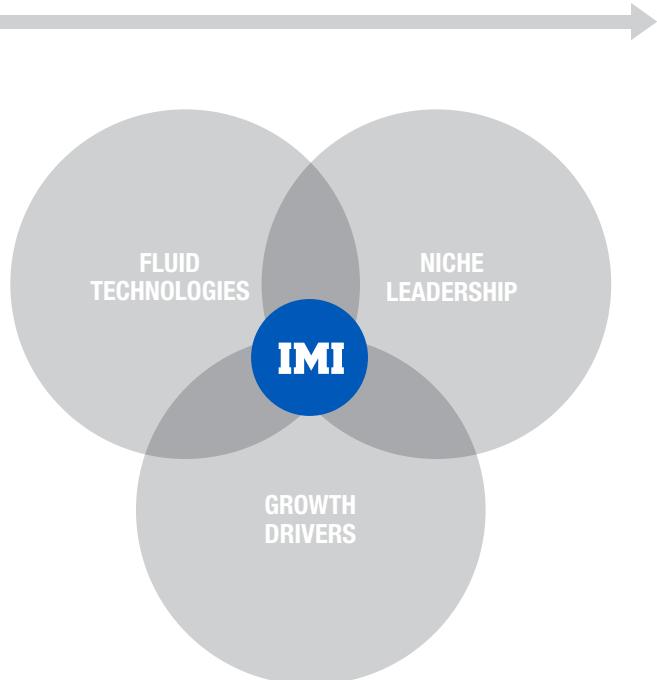
Mark Selway visiting a Severe Service facility in China.

OUR STRATEGY AND BUSINESS MODEL

STRATEGY

We are focused on delivering long-term profitable growth. We plan to achieve this by deploying our market-leading fluid control expertise in attractive industrial markets where we have or can aspire to leadership positions and where there is long-term demand for our solutions driven by sustainable global trends.

We believe that responsible business impacts positively on profitability, returns to shareholders, reputation and growth. Our internal standards demand sound management of our responsible business agenda and aim to integrate this thinking within all aspects of our business.



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

- Valves
- Actuators
- Controllers and positioners

NICHE LEADERSHIP

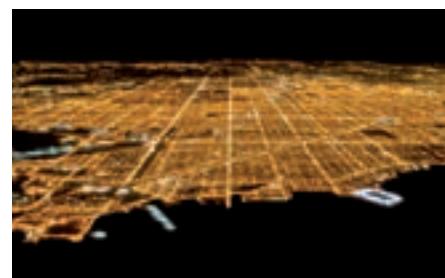
IMI is focused on developing clear leadership positions in a number of well-defined global market niches which have good exposure to the key global trends that are driving growth. We invest considerable time and energy working closely with industry and sector leading customers, develop deep knowledge of the markets they serve and the challenges they face.

- Market leadership in global niches
- Blue chip clients supported by world-class Key Account Management
- Customised solutions delivered through Engineering Advantage
- Extensive aftermarket

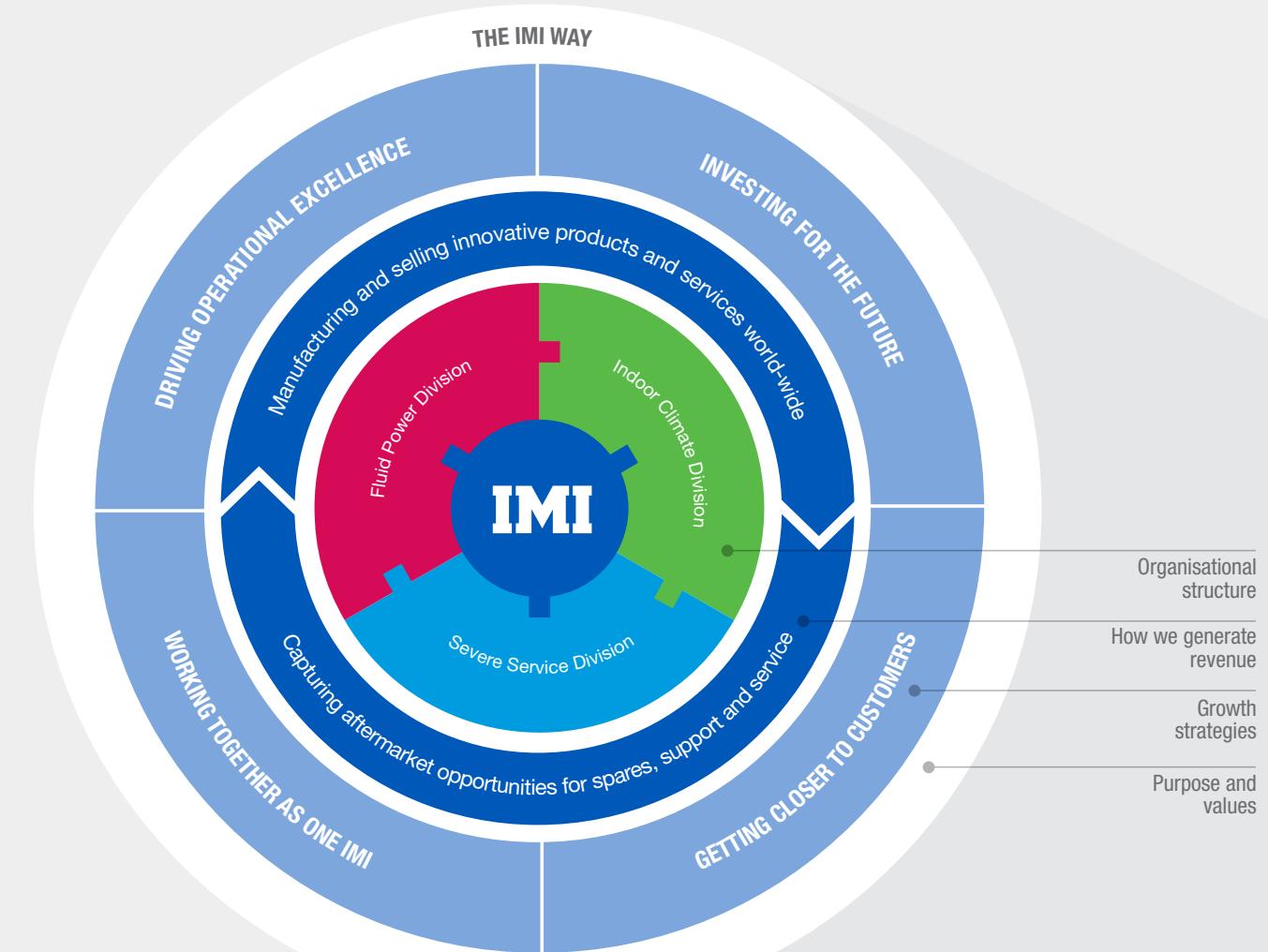
GROWTH DRIVERS

Environmental and demographic trends are shaping our future and driving growth. These trends are increasing demand for sophisticated engineering systems to help respond to the challenges presented by global trends, namely climate change, resource scarcity, urbanisation and an ageing population.

- Climate change
- Resource scarcity
- Urbanisation
- Ageing population



BUSINESS MODEL



1

DRIVING OPERATIONAL EXCELLENCE

Efficient processes help drive down costs, protect profits and deliver competitive best-in-class engineering solutions for customers.

2

INVESTING FOR THE FUTURE

The Group's focused portfolio of flow control businesses together with the excellent shape of the Group's balance sheet provide the headroom to support our ambitions for growth, both by reinvesting in the existing businesses and by acquiring strategically complementary businesses elsewhere.

3

WORKING TOGETHER AS 'ONE IMI'

Realising the Group's existing potential through improved collaboration, the pooling of technical and management expertise and the exploitation of synergies and economies of scale will create substantial opportunity for future growth.

4

GETTING CLOSER TO CUSTOMERS

Through our engineering expertise and dynamic customer-focused organisation we add tangible value to our customers' operations.

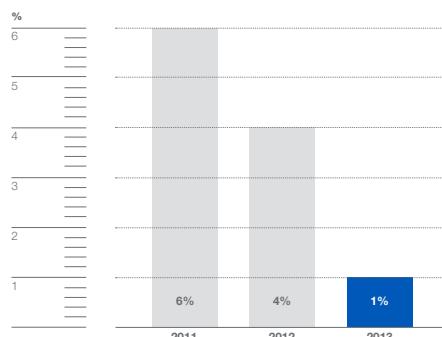
MEASUREMENT AND TARGETS

Business performance is measured through Group-wide targets and improvement measures.

Each IMI business unit participates in an annual round of planning meetings with the Executive Committee, 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.

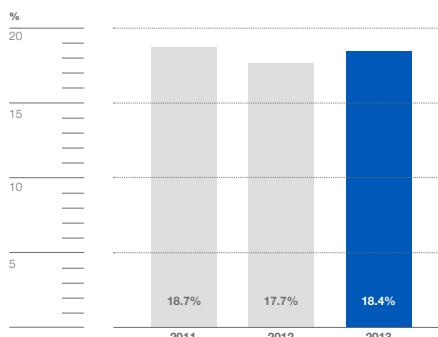
Unless otherwise indicated, the KPIs shown below are presented on a continuing basis, excluding the Beverage Dispense and Merchandising businesses.

Organic revenue growth



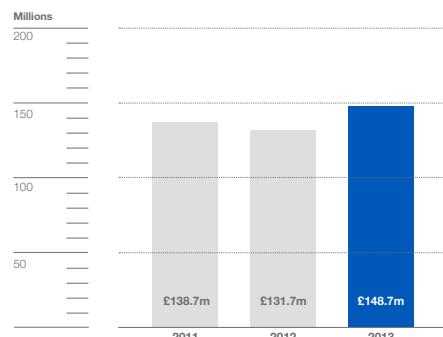
Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2013, the Group's continuing businesses grew by 1% on an organic basis, reflecting more challenging first half conditions in certain markets. In the second half, the Group's continuing businesses achieved an organic growth of 5%. Organic growth for the total Group (including Beverage Dispense and Merchandising) was also 1% in 2013 (2012: 3%).

Segmental operating margins

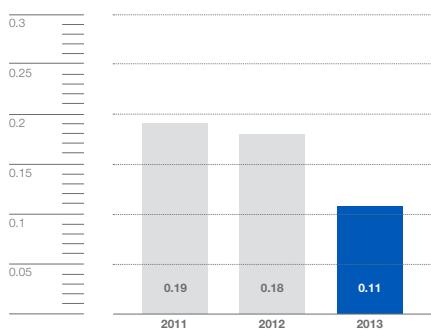
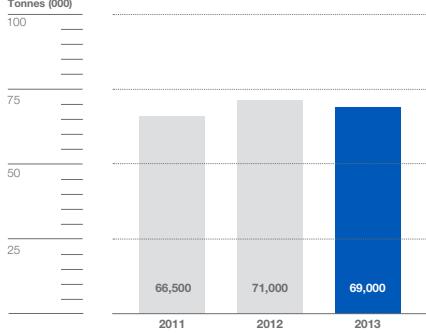
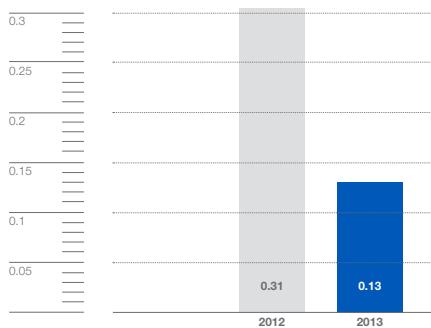
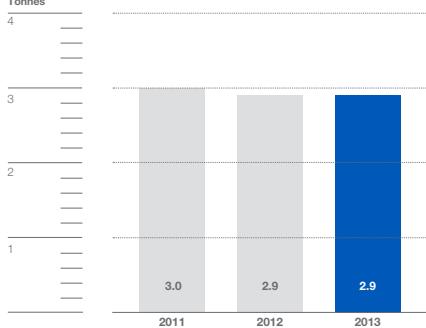


Operating margins are defined as the ratio of segmental operating profit as a percentage of segmental revenues. IMI has a strong track record of improving margins over the last decade. In March 2011, we raised our long-term objective for operating margins to 20% for Severe Service, Fluid Power and Indoor Climate. In 2013, Group operating margins on a continuing basis were 18.4% compared to 17.7% in 2012. Total operating margins (including Beverage Dispense and Merchandising) were 17.9% (2012: 17.0%).

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 calculated 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 2013 EVA for the continuing businesses was £148.7m, which is an increase of 13% over 2012 (£131.7m). For the total Group, 2013 EVA was £185.6m (2012: £161.1m).

Lost time accident rates**3 day LTA rate*****CO₂ emissions****CO₂ tonnes****1 day LTA rate*****CO₂ tonnes / 1000 hours worked**

To mark the successful achievement of our previous target and the inclusion of our new subsidiaries, we launched a new three-year target at the start of 2013 to reduce our lost time accident (LTA) rate by 15% by the end of 2015. We have seen a very strong performance again this year and our 2013 rate for >3day LTAs for the continuing businesses is some 36% down on 2012. As reported last year, we have also started tracking our >1day LTA rate and have seen a very significant reduction in the first year of this metric; a 60% reduction. Although we have already achieved this target, we will retain the current target rates until we are confident that this improvement is being sustained.

* LTAs per 100,000 hours worked.

Our 2013 gross CO₂ emissions have reduced by 2.8% relative to 2012; to 69,000 tonnes (2012: 71,000 tonnes). Of this amount, 47,500 tonnes resulted from the purchase of electricity, heat, steam or cooling by IMI for its own use (2012: 50,500 tonnes). Normalised against hours worked our improvement is 1.7%. This further reduction over 2012 is very encouraging as we are in the first year of our new three-year target period; following great progress from 2009 to 2012. Our Group-wide energy efficiency programme 'Project 20:20' is continuing and our key locations are identifying further improvement opportunities to enable our 7.5% reduction target to be met by the end of 2015. Our CO₂ accounting methodology follows DEFRA guidelines and includes all material emissions across IMI.

PRINCIPAL RISKS AND UNCERTAINTIES

We have in place a well-established risk management process and framework which together are designed to identify, manage and mitigate the business risks we face. We operate an integrated top down and bottom up approach to identifying and assessing business risks and a full summary of our risk management framework and process is given on page 46.

In addition to the risks described here, we are 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 our centralised approach to managing them is described in Section 4.4 of the financial statements.

The Board has identified the top ten risks facing the Group, which are shown in the table below. For each risk, the current risk rating and change in risk during 2013 is shown, the latter by means of an arrow.

If we fail to manage the risks appropriately in such areas as compliance with legislation, health & safety, product integrity and supply chain, this results in both financial and reputational consequences for the Group which would divert resources away from activities required to fulfill our strategic objectives. Similarly our strategy is built around a steady stream of new product introductions and value enhancing acquisitions which, if not delivered successfully, could result in the Group failing to achieve its growth objectives.

RISK	DESCRIPTION OF RISK AND POTENTIAL IMPACT	MITIGATION
FAILURE TO COMPLY WITH LEGISLATION AND A BREACH OF OUR OWN HIGH STANDARDS OF ETHICAL BEHAVIOUR RISK LEVEL: HIGH 	<p>We have set ourselves very high standards in our approach to ethics and corruption in business. We need to ensure, as we expand our operations in emerging markets, that we fully maintain these standards even though the local legal and regulatory requirements and business standards may be very different. We face legislation around anti-bribery, fair competition, fraud and tax law and need to ensure compliance. The consequences of non-compliance include serious financial and reputational damage.</p>	<ul style="list-style-type: none"> Commitment to good governance practices which are embodied in The IMI Way, our code of conduct, providing a guiding set of values that exemplify how IMI employees should behave. The annual 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. Group platform and specific territory resources dedicated to legal, tax, and regulatory compliance. Training of employees focusing on how to apply The IMI Way in everyday situations and key risk areas such as competition law, fraud and anti-bribery and corruption. Availability and promotion of the whistle blowing policy and the IMI hotline to report concerns anonymously. Internal control audits by Group Assurance.
WE FAIL TO DELIVER SOME MAJOR TRANSFORMATIONAL PROJECTS SUCCESSFULLY RISK LEVEL: HIGH 	<p>We will need to undertake a number of major change projects in line with our strategic objectives including: business reorganisations and implementation of IT systems. If we fail to deliver the desired objectives it could have an adverse financial impact on the Group.</p>	<ul style="list-style-type: none"> Upgrade of resources and talent in project management. Regular review of project progression by the Executive Committee. Enhanced risk assessment process including full mitigation action plans for all major change projects. Group Assurance reviews.
FAILURE OF OUR HEALTH, SAFETY AND ENVIRONMENTAL (HSE) CONTROLS RESULTING IN HARM TO EMPLOYEES OR OTHER STAKEHOLDERS RISK LEVEL: MEDIUM 	<p>We recognise that we have a duty of care to our employees. We have made great progress in recent years but understand the impact on our employees from the failure of this obligation. This could result in injury or death to our employees or others and environmental damage with the consequential impact of reputational damage and risk of regulator action.</p>	<ul style="list-style-type: none"> Established global process in place 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 Committee. Sharing of best HSE practice through regional HSE forums. Platform level HSE resource to proactively manage and audit platform HSE performance. Group Environment, Health and Safety function with experienced specialist employees to provide support and guidance to businesses - including the conduct of regular risk control and health and safety audits.

RISK	DESCRIPTION OF RISK AND POTENTIAL IMPACT	MITIGATION
FAILURE OF PRODUCTS AND TECHNOLOGY RISK LEVEL: MEDIUM 	We pride ourselves on our innovative engineering solutions we provide for our customers. The quality and safety of our products is of the highest importance and if we fail to deliver quality and safe products or advanced technical solutions then we face a financial and reputational impact.	<ul style="list-style-type: none"> Continued focus on quality and safety, including audits to appropriate quality standards. Processes to identify risk and mitigate the reputational and legal implications of any failure. Upgrade of talent and focus on functional excellence in quality and product development. The Group has a robust approach to managing contractual liabilities to protect us from undue financial exposures.
LOSS OF A KEY FACILITY RISK LEVEL: MEDIUM 	A temporary or permanent loss of a key manufacturing site or warehouse as a result of a natural catastrophe or any other reason would have a material adverse impact on our ability to meet our customers needs.	<ul style="list-style-type: none"> Risk control surveys undertaken annually at all key sites to ensure compliance with best practice in property risk management. Development and regular testing of robust business continuity plans.
FAILURE TO DEVELOP A PIPELINE OF NEW PRODUCTS RISK LEVEL: MEDIUM 	Our growth drivers around climate change, resource scarcity, urbanisation and an ageing population, require us to deliver new innovative products for our end customers. Failure to maintain new product momentum will impact our ability to grow.	<ul style="list-style-type: none"> Continued investment in research and development working with our key account management teams to ensure we meet our customer needs. Centres of design and technological excellence established in a number of locations.
MERGERS & ACQUISITIONS (M&A) RISK LEVEL: MEDIUM 	An important part of our growth agenda is to make acquisitions which compliment or extend our product portfolio. If we acquire businesses which do not deliver the expected synergies or have significant liability exposures it could have a negative financial impact on the Group and restrict our ability to meet growth targets.	<ul style="list-style-type: none"> Resourced central M&A function working with our divisions to identify acquisition opportunities. Robust due diligence.
FAILURE TO ATTRACT AND RETAIN TALENT RISK LEVEL: MEDIUM 	Our success as a business will depend on ensuring we get the right people in key positions in the organisations. If we lose key personnel or cannot recruit and retain high calibre managers and engineering talent, this may lead to the Group not being able to effectively implement its business plans and strategy.	<ul style="list-style-type: none"> 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.
FAILURE TO MANAGE THE SUPPLY CHAIN RISK LEVEL: MEDIUM 	We have a significant number of contracts with a broad base of suppliers. If we fail to meet our customers requirements in respect of quality or delivery as a result of an interruption in the supply chain then it could have a material impact on the Group's results.	<ul style="list-style-type: none"> Global Procurement function that co-ordinates IMI's approach to supply chain risk management. Monitoring of risks and development of contingency plans to mitigate the impact of a supplier failure or increased prices. Review of supply base to reduce over-reliance on key suppliers. Moves to lower cost manufacturing facilities, on-going review of alternative low cost suppliers and, where appropriate, supplier consolidation. Training and audit programme to validate suppliers' business processes, quality and standards.
IT FAILURE/ SYSTEM COLLAPSE AND LOSS OF DATA RISK LEVEL: LOW 	We utilise a significant number of IT systems to support the Group's production, technology, marketing, sales and financial functions. Failure of any of the systems or corruption or loss of data could have a major impact on operations.	<ul style="list-style-type: none"> Development and regular testing of business continuity plans. Ensuring business continuity plans are robust and address temporary unavailability of IT systems. Cyber security risk assessments undertaken and appropriate actions taken. Strategy to upgrade or replace key systems.

Risk Appetite

The Board has considered the Group's risk appetite and it is considered appropriate to achieve our strategic objectives. Risk appetite is higher for new product development, emerging market growth and acquisitions, in keeping with our growth strategy and is lower for employee safety and regulatory compliance.

Our risk appetite has been communicated to the Divisional Managing Directors to ensure their decision making behaviour is consistent with the risk appetite set by the Board.

PERFORMANCE REVIEW

In this section we provide a commentary on IMI's performance by division in 2013 including a summary of key achievements, a market review and outlook.

References to organic growth are on a consistent basis and exclude the results of acquisitions during the period for which there is no comparator.

OPERATIONAL REVIEW:

Severe Service division

Strong profit growth in our Severe Service division reflects the impact of careful project selection and efficiency improvements in our manufacturing processes and supply chain.



Fluid Power division

During the year we announced two technology acquisitions to support Fluid Power's sector strategy.



Indoor Climate division

Operating profit in our Indoor Climate division increased, driven by new products, efficiency improvements in our operations and more cost effective procurement activities.



→ Page 34

Main photo:
Dubai, UAE.

Fact:

"Water scarcity affects one in three people on every continent of the globe. The situation is getting worse as needs for water rise along with population growth, urbanisation and increases in household and industrial uses."





Operational review

SEVERE SERVICE DIVISION

Revenue

£716m
Up 4%

Operating profit

£116.8m
Up 21%



Roy Twite

Divisional Managing Director

Roy joined IMI in 1988 on the Graduate Engineering scheme. During his career with IMI, he has run all of IMI's divisions, including the Severe Service business, which he has led since 2011. Roy gained his Masters degree from Cambridge University.

Severe Service is a world leading provider of flow control technologies that enable vital industrial and energy production processes to operate safely, cleanly and more efficiently. The division designs and manufactures highly engineered valves, actuators and controls which are able to withstand temperature and pressure extremes and intensely abrasive and corrosive cyclical operations.

The division is a market leader in a number of growing end markets including Liquefied Natural Gas (LNG), Combined-Cycle Gas Power and Petrochemical.

We have design and manufacturing facilities in 12 countries, more than 400 qualified engineers, a global service network and over 200 dedicated aftermarket specialists.

Performance

The full year order intake at £741.7m was up 12% year-on-year (2012: £660.1m). A number of our end markets performed particularly well, including Oil & Gas, where orders were up 27% and we were successful in winning one of the largest ever orders in our history, which was for a high integrity pressure protection system (HIPPS) for installation on a gas field in the Middle East. In the Petrochemical sector, orders were up 11%. Fossil Power orders were also up 16% on the prior year, with good growth in China, India and Korea. Nuclear orders were up 19%, despite the on-going difficult market conditions following the Fukushima incident, as more safety upgrade projects become available. Orders to support the aftermarket were up 9%. While the majority of our markets saw good bookings momentum in 2013, order intake in Iron & Steel was down 49%, reflecting the on-going challenges in that market.

Revenues increased 3% to £716m on an organic basis (2012: £686m) and operating profit grew 21% to £116.8m (2012: £96.3m). This strong profit growth reflects the impact of careful project selection and efficiency improvements achieved in our manufacturing processes and supply chain. As a result, margins increased to 16.3% from 14.0% in 2012.

Oil & Gas

We are the global market leader in the supply of anti-surge valve and actuator systems to the world's largest LNG compression facilities, like Gorgon in Australia. Our systems operate below -160°C, with ultra-fast response to maximise liquid natural gas production while protecting the compressor.

Fossil Power

IMI Severe Service supplies critical, customised turbine by-pass valves to the world's most efficient power stations. Our valves control high pressure super-heated steam at temperatures up to 650°C, protecting the turbine and optimising power yield. Globally, we have an installed base of over one hundred thousand valves and we are recognised as the leader in the combined-cycle gas sector.

Nuclear

We supply products for new reactors and upgrades to existing facilities to improve safety levels. To date we have supplied products to over half the world's reactor fleet.

Petrochemical

IMI Severe Service is the global leader in the design and manufacture of integrated flow control systems for the critical applications in Fluid Catalytic Cracking (FCC). We also supply bespoke valves into the ethylene and propylene production processes, as well as for delayed coking at temperatures up to 1,600°C.

Key Achievements

- Winning the HIPPS order for a gas field in the Middle East, one of the largest single orders in Severe Service's history
- Increasing Fossil Power orders by 16% by targeting the growth regions of China, India and Korea
- Achieving an increase in global Petrochemical orders of 11%, helped by securing a number of orders in the US where opportunities have increased as a result of shale oil and gas activity
- Shipping 84 large bespoke valves, from our Zimmermann & Jansen business in Germany to a Catofin petrochemical project in Houston, US
- Improving significantly the operational performance of our Brno manufacturing facility and our supply chain management
- Bringing to market two new product ranges: highly engineered ball valves for Oil & Gas applications and quarter turn actuators

Market Review

Activity in the Oil & Gas sector, particularly LNG, and in the Petrochemical sector is expected to remain at the current high levels, led by projects in the US. Growth in the Fossil Power sector will come from the emerging markets, where we will continue to be selective in the projects we undertake. In the short-term, the Nuclear market is likely to continue to be impacted post-Fukushima, but longer term prospects remain good, particularly in the safety upgrade market.

Our continued focus on delivering the best possible solution for our key global customers in their critical applications, using all the appropriate Severe Service technologies and applications expertise, demonstrates our commitment to excellent quality, long-term business. This, in conjunction with a focus on the aftermarket, improving project management effectiveness, the increasing utilisation of our cost competitive factories in the Czech Republic, India, Korea and China, as well as the deeper integration of our recent acquisitions will help further improve profits.

Outlook

The substantial opening order book combined with good operating performance and the effect of the large HIPPS order is expected to deliver good revenue growth on an organic basis in both the first half and the full year. Full year margins are expected to show continued progress on last year with first half margins slightly ahead of the first half last year despite increased investment in growth initiatives.



CASE STUDY

CCI helps to keep Alaska pipelines flowing

Requirement: As winters can be very long and cold in Alaska, keeping the oil sufficiently heated is critical for pipeline services.

Solution: In order to ensure production is optimised and flow rates are maintained when temperatures drop to below -50°F, Alyeska Pipeline Services sought to develop a way of mechanically heating the crude oil by cycling the fluid through a pump.

A solution was found in a design that could allow large particles to flow through the valve disk stack which could also withstand the seismic activity that occurs in the region. The team designed, built and shipped a custom design which helped raise the temperature by nearly 14°F, giving the emergency crews the necessary time to repair any faults before the oil pressure decreased or froze.



Operational review

FLUID POWER DIVISION

Revenue

£723m

Up 1%

Operating profit

£140.5m

Down 1%



Brendan Colgan

Divisional Managing Director

Brendan joined IMI in September 2013 as Divisional Managing Director of Fluid Power. Before joining IMI, he held a number of finance and general management roles in the engineering sector with Charter International plc, most recently as the Global CEO for ESAB. He has extensive experience of global engineering having lived in Mexico, Australia, USA and Europe and undertaken global roles with ESAB and Howden. He is a Fellow of the Chartered Institute of Management Accountants, an alumni of Harvard (AMP) and holds a degree in Accounting from the University of Ulster.

Fluid Power specialises in the design and manufacture of flow control solutions for applications where precision, speed and reliability are essential. The division's engineered pneumatic and fluid control solutions support and enhance the performance of customers' equipment.

The division is a market leader in a number of attractive niche sectors including Commercial Vehicles, Energy and Life Sciences as well as a major player into the Industrial Automation market.

It operates four global technical centres of excellence and has manufacturing operations in the US, Mexico, Brazil, China, Germany, the UK, Switzerland and the Czech Republic, as well as sales and service networks in 75 countries.

Performance

Fluid Power markets improved in the second half of 2013, with revenues growing 3% on an organic basis £360m (2012 H2: £344m), following a challenging first half of the year. Overall revenues for the full year were £723m (2012: £717m), a 1% rise on a reported basis and a 1% decline on an organic basis.

Our sector business, which focuses on providing engineering solutions to leading original equipment manufacturers operating in global niche markets, was flat on an organic basis. Following a soft first half, our Commercial Vehicle sector grew 1% in the second half with our European truck business up 18%, benefiting from some pre-buy before the introduction of Euro VI engines in 2014. In contrast, the North American truck market continued to be challenging throughout the year and as a result, overall, Commercial Vehicle revenues were down 4% for the year. We saw good revenue growth in the Energy sector, up 7%, and in the Rail sector, up 11% while the Food & Beverage sector was flat and Life Sciences lower.

Industrial Automation

Our Fluid Power business manufactures a broad range of pneumatic actuators, valves and air preparation products designed for increased automation in factories. Through our dedicated aftermarket channel, Norgren Express, we have a compelling value proposition combining rapid delivery with technical expertise and market-leading on-line capabilities.

Commercial Vehicles

We are a global leader in engine management, transmission control, and chassis cab air management applications for the Commercial Vehicle industry. We provide a variety of customised solutions for use on medium and heavy duty trucks and buses in all major global markets.

Energy

Our business designs and manufactures high integrity solenoid valves, air preparation and instrumentation equipment for the global Energy markets. Our applications span Upstream Oil & Gas, Refining, Petrochemical, Chemical and Power Generation.

Life Sciences

We are a key supplier into the medical device, analytical, and clinical diagnostic equipment markets. Our strong portfolio of fluid handling and control products enable us to provide differentiated, engineered solutions to major OEM customers.

Rail

Our business focuses on key Rail applications including internal door systems, brake controls, and auxiliary air systems to improve rail car and engine performance and life. We work with train builders, major Tier One customers and the train operating companies.

Food and Beverage

Our business focuses on the important niches of PET bottling equipment, ink jet printing equipment and control valves for commercial coffee machines. We offer unique and differentiated solutions to major global customers in all three niche areas.

During the year we acquired two small technology companies to support our sector strategy. In August we acquired Analytical Flow Products, which has an innovative range of chromatography valves which will enhance our capabilities in the Life Science and Energy sectors, and in October we acquired Nano-Porous Solutions Ltd, a UK based company which has patented technology for high performance air dryers for the Rail sector.

The Industrial Automation business was down 3% on an organic basis with Europe lower, North America flat, Asia Pacific slightly up and good growth in Latin America.

Operating profit was £140.5m (2012: £142.3m) and operating margins at 19.4% (2012: 19.8%) were slightly down reflecting the lower level of sales.

Key Achievements

- Growing revenues in the Energy sector by 7% and in the Rail sector by 11%
- Good progress on two major new product initiatives: high performance dryers for Rail and waste heat recovery systems for Commercial Vehicles
- Continued investment in Norgren Express, our market-leading internet, phone and catalogue-based aftermarket solution
- Acquiring Analytical Flow Products and Nano-Porous Solutions Ltd to enhance sector strategy

Market Review

The economic outlook for 2014 is more positive than in recent years with the world's major economies continuing to recover from the global economic crisis of 2009-12. The Purchasing Managers Indices (PMIs) have all increased above the 50 mark since the middle of 2013 (in December the Eurozone was at 52.7, Germany 54.3, China 50.5 and US 57.0). In Commercial Vehicles, the North American market is expected to show some improvement after a challenging environment in 2013, while the European truck market is expected to be stable with some impact in the first half resulting from the pre-buy of trucks in the second half of 2013 ahead of the new emissions legislation.

Outlook

The PMIs, which are typically a good lead indicator for the Fluid Power business, suggest improving prospects in the general industrial sector. In the Commercial Vehicle sector growth in the first half will be impacted by the Euro V pre-buy in Europe last year and the ending of a large contract in North America. Based on this market environment and current order trends we expect modest organic revenue growth in the first half with margins broadly similar to the first half last year.



CASE STUDY

Norgren's solution helps petrochemical manufacturer avoid costly interruptions to their plant operation

Requirement: Braskem, Latin America's largest petrochemical manufacturer, identified solenoid valves as an area for improvement in the safety network at production units in Bahia, Brazil. The solenoid valves pilot pneumatic actuators which control shut down valves for reactors, furnaces and boilers. Braskem required a solution with a low probability of failure in order to maximise safety standards and also to avoid any unnecessary costly interruptions in the operation of the plant.

Solution: Braskem is currently testing a solution integrating two of our best-in-class Maxseal solenoid valves, into an explosion proof redundant valve manifold (RVM) with the required safety integrity level. The RVM allows fluids to flow even if one of the solenoid valves fail, ensuring a high level of availability and reducing unscheduled interruptions. Additionally Norgen designed the RVM to reduce its footprint and incorporated a visual valve status indicator to enable quicker and safer maintenance in the field. After the valves successfully complete the test phase, this solution will be used as a reference at Braskem's other sites in Brazil.



Operational review

INDOOR CLIMATE DIVISION

Revenue

£305m

Up 4%

Operating profit

£64.3m

Up 5%



Peter Spencer

Divisional Managing Director

Peter Spencer joined IMI in November 2010 as Business Development Director and was promoted to lead IMI Merchandising in January 2012. In March 2013, Peter was appointed Divisional Managing Director of Indoor Climate. Prior to joining IMI, Peter was the CEO at LPC tissue products and Teleflex Automotive.

Indoor Climate is the leading global provider of technologies that deliver operational and energy efficient heating and cooling systems inside buildings. The division is the recognised expert in the design and manufacture of hydronic distribution systems and room temperature controls, with experience in more than 100,000 construction projects world-wide.

Indoor Climate has design and manufacturing facilities in six countries and employs just under 2,000 people.

Performance

Revenues of £305m were up 1% on an organic basis (2012: £293m) and 4% higher on a reported basis. Growth in Europe of 4% was partially offset by declines in the emerging markets (including China where we have seen a number of construction projects delayed into 2014) and in our automatic balancing valve business in North America. Since the year-end we have scaled back our interest in a number of the smaller, less profitable emerging markets and focus our efforts on those markets, such as China, Brazil and Russia, where we see the best opportunities for future growth. Operating profit at £64.3m increased 5% (2012: £61.5m) driven by efficiency improvements in our operations and more cost effective procurement activities. Operating margins of 21.1% increased marginally when compared to last year (2012: 21.0%).

Key Achievements

- Bringing to market nine new products including a complete new range of pressure independent balancing and control valves, branded TA-FUSION, and a new technology for automatic thermostatic control, the A-Exact
- Filing four new patents, significantly enhancing the new product pipeline
- Achieving good sales growth in the key German market
- Continuing to win flagship projects around the world, including two high value state of the art multi building hospital developments in Belgium and Sweden

Market Review

As global energy prices continue to rise government and regional initiatives, including Kyoto, EU 20/20/2, and Europe 2030, will continue to drive increased focus on ensuring buildings, both old and new, are energy efficient and sustainable. 80% of the buildings that will exist in the world in 2050 have already been built and the importance of energy efficient renovation of these buildings will be a cornerstone of the growth of Indoor Climate in the coming years.

Outlook

We expect the European construction market to stabilise in 2014 in both residential and non-residential buildings with some countries, including Germany, growing while others continue to weaken. During the first half of 2014, the benefit from new product launches in the core European markets is expected to largely offset the impact of the Group's decision to scale back our interest in a number of smaller lower margin emerging markets. Consequently, Indoor Climate's first half revenues in 2014 are expected to be broadly flat on an organic basis. Operating margins in the first half are expected to be lower compared to the first half of 2013 reflecting additional costs relating to the new product launches and the emerging market exits. In the second half of the year, operating margins are expected to return to more normal levels.



CASE STUDY

TA Hydronics ensures optimal indoor comfort at Banco de Bilboa Vizcaya's (BBVA) new headquarters

Requirement: In order to accommodate the growing needs of the internationally expanding BBVA bank, and provide a more efficient, innovative and collaborative working environment, the

second largest Spanish bank embarked on a new project for its headquarters in Madrid. Energy efficiency and a green working environment were of critical importance in the new design which included large windows to provide each work space with a 'green' view. As a result the HVAC system not only had to be sustainable, but also overcome the issues of solar gain whilst guaranteeing the ability to control the precise temperature inside.

Solution: TA Hydronics not only provided high performance balancing and control valves, but also full design support, including technical advice and assistance with component selection and positioning within the system to ensure accurate water flow.

With the solution provided by TA Hydronics the precise water control requirements of the building were achieved, whilst reducing energy consumption from pumping, cooling and heating. As a result, TA Hydronics has been specified for phase two of the construction.



Non-Residential Buildings

Indoor Climate delivers hydronic solutions globally for the new construction and refurbishment of airports, hotels, hospitals, colleges, commercial offices and apartment blocks. Recent projects include delivering products and system design support for energy efficient HVAC systems in Heathrow Terminal 5, the Burj Khalifa, Marina Bay Sands Hotel, Valencia Opera House and Radet District Energy. The division promotes its hydronic expertise by running seminar programmes for HVAC consultants, installers and building owners.

Residential Buildings

Indoor Climate delivers leading thermostatic control, pressurisation and water quality solutions both for new and renovation residential projects. Our user friendly and easy to install products, not only provide quality and reliable household brands, but also help to deliver energy efficiency in markets where consumers are increasingly feeling the strain of rising energy prices. Our range of Heimeier thermostatic heads have been awarded the highest energy efficiency classification under the new European labelling system TELL.

CORPORATE GOVERNANCE

Here we outline information on how the Company is governed and the activities of the Board and its Committees.

THE BOARD

Our business is managed by our Board of directors. Biographical details of the non-executive directors and the Executive Directors can be found here.

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LETTER FROM THE CHAIRMAN

Our Chairman, Roberto Quarta, talks about a busy year for the Group including significant changes in its structure.

→ Page 40

CORPORATE GOVERNANCE REPORT

The Company Secretary, John O'Shea, explains the standards of corporate governance that IMI follows, including the division of responsibilities and composition of the Board.



→ Page 41

AUDIT COMMITTEE REPORT

Chairman of the Committee, Phil Bentley, outlines the structure, composition and activities of the Audit Committee.

→ Page 48

NOMINATIONS COMMITTEE REPORT

Roberto Quarta, Chairman of the Committee, outlines the structure, composition and activities of the Nominations Committee.

→ Page 50

DIRECTORS' REPORT

This report sets out other statutory and regulatory information required to be provided by the Company.

→ Page 51

REMUNERATION REPORT

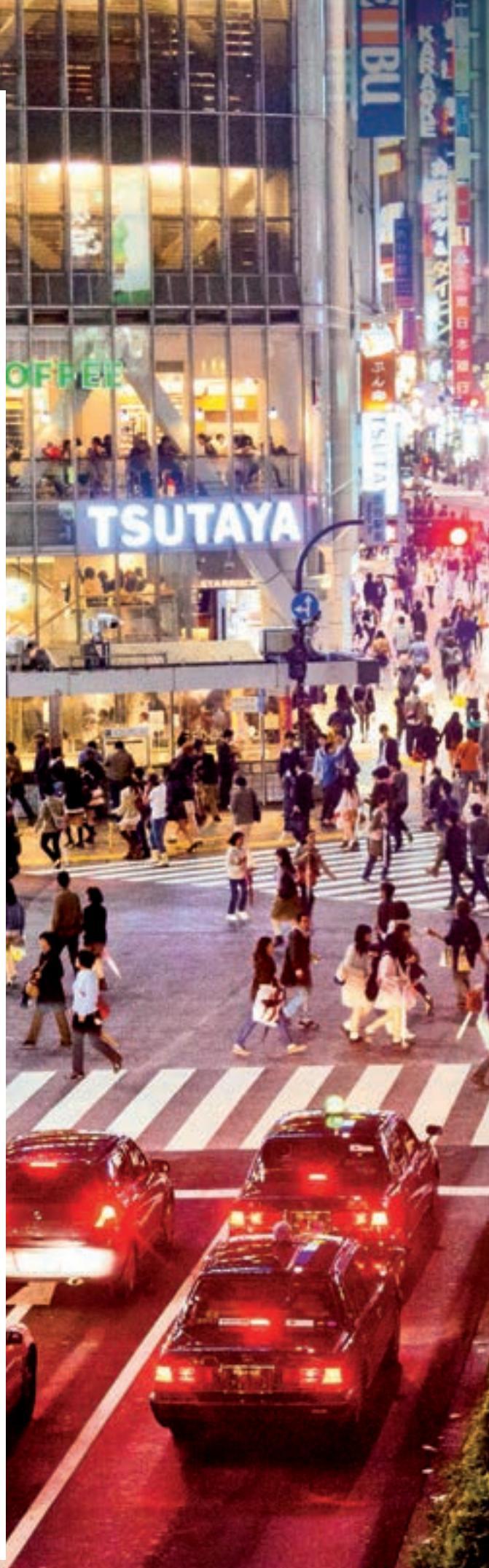
Bob Stack, Chairman of the Committee, introduces a new style of report which gives a full and transparent picture of remuneration at IMI.

→ Page 55

Main photo:
Tokyo, Japan.

Fact:

"Asia is expected to account for 53.3% of total global urban population by 2025."





BOARD OF DIRECTORS

ROBERTO QUARTA

Chairman (64)



Roberto Quarta has significant management experience spanning a broad range of manufacturing and service businesses with global operations. Roberto is currently Chairman elect at Smith & Nephew plc, a partner and European Chairman of the private equity firm 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 Spie SA. His previous board positions include Chairman of BBA Group plc (where he was also Chief Executive) and Italtel SpA, executive director of BTR plc, and non-executive director of BAE Systems plc, Foster Wheeler AG, PowerGen plc, Azure Dynamics Corp and Equant NV.

MARK SELWAY

Chief Executive (54)



Mark Selway joined IMI and the Board in October 2013 as Chief Executive designate and became Chief Executive on 1 January 2014. Mark was previously Chief Executive at Boral Limited, Australia's leading building materials company between 2010 and 2012. Prior to that he served as Chief Executive of The Weir Group PLC for eight years between 2001 and 2009. Before joining Weir he was an executive director at Britax International plc between 1996 and 2000. For two years between 2009 and 2011 he was a non-executive director of Lend Lease the Australian listed property and construction company. Mark was awarded an honorary doctorate from the University of West Scotland in 2008.

DOUGLAS HURT

Finance Director (57)



Douglas Hurt joined IMI and the Board as Finance Director in 2006. He was previously with GlaxoSmithKline where he held both financial and operational roles including a number of US and European senior management positions. He has a degree in Economics from Cambridge University and is a member of the Institute of Chartered Accountants in England and Wales. Douglas is also a non-executive director of Tate & Lyle PLC.

ROY TWITE

Executive Director (46)



Roy Twite has been Managing Director of IMI's Severe Service division since 2011. Roy joined IMI as a graduate in 1988. From 2001 Roy held roles including Managing Director of IMI Norgren UK (2001), President of IMI Indoor Climate (2004), President of Retail Dispense (2007) and President of Fluid Power (2009). Roy has a Masters degree from Cambridge University.

MARTIN LAMB

Former Chief Executive (54)



Martin Lamb was Chief Executive of IMI from 2001 to 2013, having been appointed to the Board in 1996. Martin, who has an engineering background, worked for IMI for over 33 years and held a number of senior management roles across the Group during this time. In September 2013, Martin announced his intention to retire as Chief Executive at the end of 2013 and from the Board at the AGM in May 2014. He is a non-executive director of Severn Trent Water plc.

Nationality

American Italian	Australian	British	British	British
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Committee membership

Nominations Committee – Chair Remuneration Committee	Executive Committee Nominations Committee	Executive Committee	Executive Committee	
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Date of appointment

Joined the IMI Board in 2011.	2013	2006	2007	2001
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Expertise

Significant UK and international board experience Deep knowledge of both engineering and manufacturing Strong track record in private equity, mergers and acquisitions	Experienced and proven Chief Executive Solid track record running international engineering businesses In-depth knowledge of relevant end markets including oil & gas and energy	Experienced finance leader, having held senior finance roles in global businesses General management experience gained in UK and Europe Mergers and acquisitions, tax and pensions	Proven operational and engineering expertise Management capability having run all of IMI's divisions Extensive knowledge of end markets and customer base	Experienced business leader Considerable knowledge of IMI's businesses Deep understanding of the flow control sector
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Key external appointments

Chairman elect at Smith & Nephew plc Partner and Chairman Europe of Clayton, Dubilier & Rice Chairman of the Supervisory Board of Rexel SA Non-executive director of Spie SA	Non-executive director of Tate & Lyle PLC	Non-executive director of Severn Trent Water plc
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ANITA FREW
Senior independent
non-executive director (56)



Anita Frew is Chairman of Victrex plc, the FTSE 250 global manufacturer of high performance polymers, having previously been the senior independent director. She is also the senior non-executive director of Aberdeen Asset Management plc and a non-executive director of Lloyds Banking Group plc. She was previously an Executive Director of Abbott Mead Vickers plc, and Director of Corporate Development at WPP Group plc.

BOB STACK
Non-executive director (63)



Bob Stack is on the Board of Earthwatch International and a non-executive director of Signet Jewellers Ltd. Past directorships include J Sainsbury where he was chairman of the Remuneration Committee for eight years and Cadbury plc where he was an executive director for 12 years. He was formerly a Trustee of Earthwatch Europe.

PHIL BENTLEY
Non-executive director (55)



Phil Bentley is Chief Executive of Cable & Wireless Communications Plc. Previously, Phil served as the Managing Director of British Gas from 2007 to 2013 and prior to this, was on the Board at Centrica plc from 2000, holding the roles of Group Finance Director (2000-2004) and Managing Director, Europe (2004-2007). He was previously Finance Director for Diageo plc's spirits division, and Group Treasurer. He has also served in several senior international management roles at BP plc and lived and worked in China, Egypt and the USA.

He has a Masters Degree from Oxford University and an MBA from INSEAD in France.

CARL-PETER FORSTER
Non-executive director (59)



Carl-Peter Forster has worked in the automotive industry for over 25 years. He currently holds non-executive director positions at Geely Automobile Holdings, a Hong Kong listed company and Volvo Cars Corporation. Carl-Peter is the Chairman of ZMDi AG in Dresden, an analogue/digital semiconductor company and cofounder of Lead Equities, a small cap private equity fund management company in Vienna. Previously he was Group Chief Executive Officer and Managing Director of Tata Motors Ltd from February 2010 to September 2011 and has held a number of senior management positions with both General Motors and BMW. He was also a non-executive director of Rolls-Royce Group plc between 2003 and 2006. He started his career in 1982, as a consultant for McKinsey & Company in Munich. He has a Diploma in Economics from the Bonn University and a Diploma in Aeronautical Engineering from Technical University in Munich.

BIRGIT NØRGAARD
Non-executive director (55)



Birgit Nørgaard serves as non-executive director on a number of boards including the listed companies DSV A/S, WSP inc. and Lindab AB as well as being non-executive Chairman of the engineering company NNE Pharmaplan A/S. Previously, Birgit has held a number of senior executive positions in consulting engineering, the most recent being as Chief Executive of Grontmij Carl Bro, Denmark, and Chief Operating Officer of its parent company Grontmij NV in the Netherlands. Prior to that she held senior management positions with Danisco, having started her career as a consultant with McKinsey & Co. Birgit has an MSc in Economics from Copenhagen Business School and an MBA from INSEAD.

Nationality

British	American	British	German	Danish
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Committee membership

Audit Committee Nominations Committee Remuneration Committee	Nominations Committee Remuneration Committee – Chair	Audit Committee – Chair Remuneration Committee	Audit Committee Remuneration Committee	Audit Committee Remuneration Committee
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Date of appointment

2006	2008	2012	2012	2012
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Expertise

Experienced non-executive Extensive business experience including 14 years on industrial boards In-depth knowledge of investment and asset management sectors	Experienced non-executive Significant international business experience Specialist capability in human resources	Former plc group finance director Senior business leader in both finance and operational roles In-depth understanding of energy sector	Experienced business leader In-depth knowledge of the automotive sector Expert in operational excellence and lean manufacturing Significant experience in technology management	Experienced non-executive director Held senior executive positions in engineering consultancy Wide ranging sectoral experience including energy, water, infrastructure and building industries Extensive experience in strategy as well as finance and accounting
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Key external appointments

Chairman of Victrex plc Non-executive director of Aberdeen Asset Management Non-executive director of Lloyds Banking Group plc	Non-executive of Earthwatch International Non-executive director of Signet Jewellers Ltd	Chief Executive of Cable & Wireless Communications Plc	Chairman of ZMDi AG Non-executive director of Geely Automobile Holdings, Hong Kong Non-executive director of Volvo Cars Corporation, Gothenburg, Sweden	Non-executive director of DSV A/S, WSP inc. and Lindab AB Non-executive Chairman of NNE Pharmaplan A/S
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Corporate Governance introduction

CHAIRMAN'S GOVERNANCE LETTER



Dear Shareholder

2013 was a significant year in the history of IMI. As explained in my statement on page 4 through the sale of our Beverage Dispense and Merchandising businesses, IMI's largest ever corporate transaction, we re-shaped the Group creating a strong platform for future growth. We also saw the retirement of Martin Lamb, after 33 years with IMI, and the appointment of our new Chief Executive, Mark Selway.

Such major developments test the capabilities of a Board and I am pleased to report that throughout both the Chief Executive transition and sale process the Board operated at the highest level of integrity and effectiveness.

The perennial imperatives for the Board are reinforcing the Group's values, its responsible business agenda and supporting the executive leadership in realising the challenging business plans and performance targets agreed by the Board. Looking ahead to 2014, the Board has set three additional specific objectives:

- embedding the new executive leadership and establishing strong links between them and the Board, investors and other key stakeholders;
- supporting the new executive leadership in formulating clear strategic objectives and plans for the next phase of IMI's development; and
- further strengthening management talent and creating the organisational structure required to drive sustainable business outperformance.

As ever, I am keen to engage with shareholders and during the last year have met with a significant number of IMI's larger institutional investors.

I look forward to meeting individual shareholders again at the forthcoming Annual General Meeting.

Yours faithfully

Roberto Quarta
Chairman

5 March 2014

THE BOARD'S CORPORATE GOVERNANCE REPORT

Set out below is the Board's formal report on Corporate Governance and separate reports from the Audit, Nominations and Remuneration Committees.

Compliance statement

The Board is committed to high standards of corporate governance and confirms that throughout the year ending 31 December 2013 the Company has applied the principles of good governance contained in the UK Corporate Governance Code (the 'Code') and complied with its best practice provisions as set out below. The Board is able to report compliance with the Code throughout 2013, save that it was decided during the year to postpone until 2014 the externally facilitated Board evaluation exercise due to have been held in 2013. The decision was made due to the Chief Executive transition during the year and the wish to optimise the value of the externally facilitated exercise.

THE BOARD

Composition

At the end of the year the Board comprised ten directors: the Chairman; the Chief Executive and a Chief Executive designate; five independent non-executive directors; the Finance Director and one operational executive director. Sean Toomes ceased to be an executive director with effect from 6 March 2013. Terry Gateley retired as a non-executive director on 9 May 2013.

In line with the Code, all continuing directors submit themselves for re-election at Annual General Meetings. Martin Lamb is not continuing in office after the Annual General Meeting to be held on 8 May 2014.

Independence of non-executive directors

The five non-executive directors are all free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All non-executive directors meet the criteria for independence under the Code and are regarded by the Board as independent of 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.

Biographical details of the continuing directors, including the experience they bring to the Board, are shown on pages 38 and 39.

Dates of appointment

Name	Date of appointment	Date of current letters	Anticipated expiry of current term
Phil Bentley	1 October 2012	1 October 2013	30 September 2015
Carl-Peter Forster	1 October 2012	1 October 2013	30 September 2015
Anita Frew	2 March 2006	27 January 2014	11 March 2015
Birgit Nørgaard	6 November 2012	1 February 2013	5 November 2015
Roberto Quarta	1 June 2011	1 September 2011	1 November 2014
Bob Stack	13 June 2008	1 February 2013	13 June 2014

Role of the Board

- Promote the success of the Company
- Guardian of stakeholders' interests
- Set/monitor leadership behaviour and culture
- Selection and appointment of the executive management team
- Supportive challenge of the executive management team
- Approval of business plans and strategy
- Oversee governance, risk and the control environment
- Performance monitoring and oversight of the businesses and management

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 tracking changes in risk assessment and controls. Senior executives from across the Group are regularly invited by the Board to attend meetings to make presentations and participate in discussions.

Corporate Governance Report (cont'd)

Division of responsibilities

Chairman:

- Building a well-balanced Board
- Chairing meetings, setting the agenda and ensuring the best use of time
- Ensuring effectiveness of the Board including the quality of debate and decisions
- Promoting the right environment and relations for effective engagement and challenge around the boardroom table
- Setting the tone and high standards of governance practice
- Getting the right executive leadership and succession plans in place

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 and available on the Company's website. 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 operational and strategic plans under authority delegated by the Board.

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.

Chief Executive:

- Leadership of the executive management team
- Formulating strategy, business plans and budgets
- Delivering the business plans and performance objectives
- Ensuring the highest compliance and internal control standards are maintained
- Developing organisation structure
- Resourcing, talent development and succession plans

The three executive directors are: the Chief Executive, Mark Selway; Finance Director, Douglas Hurt; and Roy Twite, an Operational Executive Director. Mark Selway leads the executive team and has direct responsibility for corporate development including M&A. Each of the three divisions is led by a Managing Director who reports to Mark: Roy Twite is responsible for Severe Service, Brendan Colgan is responsible for Fluid Power and Peter Spencer for Indoor Climate. Martin Lamb, the former Chief Executive, will be a director until the Annual General Meeting on 8 May 2014 and, whilst he does not retain executive responsibilities, he continues to be available to provide transitional support to the Company.

Meetings

The Board met on ten occasions during the year including four quarterly reviews, strategy discussions and meetings convened for special purposes as the need arose.

Board and Committee attendance

Director	Board	Audit Committee	Nominations Committee	Remuneration Committee
	10 meetings	4 meetings	5 meetings	4 meetings
Roberto Quarta	10	-	5	4
Phil Bentley	9	4	5	-
Carl-Peter Forster	9	-	4	4
Anita Frew	9	3	4	3
Terry Gateley (i)	4	1	2	1
Birgit Nørgaard	10	-	5	4
Bob Stack	10	4	5	4
Martin Lamb	10	-	3	-
Mark Selway (ii)	2	-	-	-
Douglas Hurt	10	-	-	-
Sean Toomes (iii)	1	-	-	-
Roy Twite	10	-	-	-

(i) Retired from the Board in May 2013

(ii) Joined the Board in October 2013

(iii) Left the Board in March 2013

Induction and continuing development programme

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 and Company Secretary. The induction programme for new directors was refreshed by the Chairman following his own experience of joining the Board and is periodically revised to reflect changes in Group businesses and management structure. During and after induction directors are expected to visit business units around the Group and, most critically, to meet with senior operating management and key 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. Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in some appropriate updates during the year at Board and committee meetings. There is also a committee induction process designed to brief new committee members on the relevant committee's activity and the issues facing it.

Three new non-executive directors joined the Board in the latter part of 2012 and went through the stages of induction during that year and through 2013. Business familiarisation is at the core of induction and continuing development for non-executive directors at IMI is based around gaining an understanding of the business and getting to know the wider management team.

Board evaluation

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. As highlighted above, the 2013 process was postponed due to the Chief Executive transition. A full externally facilitated Board evaluation exercise is planned to be conducted in 2014.

An internal evaluation of the Board and its committees was carried out between November 2013 and January 2014. This augmented the Board effectiveness improvements identified in workshops facilitated by an external consultant in 2012. The internal evaluation process involved face-to-face discussions including individual meetings between the Chairman and the other directors. The principal actions arising are increasing the visibility of the wider management team and bringing more subject specialist presentations to the Board in areas relevant to long-term strategy. The Board received the findings of the evaluation in March 2014 and the directors confirmed that the Board is fulfilling its responsibilities appropriately. The evaluation also concluded that the Board and its committees were effective and that each continuing director demonstrated a valuable contribution. The contribution and performance of the directors standing for election or re-election at the 2014 Annual General Meeting, is further commented on in the Notice of the Annual General Meeting.

In addition, the senior independent director, Anita Frew, met with the other non-executive directors and consulted the executive directors regarding the performance of the Chairman and provided appropriate feedback to him.

Management of conflicts of interest

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 IMI 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 2013.

Each director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the duty that they owe to the Company to disclose to the Board the nature and extent of any interest in any transaction or arrangement under consideration by the Company. If any director becomes aware of any situation which may potentially give rise to a conflict of interest, that director informs the rest of the Board and the Board is then permitted under the articles of association to decide to authorise such conflict. The information is recorded in the Company's register of conflicts and a conflicts authorisation letter is issued to the relevant director.

Key Board activities in 2013

Following the sale of the Beverage Dispense and Merchandising divisions IMI became a business focused on specialist flow control industrial markets. At the same time, the transition to a new Chief Executive has been completed and a Board process for mapping out the next stage of the Group's development has been established.

Business performance and risk are regularly reviewed during the year and the annual business planning and strategic risk review meetings of the Board took place in December. The approach to the Group's risk management process and the Board's review of strategic risks were further strengthened with particular emphasis on more detailed mitigation action plans including robust business continuity plans and a reduction in exposure to supply chain dependencies.

2014 Board objectives

As explained in the Chairman's governance letter, the Board has three specific objectives for 2014, which are as follows:

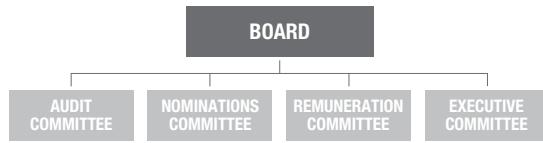
- embedding the new executive leadership and establishing strong links between them and the Board, investors and other key stakeholders;
- supporting the new executive leadership in formulating clear strategic objectives and plans for the next phase of IMI's development; and
- further strengthening management talent and creating the organisational structure required to drive sustainable business outperformance.

Standing committees of the Board

The standing committees of the Board are shown overleaf 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 the year and are part of the Corporate Governance Framework which appears on the IMI website. The committees report to the Board on their work, normally through their respective chairman, quarterly or more frequently as appropriate.

Separate reports from the following committees appear as follows: Audit Committee on pages 48 and 49; Nominations Committee on page 50; and Remuneration Committee on pages 55 and 56.

Corporate Governance Report (cont'd)



AUDIT COMMITTEE	NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	EXECUTIVE COMMITTEE
<p>Phil Bentley Chairman</p> 	<p>Roberto Quarta Chairman</p> 	<p>Bob Stack Chairman</p> 	<p>Mark Selway Chairman</p> 
<p>Membership:</p> <ul style="list-style-type: none"> Anita Frew Birgit Nørgaard Carl-Peter Forster 	<p>Membership:</p> <ul style="list-style-type: none"> Anita Frew Bob Stack Mark Selway 	<p>Membership:</p> <ul style="list-style-type: none"> Anita Frew Roberto Quarta Birgit Nørgaard Carl-Peter Forster 	<p>Membership:</p> <ul style="list-style-type: none"> Douglas Hurt – Finance Director Roy Twite – Managing Director of Severe Service Brendan Colgan – Managing Director of Fluid Power Peter Spencer – Managing Director of Indoor Climate Paul Roberts – Group Business Development Director Geoff Tranfield – Group Human Resources Director John O'Shea – Company Secretary and Head of Legal
Four meetings	Five meetings	Four meetings	Twelve meetings
<p>Main responsibilities:</p> <p><i>Financial reporting</i></p> <ul style="list-style-type: none"> Oversight role in relation to financial statements Reviewing significant areas of judgment and accounting policies Advising the Board on whether the draft Annual Report is fair, balanced and understandable Monitoring announcements in respect of financial performance <p><i>Financial controls and risk</i></p> <ul style="list-style-type: none"> Monitoring the effectiveness of internal financial controls Reviewing financial risk including fraud risk Oversight of internal audit Managing the external audit exercise, its objectivity and effectiveness Reviewing the system for confidential whistleblowing and the reports received 	<p>Main responsibilities:</p> <ul style="list-style-type: none"> Board and committee composition Succession plans for Board and senior management and corporate roles Search for and recommendation of candidates for appointment as non-executive directors, Chief Executive and other executive director positions Diversity policy and monitoring of progress Review and recommendation of proposals for the assignment of major executive responsibilities and appointment and removal of divisional business leaders 	<p>Main responsibilities:</p> <ul style="list-style-type: none"> Define and recommend the remuneration policy for approval by shareholders Determine the individual remuneration packages for the most senior executives within the policy to be put to shareholders for approval in 2014 Set annual and long-term incentive metrics and awards and determine the outcomes with support from the Audit Committee Report on remuneration matters and constructively engage with shareholders Assess risk in respect of remuneration and incentive structures in particular 	<p>Main responsibilities:</p> <ul style="list-style-type: none"> Operational management and implementation of plans and policies set by the Board Monitoring and managing business performance Development of strategy, plans and budgets for review and approval by the Board Monitoring and management of risk and internal controls Talent development and succession for senior roles Formulation of corporate policies and compliance programmes Oversight and management of health and safety, environmental matters, legal affairs and compliance

Executive Committee

The Executive Committee of the Board is chaired by the Chief Executive and consists of all the executive directors, the Divisional Managing Directors, and it is also attended by the Group Business Development Director, Paul Roberts, the Group Human Resources Director, Geoff Tranfield and the Company Secretary and Head of Legal, John O’Shea. 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 all but one or two meetings during their tenure in the year.

The Committee is the senior management body and as part of its broad remit it will monitor and manage 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.

The Committee is also the risk Committee of the Board and receives regular reports on health and safety, compliance and legal and corporate affairs. The annual risk review meeting was attended by the Chairman of the Audit Committee and there were two further risk update meetings in the year with detailed reports to the Board on all three occasions. The Committee 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. Changes to the Committee in 2014 include the involvement of all Divisional Managing Directors as members and incorporating operational reviews into the meetings.

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 2013 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 2013 Annual General Meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the Directors’ Report for 2012. A separate resolution for the approval of the Remuneration Report was also put to the meeting. Notice of the 2013 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 IMI website. The Board values its good

relations with shareholders and all resolutions proposed at the 2013 Annual General Meeting received strong support.

In addition to the Annual Report, the Company issues preliminary results and interim results announcements, as well as two interim management statements between results announcements. The IMI 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 the Group’s businesses. The Company has arranged a dealing service for the convenience of shareholders with Equiniti (details are shown on page 156). A sponsored Level 1 American Depositary Receipt programme has been established for which Citibank, N.A. acts as depositary (details can be found on page 156).

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 routinely 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 on shareholder issues at least quarterly. They are supported by the Investor Relations Director, Will Shaw. During 2013, IMI continued its programme of capital market day presentations, the materials for which are on the IMI website.

Financial analysts’ notes are circulated to the directors and regular feedback reports for the Board from the Company’s brokers are supplemented by periodic, independent surveys of major investors’ views, the most recent of which was in 2013. The Chairman, senior independent director and other non-executives meet with major shareholders upon request and several meetings of this type took place during 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 51 to 56.

Corporate Governance Report (cont'd)

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 Executive Committee acts in its risk role in conjunction with the Audit Committee, which has primary responsibility for oversight of financial controls, the Nominations Committee, which has primary responsibility for succession risk, and the Remuneration Committee, which has primary responsibility for remuneration and incentive structure risk.

The annual strategic risk review process is integrated into the annual forecasting and business planning requirements of the Group. Risk 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. Each individual Divisional Managing Director has appointed a risk champion with responsibility for embedding the Group risk assessment process in their business. The businesses' risk reports, including mitigation action plans for significant risks, are reviewed by the most senior executive within the relevant business. These are then considered by the Group Assurance Director, Paul Roughsedge, who compiles regular reports for 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. Phil Bentley, the Chairman of the Audit Committee, attended the Executive Committee's annual risk review meeting. The Divisional Managing Directors 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 Group's strategic objectives. The Executive Committee also reports to the Board on major business and other risks involved in specific investment decisions including acquisitions and divestments.

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 where necessary. Fraud risks were considered as part of this review of the control environment. The Audit Committee reviewed the nature and scope of both the external audit and the internal audit work carried out by Group Assurance. 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. The top ten risks identified by the Board at its annual risk review in December 2013 are described on pages 26 to 27.

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. 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 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 bi-annual reports are required from senior executives of operating units, confirming compliance with Group financial reporting requirements. The internal audit function, Group Assurance, 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 activity of the Company's 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 including those relating to ethics and compliance matters, treasury activities, environmental issues, health and safety, human resources, taxation, insurance and pensions. Compliance and internal Audit Reports are made to the Board, 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. In the year we made significant improvements in our control environment in the Severe Service and Indoor Climate businesses in Europe and we are committed to further strengthen the key financial control processes. More information in relation to risk is given on page 46 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 2013 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.

Responsible business

A major ethics and compliance programme, known as 'The IMI Way', has been in place across the Group since 2009. Reports on compliance and The IMI Way programme are considered at regular meetings of the Board and the Executive Committee.

The Board takes account of the social, environmental and ethical impact of its decisions and has established 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 responsibility are identified, monitored and addressed through the Group's general business processes and risk management framework.

More information on corporate social responsibility matters is given on pages 14 to 17 and on the Company's website.

By order of the Board

John O'Shea
Company Secretary

5 March 2014

AUDIT COMMITTEE REPORT



Dear Shareholder

Main areas of activity in 2013

The Audit Committee had four meetings in 2013 and some major financial events to consider in 2013. Significant accounting issues arose from corporate activity including the divestment of the Beverage Dispense and Merchandising divisions and plans to return £620m to shareholders. The accounting treatment for these matters in the 2013 financial statements was fully considered with the financial accounting team and the external auditor and was agreed by the Committee.

The Committee remit was extended in 2013 to require it to advise the Board in relation to the fair, balanced and understandable requirements in respect of the Annual Report and Accounts. Additional work undertaken in connection with this included a review of the new requirements and training for relevant staff, the submission of draft Annual Report content to the Committee in December 2013, followed by a final draft submission two weeks earlier than in previous years to allow more time for comments and improvements. The language, layout and financial statements have all been made more accessible as a result of this work.

The Committee also reviewed the programme for improvement of the capabilities of people in the finance function. Finance roles around the Group were categorised and assessment centres were used to help establish competencies and put in place appropriate individual plans to meet development needs. New divisional finance leaders were brought into a number of key positions including the divisional finance roles in Severe Service and Indoor Climate.

Financial controls continued to be a key focus area for the Committee and during the year management made significant progress in strengthening controls and addressing action points raised by external and internal audit.

As highlighted above, in relation to accounting issues for the 2013 full-year and half-year results, the Committee reviewed and discussed the accounting treatment for the proposed disposal

of, firstly, the majority of the Merchandising business as originally envisaged and then latterly, a number of issues surrounding the accounting treatment for the eventual disposal of both the Merchandising and Beverage Dispense businesses. Issues reviewed and discussed included treatment of these businesses as discontinued operations and the associated tax implications of the transaction.

The Committee also discussed the valuation of the IMI Pension Fund's investment in the IMI Scottish Limited Partnership; the accounting treatment of exceptional items (including restructuring costs); the impairment testing of intangible assets, for which no material impairment charge was taken in the year; the adoption of the revision to IAS19: Employee Benefits; the timing of revenue recognition on some of the Group's larger contracts; the costing and valuation of inventory and the accounting treatments for the acquisitions made during the year.

Members

I chair the Audit Committee. I am a qualified Chartered Accountant and have significant recent and relevant financial experience including twelve years on the board of Centrica plc, the first seven as Finance Director, and seven years as chair of the Audit Committee of Kingfisher plc. Anita Frew and Bob Stack were members of the Audit Committee throughout the year. Bob stepped down at the year end and Carl-Peter Forster joined the Committee on 1 January 2014 and Birgit Nørgaard joined on 1 March 2014. Terry Gateley was a member and Chairman of the Committee until 8 May 2013 at which time he retired.

The Committee generally asks the Chairman, the Chief Executive, the Finance Director, the Group Financial Controller and the Group Assurance Director to attend its meetings but holds at least part of several meetings each year alone with the external auditor and Group Assurance Director. The head of Group Compliance attends meetings regularly and the Committee has the powers to call on any employees to come before it.

Oversight of financial reporting

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 Audit looking at the effectiveness of internal financial controls.

The Committee approved the proposed external audit approach and its scope as well as the internal audit programme. The Committee takes a risk based approach to audit and other assurance activity.

External audit independence and performance review

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. Non-audit fees paid to the auditor were £0.2m (2012: £0.5m), which demonstrated the tight control which is maintained in this area.

The Committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor and believes the performance has been satisfactory although some improvement actions were identified and addressed in the year. A change in lead audit partner was agreed by the Committee and arrangements were put in place to ensure the new lead audit partner had been in place on the team through at least one full cycle before handover. 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 after which it replaced the previous auditor. The term of appointment is annual and there are no contractual restrictions on the Committee's choice of auditor.

Internal Audit

The Committee also receives reports from and monitors the work of the internal audit function, known as Group Assurance, and oversees the timely remediation of action areas resulting from the review visits that Group Assurance undertakes. Group

Assurance work is primarily directed towards financial control audits but is broadening into other areas, including in 2013, major business change project planning and implementation.

Whistleblowing

The Committee also reviews the operation of the Group whistleblowing policy and the independent hotline and the most serious reports received and investigated.

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

Yours faithfully

Phil Bentley

Chairman of the Audit Committee

5 March 2014

NOMINATIONS COMMITTEE REPORT



Dear Shareholder

Main areas of activity in 2013

The Committee spent a substantial part of its time on executive talent development and succession planning. A confidential global search process was commissioned by the Committee to find a new Chief Executive. Russell Reynolds were engaged to assist with this process. Committee members (excluding Martin Lamb) interviewed a range of candidates and the Committee made recommendations to the Board for the appointment of Mark Selway as Chief Executive.

The Committee also reviewed the composition of the Board and its committees. It recommended changes in executive responsibilities and the Executive Committee as well as changes to the membership of the Audit Committee and the Committee itself. The Board approved these recommendations.

Non-executive director appointments are linked to the strategic priorities of the Group and would generally involve external consultants. No new non-executive directors were appointed in the year.

Members

Anita Frew, Bob Stack and Mark Selway and I are the current members of the Nominations Committee. In May 2013, Terry Gateley ceased to be a member of the Committee when he retired from the Board and at the end of the year Martin Lamb, Carl-Peter Forster, Phil Bentley and Birgit Nørgaard also stepped down as Committee members.

Review of time commitments and contributions

Appointments of non-executive directors are made on the basis of a standard form letter of appointment. Each non-executive director and I, as 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. Anita Frew took the lead in reviewing the governance and other implications for IMI of my proposal to become Chairman of Smith & Nephew plc from April 2014, which was then approved by the Board. I have since stepped down from the board of Foster Wheeler AG.

Diversity

We continue to monitor our diversity metrics and to promote fairness and equal opportunities across our businesses. 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 are an equal opportunities employer so we do not discriminate on the grounds of race, sex, disability or sexual orientation. At Board level, there are six nationalities, two of the non-executives are female and there is a broad mix of backgrounds and experience. The Board remains committed to increasing diversity by voluntary measures. We will continue to review the composition of our management teams and the Board to ensure that we have the right mix of skills and experience while maintaining our effectiveness and execution capabilities. We will continue to 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 the same time, the Committee has agreed to measure progress on diversity metrics including gender and nationality mix although specific targets have not been set at this stage. In 2013 the percentages of male and female employees across the Group were as follows:

	All Employees	Managers	Senior Managers	Board Directors
Female %	28%	23%	14%	20%
Male %	72%	77%	86%	80%

In line with our recruitment practices, the Group produces diverse shortlists for internal and external candidates and requests this of external providers, with the aim of encouraging and promoting diversity.

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

Yours faithfully

Roberto Quarta

Chairman of the Nominations Committee

5 March 2014

DIRECTORS' REPORT

*The directors present their report, together with the audited financial statements, for the year ended 31 December 2013.
The Strategic Report is on pages 2 to 35.*

Results and dividend

The Group consolidated income statement is shown on page 84. Segmental operating profit amounted to £321.6m (2012 restated: £300.1m) and profit before taxation and discontinued operations amounted to £249.3m (2012 restated: £229.9m).

The directors recommend a final dividend of 22.5p per 28 4/7p share (2012: 20.7p per 25p share) on the ordinary share capital payable, subject to shareholder approval, on 19 May 2014 to shareholders on the register at the close of business on 11 April 2014. Together with the interim dividend of 12.8p per 25p share paid on 11 October 2013, this final dividend will bring the total distribution for the year to 35.3p per share (2012: 32.5p per 25p share).

Research and development

Expenditure on research and development in the year was £50.0m (2012 restated: £45.4m), in addition to this an amount of £3.3m (2012: £3.9m) has been capitalised.

Shareholders' funds

Shareholders' funds decreased from £635.5m at the end of 2012 to £600.9m at 31 December 2013.

Share capital

As at 31 December 2013, the Company's share capital comprised a single class of share capital which was divided into ordinary shares of 25p each. Details of the share capital of the Company are set out in section 4.6 to the financial statements on pages 131 and 132. The Company's ordinary shares are listed on the London Stock Exchange.

The Company has a Level 1 American Depository 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 2013, 1,796,043 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.6% of the issued share capital (excluding treasury shares) at that time. The independent trustee of the trust has the same rights as any other shareholder. Participants in option schemes do not hold any voting rights on the shares until the date of exercise.

During the year, 316,950 new ordinary shares were issued under employee share schemes: 292,175 under save as you earn plans and 24,775 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 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 (excluding any non-working days) before a general meeting, or (subject to the Company's articles of association) any adjournment thereof.

Return of cash and share capital consolidation

On 21 January 2014, the Company announced the terms of a return of cash to shareholders of 200p per existing ordinary share of 25p each and a share capital consolidation of every 8 existing ordinary shares of 25p each into 7 new ordinary shares of 28 4/7p each.

Directors' Report (cont'd)

The return of cash was structured as a 'B and C share' scheme. Under its terms, shareholders (subject to restrictions in respect of US shareholders and certain other overseas shareholders), were able to elect whether to receive their cash proceeds as: (i) an immediate income payment (the 'Income Option'); (ii) an immediate capital payment (the 'Immediate Capital Option'); (iii) a capital payment deferred until after 6 April 2014 (the 'Deferred Capital Option'); or (iv) any combination of the above.

The resolutions required for the return of cash and share capital consolidation (including to amend the articles of association of the Company) were approved by shareholders at a general meeting of the Company held on 13 February 2014. The new ordinary shares of 28 4/7p were admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 17 February 2014.

On 17 February 2014, the Company issued a total of:

(i) 228,744,051 C shares to satisfy elections (or deemed elections) for the Income Option; (ii) 75,928,619 redeemable B shares to satisfy elections for the Immediate Capital Option; and (iii) 5,475,074 redeemable B shares to satisfy elections for the Deferred Capital Option. On 18 February 2014, a dividend of 200p was declared on each C share issued to satisfy an election (or deemed election) for the Income Option and all such shares were then automatically reclassified as deferred shares (which were later purchased by the Company, for an aggregate consideration of 1p). On the same date, each B share issued to satisfy an election for the Immediate Capital Option was redeemed by the Company for 200p per share. Each B share issued to satisfy an election for the Deferred Capital election is expected to be redeemed for 200p per share on a date between 7 and 14 April 2014.

Further details can be found in the circular dated 21 January 2014, available on the Company's website.

Own shares acquired by the Company

In its preliminary results announcement made on 7 March 2013 in respect of the financial year ended 31 December 2012, the Company announced its intention to commence a share buyback programme over the following 12 months of up to £175m to ensure that net debt remained at or above the then current level.

In 2013 the Company made market purchases of a total of 11,758,395 of its own ordinary shares of 25p each, representing 3.7% of the shares in issue at the beginning of 2013 (excluding treasury shares) at an aggregate cost of £164.3m (nominal value £2,939,599) pursuant to the authorities granted by the shareholders at the Annual General Meetings held on 4 May 2012 and 9 May 2013.

The authority granted to the Company at the Annual General Meeting held on 9 May 2013 to purchase up to 47,863,330 of its ordinary shares of 25p each was replaced by a new authority for the Company granted at the general meeting held on 13 February 2014 to purchase up to 40,675,770 of its new ordinary shares of

28 4/7p each. This authority will expire at the conclusion of the next Annual General Meeting to be held on 8 May 2014. 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 2013, 30,883,095 ordinary shares (nominal value £7,720,774) were held in treasury representing 9.96% of the issued share capital (excluding treasury shares) at that time. This was also equal to the maximum number of shares held in treasury during the year ended 31 December 2013. On 16 January 2014, the Company cancelled 14,598,706 ordinary shares of 25p each held in treasury and on 13 February 2014 the Company cancelled 5 ordinary shares of 25p each held in treasury. As at the date of this Report, 14,248,836 ordinary shares of 28 4/7p each (nominal value of £4,071,096) were held in treasury, representing 5.25% of the issued share capital.

Substantial shareholdings

Information provided to the Company pursuant to the Disclosure and Transparency Rules is published on a regulatory information service and on the Company's website. As at 31 December 2013, 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	5.98%

¹ As of the date in the notification to the Company

Subsequent to 31 December 2013 and up to the date of this Report, the Company was notified that the interests of Amerprise Financial, Inc were 5.011%.

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 41 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 17 members of the European Works

Council comprising 15 employee representatives nominated from among employees from each of our European businesses, covering 11 countries, with the balance being Company appointees. The Group's financial results and important initiatives such as health and safety, training and development, and employee engagement are communicated through a number of mechanisms including the Works Council, newsletters and intranets for the individual businesses and the Company's website and 'town hall' meetings.

Share schemes are a long established and successful part of our total reward package, encouraging and supporting employee share ownership. Full details of employee share schemes are set out in the Remuneration Report on page 60 and in section 4.7 of the financial statements on pages 133 to 136.

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, succession planning and training programmes. In 2013 we launched the Emerging Managers Programme to develop our first line leaders and established a formal mentoring programme for our high potentials. These initiatives and the Company's approach to employee investment and talent development are explained on pages 16 and 17.

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 30% of our graduate intake being female.

At all levels we are focused on increasing our diversity as reflected in the composition of our Board; with the addition of Mark Selway, Chief Executive designate in 2013, our Board makes up a highly international and diverse team (including our two female non-executive directors). When recruiting we strive to ensure that our shortlists of candidates are diverse and that our people are trained to avoid bias in the process in order to ensure fair selection criteria. Our Masterclass in Selection is now part of our on-going training curriculum and in 2013 we launched our on-line toolkit for recruitment and selection. The engagement of our employees is measured though our Employee Engagement Survey, which we ran 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, succession planning 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 24 and 25 and further information is available on page 15 and on our website www.imiplc.com.

Donations

No political donations were made during the year.

Directors

The membership of the Board and biographical details of the directors are given on pages 38 and 39 and are incorporated into this report by reference. Sean Toomes and Terry Gateley retired from the Board with effect from 6 March 2013 and 9 May 2013 respectively. Phil Bentley assumed the chair of the Audit Committee and Anita Frew became the senior independent director from 9 May 2013. Mark Selway was appointed to the Board as Chief Executive designate on 1 October 2013. Martin Lamb stepped down as Chief Executive on 31 December 2013 and will retire from the Board at the Annual General Meeting to be held on 8 May 2014. Mark Selway succeeded Martin Lamb as Chief Executive on 1 January 2014.

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 Mark Selway 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 directors wishing to serve again 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' Report (cont'd)

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 were authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares by resolutions of the Company passed at its Annual General Meeting held on 9 May 2013. These authorities were replaced at the general meeting held on 13 February 2014 by the passing of new resolutions, in a similar form to those passed at the Annual General Meeting, in respect of the new ordinary shares of 28 4/7p each. The current authorities will expire at the conclusion of the next Annual General Meeting to be held on 8 May 2014, at which new authorities will be sought.

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 76 to 78.

Change of control

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.

Information included in the Strategic Report

Important events since the year-end are described on page 5 of the Strategic Report. All disclosures concerning greenhouse gas emissions (as required to be disclosed by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained in page 25 of the Strategic Report. Likely future developments are also covered in the Strategic Report on pages 2 to 35.

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 Strategic Report on pages 2 to 35. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Statements. In addition, section 4.4 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. Section 4.5 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 facilities either in place on 31 December, or renewed since, without the need to renew any further facilities 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.

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.

Annual General Meeting

The Annual General Meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Thursday 8 May 2014. Notice of the meeting will be published on the Company's website.

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

5 March 2014

IMI plc is registered in England No. 714275

Directors' Remuneration Report

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE COMMITTEE



"The Remuneration Committee has worked hard this year to provide a report which balances the need for increased transparency in a format which is more readable and understandable whilst reflecting the complexity of what has been a busy and successful year."

Dear Shareholder

I am pleased to present to you the 2013 Directors' Remuneration Report. It looks different to last year's report because we have taken on board the new legal disclosure obligations, but more importantly, it reflects our desire to provide you with a full and open picture of how we pay directors at IMI. Similar to the 2012 report I would like to start by giving you a concise summary of what the Committee decided during 2013.

What were the most significant issues that we dealt with this year?

Clearly, Martin Lamb's decision to retire and the consequential appointment of Mark Selway were the most high profile issues that we addressed during 2013. There were two critical issues: (a) how should Martin be remunerated during the period up to his retirement, and (b) how should Mark be remunerated. We give full disclosure of their pay arrangements below, but in this letter I think it would be helpful if I gave you some background to how we reached our decisions.

What did the executive directors get paid for 2013?

	Salary Paid (£000)	Pension (£000)	Value of benefits (£000)	Annual bonus for 2013 results (£000)	Vesting of 2011 performance share award and dividends (number of shares)	Vesting of 2011 matching share award and dividends (number of shares)	Gain on vesting of 2011 share and dividend award (£000)	Total 2013 pay and reward (£000)
M W Selway	188	56	109	237	n/a	n/a	n/a	590
M J Lamb	765	386	27	711	67,962	232,228	4,465	6,354
D M Hurt	417	146	20	323	37,275	106,198	2,134	3,040
R M Twite	417	146	19	299	35,199	92,275	1,897	2,778
S Toomes	165	58	94	0	14,282	28,772	640	957

Mark's remuneration as shown above is for the three months that he worked for us in 2013. Full details of all payments made to executive directors are included in the table on page 68.

Directors' Remuneration Report (cont'd)

The 2013 annual bonus was paid against a pre-set range of targets being profit before tax, adjusted EPS, organic revenue growth, cash conversion, health, safety and environment measures and compliance with The IMI Way. As you have read, IMI has performed well against these measures and an overall bonus score of 61.3% (at IMI Group level) was recorded.

The 2011 matching share award and performance award vested at 100% and 82.6% respectively. The EVA and TSR performance conditions (2011 matching and performance share award were met in full, with EPS and ROCE targets (2011 performance share award) being partially met (see page 70 for further details). This is a clear demonstration of 'pay for performance'.

As previously announced, Sean Toomes stepped down as a director in March 2013 and ceased employment on 30 June 2013; the figures shown in the table on page 55 show his remuneration up to that date. He had a contract with a twelve month notice period and we agreed to pay him nine months' worth of remuneration as a termination payment. This together with his repatriation expenses from Switzerland back to the UK, totalled £461,806. A breakdown of this amount is provided on page 76.

What did the non-executive directors get paid in 2013?

The Chairman was paid a fee of £250,000. Each non-executive director received an annualised base fee of £55,000. I received an additional £15,000 for chairing the Remuneration Committee. Terry Gateley and Phil Bentley were paid incremental fees of £15,000 (pro-rated) for chairing the Audit Committee (chairmanship changed at the 2013 Annual General Meeting). Finally, Terry Gateley and Anita Frew shared the £5,000 additional fee that is paid for being the senior independent director (which also passed hands at the 2013 Annual General Meeting). These extra fees reflect the greater time commitment of these roles. Non-executive directors do not receive annual bonuses or participate in the share plan incentives.

What is changing for 2014?

Consistent with the approach we are taking across the whole Group, the salaries of the continuing executive directors have been increased by 3.1%. The Committee agreed to increase the Chairman's remuneration by £50,000 to £300,000 on the basis that the amount is fixed for two years from 1 January 2014 and 25% would be taken as shares to be retained until his retirement from the Board. The non-executive and senior independent director fees are being reviewed. No changes have been made to IMI's incentive policy.

Review of incentive arrangements

We chose to defer our review of all incentive arrangements to 2014 as a result of Martin's announcement to retire and the corporate transactions that we announced in 2013. With Mark's appointment, and some share plans due to expire in 2015, we will undertake this review in 2014. We will tell you our conclusions and recommendations in next year's report

and expect to be putting new share plans and a revised policy forward for approval at the 2015 Annual General Meeting.

What about staff pay?

In 2013 our average staff salary increase was 2.96%. Approximately one million options vested in 2013 under the Share Option Plan (these were granted in 2010 to our managers) and the gain per share option on vesting was £6.21 each. We continue to offer UK SAYE, UK Share Incentive Plan and Global Employee Share Purchase Plans in USA and Germany.

How was our corporate performance reflected in pay?

In 2013 IMI made significant progress on a number of fronts. Segmental revenue increased by 3% to £1,744m. Furthermore, adjusted profit before tax and adjusted basic EPS increased by 8% and 12% respectively, performance that is reflected under our annual bonus plan. Shareholders will also benefit from a 9% increase in the total dividend for the year, which when combined with IMI's strong share price growth has resulted in market beating returns (see page 132 for further information).

What is in the rest of this report?

As a result of the UK's new remuneration voting and disclosure regulations, this report must follow a fairly prescribed format. We have sought to make it more readable by including tables and charts where we can. The following two sections of the report include:

- The Directors' Remuneration Policy which summarises all the elements of remuneration at IMI, detailing their purpose, the parameters within which they operate and the extent to which they are linked to performance. This policy will be put to you for binding approval at the Annual General Meeting on 8 May 2014.
- An Annual Report on Remuneration which provides details of the remuneration earned in respect of performance during the 2013 financial year, along with details of any awards made during the year and any other relevant remuneration decisions. This report will be put to you for non-binding approval at the Annual General Meeting on 8 May 2014.

Looking forward

As a Committee we seek to ensure that the remuneration framework at IMI provides clear alignment to the strategy and shareholders' interests, while fairly rewarding for the performance delivered. We are confident that the Directors' Remuneration Policy we are putting to you for approval meets these requirements. I hope you will support it at the Annual General Meeting.

Bob Stack

Chairman of the Remuneration Committee on behalf of the Board
5 March 2014

Directors' Remuneration Report

DIRECTORS' REMUNERATION POLICY

Introduction

The Remuneration Committee (the 'Committee') presents the Directors' Remuneration Policy Report, which will be put to shareholders for a binding vote at the Annual General Meeting to be held on 8 May 2014 (Resolution 2). Subject to shareholder approval, the effective date of this policy will be 9 May 2014.

The intention of the Committee is that the policy would normally remain in place for three years. However, as some of the share plans are due to expire in 2015 and a review of all our incentive arrangements is underway in 2014, we will need to return to shareholders at the 2015 Annual General Meeting.

The remuneration policy that we summarise in this section is consistent with the policy that has been in place at IMI for a number of years. This policy is broken into a number of sections:

- a future policy table for executive directors, which sets out the components of our annual remuneration;
- an illustration of the sensitivity of pay outcomes to IMI's performance;
- other relevant policies relating to executive director remuneration, including recruitment, service contracts, appointments and terminations;
- remuneration policies that relate solely to the Chairman and non-executive directors; and
- the contextual information the Committee considers, when making decisions on executive directors' remuneration.

IMI's remuneration philosophy

The Committee 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 IMI 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 component of the remuneration package to performance.

The Committee believes it is 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.

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.

Directors' Remuneration Report (cont'd)

Illustrations of the application of IMI's remuneration policy

To illustrate the opportunity available to our executive directors, and the sensitivity of pay to performance, the adjacent graphs set out pay outcomes for three performance scenarios:

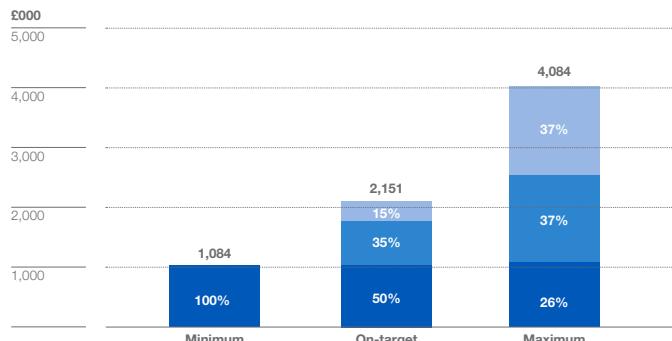
- minimum where pay is limited to fixed, non-performance related components (based on 2014 salaries and the corresponding pension and benefits as disclosed in 2013);
- 'on-target' where bonus vests at target levels for each executive, and long-term incentives vest at threshold (assuming targets are calibrated such that the lower end of the vesting schedule is representative of 'on-target'); and
- maximum, where all variable pay components vest in full.

The charts adjacent are based on actual SMP and PSP awards for 2014 vesting in 2017 in order to best reflect the application of the policy in that year. No share price growth or dividend assumptions are made and all-employee share plans are excluded.

Please note that Martin Lamb has been excluded from the information along side as he will not be a serving director at the date the policy takes effect.

M W Selway

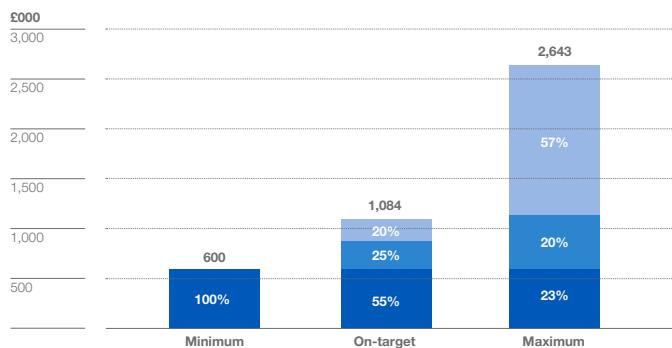
■ Long-term incentives
■ Bonus
■ Fixed pay



Salary	750	750	750
Pension	30%	30%	30%
Benefits	109	109	109
Annual Bonus	0%	100%	200%
SMP	0%	5%	51%
PSP	0%	37%	149%

D M Hurt and R M Twite

■ Long-term incentives
■ Bonus
■ Fixed pay



Salary	430	430	430
Pension	35%	35%	35%
Benefits	19.5	19.5	19.5
Annual Bonus	0%	63%	125%
SMP	0%	25%	250%
PSP	0%	25%	100%

Percentages in the above tables are percentages of salary.

Future policy table – executive directors

Component & purpose	Operation	Annual opportunity
Fixed elements of executive remuneration		
Salary Reflects individual performance and personal contribution to delivering the Group strategy. They are set in the context of total pay levels.	Reviewed annually with any change normally effective from 1 January. When setting salary, the Committee takes into account the level of increase for a reference group of comparable employees in the senior leadership team, market data, business performance, external economic factors, the complexity of the business and the role, cost, and the incumbent's experience and performance.	Salaries effective 1 January 2014: £750,000 M W Selway £430,000 D M Hurt and R M Twite £765,000 M J Lamb (until retirement) The policy is that normally any salary increase for an executive director will be in line with those of the wider workforce. Increases beyond this may be awarded in certain circumstances, such as a change in responsibility after taking into account the factors noted alongside.
Pension Provides for retirement and supports succession planning.	A cash allowance in lieu of pension is paid monthly. To the extent required by law, part of this allowance will be paid into a defined contribution pension arrangement. With the Committee's approval the executive directors may redirect all or part of the balance of this allowance into a defined contribution pension arrangement.	Up to 30% of salary Legacy obligations of 35% of salary for appointments to the Board before October 2013 will continue to be honoured.
Benefits Protects the well-being of executives and to provide fair and reasonable market competitive benefits.	The policy provides a normal range of benefits to executive directors. These include but are not limited to: non-cash: private healthcare for themselves and their family, life insurance, and other minor ancillary benefits; and cash and taxable allowances: car and fuel allowance, personal tax advice and two annual round trips for the Chief Executive and his spouse to return to his home location. Where it is in IMI's interests to request that executives work in a different country or region then we will pay relocation and provide benefits and allowances in line with IMI's Global Mobility Policy. Expenses that are incurred by an executive director in undertaking their role are reimbursed.	The values of benefits vary significantly year-on-year depending on the age and health of the individual, the cost of providing them and the country in which the executive is based. However, the range of the benefits is not expected to change from year to year. Should it be appropriate to relocate an executive director or to recruit an executive director from overseas, flexibility is reserved to provide benefits that ensure that the individual and IMI can both achieve this commercial purpose.
All-employee share plans (all-employee share plans do not have an associated performance framework)		
All-Employee Share Plans Encourages share ownership amongst the broader employee population and aligns interests of IMI employees with those of shareholders. In addition provides a tax efficient investment vehicle for employees.	UK Plans UK SAYE: an HMRC approved Savings Related Share Option Scheme which is open to all of the Group's UK employees, including the UK-based executive directors. Employee Share Ownership Plan: a HMRC approved Share Incentive Plan which is open to all of the Group's UK employees, including the UK-based executive directors. Global Plans: All-employee share purchase plans operate in countries outside the UK. The vehicle and manner of award varies by country depending on local market restrictions and the plan operated in the region.	In line with the statutorily defined limits with respect to investments, awards and discounts on the price of share options. Eligible employees (including executive directors) can invest subject to the plan limits that apply to all participants, which vary by local market and plan.

Directors' Remuneration Report (cont'd)

Future policy table – executive directors (cont'd)

Component	Purpose	Operation
Variable components of executive remuneration		
Annual Incentive Bonus	Drives and rewards performance against annual financial, strategic and operational goals, which are consistent with the medium to long-term strategic goals of IMI, also taking into account individual behaviours and contributions.	The payment of awards under the plan is determined by the Committee based on annual performance relative to set targets which are reviewed at the end of the year.
Share Matching Plan ('SMP')	Incentivises long-term value creation, aligning the interests of executives and shareholders through the delivery of awards in shares. The selected performance metrics support the long-term strategy of IMI and the vehicle and time horizon provides a retention tool for key executives. The use of matching shares further aligns the interests of executives with those of shareholders by both requiring and encouraging investment in IMI shares. This complements the share ownership guideline which is set out on page 62.	Executives can invest a value up to a maximum of their Annual Incentive bonus. Compulsory investment is required annually to the value of up to 50% of any net Annual Incentive Bonus earned if the executive has not achieved their share ownership guideline. Invested shares attract the grant of a matching share award, which can take the form of nil-cost options or deferred awards. Invested shares are returned to the participant in full at the end of the three-year performance period or sooner at the participant's request. The matching shares vest at the end of the three-year vesting period provided the performance conditions are satisfied and the participant remains an IMI employee (or is a 'good' leaver) and has retained the invested shares. Dividends (or equivalent value payments) accrue and are payable in cash or shares in respect of vested awards up to the point of exercise. Clawback provisions are included in the plan rules.
Performance Share Plan ('PSP')	Incentivises long-term value creation, aligning the interests of executives and shareholders through the delivery of awards in shares. The selected performance metrics support the long-term strategy of IMI and the vehicle and time horizon provides a retention tool for key executives.	The Committee can make annual share-based awards, which can take the form of nil-cost options. Dividends (or equivalent value payments) accrue and are payable in cash or shares in respect of vested awards up to the point of exercise. Clawback provisions are included in the plan rules.

Annual opportunity**Performance**

The policy is to pay annual bonuses up to a maximum of 200%. In respect of 2014, the chief executive's bonus maximum will be 200% of salary; for the other executive directors it will be 125% of salary.

As a percentage of maximum opportunity, the following amounts are payable for the corresponding levels of performance:

Threshold (minimum):	0%
Target:	50%
Maximum:	100%

The level of opportunity depends on the role, the level of investment and whether or not an executive has met the share ownership requirements.

The maximum opportunity is 400% of salary for the Chief Executive. The different permutations are summarised below:

Maximum match		
Investment	Compulsory	Voluntary
Chief Executive	1.25:1	2:1
Others	1:1	2:1

In 2014 this equates to the following maximum value as a percentage of salary:

Investment	Compulsory	Voluntary
Chief Executive	250%	400%
Others	125%	250%

As a percentage of maximum opportunity, the following amounts are payable for the corresponding levels of performance:

Threshold (minimum):	10%
Maximum:	100%

Other points on the vesting schedule will be set by the Committee when the performance targets are set.

Normal award: 100% of salary

Maximum award: 200% of salary

The proportion of the award that vests for achievement of the performance targets are:

Threshold (minimum):	25%
Maximum:	100%

Other points on the vesting schedule will be set by the Committee when the performance targets are set.

The payment of bonus will depend on performance relative to pre-determined measures and targets over the course of a financial year.

The Committee determines the measures and targets annually to ensure alignment with strategy. Normally these will be a combination of measures linked to the financial and non-financial performance of IMI.

For 2014 the measures and their weightings are profit before tax and exceptional items (35%); Group adjusted earning per share ('EPS') (15%); organic revenue growth (15%); cash conversion (15%); health, safety and environment (5%); and personalised non-financial measures (15%).

The release of matching and performance share awards will depend on performance relative to pre-determined measures and targets over three consecutive financial years.

The Committee will determine measures and targets annually to ensure continuing alignment with strategy.

For 2014 the measures and their weights are the same as in 2013, namely:

SMP: Growth in Economic Value Added ('EVA') (100%)

PSP: EPS growth (50%); relative total shareholder return ('TSR') (25%); and organic revenue growth (25%).

Directors' Remuneration Report (cont'd)

Additional notes to the future policy table

Setting of performance measures and targets

The Committee reviews and selects performance measures annually, being informed by the short and long-term priorities of IMI at the time. The Committee therefore considers the strategic plan and the key performance indicators associated with this. Details of these are included in the Annual Report each year. At the time of selecting performance measures, the Committee determines the performance targets that will apply in respect of each measure. Factors that the Committee may consider include the strategic plan, the annual budget, analysts' forecasts, economic conditions, individuals' areas of responsibilities and the Committee's expectations over the relevant period.

Principles for the impact of corporate transactions

In light of the sale of the Beverage Dispense and Merchandising divisions during 2013, the Committee reviewed and approved principles that determine the way in which such a corporate transaction will impact remuneration. It is clear that any corporate transaction, which is in the best interests of IMI and its shareholders, should not have an adverse impact on remuneration. The principles included the need for management to be treated in a manner consistent with shareholders in respect to the rights to equity, that performance should be measured on a like-for-like basis, that there should be no compensation for adverse or favourable tax consequences and that any changes to performance computations will be reviewed by the Company's auditors.

Differences in the remuneration policy for executives relative to the broader employee population

The remuneration framework in place for the executive directors is informed by the structure that sits beneath it for the broader employee population. While absolute levels and the provision of certain components, benefits and allowances vary by country and level, the overarching themes are consistent:

- salaries are reviewed annually with any increases made on a discretionary basis and informed by factors such as those set out in the policy table;
- consistent with executive directors, senior managers participate in annual bonus plans with measures linked to corporate, divisional and/or local performance depending on their level;
- senior managers can be considered for awards under the Share Matching Plan, albeit subject to lower matching levels. This is intended to encourage share ownership in IMI. Senior managers and the broader employee population can also be considered for discretionary share option awards without performance conditions. The all-employee plans described in the policy table are offered on consistent terms to all employees in the countries where the plans operate; and
- with respect to benefits and allowances, eligibility and provision varies by level and local market practice. For senior managers, it is standard to receive a company car allowance. Pension provision below the Board is accrued at a lower rate, and can take the form of a cash allowance.

OTHER EXECUTIVE DIRECTOR REMUNERATION POLICIES

Share ownership guideline

All executive directors are subject to the guidelines which require them to build a shareholding worth 125% of salary within a five year period of being appointed to the Board. When assessing compliance with this guideline the Committee reviews both the level of beneficial share ownership and vested but unexercised share incentive awards on a post-tax basis.

To the extent an individual does not meet their share ownership guideline, up to half of any annual bonus is automatically payable in shares. Further encouragement to meet the guideline is that a higher level of match is available under the Share Matching Plan to those executives that own the desired level of shares compared to those who do not.

Exceptional circumstances

The Committee retains the authority to make 'emergency' payments on terms outside of those set out elsewhere in this policy to the extent they are needed in truly exceptional circumstances and are genuinely unforeseen. Any such payments will be fully disclosed on a timely basis.

Appointments to the board

Base salary will be set taking into account factors including market levels, experience, internal relativities and cost.

The Committee may determine that an initial positioning below market is appropriate and; in those circumstances, realign base salary in the years following appointment, which may result in an exceptional rate of increase in the short-term. Any reliance on this principle will be noted at the time of appointment.

Other components of annual remuneration will be set in line with the future policy table (on pages 59 to 61). The maximum bonus opportunity is 200% of salary, with a maximum opportunity under the Share Matching Plan of 400% of salary and a maximum award under the Performance Share Plan of 200% of salary. In aggregate, the theoretical maximum variable pay opportunity that can be awarded in one year will be 800% of salary.

As part of the appointments policy the Committee may also:

- continue with the provision of existing remuneration components relating to pension, benefits and allowances for internal appointments;
- provide benefits, allowances and/or payments related to relocation; and/or
- make a long-term incentive award on appointment, outside of the annual cycle, under existing shareholder approved share plans and/or an individual award agreement to provide an immediate interest in company performance. The Committee will determine the level of any award, performance conditions and time horizon informed by the business circumstances at the time. The maximum value of such an award will be 200% of salary.

Service contracts will be entered into on terms summarised in the service contract policy (see below). As noted above, the Committee would authorise the payment of a relocation allowance as well as other associated international mobility terms in line with IMI's Global Mobility Policy.

The Committee may consider 'buying-out' incentive awards, up to an equivalent value, that an individual forfeits in accepting the appointment. To achieve this, the Committee's preference has been to use the existing shareholder approved plans. When making their decision, the Committee will be informed by the vehicles, time horizons, value and performance targets associated with any forfeited awards.

A timely announcement with respect to any appointment and the appointee's remuneration will be made to the regulatory news services ('RNS') and posted on IMI's website. Full details will then also be included in the relevant report on remuneration in the Annual Report (as is the case for Mark Selway this year, see page 59).

Service contracts

During the year the Committee took the opportunity to review the standard contractual terms for new appointments to the Board. Mark Selway's contract reflects this and it is in line with the following policy that will apply to future Board appointments:

Notice period	12 months' notice each way
Payment in lieu of notice	As determined by the Committee, but restricted to salary, benefits and pension. Directors have a duty to mitigate
Change of control	No incremental payments or protection
Entitlements on termination	<p>No entitlement if leaving as a 'bad leaver' as set out in the contract</p> <p>Salary, contractual benefits and pension allowance as per notice period</p> <p>Committee power to make phased payments that would be reduced or stopped if alternative employment is taken up</p>

Pension terms specific to Martin Lamb

As a consequence of the closure of the IMI Pension Fund ('the Fund') with effect from 31 December 2010, the Company made alternative arrangements in lieu of certain contractual entitlements to pension benefits which, but for the closure, would have been provided through the Fund to all members in the same membership category as Martin Lamb (Chief Executive at the time). Prior to leaving service or death, these alternative arrangements include annual (as at 31 December) augmentation of Fund benefits (up to the level that would have been provided save for closure) or an equivalent cash payment in lieu. Accordingly an augmentation of £2,694 was made to Martin's benefit as at 31 December 2013 and no payment in lieu arose.

Terms for Martin Lamb, Douglas Hurt and Roy Twite

The key terms (as they relate to remuneration) not otherwise mentioned that are included in service contracts are as follows:

Notice period	12 months' notice each way
Payment in lieu of notice	Martin Lamb – no provision Douglas Hurt, Roy Twite – at the Committee's discretion
Change of control	Bonus entitlement if a change in control has taken place within the 24 months prior to termination
Entitlements on termination	No entitlement if dismissed for cause or resignation

Termination and loss of office

As noted above, it is the Committee's policy that notice periods in executive directors' contracts shall be set at a period of up to 12 months, based on factors considered at the time of the appointment. The primary principle underpinning the determination of any payments on loss of office is that payments for failure will not be made. Service contracts and plan rules have been drafted in such a way that the Committee has the necessary powers to ensure this.

On departure, the Committee will take into account factors including the reason for the executive leaving, performance during the time served in the year and contractual obligations when approving any payments. When an executive is terminated for cause there is no entitlement to salary, pension, benefits or an annual bonus and unvested awards under the SMP and PSP lapse.

Any enhanced pension commitments that exist below the Board (under the arrangement described earlier for Martin Lamb) will continue to apply should an individual be appointed to the Board. The following table provides a summary of the treatment of each component of pay. It should be noted that the Committee applies judgement in determining whether an individual is classed as a good leaver or otherwise under the share plans and is authorised to reach compromise agreements with departing executives. Agreed departure can include death, ill health, redundancy or retirement. The key terms subject to Committee determination are summarised on the following page.

Directors' Remuneration Report (cont'd)

Payment	Agreed departure	Differences in a change in control situation
Salary, pension* and benefits	The Committee may make payment in lieu of notice.	None.
Annual bonus	Individuals can be considered for a bonus; factors such as time served during the performance period and performance can be taken into account. Deferred bonuses vest.	Performance to the date of the event taking place will be considered in determining whether any bonus should be payable, subject to the overall maximum applicable to the relevant individual. For directors appointed prior to September 2013, there remains a bonus entitlement if a change in control has taken place within the 24 months prior to termination. In this scenario, the director is entitled to a bonus, or compensation in lieu of bonus, in respect of the relevant calendar year.
Share Matching Plan	Invested shares: Invested shares are transferred back on cessation or at the end of the investment period. Matching shares: Performance measured at the end of the performance period, or at the date of cessation of employment. Pro-rating for time elapsed at cessation of employment will be considered by the committee. The Committee can reduce or increase the exercise period for unvested and vested but unexercised awards.	Similar to agreed departure. A reduction in the exercise period for vested but unexercised awards. Performance and time elapsed will be taken into account, but the Committee may enable awards to vest in full. In certain situations (as defined in the plan rules) rollover awards can be offered, taking into account performance and time elapsed, although these can be disappled by the grantor.
Performance Share Plan	Performance measured at the end of the performance period, or at the date of cessation of employment. Pro-rating for time elapsed at cessation of employment will be considered by the Committee. The Committee can reduce or increase the exercise period for unvested and vested but unexercised awards.	Similar to agreed departure. A reduction in the exercise period for vested but unexercised awards. Performance and time elapsed will be taken into account, but the Committee may enable awards to vest in full. In certain situations (as defined in the plan rules) rollover awards can be offered, taking into account performance and time elapsed, although these can be disappled by the grantor.
Other	The Committee may approve other limited payments which may include legal fees connected to the departure, untaken holiday, out-placement and repatriation.	Similar to agreed departure.
* Enhanced Pension	As described above in respect of Martin Lamb's service contract. This does not apply to any other director. Existing arrangements that apply to persons who are appointed as executive director will continue to apply.	

Considerations taken into account when setting our directors' remuneration policy

Employment conditions at IMI

When setting the salaries for executive directors the Committee takes into account a number of factors (as noted in the future policy table on pages 59 to 61) and these include the broader employment conditions within IMI. More specifically:

- the Committee reviews budgeted salary increases across the Group on a country-by-country basis when assessing the appropriateness of any increases for the Directors; and
- in making decisions the Committee also takes account of the internal relativities against the reference group and within the wider senior management team and general employee population.

Details of these comparison metrics will be included in the Annual Remuneration Report each year.

The Committee did not consult with employees when preparing the Directors' Remuneration Policy for this report.

Shareholder views

The Committee has a standard annual agenda item whereby the feedback from shareholders and investor advisory bodies is presented and discussed following the Annual General Meeting. This feedback is sought and collated by the Company Secretary. The feedback that the Committee receives then informs discussions for the formulation of future policy and subsequent remuneration decisions. For example, following feedback in 2013 the Committee chose to reduce pension contributions from 35% of salary to 30% of salary for new appointments to the Board.

Furthermore, as appropriate, representatives of the Committee will meet with shareholders on specific matters, which may be prompted by either party.

Future policy table – Chairman and non-executives

The table below summarises the policy with respect to the remuneration of the Chairman and non-executive directors. No component of remuneration is linked to performance and there are no provisions for the recovery of sums paid or the withholding of any payments.

Letters of appointment for the Chairman and non-executive directors

The letters of appointment set out key duties, including 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.

There are no provisions for the Company to give notice, but the Chairman is required to give three months' notice to the Company and non-executives one month. Subject to annual election at the Annual General Meeting, the initial period to first renewal is three years. After six years, renewal is considered on an annual basis.

The letters of appointment are available for inspection at the Annual General Meeting and the Company's registered office. Details of the dates and unexpired terms are included in the Corporate Governance Report on page 41.

Terminations policy for the Chairman and non-executive directors

There are no provisions for the Company to pay compensation on early termination.

Appointments to the board - policy for the Chairman and non-executive directors

Any contractual terms will be consistent with those currently adopted for existing non-executive directors. The Chairman and non-executive directors are not eligible to receive any variable pay.

On appointment, fees for non-executive directors will be consistent with the policy in place at the time of appointment.

If necessary, to secure the appointment of a new Chairman who is not based in the UK, payments relating to relocation and/or housing may be provided.

Exceptional circumstances

The Committee retains the authority to make payments outside of those set out elsewhere in this Policy to the extent they are needed in truly exceptional circumstances and were genuinely unforeseen and thus are of an emergency nature. Any such payments will be fully disclosed on a timely basis.

Component	Purpose	Operation	Annual Opportunity
Base Fees	To attract and retain high-calibre individuals by offering market-competitive fees, commensurate to the time commitment and experience that is required.	Fees are reviewed annually (or less frequently where noted) and can be paid in cash and/or shares. Benchmarked against companies of a similar size and complexity. When setting fees, factors considered include the level of increase for employees more generally, market data, business performance, external economic factors, the skills required, time requirements and cost. In respect of the Chairman, IMI also consider the individual's profile and experience.	The Chairman's fee is fixed at £300,000 (£225,000 in cash with the balance payable in IMI shares) until 31 December 2015, at which point it will be subject to review. At 31 December 2013 base fees for the non-executive directors were £55,000, although this is subject to review with any change effective in 2014.
Additional Fees	To reflect the additional time required when an individual chairs a committee or is appointed as senior independent director.	Fees are reviewed annually and can be paid in cash and/or shares. The Chairman is not eligible to receive additional fees. Fees are benchmarked and set in a manner consistent with base fees (see above).	Fee levels in place at 31 December 2013 and subject to review in 2014: Committee chairman: £15,000 Senior independent director: £5,000
Benefits	To reimburse reasonable business expenses.	Reimbursement in cash on production of receipts or other proof of payment of business expense.	Expenses incurred by the Chairman and non-executive directors in undertaking their role are reimbursed as a business expense and are not a personal benefit in kind. Typically these might include business travel, meals and entertainment.

Directors' Remuneration Report

ANNUAL REMUNERATION REPORT

Introduction

The Remuneration Committee presents the Annual Remuneration Report, which will be put to shareholders as an advisory (non-binding) vote at the Annual General Meeting to be held on 8 May 2014.

Given the pay policy of IMI has been broadly unchanged for a number of years, the remuneration paid in respect of 2013 is aligned with the Directors' Remuneration Policy that will apply in the future.

This report comprises a number of sections:

- firstly, an introduction to your Committee along with a reminder of the voting outcome at our 2013 Annual General Meeting;
- details of the remuneration paid in respect of the 2013 financial year;
- information on the comparative data, including a comparison of employment costs to other major cash distributions, the percentage change of elements of the Chief Executive's remuneration relative to other employees, the historical performance and the Chief Executive's pay at IMI;
- an overview of how the performance measures that were used in the executive incentive plans in 2013 align with the strategic objectives of IMI;
- a full breakdown and explanation of the individual remuneration elements paid during or in respect of the 2013 financial year, along with details of delivered performance relative to the targets that were set;
- details of share awards made during 2013 under the Share Matching Plan and Performance Share Plan;
- a summary of directors' beneficial interests and their progress towards IMI's share ownership guidelines; and
- information on changes to pay, in line with our policy that will apply in the 2014 financial year, including a summary of the payments associated with Martin Lamb's retirement.

The Remuneration Committee ('the Committee')

Composition

The members of the Committee during the year were Bob Stack (Chairman), Carl-Peter Forster, Anita Frew, Birgit Nørgaard, Terry Gateley (until 9 May 2013), 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.

Responsibility

The Committee determines the remuneration policy and rewards for the executive directors and, in his absence the Chairman. The Committee also reviews the remuneration 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 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. As a matter of course, the terms of reference are reviewed annually. During the year, the terms of reference were updated to reflect the Committee's new reporting responsibilities and the additional processes required in the future for formally approving payments. More generally, the Committee recognises its responsibility for considering the risk implications of incentives and the remuneration structure at IMI.

Internal advisors to the committee

During the year, 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 (until 30 June 2013), the interim Group Human

Resources Director, Susan Hall (from 1 July 2013), Group Reward Manager, Liz Rose, and the Company Secretary, John O'Shea, who is secretary to the Committee. None of these executives were involved in determining their own remuneration.

External advisers to the Committee

Independent remuneration advisers, Towers Watson, are formally appointed by the Committee and provided advice on directors' remuneration to the Committee in 2013.

Towers Watson notified the Committee that the firm are actuaries and administrators for the IMI Pension Fund. The Committee was comfortable that this did not represent a conflict of interest and that objective and independent advice would continue to be received by the Committee from Towers Watson. During 2013, Towers Watson has also supported management on some broader reward and human resource matters. The fees charged by Towers Watson in respect of Committee advice and services totalled £190,000 in 2013.

Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK and the terms of engagement with Towers Watson are available on request from the Company Secretary.

Finally, in conjunction with the retirement of Martin Lamb and the appointment of Mark Selway as Chief Executive the Committee engaged the services of Covington & Burling LLP. Covington & Burling LLP have previously represented IMI in the USA and were appointed based on both this and external recommendations. In respect of their services to the Committee, Covington & Burling LLP charged £24,930 in 2013.

A summary of the Committee activities during 2013

The Committee had four meetings during the year.

The principal agenda items were as follows:

- a review of total compensation packages of the executive directors and the most senior management of the Company;
- approval of achievements and outcomes under the incentive plans;
- setting the framework and target levels for the 2013 incentive cycle;
- approval of the granting of share awards to other levels of management;
- discussing the new remuneration regulations, reviewing policies and draft disclosures;
- a review of the UK corporate governance environment;
- a risk review of the remuneration framework;
- consideration of the Chairman's fees;

- review of the engagement of independent remuneration consultants and other advisers to the Committee;
- a review of the Committee's own performance, constitution and terms of reference; and
- review and approval of the retirement terms for Martin Lamb and the recruitment terms for Mark Selway.

Voting outcome at the 2013 Annual General Meeting

The following table summarises the details of votes cast in respect of the resolution to approve the Directors' Remuneration Report at the 2013 Annual General Meeting.

While the Committee was pleased with the level of support shown by shareholders in respect of this resolution, consideration was given to those shareholders that did not vote in favour of the Directors' Remuneration Report. In particular, the Committee was briefed on why Aviva (a major shareholder) voted against the resolution and this feedback informed the reduction in pension provision for new hires.

As in previous years, details of the voting on all resolutions at the 2014 Annual General Meeting will be announced via the RNS and posted on the IMI website following the Annual General Meeting.

Votes for	Votes against	Total votes cast	Votes withheld (abstentions)
211,345,514	7,230,257	218,575,771	2,320,001
96.69%	3.31%	68.50% of ISC	-

ISC: Issued Share Capital

Directors' Remuneration Report (cont'd)

Executive single figure table (audited)

The following table summarises the remuneration received by the executive directors in respect of the financial years ended 31 December 2013 and 31 December 2012. The relevant explanatory details and supporting notes are included on the subsequent pages of this report and cross referenced in the table below.

Director	Fixed pay (£'000)			Annual variable pay (£'000)	Long-term variable pay (£'000)			Other items in the nature of remuneration (£'000)			Total (£'000)	
	Base salary	Pension	Taxable benefits		Annual incentive bonus	Share matching plan (SMP)	Performance share plan (PSP)	Subtotal Long-term variable pay	All-Employee Share Plans	Dividend Equivalent Payments		
See Page	Page 70	Page 70-71	Page 71	Page 71-73		Page 73	Page 74-75		Page 75	Page 76	Page 76	
M W Selway ¹	2013	188	56	109	237	-	-	-	-	-	-	590
	2012	-	-	-	-	-	-	-	-	-	-	-
M J Lamb	2013	765	386	27	711	3,454	1,011	4,465	5	329	-	6,688
	2012	740	259	31	524	4,716	1,380	6,096	5	299	-	7,954
D M Hurt	2013	417	146	20	323	1,580	554	2,134	3	180	-	3,223
	2012	405	142	24	238	2,281	757	3,038	3	111	-	3,961
R M Twite	2013	417	146	19	299	1,373	524	1,897	3	55	-	2,836
	2012	405	142	23	222	1,869	716	2,585	4	28	-	3,409
S Toomes ²	2013	165	58	94	-	428	212	640	-	22	462	1,411
	2012	330	116	190	174	481	-	481	-	20	-	1,311

These figures have been calculated as follows:

- Base salary: the actual salary receivable for the year
- Pension: the cash allowance paid in lieu of pension. The figures for Martin Lamb also include the value of the augmentation to his benefits under the IMI Pension Fund, details of which are given on page 71.
- Taxable benefits: the gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.
- Annual incentive bonus: the value of the annual incentive payable for performance in respect of the relevant financial year (half of this is automatically delivered in shares when the executive does not meet the share ownership requirement).
- Share matching plan: the value on vesting of the matching shares that were subject to performance over the three-year period ending on 31 December in the relevant financial year. For shares vesting in 2014, that related to performance in the prior three years to 31 December 2013, the share price over the final three months of 2013 (1,487.41 pence) is used to derive an estimate of the value on vesting. For shares vested in 2013, relating to performance in the prior three years to 31 December 2012 the share price on the date of vesting (1,266.00 pence) is used to determine their value.
- Performance share plan: the value on vesting of shares that were subject to performance over the three-year period ending on 31 December in the relevant financial year. For shares vesting in 2014, that related to performance in the prior three years to 31 December 2013, the share price over the final three months of 2013 (1,487.41 pence) is used to determine an estimate of the value on vesting. For shares vested in 2013, relating to performance in the prior three years to 31 December 2012 the share price on the date of vesting (1,266.00 pence) is used to determine their value.
- All-employee share plans: the value of free shares and dividends (SIP) at award made in the relevant financial year and the intrinsic value of share options on the date of grant (SAYE) in the relevant financial year (applying a 10% discount).
- Dividend payments: the value of dividend equivalent shares on vested but unexercised awards under the share plans, valued at the price on the dividend payment date.
- Loss of office payments: amounts due in relation to the loss of office of a director.

¹ Mark Selway was appointed on 1 October 2013 and the table reflects payments from this date

² Sean Toomes stepped down from the Board on 6 March 2013 and left the Company on 30 June 2013. The table reflects payments to the date of departure from the Company

Comparative data

The following information is intended to provide additional context regarding the total remuneration for executive directors.

Relative importance of pay spend

In 2013, the total dividend for the year of 35.3p represented an increase of 9% over last year's 32.5p. Furthermore, as a result of the sale of the Beverage Dispense and Merchandising divisions a special return of £620m will be made to shareholders in 2014 (not captured below). During the same period the total pay spend increased by 2% reflecting the salary inflation for the Group.

The following table summarises the major cash distributions during the year as set out in the operating review (see pages 51 to 52), compared to the total pay spend for the Group:

	2013 £m	2012 £m	Change
Acquisitions	7.8	83.1	-91%
Dividends	106.2	97.8	9%
Purchase of own shares	195.7	10.0	1857%
Total employment costs for Group (see section 2.1.3 to the Accounts)	630.1	616.6	2%

Relative percentage change in remuneration for Chief Executive

The following table summarises the change between 2012 and 2013 in three elements of remuneration for Martin Lamb, in comparison to the average for a reference group of employees, comprising those people in the senior management team. This reference group is selected because data is held centrally meaning it is readily available for comparisons, and it also covers a global and diverse population which is representative of IMI as a whole. To avoid distorting the comparisons, those members of the senior management team that are on international assignment have been excluded.

While the Committee considers the increase in base pay for the Chief Executive relative to the broader employee population; benefits are driven by local practices and eligibility determined by level and individual circumstances which makes comparison difficult. Similarly, bonus payments are driven by different factors throughout the organisation and so typically are not compared.

2013 % change	Base pay	Taxable benefits	Annual bonus
Chief Executive	3.4%	-13%	36%
Reference Group	3.4%	4%	18%

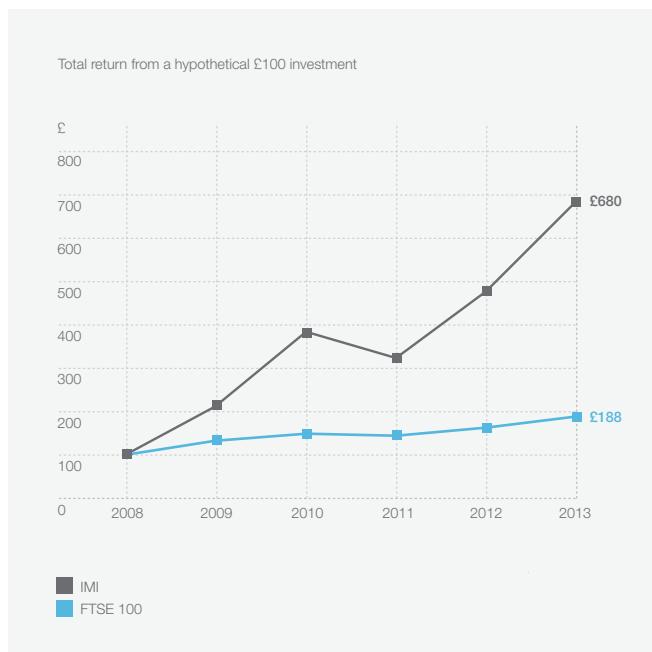
Historical performance and remuneration

In addition to considering executive remuneration in the context of internal comparisons, the Committee reviews annually the historical outcomes under the variable pay plans. In previous years the Committee has, for example, disclosed historical bonus outcomes and relative total shareholder return ('TSR') performance.

In accordance with the new regulations, this section presents IMI's performance, as measured by TSR (relative and absolute) alongside the 'single figure' for the Chief Executive's remuneration over the last five years and a summary of the variable pay outcomes relative to the presiding maximum at the time.

IMI's TSR performance is compared to that of the FTSE 100. This comparison has been chosen because the FTSE 100 represents the broad market index within which IMI shares are traded. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends (source: DataStream). Data is averaged over 30 days at the end of each financial year.

As the graph below illustrates, IMI's absolute and relative TSR performance since 2008 has been strong, reflected in the outcomes under the variable pay programmes, which are largely driven by the financial performance of the Group.



Directors' Remuneration Report (cont'd)

The following table summarises the total remuneration for the Chief Executive over the last five years, and the outcomes of short and long-term incentive plans as a % of maximum.

Financial Year ended 31 December	2009	2010	2011	2012	2013
Total Remuneration (single figure, £000)	2,547	4,439	12,289	7,954	6,688
Annual variable pay (% of maximum)	91%	95%	85%	47%	62%
Long-term variable pay (% of maximum) - Share Matching Plan	64%	97%	95%	100%	100%
Long-term variable pay (% of maximum) - Performance Share Plan	45%	100%	100%	100%	82.6%
Three-year increase in share price (Based on three-month average before relevant date)	2%	140%	180%	112%	61%

Executive remuneration received in respect of 2013

In this sub-section we summarise each element of remuneration set out in the single figure table (page 68). However, first we detail the elements and contractual terms relating to Mark Selway's appointment as Chief Executive.

Mark Selway's appointment as Chief Executive

Mark Selway's remuneration package and contractual terms were informed by IMI's remuneration philosophy, his prior experience and feedback from shareholders.

From his appointment in October 2013 Mark's key elements of remuneration were as follows:

- an annual base salary of £750,000 (with the next review to be considered effective 1 January 2015);
- a pension cash allowance of 30% of salary;
- a standard benefits package in line with other executives, including a cash car and fuel allowance, death in service cover, personal accident insurance and private health cover. In addition, Mark receives two annual round trips between the UK and Australia for him and his spouse. Linked to his relocation from Australia, the Committee approved a one-off relocation payment of £100,000;
- Mark is eligible to participate in the annual incentive plan immediately and will have a pro-rata bonus opportunity of 200% of salary (target of 100% of salary). Bonus is subject to the rules of the IMI Annual Incentive Plan and 2013 targets mirrored those in place for other executive directors (see below); and
- on appointment, Mark received an award under the performance share plan ('PSP') worth 200% of salary. The performance measures that apply to this award reflect IMI's

policy across both the PSP and share matching plan ('SMP'). Given that Mark is not eligible to receive an award under the SMP on appointment, an EVA measure will apply to the PSP award. In aggregate four measures will apply weighted as follows: EPS growth (40%), relative TSR (20%), organic revenue growth (20%) and EVA (20%). The targets are consistent with those applied to PSP and SMP awards made to other executive directors in 2013, apart from TSR which will be measured from 1 October 2013, consistent with Mark's appointment.

Mark's service contract is in line with the policy set out on pages 59 to 61 of the directors' remuneration policy for new appointments.

Base salary

Salaries effective in January 2013 were agreed 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. Martin Lamb's salary increased 3.4% to £765,000, while the salaries of Douglas Hurt and Roy Twite increased by 3.0% to £417,150. Sean Toomes was not considered for an increase and so his salary remained unchanged at £330,000.

Pension (audited)

Executive directors are entitled to receive a taxable cash allowance instead of pension benefits. With the 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. Mark Selway receives a cash allowance of 30% of salary and the other executive directors were eligible for a cash allowance of 35% of salary.

Pension benefits for past service

Martin Lamb, Roy Twite and Sean Toomes were previously active members of the defined benefit IMI Pension Fund ('the Fund'). Martin Lamb opted out with effect from 6 April 2006; Roy Twite opted out with effect from 1 February 2007 and Sean Toomes from 31 August 2010. As a result they retain past pensionable service up to these dates. The nature of these benefits is more complicated than the pension benefits provided in respect of 2013, but the key elements are summarised below:

	Accrued pension in the IMI Pension Fund as at 31 December 2013 £000pa	Accrued pension in the IMI Pension Fund as at 31 December 2012 £000pa
M J Lamb	331	318
R M Twite	65	64
S Toomes	74	72

- the normal retirement age under the Fund is 60 for Martin Lamb and 62 for Roy Twite and Sean Toomes. Martin Lamb may elect to retire from employment with IMI and receive a pension at any time after age 57 without any actuarial discount, and Roy Twite 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 Martin Lamb and 50% of the member's pension for Roy Twite and Sean Toomes.
- should Martin 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 Roy Twite and Sean 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.
- Martin 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 Martin Lamb (or his estate) or by way of contribution to 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. EPM benefits were payable as at 31 December 2013 and Martin Lamb received additional Fund pension of £2,694 pa in respect of these benefits. This amount is included in the table above. No EPM benefits were payable as at 31 December 2012 or 31 December 2011.

Benefits

During the year the executive directors received a number of benefits, which are in line with the policy that will apply from the Annual General Meeting. These are summarised below. Amounts less than £10,000 per annum are combined.

	M W Selway	M J Lamb	D M Hurt	R M Twite	S Toomes
Non-cash benefits (£000)					
Total	-	3	1	2	8
Cash benefits and taxable allowances (£000)					
Company car and fuel allowance	2	20	17	17	9
Relocation	100	-	-	-	77
Other	7	4	2	-	-
Total	109	27	20	19	94

In addition to the above benefits and allowances that are included in the single figure (refer to table on page 68), the executive directors are also beneficiaries of company policies that have no taxable value, including directors' insurance, death in service cover, travel insurance, the use of a company driver and personal accident cover. The figures published in respect of 2012 have been updated to exclude all-employee share plan awards, which are now captured separately in the single figure table.

Annual incentive bonus

During 2013, all of the executive directors participated in the annual bonus plan (including Mark Selway from 1 October 2013). The plan is focused on the financial performance of IMI during the year, with 80% of the outcome linked to profit before tax (35%), Group adjusted EPS (15%), revenue growth (15%) and cash conversion (15%). The remaining 20% is based on non-financial measures linked to health, safety and the environment (5%), compliance with The IMI Way (5%) and personal objectives (10%).

During the year, significant progress was made on a number of fronts. We continued to deliver positive results for our shareholders. In particular:

- adjusted profit before tax grew to £297.7m, an increase of 8% on 2012;
- adjusted basic earnings per share increased by 12% compared to 2012;
- organic revenue growth was 1% in 2013, reflecting more challenging first half conditions in certain markets. In the second half of the year the Group achieved an organic growth of 4%;

Directors' Remuneration Report (cont'd)

- cash conversion targets were met in full; and
- we have seen a very strong performance again in 2013 for Health and Safety. Our rate for >3day LTAs is some 36% down compared to 2012.

The new directors' remuneration regulations have increased disclosure requirements with respect to performance measures and targets under incentive plans. One of the areas of discussion for the Committee in 2013 and early 2014, under the authority delegated by the Board, was the extent to which any of this information is deemed to be 'commercially sensitive', and if so over what period of time.

Commercial sensitivity is not defined in the regulations and so the Committee identified the following:

- information that is price sensitive;
- information that would give insights to competitors that could be damaging to the business; and/or
- information that would enable outsiders to replicate budget setting and forecasting processes.

It is the opinion of the Committee that detailed disclosure, either on a forward looking or retrospective basis of financial and operational bonus targets is commercially sensitive. This position will be kept under review. However, to give shareholders a sense of delivered performance in the context of the ranges set at the start of the financial year, the following graph illustrates actual outcomes relative to the ranges set:



In addition to these quantifiable financial and non-financial measures, each executive director has a number of personal objectives, some linked to The IMI Way. These personal objectives and the Committee's assessment of individuals' performance against them is described below, to the extent the Committee does not believe the information to be commercially sensitive.

Measures and Committee's assessment of performance		Level of award (% of salary)
M W Selway ¹	In light of Mark Selway's short time on the Board during 2013, the Committee determined that Mark's personal contribution to the business over the period would be an assessment by the Committee and the Chairman. The Committee reviewed his first few months and agreed that their expectations had been met in full.	20%
M J Lamb	The performance measures fell into eight areas which included leadership, strategic progress, organisational design, succession planning and M&A. Key achievements identified by the Committee included recruiting key individuals to the Executive Committee and leading the strategic development of the Group with the sale of the Beverage Dispense and Merchandising businesses.	11.1%
D M Hurt	The performance measures fell into five areas including financial controls, major projects, M&A and tax. The key achievements identified by the Committee included improvement in financial controls across the Group and successful management of the sale of the Beverage Dispense and Merchandising businesses in conjunction with supporting the recent technology acquisitions announced earlier in the year.	9.1%
R M Twite	The performance measures fell into nine key areas, which included people development, Severe Service margins, cash conversion and corporate development. The key achievements identified by the Committee included delivering improved bookings, margins and inventory reduction within the Severe Service division and progress in terms of corporate development.	9.4%

¹ Pro-rated bonus opportunity since appointment on 1 October 2013.

The aggregate resulting annual bonuses achieved as a result of the delivered performance which is described on the previous page is as follows:

	2013 Maximum bonus opportunity (% of salary)	Total bonus awarded (£000)	Total bonus awarded (% of salary)	Achievement of share ownership guidelines at 31 Dec 2013	Bonus delivered in form of cash (£000)	Bonus delivered in form of shares (£000)
M W Selway ¹	200%	237	127%	-	-	237
M J Lamb	150%	711	93%	440%	711	-
D M Hurt	125%	323	77%	708%	323	-
R M Twite	115%	299	72%	470%	299	-

1 Pro-rated bonus opportunity since appointment on 1 October 2013.

Awards vesting under the share matching plan

In March 2011, awards were made to the executive directors under the Share Matching Plan ('SMP'). At the date of awards, all executives exceeded their individual share ownership requirement and as such were invited to invest up to the maximum permitted.

The vesting of the awards was subject to the achievement of an Economic Value Added ('EVA') performance condition (see page 24 for definition), measured over the three-year period ending 31 December 2013. 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. The performance measure considered compound annual growth in EVA over the

three financial years from 2011 to 2013 compared to EVA in the preceding three financial years. Awards lapse for negative compound growth. However for positive growth between 0% and 6%, 10% to 25% of matching shares vested; and for growth between 6% and 17%, 25% to 100% of matching shares vested. Within each band, vesting is calculated on a straight-line basis. Over the period IMI delivered compound annual EVA growth of 19% based on three-year EVA from 2011 to 2013 of £635.6m compared to three-year EVA from 2008 to 2010 of £377.1m. This is reflective of the value that IMI Management has delivered to its shareholders. Under the SMP, matching awards attract dividend equivalent payments in the form of shares to the date of exercise. The total awards vesting in March 2014 were as follows:

	Shares invested by the executive	Initial matching award	Value on date of award ¹ (£000)	Number of matching shares vesting	Additional dividend equivalent shares	Total matching shares vesting	Value of matching shares on vesting ² (£000)
M J Lamb	52,070	212,530	2,159	212,530	19,698	232,228	3,454
D M Hurt	23,812	97,190	987	97,190	9,008	106,198	1,580
R M Twite	20,690	84,448	858	84,448	7,827	92,275	1,373
S Toomes ³	11,469	26,332	268	26,332	2,440	28,772	428

1 The mid-market price on the date of award was 1,016.00 pence.

2 Awards will vest on 28 March 2014. The price on vesting is unknown at this time and so the total number of shares vesting is valued at the average price over the last quarter of 2013 (1,487.41 pence). Awards take the form of nil-cost options and can be exercised over a period of up to seven years following vesting, unless reduced under the terms of an individuals' departure.

3 Sean Toomes' initial award of 35,109 shares was time pro-rated to reflect the terms of his departure.

Directors' Remuneration Report (cont'd)

Awards vesting under the performance share plan

In March 2011, awards were also made to executive directors under the Performance Share Plan ('PSP'). The vesting of the awards was subject to the achievement of three independent performance conditions, measured over the three-year period ending 31 December 2013. These measures and the actual performance delivered is described below.

- EPS growth

Half of each award was subject to the achievement of an EPS growth performance measure. Under the PSP, EPS is defined as adjusted basic earnings per share before the post-tax impact of any reported exceptional items, which may include rationalisation costs, intangible amortisation and IAS39 charges or credits for changes in the fair value of financial instruments. EPS was chosen as an appropriate measure because it rewards absolute growth in underlying earnings and because the Committee believed it worked well in combination with TSR which is an external, relative measure of performance.

Growth of 6% per annum would trigger the minimum level of vesting (25% of the EPS element), increasing on a straight-line basis such that awards were eligible to vest in full for EPS growth of 15% per annum. Over the period IMI delivered EPS growth of 12.3% p.a. increasing EPS from 63.6p in 2010 to a comparable 90.1p at the end of 2013.

- Relative TSR

25% of each award was subject to the achievement of a relative Total Shareholder Return ('TSR') performance measure. TSR is defined as the movement in share price during the performance period, measured in local currency, with adjustments to take account of changes in capital structure and dividends, which are assumed to be reinvested in shares on the ex-dividend date. TSR was chosen as a measure as it is an external, relative benchmark for performance that aligns executives' rewards with the creation of shareholder value.

The 2011 peer group comprised the following companies, adjusted to take account of merger and acquisition activity during the performance period in line with the Committee's established guidelines:

UK	USA	
BBA Aviation	Borgwarner	
Bodycote	Eaton	
Cobham	Emerson Electric	
GKN	Flowserve Corp	
Halma	Honeywell	
Johnson Matthey	IDEX	
Invensys	Illinois Tool Works	
Meggitt	Ingersoll-Rand	
Rotork	Manitowoc	
Spectris	Parker-Hannifin	
Spirax-Sarco Engineering	Pentair	
Vesuvius (formerly Cookson)	Tyco International	
Weir Group		
<hr/>		
Japan	Finland	
Amada	Metso Corporation	
Fanuc		
NSK	<hr/>	
SMC	<hr/>	
THK	<hr/>	
Yaskawa Electric	<hr/>	
<hr/>		
Germany	Heidelberg Druckmaschinen	
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Sweden	Atlas Copco	
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Switzerland	Sulzer AG	
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At the end of the three-year performance period, the Company ranked in the top quartile of the peer group. This reflects the strong absolute and relative performance of the Group. Furthermore, the Committee was in agreement that the outcome under the TSR measure was reflective of the general underlying financial performance of the Company.

- Return on operating capital employed

25% of each award was subject to the achievement of a return on operating capital employed ('ROCE') performance measure. ROCE is defined as segmental operating profit divided by segmental net assets excluding intangible assets. ROCE was adopted as a performance measure for these awards to incentivise sustained working capital improvement.

ROCE of 65% would trigger the minimum level of vesting (25% of the ROCE element); increasing on a straight-line basis such that awards were eligible to vest in full for ROCE of 85%. Over the period IMI delivered ROCE of 78.2%.

In aggregate, 82.6% of the initial number of shares awarded were released to the executives. Under the PSP, awards attract dividend equivalent payments in the form of shares and the total awards vesting in March 2014 are as follows:

	Initial award	Value on date of award ¹ (£'000)	Number of initial shares vesting	Additional dividend equivalent shares	Total shares vesting	Value of shares on vesting ² (£'000)
M J Lamb	75,300	720	62,198	5,765	67,963	1,011
D M Hurt	41,300	395	34,114	3,161	37,275	554
R M Twite	39,000	373	32,214	2,985	35,199	524
S Toomes ³	15,825	151	13,071	1,211	14,282	212

1 The mid-market price on the date of award was 956.17 pence.

2 Awards will vest on 10 March 2014. The price on vesting is unknown at this time and so the total number of shares vesting is valued at the average price over the last quarter of 2013 (1,487.41 pence). Awards take the form of nil-cost options and can be exercised over a period of up to seven years following vesting, unless reduced under the terms of an individual's departure.

3 Sean Toomes initial award of 21,100 shares was time pro-rated to reflect the terms of his departure.

All-employee share plans

The executive directors are entitled to participate in the all-employee share plans on the same terms as other eligible employees at IMI, as set out in the policy report. In 2013, Martin Lamb, Douglas Hurt and Roy Twite all received free share awards under the Employee Share Ownership Plan. No grants were made under the SAYE in 2013, although Martin Lamb and Roy Twite received awards in 2012.

	Share Incentive Plan		SAYE		Dividends (£'000)	Total value under the all-employee share plans (£'000)
	Number of shares awarded	Value of free share award ¹ (£'000)	Number of options awarded	Value of SAYE options ² (£'000)		
M J Lamb	2013	240	3	-	-	2
	2012	323	3	1,011	1	5
D M Hurt	2013	240	3	-	-	3
	2012	323	3	-	-	3
R M Twite	2013	240	3	-	-	3
	2012	323	3	1,011	1	4

1 In 2013 free shares were awarded at a share price of 1,249.33 pence (927.36 pence in 2012).

2 In 2012 SAYE awards were made at a 10% discount and the value shown is the intrinsic gain at the date of grant, calculated in accordance with the single figure requirements (on page 68).

Directors' Remuneration Report (cont'd)

Dividend payments

Under the share matching plan ('SMP') and performance share plan ('PSP'), dividend equivalent payments are made on vested but unexercised share awards, which take the form of nil-cost options. These dividend equivalents, while notionally tracked by IMI from grant to exercise, are not paid or transferred to the participant until the point of exercise. These dividend equivalents have been included in the single figure (the table on page 68) based on the number of dividend equivalents notionally accrued in any financial year, valued at the price on the dividend payment date. Any residual cash is rolled over and applied to the subsequent dividend equivalent purchase.

Loss of office payments (audited)

During 2013 Sean Toomes resigned as a director of IMI. Sean's loss of office payments were calculated in accordance with his entitlements under his service contract and the relevant incentive plan rules.

The aggregate payment shown in the single figure table was £461,806. This comprised:

- £247,500 payment in lieu of notice for salary, reflecting nine months of his 12 month notice period;
- £86,625 payment in lieu of notice for pension, reflecting nine months of his 12 month notice period;
- £45,274 payment in lieu of notice for benefits, including reimbursement for untaken holiday; and
- £82,407 in respect of relocation and outplacement costs, in line with the IMI Global Mobility Policy and International Assignment Framework.

In addition, Sean was not eligible for a bonus in respect of 2013, nor any awards under the long-term incentive plans. Outstanding awards under the SMP and PSP will vest in accordance with the plan rules. In respect of those awards where the performance period was not completed by 30 June 2013, awards were pro-rated to that date and will vest subject to performance on the normal vesting date. Exercise periods will be shortened for any nil-cost options and vested but unexercised awards under the Share Option Plan.

Payments to past directors (audited)

It is the Committee's intention to disclose any payments to past directors, including the vesting of share-based awards post departure on a basis consistent with the executive directors. During the year no payments were made to past directors. In particular, the Committee can confirm that under the terms of his departure, Ian Whiting's 2011 share matching plan and performance share plan awards lapsed.

Share interests granted to executive directors during 2013 (audited)

Grants made under the share matching plan

Grants under the SMP were made on 9 April 2013. The Committee invited those eligible to participate at the maximum level permitted in respect of 2013. Mark Selway and Sean Toomes were not eligible to participate during 2013. Awards take the form of nil-cost share options and the size of the award reflects an individual's bonus opportunity and the extent to which they had achieved the share ownership guideline.

	Achievement of Share Ownership Guideline as at 31 Dec 2013	Initial matching award	Value on date of award ¹ (£'000)	Award as a percentage of salary
M J Lamb	Yes	185,898	2,353	298%
D M Hurt	Yes	84,784	1,073	249%
R M Twite	Yes	78,000	987	229%

¹ The mid-market price on the date of award was 1,226.00 pence.

Matching awards will vest subject to the achievement of an EVA performance condition over the three financial years ending 31 December 2015. The definition of EVA is unchanged from that used in previous years.

Grants made under the performance share plan

Grants under the PSP were made on 12 March 2013 to Martin Lamb, Douglas Hurt and Roy Twite; and on 22 October 2013 to Mark Selway. As described at the start of this section, Mark Selway's award is subject to a slightly different mix of performance measures and targets to reflect both the timing of his appointment and the inclusion of the EVA target applying to 2013 SMP awards.

Performance share awards will vest subject to the achievement of EPS, relative TSR, organic revenue growth and, in the case of Mark Selway, EVA performance over a three-year period. The definitions of EPS and TSR are consistent with previous years. However, in light of Mark Selway's appointment during the year, TSR performance will be measured over the three-year period from his date of appointment (as opposed to the three financial years from 1 January 2013 as is the case for the other executives).

Organic revenue growth (calculated as an average annual growth rate) has been adopted as a performance measure for the 2013 PSP awards to encourage continued focus on organic growth. Revenue is defined as published revenues before exceptional items adjusted, at the Committee's discretion, to exclude the impact of material acquisitions and disposals by the Company completed during the performance period and to remove the impact of exchange rate movements.

All of the performance measures are defined in such a manner to allow the Committee discretion to make further adjustments to these definitions as it determines is fair and reasonable. The performance targets that apply to the 2013 PSP awards are as follows:

	EPS growth	Relative TSR	Organic revenue growth	Level of vesting	EVA	Level of vesting (EVA only)
Threshold	6% p.a.	Median	2.7%	25%	0% - 6%	10% - 25%
Maximum	15% p.a.	Upper quartile	8%	100%	17%	100%
Weight for M W Selway	40%	20%	20%	-	20%	-
Weight for other executive directors	50%	25%	25%	-	N/A	-

The following grants were approved and made during 2013:

	PSP shares awarded	Value on date of award ¹ (£'000)	Award as a percentage of salary
M W Selway	98,792	1,500	200%
M J Lamb	57,800	765	100%
D M Hurt	31,500	417	100%
R M Twite	31,500	417	100%

1 The mid-market price on the date of award for Martin Lamb, Douglas Hurt and Roy Twite was 1,324.00 pence and for Mark Selway was 1,518.33 pence.

Chairman's and non-executive directors' single figure table (audited)

The following table summarises the total fees and benefits paid to the Chairman and non-executive directors in respect of the financial years ending 31 December 2013 and 31 December 2012.

Director	2013 (£'000)			2012 (£'000)		
	Base Fees	Additional Fees	Total	Base Fees	Additional Fees	Total
R Quarta	250	-	250	250	-	250
P Bentley ¹	55	10	65	13	-	13
C P Forster ²	55	-	55	13	-	13
A M Frew ³	55	3	58	53	-	53
T M Gateley ⁴	20	7	27	53	15	68
B Norgaard ⁵	55	-	55	8	-	8
R J Stack	55	15	70	53	10	63

1 Appointed as a non-executive 1 October 2012 and as Audit Committee chairman 9 May 2013 (fee pro-rated)

2 Appointed as a non-executive 1 October 2012

3 Appointed senior independent director 9 May 2013 (fee pro-rated)

4 Resigned from the Board 9 May 2013

5 Appointed as a non-executive 6 November 2012

Directors' Remuneration Report (cont'd)

Directors' shareholdings and achievement of share ownership guidelines (audited)

The following table summarises the share interests of any director who served during the year as at 31 December 2013.

Director	Total interests	Beneficial interests	Scheme interests				All-employee share plans			
			With performance conditions	Nil-cost options		With performance conditions				
				Unvested						
				Vested	but unexercised					
M W Selway	98,792	-	98,792	98,792	-	-	-			
M J Lamb	1,880,341	223,555	1,650,647	951,269	699,378	6,139				
D M Hurt	1,204,137	196,851	1,002,416	454,585	547,831	4,870				
R M Twite	721,602	127,328	587,902	419,962	167,940	6,372				
S Toomes	90,957	-	90,957	90,957	-	-				
R Quarta	4,000	4,000								
P Bentley	8,000	8,000								
C-P Forster	3,000	3,000								
A M Frew	7,500	7,500								
T M Gateley	7,500	7,500								
B Nørgaard	3,000	3,000								
R J Stack	15,000	15,000								

As described in the policy report (see page 62), the Committee requires executive directors to build up a shareholding of at least 125% of salary over five years from the date of their appointment. At the end of the year Martin Lamb, Douglas Hurt and Roy Twite all significantly exceeded the share ownership guideline. Mark Selway, who was appointed on 1 October 2013, did not purchase any shares during 2013. In line with the guideline, Mark Selway has a period of five years from his date of appointment to build up a shareholding worth 125% of his salary.

Application of the directors' remuneration policy in 2014

Below we set out details of how the directors' remuneration policy will be implemented in 2014. In addition we summarise the terms of Martin Lamb's retirement payments which will be due during the course of 2014.

Martin Lamb's retirement payments

As announced in 2013, Martin Lamb notified the Board in September 2013 of his intention to retire. It was agreed that Martin would remain as a director until the Annual General Meeting, at which point he will step down as a director and retire, with the cessation of employment taking effect at the end of his 12 month notice period in September 2014.

In line with his contractual rights, the Committee has approved and agreed the following terms and payments which will be fully disclosed in next year's single figure table:

- payment of salary (frozen at £765,000), contractual benefits and pension allowance until cessation of employment;
- eligible for a pro-rata annual bonus in respect of the time served as a director in 2014, payable at the usual time around March 2015;
- under the terms of the plan rules, the Committee has pro-rated the outstanding 2013 share awards under both the Share Matching Plan and Performance Share Plan on a financial year basis to 31 December 2014. Performance will be measured and applied in the normal manner to determine vesting, with the shares released on the normal vesting date for each award; and
- pension benefits are being provided as described elsewhere in this report, on the basis of service up to the date of retirement. The pension payable from the IMI Pension Fund ('the Fund') is reduced for early payment, in accordance with the Fund rules, as Martin Lamb is retiring prior to age 55. The Company has, however, asked the Trustee to defer pension payments until Martin Lamb reaches age 55 (January 2015), and to increase the pension that would otherwise have been payable from that date to reflect this period of deferral. The exact sums will be disclosed in an appropriate manner when they are known.

Executive director fixed pay

Salaries effective in January 2014, or at date of appointment in respect of Mark Selway, were agreed taking into account a range of factors including the performance of the Group, comparative market data and salary increases for other employees. The average increase for employees was 3.2%, compared to 3.1% for the executive directors. Mark Selway's and Martin Lamb's salaries were not subject to review in 2014; the salaries for Douglas Hurt and Roy Twite increased by 3.1% to £430,000.

Other elements of fixed pay (benefits and pension) will be unchanged.

Annual incentive bonus

Mark Selway's and Martin Lamb's bonus opportunity was not subject to review in 2014. Douglas Hurt's bonus opportunity was unchanged at 125% of salary. Roy Twite's bonus opportunity increased to 125% of salary to take account of the scope of the role, performance, internal relativities and comparative market data. The measures and weightings are as described in the policy table. The Committee has determined that the targets associated with the performance measures are commercially sensitive and therefore is not disclosing them on a prospective basis. This position will be reviewed at the end of the financial year to determine whether any information will be disclosed at that time.

Grants to be made under the share matching plan

The executive directors, other than Martin Lamb, are eligible to participate in the SMP in 2014. As in previous years, individuals may invest up to 100% of their maximum annual bonus opportunity into IMI shares; the limit being set on an annual basis by the Committee. The Committee intends to allow such a maximum level of investment in 2014.

Mark Selway will invest his entire 2013 bonus into IMI shares under the SMP, but will not make any further investment. Douglas Hurt and Roy Twite will participate in the SMP under the normal terms of the plan.

Vesting will continue to be based on an EVA performance over a three-year period, with the measure, targets and vesting schedule consistent with grants made in 2013.

Grants to be made under the performance share plan

The executive directors, other than Martin Lamb, are eligible to participate in the PSP in 2014. As part of Mark Selway's appointment the Committee agreed to make an aggregate long-term incentive award in 2014 worth 200% of salary. As such, he will receive a PSP award worth 149% of salary and an SMP award worth 51% of salary in 2014. Performance share awards of 100% of salary will be made to Douglas Hurt and Roy Twite, but not to Martin Lamb. Vesting of these awards will be subject to EPS growth (50%), relative TSR (25%) and organic revenue growth (25%), with measures, targets and the vesting schedule consistent with grants made in 2013.

Fees for the Chairman and non-executive directors

The Chairman's sole remuneration consists of a fee from 1 January 2014 of £300,000 per annum inclusive of all Committee and other work. This is the first time the Chairman's fee has been reviewed since his appointment on 1 November 2011. It was agreed to increase the Chairman's remuneration on the basis that the amount is fixed for two years from 1 January 2014 and 25% would be taken as shares to be retained until retirement.

A review of the non-executive directors' base fees, committee chairman and senior independent director fees will be carried out in 2014.

FINANCIAL STATEMENTS

In this section we set out our financial statements for the year ended 31 December 2013 in compliance with International Financial Reporting Standards. We have reformatted the financial statements this year to make them easier to navigate and provide user-friendly explanations in plain English.

INTRODUCTION

An explanation of the financial impacts of the key events during the year from our Finance Director, Douglas Hurt, together with a more detailed index to the financial statements.

→ Page 82

PRIMARY STATEMENTS

The primary statements for the Group, including the consolidated income statement, balance sheet and statement of cash flows.

→ Pages 86-91

SECTION 1 BASIS OF PREPARATION

A description of the key factors underpinning the Group financial statements and significant changes in comparison to the prior year.

→ Page 92

SECTION 2 RESULTS FOR THE YEAR

Further information relating to the performance of the Group during the year, providing supporting analysis for items reported in the income statement.

→ Pages 93-105

SECTION 3 OPERATING ASSETS AND LIABILITIES

Further information relating to the assets and liabilities of the Group at the year-end, providing supporting analysis for operating items reported in the balance sheet.

→ Pages 106-111

SECTION 4 CAPITAL STRUCTURE

Information relating to equity, debt and retirement benefit obligations in the year-end balance sheet, which together form our capital base.

→ Pages 112-136

SECTION 5 OTHER SUPPORTING NOTES

Other supporting notes to the Group financial statements, including the accounting policies.

→ Pages 137-143

COMPANY FINANCIAL STATEMENTS

The financial statements for the holding company of the Group, IMI plc.

→ Page 148-152

 Main photo:
Rio de Janeiro, Brazil.

Fact:

"India, China and Brazil are expected to trade negatively on agriculture over the next decade as domestic productivity declines against the increasing demands of a growing population."





Financial statements

FINANCE DIRECTOR'S INTRODUCTION



Dear Shareholder

Welcome to the Financial Statements section of our Annual Report.

Structural changes to this year's Group Financial Statements

To help with the Corporate Governance requirement to make our Annual Report fair, balanced and understandable, we have taken the opportunity to restructure this section of the Annual Report.

Rather than including my Financial Review in a separate section, you will now find this commentary set out alongside the primary statements. This should allow easier cross referencing between the primary statements and the commentary.

Whilst the accounting policies adopted by the Company are an important part of our Annual Report, we recognise that many readers of the Financial Statements prefer to use these as a reference tool. These policies are now included towards the end of the Financial Statements rather than at the beginning.

We included 28 notes to the Group Financial Statements in the previous year and while all of this information is necessary to ensure we comply with International Financial Reporting Standards, it does not always make it easy to find what you are looking for. We have therefore restructured the notes into five new categories (as outlined in the table of contents on the following page) for easier navigation.

At the beginning of each section you will find a short note explaining the contents of the section and throughout the sections you will find a text box which attempts to explain some of the more complicated items in more user-friendly language.

Effect of the disposal of our retail dispense businesses on the Annual Report

The disposal on 1 January 2014 of the Beverage Dispense and Merchandising businesses (together, 'the Retail Dispense businesses') was a major event for the Group and whilst it completed shortly after the year of this report, the consequence of the Board's decision during 2013 to sell these operations has a major impact on our Income Statement and Balance Sheet.

The Income Statement for 2013 and 2012 now includes the results of the Retail Dispense businesses outside of the normal revenue, segmental profit, profit before tax and taxation lines and instead includes the whole of its income and expenses, including taxation, in one line net of tax at the foot of the Income Statement, under the caption 'Discontinued Operations'. This presentation serves to present a picture of what the Group's Income Statement for 2013 would have looked like without these businesses and presents 2012 on the same basis.

Similarly, the Balance Sheet includes the assets and liabilities to be sold in this transaction in separate 'held for sale' categories on the face of the Balance Sheet, although, as required by International Financial Reporting Standards, the comparative figures in the Balance Sheet for 2012 are not restated on a comparable basis.

I trust that you find these changes helpful and would be pleased to receive any feedback on how we might further improve the communication of our financial results and statements in the future.

Douglas Hurt
Finance Director

Financial statements

INTRODUCTION AND TABLE OF CONTENTS

What you will find in this section

These financial statements have been presented in a manner which attempts to make them less complex and more relevant to shareholders, and in particular, to give consideration to the Financial Reporting Council's requirement for the financial statements to be fair, balanced and understandable. We have grouped notes in sections under five headings: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'. The purpose of this format is to provide readers with a clearer understanding of what drives the financial performance of the Group.

Text in boxes provides commentary on each section in plain English.

Notes to the financial statements provide additional information required by statute, accounting standards or the Listing Rules to explain a particular feature of the financial statements. The notes that follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the Annual Report and the financial statements.

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	Before exceptional items £m	Exceptional items £m	Total £m	2013	Before exceptional items £m	Exceptional items £m	Total £m	2012 (restated)
Revenue	2.1.1, 2.1.2	1,744	(1)	1,743	1,696	(2)	1,694		
Segmental operating profit	2.1	321.6		321.6	300.1		300.1		
Reversal of net economic hedge contract gains	2.2.1		(5.1)	(5.1)		(6.8)	(6.8)		
Net credit on special pension events	2.2.5		-	-		10.9	10.9		
Restructuring costs	2.2.2		(14.2)	(14.2)		(18.9)	(18.9)		
Preparatory costs for sale of Retail Dispense businesses	2.2.3		(8.0)	(8.0)		-	-		
Acquired intangible amortisation	2.2.2		(21.9)	(21.9)		(29.6)	(29.6)		
Other acquisition-related costs	2.2.4		(1.9)	(1.9)		(6.3)	(6.3)		
Operating profit		321.6	(51.1)	270.5	300.1	(50.7)	249.4		
Financial income	4.3	4.2	20.2	24.4	3.5	13.9	17.4		
Financial expense	4.3	(20.2)	(17.5)	(37.7)	(21.0)	(8.1)	(29.1)		
Net finance charge relating to defined benefit pension schemes	4.5.3.3	(7.9)	(7.9)	(7.9)	(7.8)	(7.8)	(7.8)		
Net financial (expense)/income		(23.9)	2.7	(21.2)	(25.3)	5.8	(19.5)		
Profit before tax		297.7	(48.4)	249.3	274.8	(44.9)	229.9		
Taxation	2.4.5	(65.5)	9.8	(55.7)	(66.0)	10.4	(55.6)		
Profit from continuing operations after tax		232.2	(38.6)	193.6	208.8	(34.5)	174.3		
Profit from discontinued operations, net of tax	2.5		33.4	33.4		44.7	44.7		
Total profit for the year		232.2	(5.2)	227.0	208.8	10.2	219.0		
Attributable to:									
Owners of the parent					223.9				215.9
Non-controlling interests	4.8				3.1				3.1
Profit for the year					227.0				219.0
Earnings per share	2.3								
Basic - from profit for the year					71.0p				67.9p
Diluted - from profit for the year					70.1p				67.0p
Basic - from continuing operations					60.4p				53.9p
Diluted - from continuing operations					59.6p				53.2p
Basic - from adjusted profit for the year					72.6p				64.7p
Diluted - from adjusted profit for the year					71.7p				63.9p

COMMENTARY ON THE CONSOLIDATED INCOME STATEMENT

Results summary

Reported revenues increased by 3% to £1,743m (2012 restated: £1,694m). After adjusting for an exchange rate impact of £31m and the contribution from acquisitions, the organic revenue increase was 1%. Segmental operating profit was £321.6m, compared to £300.1m (restated) in 2012. At constant exchange rates and excluding acquisitions segmental operating profit rose by 6%. The segmental operating margin was 18.4% (2012 restated: 17.7%).

Disposal of Retail Dispense businesses and discontinued operations

As noted in my introductory letter, on 1 January 2014 our Retail Dispense businesses were sold to the Marmon Group ('Marmon'), a Berkshire Hathaway Company, for cash consideration of \$1,100m (£666.7m at year-end rates), subject to adjustments for working capital, cash and debt in the business at completion. The transaction was priced in US dollars, but the return of cash from these proceeds was announced in sterling, which exposed the Group to the risk of movements in the sterling to US dollar exchange rate, from the date of exchange of contracts in October 2013. This exposure was hedged using a deal-contingent forward exchange contract.

The Retail Dispense businesses sold represent a 'major class of business' for the Group and because this disposal was considered to be highly probable prior to the end of the accounting period, these businesses have been classified as discontinued operations. Accordingly, the results of these businesses have been reported in one line, net of tax, below profit after tax in the Income Statement. Comparatives have been restated on the same basis and a full analysis of the results of these discontinued operations is given in section 2.5 on pages 104 to 105. The effect of this restatement on 2012's adjusted earnings per share is a reduction of 15.0p from 79.7p (as restated for IAS19 revised – see below) to 64.7p.

Acquisitions

On 21 August the Group completed the acquisition of Analytical Flow Products ('AFP') for initial consideration of £2.2m and potential future payments of up to £32.4m based on future performance. On 29 October the Group completed the acquisition of Nano-Porous Solutions Limited ('NPSL') for initial consideration of £5.4m and potential future payments of up to £2.4m based on revenue in 2016.

Restatement for adoption of IAS19

The consolidated financial statements as at 31 December 2012 have been restated to take account of the adoption of IAS19: Employee Benefits (revised 2011). The principal impact on the Group has been that the return on plan assets included in the income statement is now based on the discount rate applied to the liabilities. Prior to this revision, the plan assets' expected return was included in the income statement.

The effect of this restatement on 2012's adjusted earnings per share was a reduction of 4.6p from 84.3p to 79.7p. As noted above, the effect of the restatement of 2012's results for discontinued operations reduced adjusted EPS by a further 15.0p to result in a restated adjusted EPS of 64.7p for 2012.

The principal impact of the other amendments to IAS19 for the Group relates to new disclosure requirements, which are included in section 4.5 on pages 124 to 131.

Exceptional items

Operating profit was £270.5m (2012 restated: £249.4m) after the deduction of exceptional items. Restructuring costs in the year reduced to £14.2m (2012 restated: £18.9m) following the completion of a number of projects, with the 2013 spend principally comprising a German site closure in our Fluid Power business and strategic cost reduction exercises in our Indoor Climate and Severe Service businesses.

Acquired intangible amortisation decreased to £21.9m (2012: £29.6m) because the first year charge relating to AFP and NPSL was considerably lower than the first year charges for Remosa and InterAtiva in 2012. Pre-closing costs associated with the disposal of the Retail Dispense businesses amounted to £8.0m and have been disclosed as exceptional in accordance with our policy due to their one-off nature. Other acquisition-related costs were £1.9m (2012: £6.3m). £4.0m was accrued in 2012 relating to InterAtiva earn-out amounts payable to the vendors and an amount of £1.0m has been accrued in 2013 in

relation to the AFP and NPSL earn-outs. The remaining £0.9m other acquisition-related costs in 2013 comprised deal costs relating to AFP and NPSL.

Financing costs

Continuing interest costs on net borrowings were £16.0m (2012 restated: £17.5m). These were covered 21 times (2012 restated: 18 times) by continuing earnings before interest, tax, depreciation and amortisation of £332m (2012 restated: £318m). The net pension financing charge under IAS19 was £7.9m (2012 restated: £7.8m). In 2014, this charge is expected to decrease to about £3.3m. A net gain arose on the revaluation of financial instruments and derivatives under IAS39 of £2.7m (2012: £5.8m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts, net of the £3.0m cost of the deal contingent element of the forward contract relating to the Retail Dispense disposal, as this element of the instrument is not an effective hedge for accounting purposes.

Taxation

The effective tax rate for the Group before exceptional items reduced to 22% (2012 restated: 24%) as a result of further business reorganisation, a strong focus on claiming Government-approved tax incentives around the world and the reduction in the UK corporation tax rate. In addition, an exceptional tax credit of £9.8m (2012 restated: £10.4m) arose in connection with business restructuring and other exceptional costs. The total tax charge for the year on continuing operations was therefore £55.7m (2012 restated: £55.6m) and continuing profit after tax was £193.6m (2012 restated: £174.3m). Taxes of £41.7m (2012: £102.9m) were paid in the year. The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with The IMI Way, which is explained further in section 2.4 on page 101.

Earnings per share (EPS)

Basic EPS increased 5% to 71.0p (2012 restated: 67.9p) and diluted EPS was 70.1p (2012 restated: 67.0p). 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 section 2.3 to the Group financial statements on page 99. On this basis the adjusted EPS from continuing operations was 72.6p, an increase of 12% over last year's 64.7p (as restated).

Exchange rates

The most important foreign currencies for the Group remain the Euro and the US dollar and the relevant average rates of exchange for the consolidated income statement were:

	2013	2012
Euro	1.18	1.23
US dollar	1.56	1.59

The movement in average exchange rates between 2012 and 2013 resulted in our reported 2013 segmental revenue and segmental operating profit each being 2% higher as the average Euro and US dollar rates against Sterling were 4% and 2% stronger, respectively.

If the average exchange rates to the end of February 2014 of US\$1.65 and €1.21 had been applied to our 2013 results, it is estimated that segmental revenue and segmental operating profit would have both been 4% lower.

Dividend

The Board has recommended a final dividend in respect of 2013 of 22.5p (2012: 20.7p) per share, an increase of 9% over the 2012 final dividend. This makes the total dividend for 2013 35.3p (2012: 32.5p). The cost of the final dividend is expected to be £60.7m (2012: £66.1m) leading to a total dividend cost of £100.9m (2012: £103.6m) in respect of the year ended 31 December 2013. Dividend cover based on adjusted earnings (continuing) is 2.1 times (2012 restated: 2.0 times).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013	Restated (Section 1) 2012	
	£m	£m	£m
Profit for the year	227.0		219.0
Other comprehensive income/(expense) that may be recycled to profit and loss			
Change in fair value of effective net investment hedge derivatives	3.4		1.3
Related taxation effect	(0.7)		(0.3)
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	(16.9)		(14.1)
Related taxation effect	1.0		(0.1)
Fair value gain on deal contingent forward relating to disposal proceeds	14.2		-
Related taxation effect	(3.0)		-
Fair value (loss)/gain on available for sale financial assets	(0.5)		0.2
Related taxation effect	0.2		(0.1)
	(2.3)		(13.1)
Other comprehensive income/(expense) that will not be recycled to profit and loss			
Re-measurement gain/(loss) on defined benefit plans	41.4		(56.0)
Related taxation effect in current year	(11.4)		12.7
Effect of taxation rate change on previously recognised items	(9.9)		(5.6)
	20.1		(48.9)
Other comprehensive income/(expense) for the year, net of taxation	17.8		(62.0)
Total comprehensive income for the year, net of taxation	244.8		157.0
Attributable to:			
Owners of the parent	241.7		153.9
Non-controlling interests	3.1		3.1
Total comprehensive income for the year, net of taxation	244.8		157.0

COMMENTARY ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Movements in shareholders' equity

Shareholders' equity at the end of 2013 was £601m (2012: £636m).

Movements in shareholders' equity can be split into 3 categories:

- the profit for the year attributable to the equity shareholders of £224m (2012 restated: £216m). This is discussed on the page opposite the Income Statement.
- other comprehensive income movements in the year, which increased shareholders' equity by £18m (2012 restated: reduced £62m). These are discussed below.
- movements taken directly to equity in the year, which reduced shareholders' equity by £277m (2012: £83m). These are discussed overleaf.

Other comprehensive income

When the Group makes unrealised gains or losses on assets and liabilities, instead of being recorded in the income statement, they are credited or charged to reserves and recorded in the statement of other comprehensive income. In accordance with the amendment to IAS1, these items are now allocated between those items that may and those items that may not eventually be recycled to the income statement.

The Group's foreign denominated net assets are translated into sterling using exchange rates prevailing at the year-end. To the extent that these differ from the rates used at the previous year-end to translate net assets at that date and from the average exchange rate used to translate foreign denominated income during the year, a difference on reserves arises, which is included in other comprehensive

income, along with the settlement of net investment hedge derivatives and revaluations of foreign debt, which are used to protect the Group from this exposure. These items (including the related taxation effect) amounted to a loss of £15.9m in 2013 (2012: £14.2m).

The net investment hedge derivatives used for this same purpose which have not settled by the year-end are marked to market on the balance sheet at the year-end and booked to hedging reserves. This movement is also included in other comprehensive income and in 2013, amounted to income of £2.7m (2012: £1.0m) including the related taxation effect.

As noted earlier in this report, the \$1.1 billion proceeds of the disposal of the Retail Dispense businesses were hedged using a deal-contingent forward contract. The forward element of this contract, valued at £14.2m at the year-end, represents an effective hedge for accounting purposes and this unrealised gain, net of tax of £3.0m is credited to other comprehensive income.

Movements in available-for-sale assets, which are principally used to fund defined benefit obligations in the US, are also booked to other comprehensive income and amounted to a loss of £0.3m (2012: income of £0.1m) including the related taxation effect.

Actuarial movements in the Group's defined benefit pension obligations are also booked to other comprehensive income. These are explained in detail in section 4.5 on page 128 and together with the taxation effect for the movement in the year, in addition to the taxation effect of the UK taxation rate changes enacted in the year, amounted to an income of £20.1m (2012 restated: expense of £48.9m).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Restated Retained earnings (Section 1) £m	Total parent equity (Section 1) £m	Non-controlling interests £m	Restated Total equity (Section 1) £m	
As at 1 January 2012	85.0	169.3	7.9	4.1	46.8	251.7	564.8	49.4	614.2	
Profit for the year						215.9	215.9	3.1	219.0	
Other comprehensive income					1.0	(14.2)	(48.8)	(62.0)	(62.0)	
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)	
As at 31 December 2012	85.2	170.3	7.9	5.1	32.6	334.4	635.5	48.0	683.5	
Changes in equity in 2013										
Profit for the year						223.9	223.9	3.1	227.0	
Other comprehensive income/(expense)					13.9	(15.9)	19.8	17.8	17.8	
Total comprehensive income/(expense)					13.9	(15.9)	243.7	241.7	3.1	244.8
Issue of share capital	0.1	1.5					1.6		1.6	
Dividends paid						(106.2)	(106.2)	(0.1)	(106.3)	
Share-based payments (net of tax)						16.8	16.8		16.8	
Shares acquired for:										
employee share scheme trust						(24.2)	(24.2)		(24.2)	
share buyback programme						(164.3)	(164.3)		(164.3)	
Income earned by partnership								(4.4)	(4.4)	
As at 31 December 2013	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5	

Items recognised directly in equity

Movements in reserves which represent transactions with the shareholders of the Group are recognised directly in equity rather than in the income statement or through other comprehensive income.

0.3m (2012: 0.5m) shares were issued during the year, realising £1.6m (2012: £1.2m). The nominal value of £0.1m (2012: £0.2m) representing 25p per share was recognised in share capital and the premium over the nominal value of £1.5m (2012: £1.0m) was included in the share premium account.

The 2012 final dividend of 20.7p (2011: 19.0p) per share and the 2013 interim dividend of 12.8p (2012: 11.8p) per share were paid during the year, which reduced equity by £106.2m (2012: £97.8m).

The credit for share-based payments, which reverses the amount charged through the income statement in the year, thereby deferring the reduction in reserves until such time as the options are exercised, is also recognised here, which together with its tax credit, amounted to £16.8m (2012: £16.0m).

The charge to reserves relating to the purchase of shares by the employee trust to satisfy share options, net of amounts received from employees representing the price on exercise for those options was £24.2m (2012: £2.6m).

The Group announced a share buyback programme of up to £175m with its 2012 preliminary results. During 2013, £164.3m of share purchases were made and this amount was therefore charged directly to reserves in the year.

Effect of the return of cash on shareholders' equity

As envisaged in the announcement of the disposal of the Retail Dispense businesses, we are returning cash of about £620m to shareholders via a 'B and C share scheme', which was approved in the general meeting in February 2014; and contributing an extra £70m to the IMI UK Pension Fund. £53.2m of this amount was paid to the Fund in January 2014 and a further £16.8m will be paid in July 2014, having already accelerated into December 2013 the £16.8m payment to the Fund scheduled for July 2014.

The B and C share scheme was accompanied by a share consolidation, which is a commonly used arrangement to ensure that the Group's share price after the return of cash is broadly equivalent to the share price prior to the return of cash, which ensures that targets and prices in the Group's various share-based remuneration schemes remain appropriate. The cost of the final dividend and dividend cover have therefore both been calculated on the estimated number of shares held on the record date, on a post-consolidation basis.

Retained earnings in 2014 will benefit from the profit on disposal of the Retail Dispense businesses, estimated to be in the region of £475m. The return of cash will reduce retained earnings in the 2014 Balance Sheet by about £620m.

CONSOLIDATED BALANCE SHEET

At 31 December 2013

	Notes	2013 £m	2012 £m
Assets			
Intangible assets	3.2	430.3	544.5
Property, plant and equipment	3.3	222.8	245.3
Employee benefit assets	4.5	0.3	-
Deferred tax assets	2.4.7	43.9	65.6
Other receivables		6.3	6.0
Other financial assets	4.4.6	0.2	1.8
Total non-current assets		703.8	863.2
Inventories	3.1	245.5	301.3
Trade and other receivables	3.1	345.3	407.3
Other current financial assets	4.4.6	22.2	6.3
Current tax		3.4	23.1
Investments	4.4.6	20.2	20.4
Cash and cash equivalents	4.1	71.7	102.8
Total current assets		708.3	861.2
Assets in disposal group held for sale	2.5	289.4	-
Total assets		1,701.5	1,724.4
Liabilities			
Bank overdraft	4.1	(7.9)	(6.3)
Interest-bearing loans and borrowings	4.2	(80.8)	(3.1)
Provisions	3.5	(20.1)	(19.3)
Current tax		(18.4)	(7.4)
Trade and other payables	3.1	(355.6)	(430.1)
Other current financial liabilities	4.4.6	(3.1)	(2.7)
Total current liabilities		(485.9)	(468.9)
Liabilities associated with disposal group held for sale	2.5	(77.3)	-
Interest-bearing loans and borrowings	4.2	(208.9)	(237.2)
Employee benefit obligations	4.5	(158.2)	(232.2)
Provisions	3.5	(18.8)	(19.8)
Deferred tax liabilities	2.4	(34.3)	(36.7)
Other payables		(70.6)	(46.1)
Total non-current liabilities		(490.8)	(572.0)
Total liabilities		(1,054.0)	(1,040.9)
Net assets		647.5	683.5
Equity			
Share capital	4.6.1	85.3	85.2
Share premium		171.8	170.3
Other reserves		43.6	45.6
Retained earnings		300.2	334.4
Equity attributable to owners of the parent		600.9	635.5
Non-controlling interests	4.8	46.6	48.0
Total equity		647.5	683.5

Approved by the Board of Directors on 5 March 2014 and signed on its behalf by:

Roberto Quarta

Chairman

COMMENTARY ON THE CONSOLIDATED BALANCE SHEET

Impact of the Retail Dispense Disposal

During the year, because it became clear that the value of the assets and liabilities of the Retail Dispense businesses were expected to be recovered through their sale, rather than from their continuing use, these were classified as assets and liabilities held for sale and are shown separately in current assets and liabilities on the balance sheet. These assets and liabilities amounted to, respectively £289.4m and £77.3m as at 31 December 2013.

Net debt

Net debt (including net cash of £26.5m shown as held for sale) at the year-end was £199m compared to £144m at the end of the previous year. The year-end net debt to EBITDA ratio was 0.6 times based on continuing net debt and EBITDA. At the end of 2013 the US loan notes totalled £225m (2012: £231m), with a weighted average maturity of 4.1 years (2012: 5.1 years) and other loans totalled £74m (2012: £16m). Total committed bank loan facilities available to the Group at the year-end were £275m (2012: £273m), of which £60m (2012: £nil) was drawn.

Intangible assets

The value of the Group's intangible assets decreased to £430m at 31 December 2013 (2012: £545m) principally as a result of the transfer of the net book value of intangible assets relating to Retail Dispense of £117.5m to assets held for sale during the year. Additions to intangible assets in the normal course of business and from the two acquisitions in the year broadly offset the continuing amortisation charge, foreign exchange movements and disposals.

Property, plant and equipment ('PPE')

The net book value of the Group's investment in PPE at 31 December 2013 was £223m (2012: £245m) after transfers to assets held for sale of £23.5m. Capital expenditure on PPE of £44.3m (2012: £39.1m) represented 117% (2012: 95%) of depreciation of £37.9m (2012: £41.3m).

Working Capital

The working capital movements during the year are discussed in the narrative opposite the consolidated cash flow statement, where the cash movements in these balances are shown, including movements on the components of working capital included in assets and liabilities held for sale.

Pensions

The Group has 74 (2012: 79) defined benefit obligations in operation as at 31 December 2013. Ten of these schemes were divested with the Retail Dispense businesses on 1 January 2014. The Group 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 and providing in their place appropriate defined contribution arrangements.

The net liability for defined benefit obligations at 31 December 2013 was £158m (2012: £232m). In addition £1m relating to the ten schemes divested as part of the Retail Dispense disposal is included in liabilities held for sale.

The overall deficit is split between the IMI Pension Fund in the UK ('the Fund') which has been closed to future accrual since 31 December 2010, and overseas schemes. The UK fund deficit was £63m as at 31 December (2012: £111m) and constituted 83% (2012: 82%) of the total defined benefit liabilities and 89% (2012: 89%) of the total defined benefit assets. The decrease in the deficit in the Fund in 2013 principally arose from strong asset returns in the year supplemented by additional cash contributions of £33.6m. This was offset by an increase in liabilities as the impact of an increase in the inflation assumption of 0.5% exceeded the reduction resulting from the 0.2% increase in the discount rate.

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 during the 2011 valuation 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. The 2014 payment under this plan was accelerated into December 2013. Following the disposal of the Retail Dispense businesses, the Company is making a further one-off payment of £70m into the UK Fund in two tranches in 2014, the first of which, £53.2m, was made in January 2014. The Group continues to explore various options with the Trustee to reduce further the funding and investment risk in respect of the Fund.

The deficit in the overseas funds as at 31 December 2013 was £95m (2012: £121m). The principal reason for the decrease was an increase in the discount rates used to determine the liabilities, however funded plans experienced strong asset returns and a number of plans saw returns in excess of the current service and financing costs.

Foreign exchange and interest rate risk

Further information on how the Group manages its exposure to these financial risks is shown in section 4.4 of the financial statements on page 115 to 118. The most important foreign currencies for the Group remain the Euro and the US dollar and the relevant closing rates of exchange for the Balance Sheet were:

	As at 31 December	
	2013	2012
Euro	1.20	1.23
US dollar	1.65	1.62

Economic value added

Economic value added (EVA) is defined as segmental operating profit (before exceptional items) after tax less a capital charge. The capital charge is arrived at by applying the after-tax weighted average cost of capital to the average invested capital. Invested capital is defined as net assets plus net debt, 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). Prior year figures have been restated in line with the treatment of the Retail Dispense activities as discontinued.

For 2013 the segmental operating profit was £321.6m (2012 restated: £300.1m), and after applying the effective tax rate on pre-exceptional profits of 22% (2012 restated: 24%) the Net Operating Profit after Tax (NOPAT) was therefore £250.8m (2012 restated: £228.1m).

After adjusting for the treatment of the Retail Dispense businesses as discontinued, the Group's invested capital at the end of 2013 was £1,270.9m (2012 restated: £1,045.0m) comprising £1,044.9m (2012 restated: £1,124.5m) net assets and £225.9m (2012 restated: £157.4m) net debt. The average invested capital was £1,276.4m (2012 restated: £1,204.5m). Applying the 2013 WACC of 8.0% (2012: 8.0%) to the average invested capital gives a charge of £102.1m (2012 restated: £96.4m). The economic value added in 2013 was therefore £148.7m (2012 restated: £131.7m) an increase of 12.9%.

Return on Invested Capital

Post tax return on invested capital (ROIC) from continuing operations was 19.7% compared to 18.9% as restated in 2012.

Share price and shareholder return

The share price at 31 December 2013 was 1,525p (2012: 1,097p) and the average for the year was 1,347p (2012: 922p) representing increases of 39% and 46% respectively. Based on the 2013 average share price, the proposed total dividend of 35.3p represents a yield of 2.6%.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 £m	Restated 2012 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	270.5	249.4
Operating profit for the year from discontinued operations	73.0	68.5
Adjustments for:		
Depreciation	37.9	41.3
Impairment/(reversal) of impairment of PPE and intangible assets	1.3	0.7
Amortisation	28.4	34.0
Loss on sale of property, plant and equipment	0.8	2.0
Equity-settled share-based payment expense	11.2	10.1
Decrease in inventories	1.4	29.4
Increase in trade and other receivables	(10.0)	(19.4)
Decrease in trade and other payables	(17.0)	(40.6)
Decrease in provisions and employee benefits	(1.2)	(31.9)
Cash generated from the operations	396.3	343.5
Income taxes paid	(41.7)	(102.9)
	354.6	240.6
CCI investigation costs	-	(2.8)
Additional pension scheme funding - UK	(33.6)	(16.8)
Additional pension scheme funding - Overseas	(1.7)	-
Pension transfer incentive payments	-	(9.6)
Net cash from operating activities	319.3	211.4
Cash flows from investing activities		
Interest received	4.4	3.7
Proceeds from sale of property, plant and equipment	2.3	1.7
Sale of investments	0.1	0.6
Purchase of investments	(0.4)	(1.4)
Settlement of transactional derivatives	3.8	5.5
Settlement of currency derivatives hedging balance sheet	(6.0)	8.4
Acquisitions of controlling interests	(7.8)	(83.1)
Acquisition of property, plant and equipment	(44.3)	(39.1)
Capitalised non-acquired intangibles	(9.1)	(7.8)
Net cash from investing activities	(57.0)	(111.5)
Cash flows from financing activities		
Interest paid	(20.4)	(21.4)
Payment to non-controlling interest	(4.4)	(4.4)
Shares acquired for employee share scheme trust	(24.2)	(2.6)
Share buyback programme including acquisition expenses	(164.3)	-
Proceeds from the issue of share capital for employee share schemes	1.6	1.2
Net drawdown/(repayment) of borrowings	51.0	(25.1)
Dividend paid to non-controlling interest	(0.1)	(0.1)
Dividends paid to equity shareholders	(106.2)	(97.8)
Net cash from financing activities	(267.0)	(150.2)
Net decrease in cash and cash equivalents	(4.7)	(50.3)
Cash and cash equivalents at the start of the year	96.5	147.5
Effect of exchange rate fluctuations on cash held	(1.5)	(0.7)
Cash and cash equivalents at the end of the year*	90.3	96.5

* Net of bank overdrafts of £9.6m (2012: £6.3m) of which £1.7m (2012: £nil) is included in liabilities held for sale and including £28.2m (2012: £nil) cash and cash equivalents presented in assets held for sale.

Notes to the cash flow appear in section 4.1.

COMMENTARY ON THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of EBITDA to movement in net debt

The Group's consolidated statement of cash flows is shown on the opposite page, which reconciles the profit for the year to the change in cash and overdrafts in the Balance Sheet as required for financial reporting purposes.

However, because the Group's debt financing also includes other interest-bearing liabilities, it is more insightful to consider the effect of the transactions in the year on the net debt in the Balance Sheet. Accordingly, a reconciliation between EBITDA and net debt is shown in the column opposite, upon which this section provides commentary.

Operating cash flow

The operating cash flow for the total Group was £345m (2012: £298m). This represents a conversion rate of total Group segmental operating profit after restructuring costs of £385m into operating cash flow of 89% (2012: 85%).

Net working capital balances increased by £26m (2012: £31m) during the year. Payables decreased by £17m (2012: £41m) due to the timing of payments to suppliers, receivables increased by £10m (2012: £19m) and inventories decreased by £1m (2012: £29m increase). A strong sales performance towards the end of the year contributed to the increase in receivables and the decrease in inventory, the latter also benefiting from Group-wide inventory management programmes undertaken during the year.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £53m (2012: £47m) which was equivalent to 1.2 times (2012: 1.0 times) depreciation and amortisation thereon.

The continuing cost of research and development expenditure charged directly to the income statement was £50m (2012 restated: £45m). Across the Group in total, £5m (2012: £5m) was capitalised.

After payment of interest and tax, the free cash flow generated from operations was £285m (2012: £191m). The reduction in net tax paid in the year resulted from tax refunds and payment reductions due to accelerated tax payments in prior years following various restructuring programmes.

Free cash flow before corporate activity

As noted in the Balance Sheet commentary, a £17m additional pension contribution was brought forward from July 2014 to December 2013, therefore doubling this amount in comparison to the prior year. A smaller additional payment was also made in the US, following which the free cash flow before corporate activity was £250m (2012: £162m).

Net cash outflow (excluding debt movements)

The cash outflow on acquisitions of £8m comprised £2m and £6m in respect of the acquisitions of AFP and NPSL respectively. These acquisitions are also subject to earn-out arrangements, which are described in section 3.4 on page 110.

Dividends paid to shareholders totalled £106m (2012: £98m) and there was a total cash outflow of £187m in respect of the share buyback programme announced in early 2013 and the purchase of shares to satisfy employee share options, net of the proceeds from options exercised during the year.

The total net cash outflow (excluding debt movements) was £56m (2012: £25m).

Closing net debt

The opening net debt was £144m (2012: £108m). The debt from the acquisitions of AFP and NPSL added £2m (2012: £21m) and there were exchange rate gains of £3m (2012: £10m), principally on US dollar-denominated borrowings. After the net cash outflow in the year of £56m (2012: £25m) closing net debt was £199m (2012: £144m).

	2013 £m	Restated 2012 £m
Movement in Net Debt		
EBITDA* from continuing operations	331.5	317.7
EBITDA* from discontinued operations	79.6	76.2
Total EBITDA*	411.1	393.9
Working capital movements	(25.6)	(30.6)
Capital and development expenditure	(53.4)	(46.9)
Other	12.8	(18.9)
Operating cash flow**	344.9	297.5
Tax paid	(41.7)	(102.9)
Interest/derivatives	(18.2)	(3.8)
Operating cash flow after interest and tax	285.0	190.8
Severe Service investigation costs and fine	-	(2.8)
Additional pension scheme funding - UK	(33.6)	(16.8)
Additional pension scheme funding - Overseas	(1.7)	-
Pension transfer incentive payments	-	(9.6)
Free cash flow before corporate activity	249.7	161.6
Acquisitions	(7.8)	(83.1)
Dividends paid to equity shareholders	(106.2)	(97.8)
Dividends paid to non-controlling interest	(0.1)	(0.1)
Payment to non-controlling interest	(4.4)	(4.4)
Share buyback programme	(164.3)	-
Net purchase of own shares	(22.6)	(1.4)
Net cash flow (excluding debt movements)	(55.7)	(25.2)
Opening net debt	(143.8)	(108.2)
Debt acquired	(2.5)	(20.8)
Foreign exchange translation	2.6	10.4
Closing net debt	(199.4)	(143.8)

* 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.

SECTION 1 – BASIS OF PREPARATION

1.1

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 148 to 152. The financial statements were approved by the Board of Directors on 5 March 2014.

In our financial statements for the year ended 31 December 2012, we referred to enquiries made by the conduct division of the Financial Reporting Council into the accounting treatment of the IMI Pension Fund’s investment in the IMI Scottish Limited Partnership. These enquiries were closed in early 2014, with no prior year adjustments made to reported amounts.

1.2

Restatements and changes in accounting estimates

Restatement in respect of the treatment of the Retail Dispense businesses as discontinued operations

Because the sale of the Retail Dispense businesses, which completed on 1 January 2014, represents the disposal of a ‘major class of business’ for the Group and because this disposal was considered to be highly probable from a point prior to the end of the accounting period, these businesses have been classified as discontinued operations in accordance with IFRS5 ‘Non-current assets held for sale and discontinued operations’. Accordingly, the results of these businesses are now reported in one line, net of tax, below profit after tax and the comparative figures have been restated. A full analysis of the financial effect of this restatement is given in section 2.5 on page 104.

IFRS5 also requires that the assets and liabilities associated with these discontinued operations should be shown in separate lines in current assets and liabilities in the Balance Sheet, but that the prior year information is not restated to be shown on a similar basis.

Restatement in respect of IAS19 ‘Employee Benefits (Revised 2011)’

The consolidated Financial Statements as at 31 December 2012 have been restated for the adoption of IAS19 ‘Employee Benefits’ (Revised 2011). IAS19 as revised includes a number of amendments to the accounting for defined benefit plans, but the principal impact on the Group is that the return on plan assets recognised in the income statement is now based on the discount rate applied to the liabilities. Prior to the revision, the expected return on assets was recognised through the income statement.

The retrospective impact on the Group for the 2012 full year comparatives was a decrease in the net financing credit of £19.2m and an associated reduction in the tax charge of £4.5m. The equivalent credits and associated taxation impacts to these income statement charges have been recognised in other comprehensive income, consequently there was no overall net balance sheet effect. The principal impact of the other amendments to IAS19 for the Group relate to the new disclosure requirements, which have been included in section 4.5 on pages 124 to 131.

1.3

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 liabilities held for sale are stated at the lower of their carrying amounts and their fair values less costs to sell.

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 2013

The following standards were adopted in these financial statements during 2013 with impacts as analysed below:

Presentational and accounting impact:

- IAS19 ‘Employee Benefits (Revised 2011)’ (see above)

Presentational impact only:

- IFRS13 ‘Fair Value Measurement’ (see section 4.4.6)
- IAS1 ‘Presentation of Financial Statements’ (see consolidated statement of other comprehensive income)

No impact:

- IFRS10 ‘Consolidated Financial Statements’
- IFRS11 ‘Joint Arrangements’
- IFRS12 ‘Disclosure of Interests in Other Entities’
- IAS28 ‘Investments in Associates and Joint Ventures’
- IAS31 ‘Interests in Joint Ventures’

ii) Issued Accounting Standards which are not effective for the year ended 31 December 2013

- IFRS9 ‘Financial Instruments’ (2009), IFRS9 ‘Classification and Measurement’

The standard is being issued in phases as the IASB completes each part of its project to replace IAS39 ‘Financial Instruments: Recognition and Measurement’. The first elements of IFRS9 were issued in November 2009 and October 2010 to replace the parts of IAS39 that relate to the classification and measurement of financial instruments. In November 2013 an amendment was issued to address hedge accounting and to remove the previously determined effective date of 1 January 2015. Instead, the IASB proposes to set the effective date of IFRS9 when it completes the impairment phase of the project.

The European Union has already indicated that it will not begin the process of considering the adoption of IFRS9 until the standard has been published in its final form. The Group is yet to assess IFRS9’s full impact and will determine the date to adopt IFRS9 once it is endorsed for use in the EU.

SECTION 2 – RESULTS FOR THE YEAR

What you will find in this section

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, including segmental information, exceptional items, taxation and earnings per share.

2.1 Segmental operating profit

Operating margin and organic revenue growth are the two short-term key performance indicators or measures that reflect the way the performance of the Group is managed and monitored by the Executive Committee. In this section the key constituents of these two KPI's, being the Group's revenues and segmental operating profits, are analysed by reference to the performance and activities of the Group's segments and their operating costs.

Operating margin is derived by dividing segmental operating profits by segmental revenues. Organic revenue growth is the growth in segmental revenues on a like-for-like basis excluding the effects of acquisitions, disposals and exchange rate movements.

2.1.1 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, but as discussed earlier in these financial statements, the Retail Dispense businesses were disposed of on 1 January 2014, subsequent to the year-end, and consequently their results are shown as discontinued operations in the Income Statement, while their assets and liabilities are presented as held for sale in the Balance Sheet.

Fluid Controls – continuing operations

Severe Service

The Severe Service division is a world leading provider of highly-engineered flow control solutions for critical applications that are able to withstand temperature and pressure extremes and intensely abrasive and corrosive cyclical operations.

Fluid Power

The Fluid Power division specialises in developing motion and fluid control technologies for applications where precision, speed and reliability are essential.

Indoor Climate

The Indoor Climate division designs and manufactures technologies which deliver optimal and energy efficient heating and cooling systems inside buildings.

Retail Dispense – discontinued operations

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 permanent point of purchase display systems for brand owners and retailers.

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, preparatory costs associated with the disposal of the Retail Dispense business, 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.

SECTION 2 – RESULTS FOR THE YEAR

Continued

Segment reporting

The Group has three reportable segments which are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker (considered to be the Board). Further details on the nature of these segments and the products and services they provide are contained in the Directors' Report.

	Revenue		Operating profit		Operating Margin	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 %	2012 %
Fluid Controls - continuing operations						
Severe Service	716	686	116.8	96.3	16.3%	14.0%
Fluid Power	723	717	140.5	142.3	19.4%	19.8%
Indoor Climate	305	293	64.3	61.5	21.1%	21.0%
Total continuing segmental revenue/operating profit	1,744	1,696	321.6	300.1	18.4%	17.7%
Reversal of net economic hedge contract gains	(1)	(2)	(5.1)	(6.8)		
Net credit on special pension events			-	10.9		
Restructuring costs			(14.2)	(18.9)		
Preparatory costs for sale of Retail Dispense businesses			(8.0)	-		
Acquired intangible amortisation			(21.9)	(29.6)		
Other acquisition-related costs			(1.9)	(6.3)		
Total revenue/operating profit reported	1,743	1,694	270.5	249.4		
Net financial expense			(21.2)	(19.5)		
Profit before tax			249.3	229.9		
Retail Dispense - discontinued operations						
Beverage Dispense	337	349	51.2	53.5	15.2%	15.3%
Merchandising	174	147	29.8	19.4	17.1%	13.2%
Total discontinued segmental revenue/operating profit	511	496	81.0	72.9	15.9%	14.7%
Total Group segmental revenue/operating profit	2,255	2,192	402.6	373.0	17.9%	17.0%

The following table illustrates how the segmental assets and liabilities reconcile to the overall total assets and liabilities reported in the Balance Sheet.

	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Fluid Controls - continuing operations	1,239.4	1,243.0	342.7	337.2
Severe Service	642.4	675.6	187.3	184.7
Fluid Power	434.6	409.0	102.9	94.4
Indoor Climate	162.4	158.4	52.5	58.1
Retail Dispense (Classified as held for sale in 2013)	257.1	264.4	61.6	75.6
Beverage Dispense	158.4	125.7	37.3	44.8
Merchandising	98.7	138.7	24.3	30.8
Total segmental assets/liabilities	1,496.5	1,507.4	404.3	412.8
Corporate items	32.4	5.1	79.8	72.9
Employee benefits	0.3	-	159.0	232.2
Investments	20.3	20.4	-	-
Net debt items	99.9	102.8	299.3	246.6
Net taxation and others	52.1	88.7	111.6	76.4
Total assets and liabilities in Group Balance Sheet	1,701.5	1,724.4	1,054.0	1,040.9

The table on the previous page includes the following assets and liabilities classified as held for sale:

	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Total segmental assets/liabilities held for sale	257.1	-	61.6	-
Employee benefits	-	-	0.8	-
Investments	0.1	-	-	-
Net taxation and others	32.2	-	14.9	-
Total assets/liabilities held for sale (section 2.5)	289.4	-	77.3	-

The following table includes other information to show how certain elements of cost reported in the income statement are allocated between the segments of the Group. The restructuring costs, depreciation and amortisation for the Retail Dispense businesses are reported in discontinued operations (depreciation and amortisation ceased from the date of classification as held for sale) and the capital expenditure for these businesses has been added to assets held for sale.

	Restructuring costs		Capital Expenditure		Amortisation*		Depreciation	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Fluid Controls - continuing operations	14.2	18.9	44.8	38.9	27.1	32.3	33.5	34.9
Severe Service	2.1	13.8	14.9	12.8	20.4	26.6	10.8	10.6
Fluid Power	8.8	1.6	22.9	16.4	5.2	4.5	15.8	17.8
Indoor Climate	3.3	3.5	7.0	9.7	1.5	1.2	6.9	6.5
Retail Dispense - discontinued operations	3.0	4.4	8.4	6.8	1.3	1.7	3.9	6.0
Beverage Dispense	1.7	1.4	6.7	4.1	1.3	1.6	3.4	4.6
Merchandising	1.3	3.0	1.7	2.7	-	0.1	0.5	1.4
Subtotal	17.2	23.3	53.2	45.7	28.4	34.0	37.4	40.9
Corporate	-	-	0.2	1.2	-	-	0.5	0.4
Total	17.2	23.3	53.4	46.9	28.4	34.0	37.9	41.3

* The amortisation figures above include the amortisation of acquired intangibles. £18.9m (2012: £26.1m) is included in respect of Severe Service, £2.7m (2012: £3.1m) is included in respect of Fluid Power and £0.3m (2012: £0.4m) is included in respect of Indoor Climate.

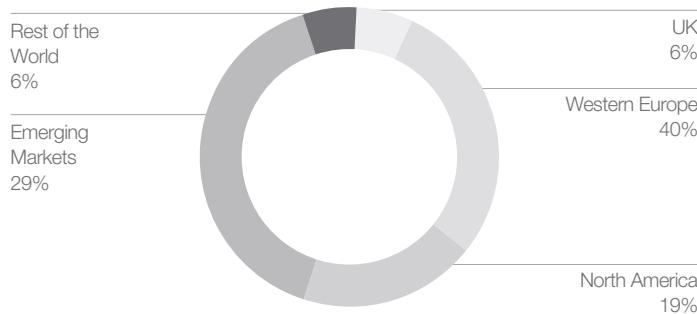
SECTION 2 – RESULTS FOR THE YEAR

Continued

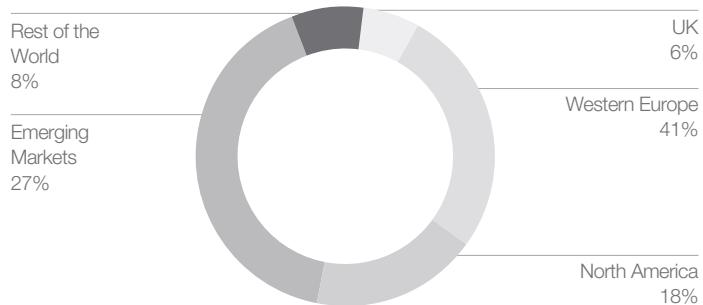
The following table shows a geographical analysis of how the Group's revenue is derived by destination.

	Continuing Segmental Revenue			Total 2013 £m	Continuing Segmental Revenue			Total 2012 £m
	Discontinued Operations 2013 £m	Total 2013 £m	Discontinued Operations 2012 £m		Discontinued Operations 2012 £m	Total 2012 £m		
UK	104	38	142	101	42	143		
Germany	247	23	270	268	14	282		
Other Western Europe	439	30	469	426	39	465		
Western Europe	686	53	739	694	53	747		
USA	314	346	660	277	312	589		
Canada	24	7	31	29	11	40		
North America	338	353	691	306	323	629		
Emerging Markets	504	60	564	462	67	529		
Rest of World	112	7	119	133	11	144		
Total segmental revenue	1,744	511	2,255	1,696	496	2,192		
Reversal of economic hedge contract gains	(1)	-	(1)	(2)	-	(2)		
Total	1,743	511	2,254	1,694	496	2,190		

Continuing revenue by destination (2013)



Continuing revenue by destination (2012)



The following table shows a geographical analysis of the location of the Group's property, plant and equipment and intangible assets ('PPE&IA') and assets held for sale ('AHFS').

	PPE&IA 2013 £m	AHFS 2013 £m	Total 2013 £m	Total 2012 £m
UK	69.7	41.9	111.6	101.1
Germany	147.0	3.3	150.3	159.5
Rest of Europe	254.1	1.0	255.1	254.6
USA	114.2	89.3	203.5	208.7
Asia Pacific	32.4	3.2	35.6	40.1
Rest of World	35.9	0.5	36.4	25.8
Total	653.3	139.2	792.5	789.8

2.1.2

Operating costs by function

The following table is included to show how much of the operating costs deducted from revenue to arrive at the Group's post-exceptional operating profit, relate to cost of sales, selling and distribution costs, administrative expenses and exceptional items.

	2013 £m	Restated 2012 £m
Segmental revenue	1,744.0	1,696.0
Cost of sales	(948.8)	(950.6)
Segmental gross profit	795.2	745.4
Selling and distribution costs	(220.0)	(208.7)
Administrative expenses	(253.6)	(236.6)
Operating profit before exceptional items	321.6	300.1
Exceptional items*	(51.1)	(50.7)
Operating profit	270.5	249.4

* The exceptional costs are analysed in detail in section 2.2.

2.1.3

Specific elements of operating costs

Certain specific items of operating expenses are disclosed to provide the reader of financial statements with more information regarding these costs. This section provides this analysis.

Employee information

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

	2013	2012
Severe Service	3,845	3,777
Fluid Power	5,760	5,823
Indoor Climate	1,926	1,951
Corporate	176	180
Total continuing	11,707	11,731
Retail Dispense	2,759	2,861
Total Group	14,466	14,592

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

	2013 £m	2012 £m
Wages and salaries*	514.8	507.0
Share based payments	11.2	10.1
Social security costs	88.0	85.5
Pension costs**	16.1	14.0
Total	630.1	616.6

* Wages and salaries include a £1.0m (2012: £4.0m) accrual for contingent consideration payments to the vendors of AFP and NPSL (2012: InterAtiva), as described in section 3.4.

**In 2012, pension costs above include a £3.2m exceptional credit in respect of the changes to the Swiss plans and a £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 was in respect of former rather than current employees.

The aggregate gains made by directors on the exercise of share options was £13.4m (2012: £5.7m). The remuneration, as defined in Schedule 5, for the executive directors' comprises fixed and annual variable pay as set out in the table on page 68 of the Remuneration Report. For details of non-executive directors' remuneration please refer to page 77 of the Remuneration Report.

Operating lease charges and operating lease commitments

The Group enters into leases for property, plant and equipment assets when doing so represents a more cost-effective or lower risk option than purchasing them. This leads to an income statement charge for the year and future commitments for the Group in respect of these leases.

Continuing operating costs include a charge of £14.3m (2012 restated: £13.4m) relating to the lease of properties and a charge of £7.1m (2012 restated: £6.2m) relating to the lease of plant and machinery. The continuing commitments in respect of non-cancellable operating leases in place are shown in the following table by time period:

	2013 Land and buildings £m	Others £m	Restated 2012 Land and buildings £m		Others £m
Within one year	14.3	6.7	13.0	5.5	
In the second to fifth year	41.6	11.1	38.9	11.2	
After five years	34.0	2.0	37.6	2.5	
	89.9	19.8	89.5	19.2	

The disclosures above exclude commitments for the Retail Dispense businesses, which the Group disposed of on 1 January 2014.

Research and development expenditure

The continuing cost of research and development expenditure charged directly to the income statement was £50.0m (2012 restated: £45.4m). Across the Group in total, £4.7m (2012: £5.2m) was capitalised.

Exchange gains on operating activities net of hedging arrangements

The transactional foreign exchange gains in the Group were £0.6m (2012 restated: £0.6m loss).

SECTION 2 – RESULTS FOR THE YEAR

Continued

Audit Fees

The Group engages its auditors, EY, to perform assignments in addition to their statutory audit duties where their expertise, experience and knowledge of the Group should enable them to perform these assignments more efficiently than other similar service providers.

The Group's policy on such assignments is set out in the Audit Committee Report. Fees earned by EY and its associates during the year are set out below:

	2013			Restated 2012		
	Continuing Business £m	Discontinued Business £m	Total £m	Continuing Business £m	Discontinued Business £m	Total £m
Fees earned by the Company's auditor for the audit of the Company's annual accounts	0.2	-	0.2	0.2	-	0.2
The audit of the Company's subsidiaries, pursuant to legislation	2.6	0.5	3.1	2.4	0.4	2.8
Tax compliance services	0.1	-	0.1	0.2	-	0.2
Other assurance services	0.1	-	0.1	0.3	-	0.3
Total	3.0	0.5	3.5	3.1	0.4	3.5

2.2 Exceptional items

The Group uses the exceptional items category in the income statement to classify separately items of both income and expense which are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to gain a better understanding of the underlying performance of the Group.

The following items are considered to be exceptional in these financial statements.

2.2.1 Reversal of net economic hedge contract gains

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as 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 exceptional item at the operating level reverses 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 former amounted to a charge of £5.1m (2012: £6.8m) and the latter amounted to a credit of £2.7m (2012: £5.8m). The £2.7m credit reported in 2013 includes a charge of £3.0m for the cost of the deal-contingent element of the forward contract hedging the proceeds of the disposal of the Retail Dispense businesses.

2.2.2 Restructuring costs and acquired intangible amortisation

The restructuring costs of £14.2m (2012 restated: £18.9m) arising in the year principally comprise a German site closure in our Fluid Power business and strategic cost reduction exercises in our Indoor Climate and Severe Service businesses. An analysis of these costs by segment is included in section 2.1.1 on page 95 along with an analysis by segment of acquired intangible amortisation.

2.2.3 Preparatory costs for sale of Retail Dispense businesses

Preparatory costs for sale of Retail Dispense businesses amounted to £8.0m and principally represented costs payable to the legal and financial advisors assisting with the origination and completion of the transaction, in addition to the advisory costs borne in 2013 relating to the return of cash, which is described in the Directors' Report on page 51.

2.2.4 Other acquisition-related costs

Other acquisition-related costs comprise the following:

- The accrual of £0.1m and £0.9m for additional consideration payable to the vendors of respectively, the NPSL and AFP acquisitions, which are discussed in detail in section 3.4.
- Acquisition costs of £0.6m and £0.3m respectively in relation to these acquisitions.

2.2.5 Net credit on special pension events

In 2012, the net credit on special pension events of £10.9m comprised:

- 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 these schemes' rules during the year.
- A £1.3m cost arising in Japan relating to the exit of a state-sponsored scheme during the year.

2.2.6 Taxation

The tax effects of the above items are included in the exceptional column of the income statement. In addition, in 2013, exceptional tax charges of £14.7m have been incurred in association with the pre-sale restructuring of certain of the sold Retail Dispense businesses and included in discontinued operations.

2.3 Earnings per ordinary share

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company). Basic EPS measures are calculated as the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation.

Both of these measures are also presented on an adjusted basis, to remove the effects of exceptional items, being items of both income and expense which are sufficiently large, volatile or one-off in nature to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group. The note below demonstrates how this calculation has been performed.

In 2013, as discussed in the introduction to these financial statements, the Group has presented its results analysed between continuing and discontinued operations and further basic and diluted measures of EPS are given to show the EPS relating to continuing operations only. The prior year figures have been restated for both the impact of IAS19 revised and the requirement to show the results of the Retail Dispense operations as discontinued in the comparative period.

	Key	2013 million	2012 million
Weighted average number of shares for the purpose of basic earnings per share	A	315.5	317.8
Dilutive effect of employee share options		4.0	4.3
Weighted average number of shares for the purpose of diluted earnings per share	B	319.5	322.1

	Key	£m	£m
Profit for the period (2012: as previously reported)		227.0	233.7
Non-controlling interests		(3.1)	(3.1)
Profit for the period attributable to owners of the parent (2012: as previously reported)	C	223.9	230.6
Restatement of net finance credit relating to defined benefit schemes*		-	(19.2)
Related taxation effect*		-	4.5
Profit for the period attributable to owners of the parent (2012: restated)	D	223.9	215.9
Profits from discontinued operations, net of tax		(33.4)	(44.7)
Continuing profit for the period attributable to owners of the parent (2012: as restated)	E	190.5	171.2
Total exceptional charges/(credits) included in profit before tax		48.4	44.9
Total exceptional charges/(credits) included in taxation		(9.8)	(10.4)
Earnings for adjusted EPS (2012: restated)	F	229.1	205.7
Profit for the period attributable to owners of the parent as previously reported			230.6
Total exceptional charges/(credits) included in profit before tax as previously reported**			49.3
Total exceptional charges/(credits) included in taxation as previously reported**			(11.9)
Earnings for adjusted EPS (as previously reported)	G	268.0	

* The impact on basic and diluted measures of EPS for the revisions to IAS19 was 4.6p.

** The restatement in exceptional charges for 2012 relates to £4.4m restructuring costs and related tax of £1.5m in the Retail Dispense businesses in 2012 which are now treated as discontinued operations (see section 2.5).

SECTION 2 – RESULTS FOR THE YEAR

Continued

	Key	2013	Restated 2012
EPS measures			
Basic EPS	D/A	71.0p	67.9p
Diluted EPS	D/B	70.1p	67.0p
Basic continuing EPS	E/A	60.4p	53.9p
Diluted continuing EPS	E/B	59.6p	53.2p
Adjusted EPS measures			
Adjusted basic continuing EPS	F/A	72.6p	64.7p
Adjusted diluted continuing EPS	F/B	71.7p	63.9p

	Reported
EPS measures as previously reported:	
Basic EPS	C/A
Diluted EPS	C/B
Adjusted basic EPS	G/A
Adjusted diluted EPS	G/B

Pro forma adjusted earnings per share

The note below shows the adjusted earnings per share measures we would have presented for 2013 and 2012, had the sale of the Retail Dispense businesses, and their subsequent treatment as discontinued operations, not taken place. The figures shown for 2012 include the restatement of the net financial expense for IAS19 (revised) and the cessation of depreciation and amortisation in 2013 from the date these businesses became held for sale.

	Key	2013 million	2012 million
Weighted average number of shares for the purpose of basic earnings per share	A	315.5	317.8
Dilutive effect of employee share options		4.0	4.3
Weighted average number of shares for the purpose of diluted earnings per share	B	319.5	322.1

	Key	£m	£m
Total continuing and discontinued segmental operating profit		402.6	373.0
Continuing pre-exceptional net financial expense		(23.9)	(25.3)
Discontinued net financial expense		(0.6)	(0.6)
Total continuing and discontinued pre-exceptional profit before tax		378.1	347.1
Taxation at 24.0% (2012: 26.1%)		(90.7)	(90.7)
Adjusted continuing and discontinued profit for the year		287.4	256.4
Non-controlling interests		(3.1)	(3.1)
Adjusted continuing and discontinued profit attributable to the owners of the parent	H	284.3	253.3
Pro forma EPS measures had the Retail Dispense businesses not been treated as discontinued operations			
Pro forma adjusted basic EPS	H/A	90.1p	79.7p
Pro forma adjusted diluted EPS	H/B	89.0p	78.6p

Discontinued earnings per share

Basic discontinued earnings per share were 10.6p (2012: 14.1p). Diluted discontinued earnings per share were 10.5p (2012: 13.9p).

2.4 Taxation

IMI operates through subsidiary companies all around the world that pay many different taxes such as corporate income taxes, VAT, payroll withholdings, social security contributions, customs import and excise duties. This note aggregates those corporate income taxes that are or will be levied on the individual profits of IMI plc and its subsidiary companies for periods leading up to and including the accounting date. The profits of each company are subject to certain tax adjustments as specified by applicable tax laws in each country to arrive at the tax liability that is expected to result from their tax returns. Where these tax adjustments cause future tax implications then deferred taxes may also be provided.

2.4.1 Governance and strategy

IMI seeks to effectively manage its taxation obligations worldwide in compliance with all applicable tax laws and regulations. Therefore, the Group monitors the tax contribution by the individual businesses to ensure it meets local tax requirements, that available global tax incentives and allowances are recognised, and any material tax risks are properly and promptly addressed, as well as appropriately provided and disclosed in the Group's accounts and tax returns.

IMI aims to build positive working relationships with tax authorities around the world by fully co-operating in an open, constructive and timely manner. As tax laws are often complex and sometimes ambiguous, tax outcomes are inherently uncertain. Accordingly, 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 seek to remove uncertainty and controversy.

IMI tax policy requires compliance, fairness, value and transparency in the management of the Company's tax affairs, in accordance with the principles of The IMI Way. This approach has been approved by the Board, fully communicated to subsidiary businesses and is regularly reviewed to ensure responsible business practices across the Group are maintained.

2.4.2 UK corporation tax

The Finance Act 2012 enacted a reduction in the UK corporation tax rate from 24% to 23% from 1 April 2013. Additional changes to the main rate of UK corporation tax were enacted in the Finance Act 2013, to reduce the rate to 21% by 1 April 2014 and to 20% from 1 April 2015. These changes were substantively enacted in July 2013. Accordingly, the average weighted rate of corporation tax in the UK for the 2013 calendar year was 23.25% (2012: 24.5%). UK deferred tax assets and liabilities have been calculated using a rate of 20% (2012: 23%). In the current year, the UK tax charge was £7.1m (2012: £11.9m).

2.4.3 Tax payments

During the year, the Group made payments of current income tax of £41.7m (2012: £102.9m), principally arising in the USA, UK, Italy, Switzerland, Japan and Germany. There is normally an element of volatility in the annual payments of corporate income taxes due to the timing of assessments, acquisitions and disposals, exceptional items and payments on account in the many countries in which the Group operates. In addition, the Group makes substantial other tax payments relating to employment, consumption, procurement and investment to local authorities around the world. Tax payments in the current year were lower than usual because the Group received some tax refunds and tax payment reductions due to accelerated tax payments in prior years, following various restructuring programmes. 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.

2.4.4 Recognised in the income statement

This section sets out the current and deferred tax charges, which together comprise the total tax charge in the income statement.

	2013 £m	Restated 2012 £m
Current tax charge/(credit)		
Current year charge	98.4	73.8
Adjustments in respect of prior years	(1.4)	0.5
	97.0	74.3
Deferred taxation		
Origination and reversal of temporary differences	(2.3)	4.5
Total income tax expense	94.7	78.8

The above income tax expense is apportioned between continuing and discontinued operations in the income statement as follows:

	2013 £m	Restated 2012 £m
Current tax charge		
Continuing operations	59.6	52.8
Discontinued operations	37.4	21.5
	97.0	74.3
Deferred tax		
Continuing operations	(3.9)	2.8
Discontinued operations	1.6	1.7
	(2.3)	4.5

	2013 £m	Restated 2012 £m
Total income tax charge		
Continuing operations	55.7	55.6
Discontinued operations	39.0	23.2
	94.7	78.8

SECTION 2 – RESULTS FOR THE YEAR

Continued

2.4.5 Reconciliation of effective tax rate

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 in the UK. Therefore, the following tax reconciliation applies the UK corporation tax rate for the year 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:

	2013			Restated 2012		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax from continuing operations	297.7	(48.4)	249.3	274.8	(44.9)	229.9
Profit before tax from discontinued operations (section 2.5)	80.4	(8.0)	72.4	72.3	(4.4)	67.9
Profit before tax	378.1	(56.4)	321.7	347.1	(49.3)	297.8
Income tax using the Company's domestic rate of tax of 23.25% (2012: 24.5%)	87.9	(13.1)	74.8	85.0	(12.1)	72.9
Effects of:						
Non-deductible items	4.3	2.1	6.4	1.7	0.5	2.2
Exceptional tax charge on restructuring	-	17.1	17.1	-	-	-
Utilisation of tax losses	(1.4)	-	(1.4)	(2.8)	-	(2.8)
Current year losses for which no deferred tax asset has been recognised	1.3	-	1.3	1.4	-	1.4
Differing tax rates	(0.1)	(2.1)	(2.2)	2.7	(0.3)	2.4
Underprovided in prior years	(1.3)	-	(1.3)	2.7	-	2.7
Total tax in income statement (section 2.4)	90.7	4.0	94.7	90.7	(11.9)	78.8
Income tax expense reported in the consolidated income statement	65.5	(9.8)	55.7	66.0	(10.4)	55.6
Effective rate of tax:	22.0%		22.3%	24.0%		24.2%
Income tax attributable to discontinued operations (section 2.5)	25.2	13.8	39.0	24.7	(1.5)	23.2
Effective rate of tax:	31.3%		53.9%	34.2%		34.2%
Total tax in income statement (section 2.4)	90.7	4.0	94.7	90.7	(11.9)	78.8
Effective rate of tax:	24.0%		29.4%	26.1%		26.5%

2.4.6 Recognised outside of the income statement

In addition to amounts charged to the income statement, some current tax and deferred tax is charged or credited directly to equity or through other comprehensive income, which can be analysed as follows:

	2013 £m	Restated 2012 £m
Deferred tax:		
On equity-settled transactions	(0.3)	(1.8)
On change in value of effective net investment hedge derivatives	0.7	0.3
On available for sale financial assets	(0.2)	0.1
On fair value gain on deal-contingent forward relating to disposal proceeds	3.0	-
On re-measurement of gains and losses on defined benefit plans	21.3	(7.1)
On foreign currency translation differences	(1.0)	0.1
	23.5	(8.4)
Current tax:		
On equity-settled transactions	(5.3)	(4.1)
	18.2	(12.5)
Of which the following amounts are credited:		
to the statement of comprehensive income	23.8	(6.6)
to the statement of changes in equity	(5.6)	(5.9)
	18.2	(12.5)

2.4.7 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	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Non-current assets	6.1	3.9	(59.6)	(59.3)	(53.5)	(55.4)
Inventories	5.6	5.3	(5.5)	(6.1)	0.1	(0.8)
On foreign exchange and revaluation of derivatives	0.5	0.8	(2.3)	(0.6)	(1.8)	0.2
Employee benefits and provisions	58.9	84.8	(4.3)	(4.3)	54.6	80.5
Other tax assets	4.0	4.4	-	-	4.0	4.4
	75.1	99.2	(71.7)	(70.3)	3.4	28.9
Set off of tax	(27.4)	(33.6)	27.4	33.6	-	-
Total deferred tax assets and liabilities	47.7	65.6	(44.3)	(36.7)	3.4	28.9
Reflected in the balance sheet as follows:						
Deferred taxation asset/(liability)	43.9	65.6	(34.3)	(36.7)	9.6	28.9
Asset/(liability) held for sale (section 2.5)	3.8	-	(10.0)	-	(6.2)	-
Total deferred tax assets and liabilities	47.7	65.6	(44.3)	(36.7)	3.4	28.9

The movement in the net deferred tax balances has been recognised in the financial statements as analysed below:

	Balance at 1 Jan 13 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions £m	Balance at 31 Dec 13 £m
Non-current assets	(55.4)	6.3	-	1.0	(5.4)	(53.5)
Inventories	(0.8)	1.0	-	(0.1)	-	0.1
On foreign exchange and revaluation of derivatives	0.2	0.8	(2.7)	(0.1)	-	(1.8)
Employee benefits and provisions	80.5	(5.3)	(20.8)	0.2	-	54.6
Other tax assets	4.4	(0.5)	-	0.1	-	4.0
Net deferred tax asset	28.9	2.3	(23.5)	1.1	(5.4)	3.4

	Balance at 1 Jan 12 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions £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

All exchange movements are taken through the translation reserve.

2.4.8 Unrecognised deferred tax assets and liabilities

Deferred tax assets of £29.0m (2012: £27.1m) have not been recognised in respect of tax losses of £126.2m (2012: £120.4m). 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 £78.0m (2012: £75.4m) 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 (2012: £7.9m), of which only £1.5m (2012: £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.

SECTION 2 – RESULTS FOR THE YEAR

Continued

2.5

Discontinued operations and non-current assets and liabilities held for sale

When the Group has assets and liabilities that are likely to be sold rather than being held for continuing use and when accounting standards require, these assets and liabilities are included in current assets and liabilities and denoted 'held for sale' rather than in their usual categories.

If they represent a significant enough proportion of the Group, they are also treated as discontinued operations. This means that their trading performance, i.e. their revenues, costs and other items of income and expense, are no longer reported within the headline figures in the Income Statement and are instead reported in a separate line, net of tax, called 'discontinued operations'. These amounts no longer form part of continuing earnings per share. Comparative figures are restated to be shown on the same basis.

This enables the Income Statement for the current and prior year to be presented on a consistent basis and to convey a more forward-looking version of the results for the year.

In March 2013 the Group announced its intention to divest the majority of the Merchandising segment and that options to do so were being explored. At this time, an active programme to identify potential purchasers of the Artform and DCI Merchandising companies had begun and we determined that all the criteria to designate these operations as held for sale had been met.

We therefore designated the assets and liabilities of these businesses as held for sale from 6 March 2013, the date at which these criteria were met. Subsequent to this decision, in September 2013, IMI received an alternative unsolicited offer from Marmon Group, a Berkshire Hathaway Company, to acquire all the trading companies and operations of our Retail Dispense businesses (being both the Merchandising and Beverage Dispense segments) for \$1.1 billion on a cash-free, debt-free basis. On 15 October 2013 final Board approval was given and an agreement was signed for the sale of these businesses on this date, which subsequently completed on 1 January 2014.

Accordingly, the Beverage Dispense segment and the Cannon operations of the Merchandising segment joined the Artform and DCI businesses (together the whole of our Retail Dispense businesses) in being treated as held for sale from 15 October 2013. From this date, the Board determined that this disposal group represented a major class of business as defined by IFRS5 'Non-Current assets held for sale and discontinued operations' and determined that this disposal group met the criteria to be disclosed as a discontinued operation in the Income Statement.

	2013 £m	Restated 2012 £m
Revenue	511	496
Depreciation	(3.9)	(6.0)
Amortisation	(1.3)	(1.7)
Other operating expenses	(424.8)	(415.4)
Segmental operating profit	81.0	72.9
Restructuring costs	(3.0)	(4.4)
Operating profit	78.0	68.5
Financial income	0.2	0.2
Financial expense	(0.4)	(0.4)
Net finance credit related to benefit pension schemes	(0.4)	(0.4)
Profit before tax	77.4	67.9
Taxation	(39.0)	(23.2)
Profit after tax	38.4	44.7

A reconciliation of the taxation charge relating to discontinued operations is provided in section 2.4.4.

The results of the Retail Dispense businesses for the year are presented above, in addition to which, pre-tax and post-tax costs of £5.0m relating to other discontinued operations have also been included in this line in the Income Statement.

The major classes of assets and liabilities of the Retail Dispense operations classified as held for sale as at 31 December 2013 are as follows:

	2013 £m
Segmental assets	
Intangible assets	114.1
Property, plant and equipment	25.1
Inventories	50.8
Trade and other receivables	67.1
Total segmental assets	257.1
Non-segmental assets	
Current tax	0.2
Deferred tax	3.8
Cash and cash equivalents	28.2
Investments	0.1
Total assets classified as held for sale	289.4
Segmental liabilities	
Trade and other payables	(56.2)
Provisions	(5.4)
Total segmental liabilities	(61.6)
Non-segmental liabilities	
Current tax	(3.2)
Deferred tax	(10.0)
Bank overdraft	(1.7)
Employee benefit obligations	(0.8)
Total liabilities associated with assets classified as held for sale	(77.3)
Net assets directly associated with disposal group	212.1

The net cash flows associated with the Retail Dispense operations are as follows:

	2013 £m	2012 £m
Operating	53.8	63.8
Investing	(8.1)	(5.8)
Financing	(0.4)	(0.4)
Net cash inflow	45.3	57.6

The discontinued cash flows relating to financing activities reported above exclude any allocation of items relating to the entire Group such as external dividends paid, share buybacks and drawdown of borrowings, which has the net effect of significantly reducing the outflows reported for the discontinued activities in comparison to the Group as a whole.

SECTION 3 – OPERATING ASSETS AND LIABILITIES

What you will find in this section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in Section 2.4.7. On the following pages there are sections covering working capital, non-current assets, acquisitions, other payables due after more than one year, provisions and pensions.

3.1

Working capital

Working capital represents the assets and liabilities the Group generates through its trading activities. The Group therefore defines working capital as trade and other receivables, inventory and trade and other payables. Working capital is managed very carefully to ensure that the Group can meet its trading and financing obligations within its ordinary operating cycle.

To provide the Executive Committee with insight into the management of working capital, one of the most important measures monitored is cash conversion. Cash conversion is defined as the Operating Cash Flow (as defined in the commentary on the cash flow statement) divided by the segmental operating profit which therefore represents the proportion of segmental operating profit generated during the year that has been converted into cash.

3.1.1

Trade and other receivables

	2013 £m	2012 £m
Falling due for payment within one year		
Trade receivables	293.5	358.5
Other receivables	33.0	28.3
Prepayments and accrued income	18.8	20.5
	345.3	407.3
Receivables are stated after:		
Allowance for impairment	8.1	11.4

The Group's exposure to credit and market risks related to trade and other receivables is disclosed in section 4.4.

3.1.2

Inventories

	2013 £m	2012 £m
Raw materials and consumables	85.3	99.3
Work in progress	86.4	118.5
Finished goods	73.8	83.5
	245.5	301.3

In 2013 the cost of inventories recognised as an expense within cost of sales amounted to £948.6m (2012 restated: £950.6m). In 2013 the write-down of inventories to net realisable value amounted to £7.1m (2012 restated: £5.1m). The reversal of write-downs amounted to £2.1m (2012 restated: £2.4m). Write-downs and reversals in both years relate to on-going assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

3.1.3

Trade and other payables

	2013 £m	2012 £m
Current		
Trade payables	187.5	251.2
Bills of exchange payable	6.1	8.0
Other taxation	13.1	17.9
Social security	10.0	9.8
Other payables	1.8	0.3
Accruals and deferred income	137.1	142.9
	355.6	430.1

3.2 Intangible assets

The following section shows the non-physical assets used by the Group to generate revenues and profits. These assets include goodwill, customer relationships, order books, patents, development costs and software development costs. The cost of these assets is the amount that the Group has paid for them or, when they have arisen due to a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights.

In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets net of the liabilities acquired. The value of the goodwill can arise from a number of sources but in relation to our more recent acquisitions, it has been represented by post-acquisition synergies and the skills and knowledge of the workforce. The value of the Group's intangible assets, with the exception of goodwill, reduces over the number of years over which the Group expects to use the asset, the useful life, via an annual amortisation charge to the income statement.

The Group splits its intangible assets between those arising on acquisitions and those which do not arise on acquisitions, because the amortisation of acquired intangibles meets the definition of an exceptional item as described in section 2.2.

Where there are indications that the value of intangible assets is no longer representative of their value to the Group, for example where there is a customer relationship recognised but revenues from that customer are reducing, or where goodwill was recognised on an acquisition but the performance of the business acquired is below expectations, the Directors review the value of the assets to ensure they have not fallen below their amortised values. If this has happened, a one-off impairment charge is made against profit. This section explains the overall carrying values of the intangible assets within the Group and the specific judgements and estimates made by the Directors in arriving at these values.

3.2.1 Analysis of intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Total acquired intangibles £m	Other non- acquired intangibles £m	Total £m
Cost						
As at 1 January 2012	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
Exchange adjustments	0.3	0.4	(1.1)	(0.4)	-	(0.4)
Acquisitions	2.9	-	21.3	24.2	-	24.2
Transfers to assets held for sale	(113.6)	-		(113.6)	(23.9)	(137.5)
Additions	-	-		-	8.0	8.0
Disposals	-	-		-	(1.1)	(1.1)
As at 31 December 2013	330.0	137.2	85.4	552.6	48.2	600.8
Amortisation						
As at 1 January 2012	-	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
Exchange adjustments		(0.4)	(0.1)	(0.5)	-	(0.5)
Transfers to assets held for sale		-	-	-	(20.0)	(20.0)
Disposals		-	-	-	(0.9)	(0.9)
Impairment		-	-	-	0.4	0.4
Amortisation for year		19.8	2.1	21.9	6.5	28.4
As at 31 December 2013	-	79.2	62.8	142.0	28.5	170.5
Net book value at 31 December 2012	440.4	77.0	4.4	521.8	22.7	544.5
Net book value at 31 December 2013	330.0	58.0	22.6	410.6	19.7	430.3

*This transfer represents software costs of £0.4m net book value historically held in property, plant and equipment, but re-classified to intangible assets during 2012.

SECTION 3 – OPERATING ASSETS AND LIABILITIES

Continued

3.2.2 Goodwill impairment testing

Goodwill is not subject to an annual amortisation charge, instead, its carrying value is assessed annually by comparison to the future cash flows of the business to which it relates (the cash generating unit, or CGU). These cash flows are discounted to reflect the time value of money and this discount rate, together with the growth rates assumed in the cash flow forecasts, are the key assumptions in this impairment testing process.

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 36 cash generating units to which goodwill is allocated. Zimmermann & Jansen, TH Jansen, and Remosa were all acquired between 2010 and 2012 and have created for IMI a leadership position with their products in the Petrochemical and Iron and Steel markets. These businesses operate closely with each other however impairment reviews have been undertaken for these CGUs separately. We will continue to review whether they should be treated as a single or combined CGU.

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 reflect 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 geographical regions in which the cash generating unit operates. Pre-tax discount rates specific to each cash generating unit are calculated by adjusting the Group post-tax weighted average cost of capital ('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 geographical regions from which the cash flows are derived.

This exercise resulted in the use of the following ranges of values for the key assumptions:

	2013 %	2012 %
Pre-tax discount rate	10.6 - 14.6	10.6 - 14.5
Long-term growth rate	1.6 - 3.6	2.0 - 4.2

No amounts of goodwill that are significant in the context of the Group's total goodwill balance used the same key assumptions for the purposes of impairment testing in either this year or the last. For the purpose of assessing the significance in this context, the Group uses a threshold of 20% of the total goodwill balance.

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. The cumulative impairment recognised in relation to goodwill is £6m (2012: £6m).

The cumulative acquired intangible amortisation is £142.0m (2012: £120.6m).

3.3 Property, plant and equipment

The following section concerns the physical assets used by the Group to generate revenues and profits. These assets include manufacturing, distribution and office sites, as well as equipment used in the manufacture of the Group's products. The cost of these assets represents the amount initially paid for them.

With the exception of the Group's land and assets under construction which have not yet been brought into use, a depreciation expense is charged to the income statement to reflect the annual wear and tear and the reduction in the value of the asset over time. Depreciation is calculated by reference to the assets' useful lives, by estimating the number of years over which the Group expects the asset to be used. As we do for our intangible assets (see 3.2), if there has been a technological change or decline in business performance the directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value a one-off impairment charge is made against profit.

	Land & buildings	Plant & equipment	Assets in the course of construction	Total
Cost				
As at 1 January 2012	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
Transfers to intangible assets*	-	(5.6)	-	(5.6)
Transfers from assets in the course of construction	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
Exchange adjustments	(1.0)	(1.7)	(0.3)	(3.0)
Acquisitions	0.2	0.2	-	0.4
Additions	2.1	20.2	19.7	42.0
Transfers to assets held for sale	(22.0)	(99.4)	(3.2)	(124.6)
Transfers from assets in the course of construction	0.5	10.4	(10.9)	-
Disposals	(3.4)	(22.9)	(0.1)	(26.4)
As at 31 December 2013	173.6	568.9	17.2	759.7
Depreciation				
As at 1 January 2012	92.6	543.8	-	636.4
Exchange adjustments	(2.8)	(11.1)	-	(13.9)
Disposals	(1.1)	(32.2)	-	(33.3)
Transfers 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
Exchange adjustments	(0.2)	(0.5)	-	(0.7)
Disposals	(2.1)	(22.6)	-	(24.7)
Transfers to assets held for sale	(14.4)	(86.7)	-	(101.1)
Impairment reversal	-	(0.5)	-	(0.5)
Depreciation	4.3	33.6	-	37.9
As at 31 December 2013	80.7	456.2	-	536.9
NBV at 31 December 2012	104.1	129.2	12.0	245.3
NBV at 31 December 2013	92.9	112.7	17.2	222.8

* These transfers represent software costs of £0.4m net book value historically held in property, plant and equipment but reclassified to intangible assets during 2012.

A net reversal of fixed asset impairments of £0.5m relating to continuing operations occurred during the year (2012: £0.7m charge).

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date relating to the continuing business amounted to £3.3m (2012 restated: £4.4m).

Included in the total net book value of plant and equipment is £1.2m (2012: £2.1m) in respect of assets acquired under finance leases.

Depreciation for the year on these assets was £0.3m (2012: £0.6m).

SECTION 3 – OPERATING ASSETS AND LIABILITIES

Continued

3.4

Acquisitions

The following section discusses businesses the Group has acquired during the year, which have given rise to the additions to the acquired intangible assets (including goodwill) reported in section 3.2 and which contributed to the Group's profits, working capital and other balance sheet assets and liabilities for the first time this year.

3.4.1 Acquisitions in the period (provisional values)

Analytical Flow Products ('AFP')

AFP is the trade name for Mécanique Analytique Inc, a Canadian product development company specialising in the Fluid Power Life Science and Energy sectors. The Group acquired AFP on 21 August 2013 for initial cash consideration of £2.2m (CA\$3.7m). Further amounts may be payable based on the business's performance in the three to five years following the acquisition, which (including a bonus payable to one employee) have a range of £14.2m to £32.4m (CA\$25m to CA\$57m at year-end exchange rates).

Of the maximum amounts payable:

- £15.4m (CA\$27.1m at year-end exchange rates) is payable to a vendor who is not an employee. In respect of this amount, an amount payable of £7.9m has been estimated at the date of acquisition and is included in the consideration allocated to the acquisition. This amount will be re-measured at each reporting date with movements in the estimate recorded in other acquisition-related costs within exceptional items. The re-measurement as at 31 December 2013 resulted in no change to the initial estimate, as expectations for the performance of the business in three to five years' time have not changed from the date of acquisition.
- £15.4m (CA\$27.1m at year-end exchange rates) is forfeitable in some of the instances in which a vendor's post-acquisition employment contracts may be terminated, therefore in accordance with IFRS3 (Revised), the amounts accrued for this payment are charged in the income statement. This £0.9m charge in 2013 is included in other acquisition-related costs within exceptional items and does not form part of the accounting consideration for the acquisition.
- £1.6m (CA\$2.8m at year-end exchange rates) represents employee bonus arrangements and does not form part of the accounting consideration for the acquisition.

Nano-Porous Solutions Limited ('NPSL')

The acquisition of NPSL completed on 29 October 2013. NPSL is a UK company based in Newcastle specialising in products that increase the efficiency of the removal of moisture from compressed air systems, particularly in Fluid Power's Rail Sector. Consideration for the acquisition comprised £5.4m payable on completion and an earn-out arrangement based on the business's performance in the 2016 calendar year, capped at £2.4m.

Of the maximum amounts payable:

- £1.4m is payable to vendors who are not employees. In respect of this amount, an amount payable of £0.7m has been estimated at the date of acquisition and included in the consideration allocated to the acquisition. This amount will be re-measured at each reporting date with movements in the estimate recorded in other acquisition-related costs within exceptional items. The re-measurement as at 31 December 2013 resulted in no change to the initial estimate, as expectations for the performance of the business in 2016 have not changed from the date of acquisition.
- £1.0m is forfeitable in some of the instances in which two of the vendors' post-acquisition employment contracts may be terminated, therefore in accordance with IFRS3 (Revised), the amounts accrued for this payment

are expensed to the income statement. This £0.1m charge in 2013 is included in other acquisition-related costs within exceptional items and does not form part of the accounting consideration for the acquisition.

Disclosures for both AFP and NPSL

The acquisitions' contributions to revenue and segmental operating profit in the period since acquisition are not material in the context of the overall Group results, nor would they have been for the year, had they been completed on 1 January 2013.

The methodologies for arriving at the provisional fair values of assets acquired, intangible asset values and residual goodwill are described in section 3.2.2. The aggregate goodwill of £2.9m recognised on the two acquisitions principally relates to revenue synergies available in the Fluid Power division from selling the acquisitions' portfolio of current and future products to existing Fluid Power customers.

The fair value adjustments consist of the harmonisation with Group IFRS compliant accounting policies, the recognition of patents and capitalised development costs and adjustments to move the carrying value of the identifiable net assets from cost to fair value.

Transaction costs of £0.9m have been expensed in administrative expenses in 2013 and are included as exceptional charges within other acquisition-related costs together with the remuneration payments of £1.0m discussed above in accordance with the policy disclosed in section 5.4 (D).

The provisional fair values of the assets and liabilities acquired are as follows:

	AFP £m	NPSL £m	Total £m
Patents	0.9	3.2	4.1
Capitalised development costs	14.8	2.4	17.2
Property, plant and equipment	0.3	0.1	0.4
Inventories	0.3	0.2	0.5
Trade and other receivables	0.3	0.2	0.5
Bank overdraft	(0.2)	-	(0.2)
Interest-bearing liabilities	(2.2)	(0.3)	(2.5)
Trade and other payables	(1.0)	(0.5)	(1.5)
Taxation balances	(4.1)	(1.1)	(5.2)
Total identifiable net assets	9.1	4.2	13.3
Goodwill arising on acquisition	1.0	1.9	2.9
Total purchase consideration	10.1	6.1	16.2
Cash consideration	2.2	5.4	7.6
Non-cash consideration	7.9	0.7	8.6

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

	AFP £m	NPSL £m	Total £m
Cash consideration	2.2	5.4	7.6
Overdraft acquired	0.2	-	0.2
Acquisition of controlling interests in the cash flow statement	2.4	5.4	7.8
Transaction costs (included in cash flows from operating activities)	0.3	0.6	0.9
Total cash flow on acquisition of controlling interests	2.7	6.0	8.7

The AFP and NPSL trade and other receivables have no impairment provisions. The net amounts are all expected to be collected within 12 months. Completion accounts have been prepared and adjustments to both consideration and the fair value of assets acquired may arise when these are finalised.

3.5 Provisions

A provision is recorded instead of a payable (see section 3.1.3) when there is less certainty over how much cash will be paid and when the payment might be made. When the Group has an obligation relating to previous events and when it is probable that cash will be paid to settle it, a provision rather than a payable is recorded. In this situation, an estimate is required.

The principal estimates made in respect of the Group's provisions concern the timing and amount of payments required to:

- cover the costs of known restructuring projects;
- reimburse customers for potential product warranty claims;
- ensure that current and former manufacturing sites meet relevant environmental standards;
- reflect the estimated outcome of ongoing legal disputes.

Analysis of the Group's provisions:

	Restructuring £m	Trade warranties £m	Environmental & legal £m	Total £m
Current	4.3	15.0	-	19.3
Non-current	0.2	8.8	10.8	19.8
At 1 January 2013	4.5	23.8	10.8	39.1
Arising during the year	16.4	6.0	5.0	27.4
Transfers to liabilities held for sale	(0.7)	(4.6)	-	(5.3)
Utilised during the year	(11.8)	(9.1)	(1.1)	(22.0)
Exchange adjustment	(0.1)	(0.2)	-	(0.3)
At 31 December 2013	8.3	15.9	14.7	38.9
Current	8.3	8.7	3.1	20.1
Non-current	-	7.2	11.6	18.8
	8.3	15.9	14.7	38.9

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects.

Trade warranties are given in the normal course of business and cover a range of periods, typically one to two years, with the expected amounts falling due in less than and greater than one year separately analysed above. Amounts set aside represent the Directors' best estimate regarding the amount of the settlements and the timing of resolution with customers.

Environmental and legal provisions recognise the Group's obligation to remediate contaminated land at a number of current and former sites, together with current legal cases for which a settlement is considered probable. Because of the long-term nature of the liabilities, the timescales are uncertain and the provisions represent the Directors' best estimates of these costs.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

What you will find in this section

This section outlines how the Group manages its capital and related financing costs. The directors determine the appropriate capital structure for the Group, specifically, how much cash is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future. The directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan.

In March 2013 the Group announced a share buyback programme to maintain an efficient level of debt on the balance sheet throughout the year. The disposal of the Retail Dispense businesses created an exposure to movements in the sterling-US dollar exchange rate on a value of US\$1,100m between 15 October, when contracts were exchanged, and the return of cash to shareholders in sterling, in late February 2014. To provide certainty over the sterling equivalent value of the US dollar proceeds prior to completion of the sale a deal-contingent forward was entered into which managed the value and timing risk by making the delivery under the forward foreign exchange contract contingent on the completion of the disposal. This instrument had a net positive fair value of £11.2m at 31 December 2013, reflecting the successful management of this transactional risk.

The Board is mindful that equity capital cannot be easily flexed and in particular raising new equity would normally be likely only in the context of an acquisition. Debt can be issued and repurchased more easily but frequent adjustments lead to high transaction costs and debt holders are under no obligation to accept repurchase offers.

4.1 Net cash/(debt)

Net cash/(debt) is the Group's key measure used to evaluate total outstanding debt, net of the current cash resources. Some of the Group's borrowings (and cash) is held in foreign currencies. Movements in foreign exchange rates affect the sterling value of the net debt.

a) Reconciliation of cash and cash equivalents

	2013 £m	2012 £m
Cash and cash equivalents in current assets	71.7	102.8
Bank overdraft in current liabilities	(7.9)	(6.3)
Cash and cash equivalents in assets held for sale	28.2	-
Bank overdraft in liabilities held for sale	(1.7)	-
Cash and cash equivalents	90.3	96.5

b) Reconciliation of net cash to movement in net borrowings

	2013 £m	2012 £m
Net decrease in cash and cash equivalents excluding foreign exchange	(4.7)	(50.3)
Net (drawdown)/repayment of borrowings	(51.0)	25.1
Increase in net debt before acquisitions and foreign exchange	(55.7)	(25.2)
Debt acquired	(2.5)	(20.8)
Currency translation differences	2.6	10.4
Movement in net borrowings in the year	(55.6)	(35.6)
Net borrowings at the start of the year	(143.8)	(108.2)
Net borrowings at the end of the year	(199.4)	(143.8)

c) Analysis of net debt

	Cash and cash equivalents £m	within one year £m	after more than one year £m	Borrowings and finance leases due Total net debt £m
At 1 January 2013	96.5	(3.1)	(237.2)	(143.8)
Debt acquired	-	(2.5)	-	(2.5)
Cash flow excluding settlement of currency derivatives hedging balance sheet	1.4	(75.5)	24.5	(49.6)
Settlement of currency derivatives hedging balance sheet	(6.0)	-	-	(6.0)
Currency translation differences	(1.6)	0.3	3.8	2.5
At 31 December 2013	90.3	(80.8)	(208.9)	(199.4)

4.2 Interest-bearing loans and borrowings

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term or are drawn from committed borrowing facilities that generally have floating interest rates.

This section 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 section 4.4.3.

	2013 £m	2012 £m
Current liabilities		
Unsecured loan notes and other loans	80.0	2.5
Current portion of finance lease liabilities	0.8	0.6
	80.8	3.1
Non-current liabilities		
Unsecured loan notes and other loans	208.1	235.7
Finance lease liabilities	0.8	1.5
	208.9	237.2

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.3 Net financing costs

This section details the income generated on the Group's financial assets and the expense incurred on borrowings and other financial assets and liabilities. The finance income and expense taken into account in arriving at adjusted earnings only includes the income and expense arising on cash balances, borrowings and retirement benefit obligations. The finance income or expense on mark-to-market movements on interest and foreign exchange derivatives and other financing costs are excluded from adjusted earnings per share.

Recognised in the income statement

	2013			2012		
	Interest £m	Financial instruments £m	Total £m	Restated Interest £m	Financial instruments £m	Restated Total £m
Interest income on bank deposits	4.2		4.2	3.5		3.5
Financial instruments at fair value through profit or loss:						
Designated hedges		1.3	1.3		1.0	1.0
Other economic hedges						
- current year trading		12.9	12.9		10.2	10.2
- future year transactions		6.0	6.0		2.7	2.7
Financial income	4.2	20.2	24.4	3.5	13.9	17.4
Interest expense on interest-bearing loans and borrowings	(20.2)		(20.2)	(21.0)		(21.0)
Financial instruments at fair value through profit or loss:						
Designated hedges		(1.3)	(1.3)		(1.0)	(1.0)
Other economic hedges						
- current year trading		(9.4)	(9.4)		(4.5)	(4.5)
- future year transactions		(6.8)	(6.8)		(2.6)	(2.6)
Financial expense	(20.2)	(17.5)	(37.7)	(21.0)	(8.1)	(29.1)
Net finance charge relating to defined benefit pension schemes	(7.9)		(7.9)	(7.8)		(7.8)
Net financial (expense)/income	(23.9)	2.7	(21.2)	(25.3)	5.8	(19.5)

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 section 2.1). 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.

Recognised in other comprehensive income

	2013 £m	Restated 2012 £m
Change in fair value of effective portion of net investment hedges	3.4	1.3
Foreign currency translation differences	(16.9)	(14.1)
Change in fair value of effective portion of deal contingent forward	14.2	-
Change in fair value of other financial assets	(0.5)	0.2
Income tax on items recognised in other comprehensive income	(2.5)	(0.5)
Total items recognised in other comprehensive income (net of tax)	(2.3)	(13.1)
Recognised in:		
Hedging reserve	13.9	1.0
Translation reserve	(15.9)	(14.2)
Retained earnings	(0.3)	0.1
	(2.3)	(13.1)

4.4

Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate; foreign exchange and; base metal price movements in addition to funding and liquidity risks. The financial instruments used to manage the underlying risks themselves introduce exposure to credit risk, market risk and, liquidity risk.

This section presents information about the Group's exposure to each of these 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.

4.4.1

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 44 the Executive Committee monitors risk and internal controls and the Audit Committee monitors financial risk, while the other Board Committees also play a part in contributing to the oversight of risk.

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 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 following sections discuss the management of specific financial risk factors in detail, including credit risk, foreign exchange risk, interest rate risk, commodity risk and liquidity risk.

4.4.2

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 2013 these totalled £496.5m (2012: £489.8m).

4.4.2.1

Managing credit risk arising from customers

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% (2012: 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.

4.4.2.2

Exposure to credit risk in respect of financial assets

The maximum exposure to credit risk for financial assets is represented by their carrying value and is analysed below:

	Carrying amount	
	2013 £m	2012 £m
Cash and cash equivalents*	99.9	102.8
Investments	20.2	20.4
Interest rate swaps	0.8	2.1
Forward exchange contracts	21.6	5.9
Metals contracts	-	0.1
	142.5	131.3

* Including £28.2m classified as held for sale.

4.4.2.3

Exposure to credit risk in respect of trade receivables

	Carrying amount	
	2013 £m	2012 £m
UK	18.8	20.5
Germany	26.2	27.0
Rest of Europe	105.2	106.1
USA	44.5	78.5
Asia Pacific	65.5	80.8
Rest of World	33.3	45.6
	293.5	358.5

A further £60.5m trade receivables, predominantly relating to US customers, were included in assets held for sale as at 31 December 2013.

The maximum exposure to credit risk for trade receivables at the reporting date by segment was as follows:

	Carrying amount	
	2013 £m	2012 £m
Severe Service	151.2	154.7
Fluid Power	103.0	104.6
Indoor Climate	39.3	36.5
Beverage Dispense*	-	40.2
Merchandising*	-	22.5
	293.5	358.5

* Trade receivables of a further £60.5m are held for sale relating to the Retail Dispense businesses.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.4.2.4

Impairment provisions for trade receivables

The ageing of trade receivables at the reporting date was:

	2013		2012	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	251.4	(0.2)	301.8	(1.3)
Past due 1-30 days	24.5	(0.1)	38.3	(0.9)
Past due 31-90 days	12.6	(0.1)	13.5	(0.2)
Past due over 90 days	13.1	(7.7)	16.3	(9.0)
Total	301.6	(8.1)	369.9	(11.4)

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

	2013 £m	2012 £m
Net balance at 1 January	11.4	18.2
Acquisitions	-	1.0
Utilised during the year	(1.5)	(3.1)
Charged to the income statement	2.4	2.6
Released	(3.3)	(6.7)
Transfer to assets held for sale	(1.1)	-
Exchange	0.2	(0.6)
Net balance at 31 December	8.1	11.4

The net impairment gain recognised of £0.9m (2012: £4.1m) relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers across all of its businesses.

4.4.2.5

Managing credit risk arising from counterparties

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 2013 credit exposure including cash deposited did not exceed £13.0m with any single institution (2012: £14.0m).

4.4.3

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 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 and are undertaken only if they relate to underlying exposures.

4.4.3.1

Foreign Exchange 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 ('transactional risk'), translation of foreign profits ('profit translation risk') and translation of the underlying net assets of foreign operations ('asset translation risk').

a) Management of transactional risk

The Group's wide geographical 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.

The disposal of the Retail Dispense businesses created an exposure to movements in the sterling-US dollar exchange rate on a value of US\$1,100m between 15 October, when contracts were exchanged, and the return of cash to shareholders in sterling, in late February 2014. To provide certainty over the sterling equivalent value of the US dollar proceeds prior to completion of the sale a deal-contingent forward was entered into which managed the value and timing risk by making the delivery under the forward foreign exchange contract contingent on the completion of the disposal. This instrument had a net positive fair value of £11.2m at 31 December 2013, reflecting the successful management of this transactional risk.

b) Management of profit translation risk

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.

c) Management of asset translation risk

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.

d) Currency profile of assets and liabilities

	Net assets/ (liabilities) excluding cash & debt 2013 £m	Cash* 2013 £m	Debt 2013 £m	Exchange contracts 2013 £m	Net assets 2013 £m	Net assets 2012 £m
Sterling	19	10	(60)	505	474	497
US dollar	251	3	(225)	(18)	11	10
Euro	321	16	(3)	(324)	10	8
Other	256	61	(1)	(163)	153	169
Total	849	90	(289)	-	648	684

* Cash is stated net of overdrafts.

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

4.4.3.2 Interest rate risk

The Group is exposed to a number of global interest rates through assets and liabilities denominated in jurisdictions to which these rates are applied, most notably US, Eurozone and UK rates. The Group is exposed to these because market movements in these rates will increase or decrease the interest charge recognised in the Group Income Statement.

a) Management of interest rate risk

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.

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.

The Group has raised US dollar debt through the issuance of medium to long-term fixed rate loan notes. 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 £0.8m (2012: £2.1m) with a corresponding uplift in the value of the debt (the hedged item).

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 two analyses overleaf.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

b) Interest rate risk profile

The following table shows how much of our cash, interest-bearing liabilities and exchange contracts attract both fixed and floating rate interest charges, and how this is analysed between currencies:

	Debt and exchange contracts 2013 £m	Cash and exchange contracts 2013 £m	Floating rate 2013 £m	Fixed rate 2013 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(60)	515	455	-		
US Dollar	(243)	3	(34)	(206)	6.8	4.4
Euro	(327)	16	(311)	-		
Other	(164)	61	(103)	-		
Total	(794)	595	7	(206)		

	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	5.4
Euro	(328)	9	(319)	-		
Other	(189)	78	(111)	-		
Total	(769)	625	66	(210)		

4.4.3.3 Commodity risk

The commodity inputs to the Group's production process typically consist of base metals. Commodity risk for the Group is the risk that the prices of these inputs could rise, thus reducing Group profits.

a) Overview

Including the discontinued businesses, the Group's operating companies purchase metal and metal components with an annual base metal material value of approximately £35m (2012: £37m).

b) Management of commodity risk

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.

4.4.3.4 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

a) Management of liquidity risk

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 they fall 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 2013 the Group had undrawn committed facilities totalling £215m (2012: £273m) and was holding cash and cash equivalents of £100m (2012: £103m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

4.4.4 Capital management

Capital management concerns the decision as to how the Group's activities are financed and specifically, how much of the Group capital is provided by borrowings (or debt) and how much of it is financed with equity raised from the issue of share capital.

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. This section discusses how the Board views the capital base of the Group and the impact on leverage, distribution policy and investment policy.

4.4.4.1 Overview

The Board monitors the geographical 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 section 4.5 of the financial statements. Undrawn committed funding facilities are maintained as described in section 4.4.5.1 to provide additional capital for growth (including acquisitions and organic investments) and liquidity requirements as discussed above.

4.4.4.2 Capital base

	2013 £m	2012 £m
Total equity	648	684
Gross debt including overdrafts	299	247
Gross cash	(100)	(103)
Capital base	847	828
Employee benefits and deferred tax assets	131	182
Extended capital base	978	1,010
Undrawn funding facilities	215	273
Available capital base	1,193	1,283

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

4.4.4.3 Debt or Equity

The balance between debt and equity in the capital base of the Company is considered regularly by the Board in the light of market conditions, business forecasts, growth opportunities and the ratio of net debt to EBITDA. Funding covenants currently limit net debt to a maximum of three times EBITDA. The net debt to EBITDA ratio at the end of 2013 was 0.5 times (2012: 0.4 times). The Board would consider appropriate acquisitions which might take net debt to EBITDA to an internal limit of up to two and a half 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. The Board will consider raising additional equity in the event that it is required to support the capital base of the Group.

4.4.4.4 Dividend policy and share buy backs

As part of the capital management process, the Group ensures that adequate reserves are available in IMI plc in order to meet proposed shareholder dividends, the purchase of shares for employee share scheme incentives and any on-market share buy back programme.

The Board supports a progressive dividend policy with an aim that the dividend should be covered by at least two times underlying earnings. In the event that the Board cannot identify sufficient investment opportunities through capital expenditure, organic growth initiatives and acquisitions, the return of funds to shareholders through share buy backs or special dividends will be considered. It should be noted that a number of shares are regularly bought in the market by an employee benefit trust in order to hedge the exposure under certain management incentive plans. Details of these purchases are shown in section 4.5.2 to the financial statements.

4.4.4.5 Weighted average cost of capital

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

4.4.5 Debt and Credit Facilities

This section provides details regarding the specific borrowings that the Group has in place to satisfy the debt elements of the capital management policy discussed above.

4.4.5.1 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:

	2013 £m	2012 £m
Expiring within one year	140	-
Expiring between one and two years	50	149
Expiring after more than two years	25	124
	215	273

The weighted average life of these facilities is 1.1 years (2012: 2.2 years).

New committed credit facilities totalling £100m have been put in place since 31 December, which replace facilities of £100m scheduled to mature during 2014. £50m of the new facilities mature in three years' time and £50m in five years' time.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.4.5.2 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
2013									
Cash and cash equivalents	Floating	99.9	99.9	99.9	-	-	-	-	-
US loan notes 2012 - 2022	6.93-7.17%	(9.1)	(14.9)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(11.4)
US loan notes 2014	Floating	(19.0)	(19.1)	(19.1)	-	-	-	-	-
US loan notes 2016	7.26%	(45.5)	(54.0)	(3.3)	(3.3)	(47.4)	-	-	-
US loan notes 2018	5.98%	(90.9)	(113.4)	(5.4)	(5.4)	(5.4)	(5.4)	(91.8)	-
US loan notes 2019	7.61%	(60.6)	(86.3)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(63.3)
Finance leases	Various	(1.6)	(1.9)	(0.8)	(0.6)	(0.3)	(0.2)	-	-
Bank overdrafts	Floating	(9.6)	(9.6)	(9.6)	-	-	-	-	-
Unsecured bank loans	Floating	(63.0)	(63.2)	(61.0)	(1.0)	(0.3)	(0.3)	(0.3)	(0.3)
Total		(199.4)	(262.5)	(4.6)	(15.6)	(58.7)	(11.2)	(97.4)	(75.0)
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)

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.

4.4.6 Fair value

Financial instruments included in financial statements are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. The Group generally calculates its own fair values using comparable observed market prices and a valuation model using the respective and relevant market data for the instrument being valued.

4.4.6.1 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 2013 and 31 December 2012. 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
2013						
Cash and cash equivalents	-	-	99.9	-	99.9	99.9
Bank overdrafts	-	-	-	(9.6)	(9.6)	(9.6)
Borrowings due within one year	(19.0)	-	-	(61.8)	(80.8)	(80.4)
Borrowings due after one year	-	-	-	(208.9)	(208.9)	(238.3)
Trade and other payables *	-	-	-	(353.6)	(353.6)	(353.6)
Trade receivables	-	-	-	293.6	293.6	293.6
Investments	-	-	20.2	-	20.2	20.2
Other current financial assets/(liabilities)						
Derivative assets **	16.5	5.9	-	-	22.4	22.4
Derivative liabilities ***	-	(3.1)	-	-	(3.1)	(3.1)
Total	(2.5)	2.8	120.1	(340.3)	(219.9)	(248.9)
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)

* Trade and other payables exclude corporation tax and other tax liabilities and include liabilities of £24.2m (2012: £13.5m) falling due after more than one year; £10.1m in 1-2 years, £2.8m in 2-3 years, £2.0m in 3-4 years, £9.3m in 4-5 years (2012: £8.3m in 1-2 years, £2.0m in 2-3 years, £2.0m in 3-4 years, £1.2m in 4-5 years).

** Includes £0.2m (2012: £1.8m) falling due after more than one year.

*** Derivative liabilities include liabilities of £0.3m (2012: £0.3m) falling due after more than one year: £0.3m in 1-2 years and £nil in 2-3 years (2012: £nil in 1-2 yrs and £0.3m in 2-3 yrs). 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 £3.4m (2012: £1.3m) is shown in the consolidated statement of comprehensive income.

There are no other financial liabilities included within payables other than those disclosed above and in section 4.4.5.2.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

The following table shows the Group's financial instruments held at fair value as at 31 December 2013.

	Quoted prices in active markets for identical assets and liabilities Level 1 £m	Significant other observable inputs Level 2 £m	Unobservable inputs Level 3 £m	Total £m
Financial assets measured at fair value				
Equity instruments	17.8			17.8
Cash and cash equivalents*	99.9			99.9
Interest rate swaps		0.8		0.8
Foreign currency forward contracts		21.6		21.6
	117.7	22.4	-	140.1
Financial liabilities measured at fair value				
Bank overdrafts**	(9.6)			(9.6)
Debt instruments		(19.0)		(19.0)
Foreign currency forward contracts		(3.1)		(3.1)
Deferred consideration			(9.6)	(9.6)
	(9.6)	(22.1)	(9.6)	(41.3)

* Includes cash and cash equivalents of £28.2m presented in assets held for sale.

** Includes bank overdrafts of £1.7m presented in liabilities held for sale.

Valuation techniques for level 2 inputs

Short-term borrowings subject to hedging arrangements of £19.0m and derivative assets and liabilities of £22.4m and £3.1m respectively are valued by Level 2 techniques. The valuations are derived from discounted contractual cash flows using observable, and directly relevant, market interest rates and foreign exchange rates from market data providers.

Valuation techniques for level 3 inputs

Contingent consideration of £8.6m and amounts payable to employees of £1.0m have been measured at fair value using significant unobservable (level 3) inputs. These amounts arose from the earn-out agreements relating to the acquisitions of AFP and NPSL, details of which are included in section 3.4. Their fair values have been derived using a simple calculation which compares the expected performance of the AFP and NPSL businesses in their most recent forecasts with the target performances set out in the legal agreements for the acquisitions. Given the long-term nature of the earn-out arrangements and the relatively short period that has elapsed since the businesses were acquired, the fair value of the contingent consideration of £8.6m measured at the dates of acquisition remains valid at the year-end. The amounts payable to employees of £1.0m accrue over the duration of the earn-out period and the increase in the fair value of the amount payable from £nil to £1.0m has been charged to the income statement as an exceptional item.

4.4.6.2 Valuation methodology

Cash and cash equivalents, bank overdrafts, 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 and short-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 publically-quoted pooled funds held to fund overseas pension liabilities. The fair value is based on the price quotation at the reporting date.

4.4.6.3 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.

4.4.7 Market risk sensitivity analysis on financial instruments

This section shows how the fair value of financial instruments presented can change for a given change in market rates.

The values shown in the table below are estimates of the impact on financial instruments only. The underlying risks that these financial instruments have been acquired to hedge will move in an opposite direction.

4.4.7.1

Overview

In estimating the sensitivity of the financial instruments 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.

4.4.7.2

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% decrease in base metal costs £m	10% increase in base metal costs £m
At 31 December 2013						
Impact on income statement (loss)/gain	-	-	(2.8)	2.8	(0.1)	0.1
Impact on equity (loss)/gain	-	-	(63.5)	63.5	-	-
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	-	-

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.5 Retirement benefits

IMI offers a number of defined benefit arrangements to employees that will not be paid until more than a year after the period in which they are earned, for example pension benefits, jubilee plans, post-employment and other long-term employee benefit arrangements.

There is a significant degree of estimation involved in predicting the ultimate benefits payable under these defined benefit arrangements in respect of which the Group holds significant net liabilities on its balance sheet. This section explains how the value of these benefits payable and any assets funding the arrangements are accounted for in the Group Financial Statements and gives details of the key assumptions upon which the estimations are based.

The accounting standard governing this area (IAS19) was recently revised and 2013 is the first year for which the revised standard applies to the Group and comparative figures for 2012 have been restated. The only significant accounting change for the Group is that the interest income relating to defined benefit plan assets, previously calculated based on the directors' estimate of expected returns, is now calculated based on the discount rate used to calculate the present value of liabilities. This discount rate is determined with reference to the high quality corporate bonds relevant to the schemes' locations and durations. This change results in a lower total return on assets in the Income Statement than was previously the case.

Assets and liabilities for defined contribution arrangements are minimal as they relate solely to short-term timing differences between the period during which benefits have accrued and when contributions are paid into schemes.

The final part of this section includes a number of definitions to aid understanding.

4.5.1 Summary information

Net pension deficit: £157.9m (2012: £232.2m)

The net pension deficit or 'net liability for defined benefit obligations' ('DBO') at 31 December 2013 was £157.9m (2012: £232.2m). A further £0.8m (2012: £nil) is recognised in liabilities held for sale. The assets and liabilities of the schemes are aggregated, recognised in the consolidated balance sheet and shown within non-current liabilities or in current assets if a scheme is in surplus and is recoverable.

In our financial statements for the year ended 31 December 2012, we referred to enquiries made by the conduct division of the Financial Reporting Council into the accounting treatment of the IMI Pension Fund's investment in the IMI Scottish Limited Partnership. These enquiries were closed in early 2014, with no prior year adjustments made to reported amounts.

Number of Defined Benefit arrangements: 74 (2012: 79)

Five defined benefit arrangements were closed during the year and a further ten schemes were divested on 1 January 2014, as part of the disposal of the Retail Dispense businesses. The Group provides pension benefits through a mixture of funded and unfunded defined benefit and defined contribution ('DC') arrangements, although its strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible to minimise the liability of the Group. Assessments of the obligations of the defined benefit plans are carried out by independent actuaries, based on the projected unit credit method. An historical split of the types of defined benefit schemes in operation is as follows:

Type of scheme	Qty No.	Assets £m	% of total assets	Defined benefit obligation £m	% of total liabilities
2013					
Final salary	28	1,189.1	92%	(1,321.2)	91%
Cash balance	13	99.4	8%	(112.1)	8%
Jubilee	13	-	0%	(2.1)	0%
Other	20	5.1	0%	(16.6)	1%
Total	74	1,293.6	100%	(1,452.0)	100%
Asset ceiling		(0.3)			
Revised assets		1,293.3			
2012					
Final salary	29	1,115.4	92%	(1,309.0)	91%
Cash balance	14	91.9	8%	(115.0)	8%
Jubilee	13	-	0%	(2.0)	0%
Other	23	3.2	0%	(16.5)	1%
Total	79	1,210.5	100%	(1,442.5)	100%
Asset Ceiling		(0.2)			
Revised assets		1,210.3			

	UK £m	Overseas £m	Total £m
Net DBO b/f at 1 January 2013	(110.6)	(121.6)	(232.2)
Movement recognised in:			
Income statement	(4.3)	(11.0)	(15.3)
Other comprehensive income	18.2	21.7	39.9
Cash flow statement	33.6	15.3	48.9
Other movements	-	0.8	0.8
Net DBO c/f at 31 December 2013	(63.1)	(94.8)	(157.9)

Asset profile of schemes

The following table sets out the profile of the overall assets of the schemes (to give an indication of the evolution of their risk profile), the comparative amount of unfunded to funded defined benefit obligation ('DBO') and a split of the balance sheet impact between schemes with a net pension surplus and a net pension deficit. As noted later in this section, further de-risking was undertaken in January 2014, following the payment into the IMI Pension Fund from the proceeds of the sale of the Retail Dispense businesses.

	2013 £m	2012 £m
Quoted equities*	101.8	98.7
Quoted bonds	558.4	492.7
Total quoted assets	660.2	591.4
Insurance policies	286.6	295.7
IMI Scottish Limited Partnership	13.0	27.1
Hedge Funds	169.0	152.2
Property	40.1	44.9
Private finance initiatives	71.7	64.2
Other**	53.0	35.0
Total unquoted assets	633.4	619.1
Fair value of assets	1,293.6	1,210.5
Restriction due to asset ceiling	(0.3)	(0.2)
DBOs for funded schemes	(1,373.0)	(1,357.8)
DBOs for unfunded schemes	(79.0)	(84.7)
Included in liabilities held for sale	0.8	-
Net liability for DBOs	(157.9)	(232.2)
Schemes in net pension deficit	(158.2)	(232.2)
Schemes in net pension surplus	0.3	-

* Quoted equity exposure to a further £357.6m (2012: 391.6m) in the IMI Pension Fund in the UK was achieved through the use of derivatives, the market value of which is £14.5m (2012: £14.1m) is included in the 'other' category of assets.

** 'Other' assets include the market value of interest, inflation and currency swaps relating to UK scheme assets and liabilities.

The overseas assets of £147.1m (2012: £134.3m) comprise equities of £32.0m (2012: £40.1m), bonds of £70.3m (2012: £52.7m), property of £9.4m (2012: £8.1m) and other assets of £35.4m (2012: £33.4m).

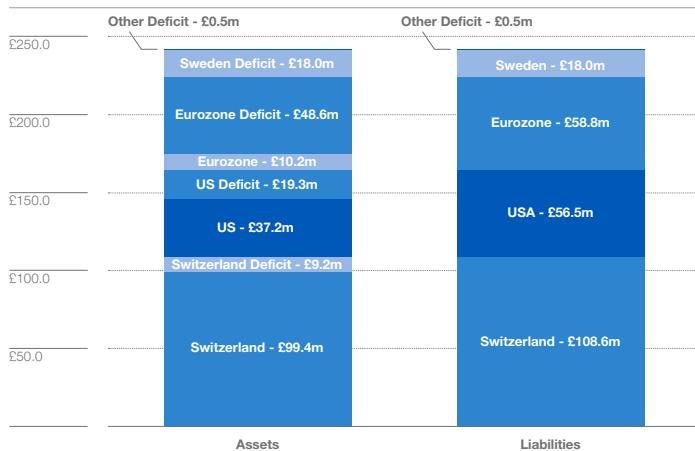
Regional split of defined benefit obligation

The following charts show the geographical profile in which the total defined benefit obligations of £1,452.0m (including liabilities held for sale) relating to defined benefit schemes are held:

UK pension assets & liabilities as at 31 December 2013



Overseas pension assets & liabilities as at 31 December 2013



Average duration by geography

The following table shows the weighted average number of years (or duration) over which pension benefits are expected to be paid:

Location	Years
UK	15.6
Switzerland	16.0
Eurozone	14.7
US	12.3
Sweden	17.0

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.5.2

The IMI Pension Fund (the ‘Fund’)

The IMI Pension Fund constitutes 83% of defined benefit liabilities and 89% of defined benefit assets. This scheme offered final salary benefits to UK employees until it was closed to new entrants in 2005 and to future accrual on 31 December 2010.

The Fund is regulated by the UK’s Pensions Regulator and complies with its various Codes of Practice. The last full actuarial valuation was undertaken as at 31 March 2011 and another valuation will be performed at 31 March 2014. The Company and the Fund’s Trustee have conducted a number of exercises to further manage the Fund’s assets and liabilities as follows:

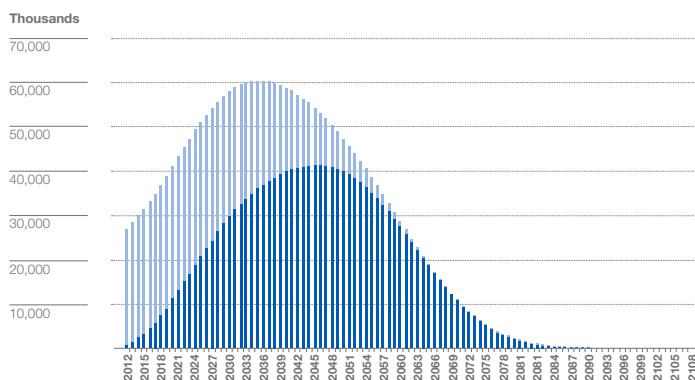
- 2010: £325m purchase of annuity contracts;
- 2011: Enhanced Transfer Value exercise whereby £9.6m of additional Group payments led to an £11.7m curtailment credit and an overall £2.1m net reduction in the Fund’s pension deficit;
- 2012: Pension Increase Exchange exercise which resulted in a £9.0m past service credit;
- 2013: An increase in inflation hedging and reduction in higher risk assets to reduce funding volatility. Commitment for a £70m cash injection following the disposal of the Retail Dispense businesses, £53.2m of which was paid in January 2014.

As a result of the improvement in the funding position throughout 2013 and as a precursor to the 2014 valuation the Fund Trustee has reviewed the risks associated with the Fund and implemented a liability hedging programme and introduced funding-based de-risking triggers. On receipt of the £53.2m referred to above, the Fund Trustee has agreed progressively to remove all exposure to public equities, which has halved the asset volatility of the Fund.

The Trustee has determined an investment objective to achieve, over time, a position of self-sufficiency, defined using a discount rate of gilts + 0.25%. As at 31 December 2013 the Pension Fund was 54% hedged against interest rates and 48% hedged against UK inflation on the Trustee’s self-sufficiency basis.

The following chart shows the projected liability cash flows by year:

■ Preserved Employed Members and deferred pensioners
 ■ Current pensioners and dependents



4.5.3

Specific effect on Financial Statements

The corresponding entries for increases and decreases in the net pension deficit reported in the balance sheet are reflected as follows:

- Cash flow statement: When the Group makes cash contributions to fund the deficit they are reflected in the cash flow statement and reduce the net deficit.
- Other Comprehensive Income (OCI): Movements in the overall net pension deficit are recognised through OCI when they relate to changes in actuarial assumptions or the difference ('experience gain or loss') between previous assumptions and actual results.
- Income Statement: Movements in the overall net pension deficit are recognised in the income statement when they relate to changes in the overall pension promise, due to either an additional period of service (known as 'current service cost'), changes to pension terms in the scheme rules (known as 'past service cost'), or closure of all or part of a scheme (known as settlements and curtailments). The interest charge on the net deficit position is also recognised in the income statement.

The following chart shows how the movements in the total net defined benefit obligation in the Balance Sheet in the year were reflected in the financial statements. As discussed earlier in this report, assets and liabilities associated with the Retail Dispense businesses are separately reported as assets or liabilities held for sale.

Net IAS19 Pension Deficit £m

As at 01.1.13	232.2
Service Cost & Interest	15.3
Contributions	(48.9)
Asset experience gains	(55.3)
Net OCI actuarial losses	13.8
Other movements	0.8
As at 31.12.13	157.9

4.5.3.1 Cash flow impacts

	2013			2012		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Amounts from employees	-	3.2	3.2	-	3.0	3.0
Amounts from employers	33.6	7.6	41.2	16.8	5.5	22.3
Benefits and settlements paid directly by the Group	-	7.7	7.7	-	6.2	6.2
Purchase of businesses	-	-	-	-	1.3	1.3
Total	33.6	18.5	52.1	16.8	16.0	32.8

The increase in the defined benefit obligation relating to the 'Purchase of businesses' in 2012 relates to the acquisition of Remosa.

The £16.8m contribution in the UK in both years relates to the recovery plan for the IMI Pension Fund agreed in 2011 and which expires in 2016. By the end of the current UK recovery plan, IMI will have contributed £206.9m since the 2011 actuarial valuation. These amounts are shown below:

	Recovery Plan £m	Additional amounts £m	Total £m
2011	16.8	36.1	52.9
2012	16.8	-	16.8
2013	16.8	16.8	33.6
2014	16.8	53.2	70.0
2015	16.8	-	16.8
2016	16.8	-	16.8
Total	100.8	106.1	206.9

The expected contributions to defined benefit arrangements in 2014 are as follows:

	UK £m	Overseas £m	Total £m
Normal employer	-	5.0	5.0
Normal employee	-	3.1	3.1
Additional employer	70.0	-	70.0
Total	70.0	8.1	78.1

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.5.3.2 Other Comprehensive Income

Movements in 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 in equity via Other Comprehensive Income. These movements are analysed below:

	2013				2012			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Change in discount rate	39.4	13.7	-	53.1	(93.6)	(31.1)	-	(124.7)
Change in inflation	(75.9)	-	-	(75.9)	12.9	-	-	12.9
Change in other assumptions	-	0.4	-	0.4	4.4	-	-	4.4
Actuarial experience	5.6	3.0	-	8.6	7.5	(2.0)	-	5.5
Asset experience	49.1	6.2	-	55.3	37.9	6.6	-	44.5
Actuarial gains/(losses) in the year	18.2	23.3	-	41.5	(30.9)	(26.5)	-	(57.4)
Change in the asset ceiling	-	(0.1)	-	(0.1)	-	1.4	-	1.4
Exchange (loss)/gain	-	(1.6)	0.1	(1.5)	-	2.0	0.5	2.5
Gains/(losses)recognised through equity	18.2	21.6	0.1	39.9	(30.9)	(23.1)	0.5	(53.5)

IMI takes advice from independent actuaries regarding the appropriateness of the assumptions used to determine the present value of the defined benefit obligations. These assumptions include the discount rate applied to the assets and liabilities, the life expectancy of the members, their expected salary & pension increases and inflation. The assumptions used for this purpose in these financial statements are summarised below:

	Weighted Averages					
	31 Dec 13		31 Dec 12		31 Dec 11	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.5	n/a	3.0	n/a	3.1	n/a
Inflation - CPI	2.5	1.8	2.0	1.9	2.1	1.9
Discount Rate	4.45	3.3	4.25	2.8	4.8	3.7
Expected salary increases	n/a	2.3	n/a	2.8	n/a	2.8
Rate of pension increases	3.5	0.5	3.0	0.5	3.1	0.5

	2013 Years	2012 Years	2011 Years
Life expectancy (IMI Pension Fund only)			
Current male pensioners	21.2	21.0	20.9
Current female pensioners	24.0	23.9	23.8
Future male pensioners	23.0	22.8	22.7
Future female pensioners	26.0	25.9	25.8

The mortality assumptions used for the IMI Pension Fund in the UK ('the Fund') above 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 2013 and 2012 reflect the results of this review. The allowance for future improvements in mortality rates from 2011 is in line with the CMI's (a research body funded by the actuarial profession to collect and analyse UK mortality rates) 2010 Core Projection model, with a long-term improvement rate of 1.25% pa.

The tables below illustrate how the UK and overseas net pension deficit would increase, as at 31 December 2013, in the event of the following changes in key assumptions above. The most important assumptions that impact the net deficits are the discount rates used to present the value of the future liabilities; longevity and inflation or salary increases. The tables above demonstrate how these key assumptions have moved over the recent years and the table below demonstrates discrete movements in each of these assumptions that impact on the net deficit.

UK	Overseas
Discount rate 0.1% pa lower	£17m
Inflation-linked pension increases 0.1% pa higher*	£13m
Increase of one year in life expectancy from age 65	£38m
10% fall in non-bond-like assets **	£70m

Discount rate 0.1% pa lower	£3m
Salary increases 0.1% higher	£1m
Increase of one year in life expectancy at age 65	£7m

In each case all other assumptions are unchanged.

* This is an in-payment pension increase sensitivity

** Fund assets excluding cash, bonds, insurance policies and the Fund's interest in the IMI Scottish Limited Partnership.

4.5.3.3 Income Statement

In accordance with IAS19, pension costs recorded through the income statement primarily represent the increase in the defined benefit obligation based on employee service during the year and the interest on the net liability for defined benefit obligations in respect of employee service in previous years. The table below shows the total cost reported in the Income Statement in respect of pension obligations and therefore also includes the cost of DC schemes:

	2013				2012			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Current service cost	-	5.4	0.7	6.1	-	4.5	0.6	5.1
Past service cost/(credit)	-	0.7	-	0.7	(9.0)	(3.2)	-	(12.2)
Settlement/curtailment	-	(0.1)	-	(0.1)	-	(0.4)	-	(0.4)
Recognition of losses	-	-	0.3	0.3	-	-	1.4	1.4
DC employer contributions	3.5	5.6	-	9.1	4.0	7.1	-	11.1
Pension expense - operating costs	3.5	11.6	1.0	16.1	(5.0)	8.0	2.0	5.0
Interest on DBO	49.0	6.9	0.5	56.4	52.9	7.9	0.6	61.4
Interest on Asset Ceiling	-	-	-	-	-	0.1	-	0.1
Interest on Assets	(44.7)	(3.4)	-	(48.1)	(49.0)	(4.3)	-	(53.3)
Interest expense - financing costs	4.3	3.5	0.5	8.3	3.9	3.7	0.6	8.2

The net past service cost of £0.7m (2012: credit of £12.2m) principally relates to an amendment to the rules of one of our Swiss schemes in the year. The net past service credit of £12.2m in the prior year comprised:

- 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 these schemes' rules during the year.

The Income Statement charges and credits in the above table are presented on a total Group basis (i.e. including both continuing and discontinued operations). The charges relating to discontinued operations contributed £0.4m (2012: £0.4m) to the current service cost, £2.1m (2012: £1.6m) to the DC employer contributions and £0.4m (2012: £0.4m) to the net finance expense but had no impact on any other lines.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.5.4

Definitions

Asset ceiling:

When assets in a pension arrangement exceed the defined benefit obligation, i.e. the scheme is in surplus, IAS 19 (para.64) limits the size of any asset on the balance sheet arising due to this surplus to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. This reduced value is referred to as the 'Asset Ceiling'.

Cash balance:

A cash balance scheme is a form of defined benefit pension under which the member has the right to a defined lump sum on retirement rather than a defined amount of pension receivable. For example a cash balance plan may have minimum or guaranteed rates of return on pension contributions. The amount of pension to which that lump sum may be converted is determined by the annuity rates prevailing at the time of conversion.

Current/past service cost:

Changes in a defined benefit obligation ('DBO') attributable to the members' service in the current/prior period, charged as an operating cost in the consolidated income statement.

Defined contribution ('DC':)

Arrangements where the employer pays fixed contributions into an external fund on behalf of the employee (who is responsible for making the investment decision and therefore assumes the risks and rewards of fund performance). Contributions to these arrangements are recognised in the consolidated income statement as incurred.

Defined benefit:

A defined benefit pension plan is a pension arrangement in which the employer promises a specified annual benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. In some cases, this benefit is paid as a lump sum on leaving the Company or while in the service of the Company rather than as a pension. The Group underwrites one or more risks in meeting these obligations and therefore any net liability or surplus in these arrangements is shown on the Group balance sheet.

Discount rate:

The calculation of the defined benefit obligation at the balance sheet date will equate to the calculated net present value of the projected future cash flows. The discount rate used in calculating the present value is the yield on high quality corporate bonds relevant to the particular plan's geography and duration.

Duration:

The weighted average number of years over which pension benefits are expected to be paid.

Final salary scheme:

The pension available to a member in a final salary arrangement will be a proportion of the member's salary at or around their retirement date. This proportion will be determined by the member's length of pensionable service, their accrual rate and any particular circumstances under which the member retires (for example early ill-health retirement).

Funded:

The majority of the Group defined benefit and other post-employment benefit arrangements is funded, which means they are linked to specific plan assets that have been segregated in a trust or foundation.

Inflation:

Inflation relates to the rate of increase of a portfolio of goods and services, usually by reference to an index of increases, for example in the United Kingdom, the Retail Price Index (RPI). Certain accrued member benefits are linked to inflation.

Jubilee:

Jubilee plans provide for cash award payments which are based on completed lengths of service. These payments are often made on cessation of service with the Company, subject to a minimum period of service.

Unfunded:

Plans that are not funded are those that are not backed by segregated assets. These include some pension plans but also a number of other long-term arrangements for the benefit of our employees, with benefits payable while they are employed by the Group but more than 12 months after the related service is rendered. Actuarial gains and losses on other long-term arrangements are recognised in the income statement in the period in which they arise.

4.5.5 Overall reconciliation of changes in the net liability for defined benefit obligations

	2013				2012			
	Defined benefit obligation £m	Assets £m	Asset Ceiling £m	Net defined benefit asset/(liability) £m	Defined benefit obligation £m	Assets £m	Asset Ceiling £m	Net defined benefit asset/(liability) £m
Brought forward at start of year	(1,442.5)	1,210.5	(0.2)	(232.2)	(1,397.7)	1,195.5	(1.5)	(203.7)
Current service cost	(6.1)	-	-	(6.1)	(5.1)	-	-	(5.1)
Past service cost - plan amendments	(0.7)	-	-	(0.7)	12.2	-	-	12.2
Past service cost - curtailment	0.1	-	-	0.1	0.4	-	-	0.4
Net interest (cost)/income on Net defined benefit (liability)/asset	(56.4)	48.1	-	(8.3)	(61.4)	53.3	(0.1)	(8.2)
Immediate recognition of gains/(losses) - Other long-term benefits	(0.3)	-	-	(0.3)	(1.4)	-	-	(1.4)
Total (charged)/credited to income statement	(63.4)	48.1	-	(15.3)	(55.3)	53.3	(0.1)	(2.1)
Actuarial gain due to experience	8.6	-	-	8.6	5.5	-	-	5.5
Actuarial loss due to financial assumption changes	(22.8)	-	-	(22.8)	(107.4)	-	-	(107.4)
Actuarial gain due to demographic assumption changes	0.4	-	-	0.4	-	-	-	-
Return on plan assets* greater than discount rate	-	55.3	-	55.3	-	44.5	-	44.5
Change in effect of asset ceiling	-	-	(0.1)	(0.1)	-	-	1.4	1.4
Total remeasurements recognised in other comprehensive income	(13.8)	55.3	(0.1)	41.4	(101.9)	44.5	1.4	(56.0)
Employer contributions	-	41.2	-	41.2	-	22.3	-	22.3
Employee contributions	(3.2)	3.2	-	-	(3.0)	3.0	-	-
Benefits and settlements paid directly by the Company	7.7	-	-	7.7	6.2	-	-	6.2
Benefits paid from plan assets	65.4	(65.4)	-	-	96.7	(96.7)	-	-
Net Cash (Inflow)/Outflow	69.9	(21.0)	-	48.9	99.9	(71.4)	-	28.5
Acquisitions	-	-	-	-	(1.3)	-	-	(1.3)
Transfer to liabilities held for sale	1.8	(1.0)	-	0.8	-	-	-	-
Changes in exchange rates	(2.2)	0.7	-	(1.5)	6.5	(4.1)	-	2.4
Other	-	-	-	-	7.3	(7.3)	-	-
Total other movements	(0.4)	(0.3)	-	(0.7)	12.5	(11.4)	-	1.1
Carried forward at end of year	(1,450.2)	1,292.6	(0.3)	(157.9)	(1,442.5)	1,210.5	(0.2)	(232.2)

* Net of asset management costs

4.6 Share capital

The ordinary shareholders of the Group own the Company. This section shows how the total number of ordinary shares in issue has changed during the year and how many of these ordinary shares are held as Treasury shares or in Employee Benefit Trusts, to be used to satisfy share options and awards to Directors and employees of the Company, as part of employee share ownership programmes. This section also sets out the dividends paid or proposed to be paid to shareholders.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.6.1 Number and value of shares

	Ordinary shares of 25p each			
	2013 Number (m)	2012 Number (m)	2013 Value (£m)	2012 Value (£m)
Authorised	480.0	480.0	120.0	120.0
Issued and fully paid:				
In issue at the start of the year	340.7	340.2	85.2	85.0
Issued to satisfy employee share schemes	0.3	0.5	0.1	0.2
In issue at the end of the year	341.0	340.7	85.3	85.2
Of which held within retained earnings	32.7	21.3		

4.6.2 Share movements in the year

Movements in shares due to share issues and purchases during the year were as follows:

	Number of ordinary shares of 25p each (million)			
	Employee Benefit Trust	Treasury	Other	Total
In issue at 31 December 2012	2.2	19.1	319.4	340.7
New issues to satisfy employee share scheme awards	-	-	0.3	0.3
Market purchases	2.4	11.8	(14.2)	-
Shares allocated under employee share schemes	(2.8)	-	2.8	-
At 31 December 2013	1.8	30.9	308.3	341.0

During the year 0.3m (2012: 0.5m) shares were issued under employee share schemes realising £1.6m (2012: £1.2m).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of 2.4m (2012: 1.0m) shares with an aggregate market value of £31.3m (2012: £10.0m) and a nominal value of £0.6m (2012: £0.3m). Associated transaction costs amounted to £0.1m (2012: £nil).

Share options exercised in 2013 were settled using the shares in the Group's employee benefit trust. In 2013 2.8m (2012: 2.6m) shares were issued for cash of £7.2m (2012: £7.4m).

Of the 32.7m (2012: 21.3m) shares held within retained earnings, 1.8m (2012: 2.2m) shares with an aggregate market value of £27.5m (2012: £24.5m) are held in trust to satisfy employee share scheme vesting.

Treasury shares

On-market purchases of 11.8m shares were conducted relating to the share buyback programme. The aggregate market value of these shares at the dates of purchase was £163.2m. Dealing costs relating to these purchases were £1.1m.

Subsequent to the year-end, 14,598,711 treasury shares were cancelled, to reduce the number of treasury shares held to 5% of the total issued share capital. As a result, the nominal value of these cancelled shares of £3.6m will be credited to a capital redemption reserve in the year ending 31 December 2014.

Return of cash and share consolidation

As envisaged in the announcement of the disposal of the Retail Dispense businesses, we are returning cash of £2 per share to shareholders via a 'B and C share scheme', which was approved in the general meeting on 13 February 2014. This return of cash will be accompanied by a seven for eight share consolidation, which will result in the total number of shares at the date of the consolidation reducing by one eighth, offset by a higher nominal value per share. The new nominal value for the shares will be 28.57p per share.

4.6.3 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.

	2013 £m	2012 £m
22.5p per qualifying ordinary share (2012: 20.7p)*	60.7	66.1

* Whilst the final dividend per share for 2013 has increased from 20.7p to 22.5p, the cost of the unprovided proposed dividend has decreased because the aforementioned seven for eight share consolidation in February 2014 resulted in a lower estimated number of shares eligible for a dividend on the record date.

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

	2013 £m	2012 £m
20.7p per qualifying ordinary share (2012: 19.0p)	66.0	60.3
12.8p per qualifying ordinary share (2012: 11.8p)	40.2	37.5
	106.2	97.8

4.7 Share options

The Group uses share option schemes to reward and retain its employees. The estimated cost of awarding these share options is charged to the income statement over the period that the Group benefits from the employees' services. This cost is then added back to retained earnings, to reflect that there is no overall impact on the Group's Balance Sheet until the shares are issued to the employees when the options are exercised.

The individual share option schemes, the number of options outstanding under each of them, the estimated cost of these options recognised in the Income Statement and the assumptions used in arriving at this estimated cost are described in this section.

4.7.1 Outstanding share options

At 31 December 2013, 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 Sharesave Scheme	14.04.08 09.04.09 06.04.10 06.04.11 10.04.12 05.04.13	3,518 295,386 64,865 82,409 149,640 95,722	391.41p 201.36p 510.92p 849.02p 890.01p 1196.50p	01.08.13 01.08.14 01.08.13 or 01.08.15 01.08.14 or 01.08.16 01.08.15 or 01.08.17 01.08.16 or 01.08.18
			691,540	
Global Employee Share Purchase Plans	19.12.11 19.12.11 10.04.12 10.04.12 20.08.13	1,016 71,780 28,311 6,024 45,561	632.00p 849.02p 868.05p 890.01p 1287.60p	01.08.13 01.08.14 or 01.08.16 01.08.14 01.08.15 or 01.08.17 01.08.15
			152,692	
Executive Share Option Scheme	24.03.04 23.03.05	18,500 89,960	358.00p 420.50p	24.03.07 to 24.03.14 23.03.08 to 23.03.15
			108,460	
IMI Share Option Plan	03.09.09 22.03.10 23.03.11 04.05.12 27.11.12 23.03.13 10.05.13 22.10.13	55,609 89,470 1,067,500 1,114,500 68,980 797,650 10,000 109,000	440.93p 645.00p 971.83p 980.67p 1007.33p 1322.70p 1294.33p 1518.33p	03.09.12 to 03.09.19 22.03.13 to 22.03.20 23.03.14 to 23.03.21 04.05.15 to 04.05.22 27.11.15 to 27.11.22 23.03.16 to 23.03.23 10.05.16 to 10.05.23 22.10.16 to 22.10.23
			3,312,709	
IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan)	13.05.05 03.04.06 05.04.07 04.04.08 10.03.09 07.05.10 10.03.11 04.05.12 12.03.13 22.10.13	3,050 5,609 3,576 14,000 156,800 199,700 190,858 185,826 128,500 98,792	- - - - - - - - - -	13.05.08 to 13.05.15 03.04.09 to 03.04.16 29.03.10 to 05.04.17 04.04.11 to 04.04.18 10.03.12 to 10.03.19 07.05.13 to 07.05.20 10.03.14 to 10.03.21 04.05.15 to 04.05.22 12.03.16 to 12.03.23 22.10.16 to 22.10.23
			986,711	
Share Matching Plan	03.04.09 22.03.10 28.03.11 10.05.12 12.03.13	298,501 574,029 656,586 975,772 665,588	- - - - -	01.05.12 to 03.04.19 22.03.13 to 22.03.20 28.03.14 to 28.03.21 10.05.15 to 10.05.22 12.03.16 to 12.03.23
			3,170,476	
Total			8,422,588	

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.7.2

Schemes under which options are outstanding

The options in the above table relate to the following share-based payment schemes:

IMI Sharesave Scheme ('SAYE')

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 may be exercised within six months of the date they first become exercisable.

Global Employee Share Purchase Plans ('GESPP')

These plans were introduced in 2011 for the USA and Germany. The German and USA GESPP's offer the opportunity to buy shares in IMI at a fixed price at a future date. The German GESPP mirrors the UK Sharesave Scheme, with a minimum/maximum savings limit per month and contract duration of three or five years. The USA GESPP also operates in a similar way to the UK Sharesave Scheme, with a minimum/maximum savings limit per month, but the contract duration is for a fixed period of two years and different taxation conditions apply for the exercise period.

Executive Share Option Scheme

This scheme is no longer operated, but options are still outstanding under it. Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in EPS above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown in section 4.7.1.

IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan ('PSP'))

The PSP is open to the Company's executive directors and selected senior managers within the Group. Awards are granted subject to stretching performance targets the nature of which differ depending upon the year in which the award was granted.

IMI Share Option Plan ('SOP')

Share option awards were made from 2009 to selected senior managers and certain other employees under the SOP. These awards are not subject to performance conditions, but are subject to a three-year vesting period. The purpose of the SOP 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.

4.7.3

Other share-based payment arrangements

The Group also operates the following employee share plans:

Share Matching Plan ('SMP')

The delivery of the executive directors' and selected senior managers' annual bonuses is 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 bonus is paid in cash. If the SOG is not achieved a proportion of any annual bonus will be mandatorily deferred for three years and delivered in IMI shares under the SMP. This mandated investment (if the SOG is not achieved) is matched from 75% up to a maximum of 200%. These matching shares can be earned if performance conditions over the three-year vesting period are met.

Qualifying employees may also elect voluntarily to defer all or part of the remainder of their bonus, and invest personal funds, up to a maximum of 100% of their annual bonus 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 SMP) if performance conditions over the three-year vesting period are met.

The performance measures for SMP matching awards differ depending upon the year in which the award was granted.

Share Incentive Plan ('SIP')

The SIP 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 as follows:

- Partnership shares – allow employees to invest up to the statutory maximum from pre-tax pay, which is used to buy IMI shares.
- Free shares – allows a grant of shares to employees each year, up to the statutory maximum.

Shares acquired or awarded under the SIP are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company.

4.7.4

Options granted during the year

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date	Number of options granted (thousand)	Normal exercisable date
IMI Sharesave Scheme					
2007	204	517p	2010-2012		
2008	342	391p	2011-2013		
2009	832	201p	2012-2014		
2010	190	511p	2013-2015		
2011	111	849p	2014-2016		
2012	175	890p	2015-2017		
2013	103	1196p	2016-2018		
Global Employee Share Purchase Plans					
2011	246	695p	2013-2016		
2012	35	872p	2014-2017		
2013	46	1288p	2015		
IMI Share Option Plan					
2009	2,532	441p	2012		
2010	1,565	645p	2013		
2011	1,463	959p	2014		
2012	1,361	982p	2015		
2013	961	1345p	2016		
Executive Share Option Scheme					
2003	2,258	257p	2006-2013		
2004	2,199	358p	2007-2014		
2005	484	421p	2008-2015		

4.7.5 Movement in outstanding options in the year

	Options not granted at £nil cost (1)	Options granted at £nil cost (2)			
		Number of options (thousand)	Range of option prices	Weighted average option price	Total
Outstanding at 1 January 2012	6,236	201-972p	575p	4,743	10,979
Exercisable at 1 January 2012	206	257-511p	386p	90	296
Granted	1,572	868-1007p	970p	1,450	3,022
Exercised	2,160	201-972p	399p	793	2,953
Lapsed	518	201-981p	722p	389	907
Outstanding at 31 December 2012	5,130	201-1007p	771p	5,011	10,141
Exercisable at 31 December 2012	182	201-890p	404p	2,254	2,436
Granted	1,109	1196-1518p	1329p	921	2,030
Exercised	1,465	201-890p	591p	1,477	2,942
Lapsed	508	201-1323p	871p	298	806
Outstanding at 31 December 2013	4,266	201-1518p	966p	4,157	8,423
Exercisable at 31 December 2013	259	358-645p	499p	1,255	1,514

(1) Options not granted at £nil cost include options granted under the following schemes: IMI Sharesave Scheme, Global Employee Share Purchase Plans, IMI Share Option Plan and Executive Share Option Scheme.

(2) Options granted with £nil cost are those granted under the Performance Share Plan and Share Matching Plan.

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

Continued

4.7.6

Share-based payment charge for the year

The total expenses recognised for the year arising from share-based payments was £8.5m (2012 restated: £8.1m) which comprises a charge of £9.8m (2012 restated: £9.9m) for the year offset by a credit of £1.3m (2012 restated: £1.8m) in respect of lapses.

£6.1m (2012: £6.0m) of the total charge and £0.4m (2012: £0.7m) of the total credit is in respect of options granted to directors.

4.7.7

Share-based payment valuation methodology

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 2013 included a dividend yield of 2.1% (2012: 3.7%), expected share price volatility of 38% (2012: 38%), a weighted average expected life of 3.5 years (2012: 3.6 years) and a weighted average interest rate of 0.5% (2012: 0.5%). 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.

4.7.8

Other share-based payment disclosures

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is 7.15 years (2012: 6.51 years) and the weighted average fair value of share options granted in the year at their grant date was £7.56 (2012: £2.90).

The weighted average share price at the date of exercise of share options exercised during the period was £13.12 (2012: £9.09).

4.8

Non-controlling interests

Non-controlling interests are recorded as reductions in the income and equity recorded in the Group's financial statements. In accordance with IFRS, these arise because if the Group controls an operation, it accounts for that operation as if the Group were the only party holding an interest in it, but in spite of this control, when other parties have an interest in the operation, that interest should be reflected.

The deduction from income and equity therefore reflects the reduction in the Group's interest resulting from the third party's interest.

	Shanghai CCI £m	SLP £m	Total £m
Non-controlling interests as at 1 January 2013	2.6	45.4	48.0
Profit for the year attributable to non-controlling interests	0.2	2.9	3.1
Dividends paid to non-controlling interests	(0.1)		(0.1)
Income earned by partnership		(4.4)	(4.4)
2013 movement in non-controlling interest	0.1	(1.5)	(1.4)
Non-controlling interest as at 31 December 2013	2.7	43.9	46.6

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 section 4.5.

SECTION 5 – OTHER NOTES

5.1

Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision because significant subjectivity exists regarding its outcome.

As described in last year's accounts, 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 anti-competitive 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. IMI is defending both claims robustly and has brought in all other appropriate parties as contributors. At the year-end, the Directors recorded their best estimate of any settlement in respect of the cases. However, due to the stage of the ongoing negotiation and the potential impact on the outcome of the claim, the amount provided is not disclosed.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £114m (2012: £102m).

5.2

Related party transactions

Related parties are solely the key management personnel. The Board is considered to be the key management personnel of the Group.

	2013 £m	2012 £m
Short term employee benefits*	6.5	5.6
Termination Benefits	0.5	0.7
Share-based payments	5.7	5.3
Total	12.7	11.6

* Short-term employee benefits comprise salary, including employers' social contributions, benefits earned during the year and bonuses awarded for the year.

There are no other related party transactions.

5.3

Subsequent events

Where the Directors receive information in the period between 31 December and the date of approval of the Annual Report about conditions relating to events that existed at the year end, they update the disclosures relating to those conditions in light of the new information.

Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December. If the event is an adjusting event, then an adjustment to the results is made. If a non-adjusting event after the year end is material, non-disclosure could influence decisions that readers of the financial statements make. Accordingly, for each material non-adjusting event after the reporting period we disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

The Group disposed of its Retail Dispense Operations on 1 January 2014, subsequent to the year-end.

The proceeds of the disposal were \$1,100m, adjusted for net debt in the business at the date of disposal and a customary completion accounts mechanism. These proceeds were hedged using a deal contingent forward exchange contract to protect the Group from adverse movements in the sterling/dollar exchange rate between exchange of contract on 15 October 2013 and completion on 1 January 2014. After deducting transaction costs, the Retail Dispense net assets, taxation and after recycling the cumulative historical exchange gain on the assets disposed, we estimate that the profit on disposal of this business to be recorded in 2014 will be in the region of £475m.

Return of cash and share consolidation

As envisaged in the announcement of the disposal of the Retail Dispense businesses, we are returning cash of about £620m to shareholders via a 'B and C share scheme', which was approved in the general meeting in February 2014.

The B and C Share Scheme was accompanied by a seven for eight share consolidation, which is a commonly used arrangement to ensure that the Group's share price after the return of cash is broadly equivalent to the share price prior to the return of cash, which ensures that targets and prices in the Group's various share-based remuneration schemes remain appropriate.

The return of cash will reduce retained earnings in the 2014 Balance Sheet by about £620m.

5.4

Significant accounting policies

A. 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 2013.

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.

SECTION 5 – OTHER NOTES

Continued

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; and
- 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 include the equity in a subsidiary not attributable, directly or indirectly, to the Parent Company and the IMI Pension Fund's 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.

B. Use of judgements and estimates

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. Judgement

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. One of the judgements involved in this issue was whether this entity qualified as a Special Purpose Entity as defined by SIC 12: 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 IFRS10 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 this IMI Scottish Limited Partnership has been recorded as a non-controlling interest, as a component of equity.

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 is included in section 3.2.

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 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 section 4.7.

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 whilst 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, although only constituting a minor portion of the assets, 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 section 4.5.

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 section D to these accounting policies and further details are disclosed in section 3.4.

Development costs

Development costs are capitalised in accordance with the criteria set out in IAS38: Intangible Assets. Initial capitalisation of costs is based on management's judgement regarding the technological and commercial 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 section 3.2.

C. 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 equipment, 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.

SECTION 5 – OTHER NOTES

Continued

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. However, 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.

D. 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:

- Gains and losses (including fair value adjustments) on derivative financial instruments;
- 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 curtailment of a defined benefit scheme in Japan;
- 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;
- Costs associated with the disposal of our Retail Dispense businesses, which principally represented costs payable to the legal and financial advisors assisting with the origination and completion of the transaction, in addition to the advisory costs borne in 2013 relating to the return of cash;
- The amortisation of acquired intangible fixed assets;

- 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.

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

E. Financial income and expense

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

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

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

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

F. 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.

G. 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. Once classified as held for sale, assets are no longer depreciated or amortised.

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.

H. 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.

I. 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 impairment 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.

J. 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, financial commitment or forecast transaction, but does not meet

the criteria to qualify for hedge accounting under IAS39 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.

Where such a derivative is a formally designated hedge of a forecast transaction for accounting purposes, such as the forward component of the deal-contingent forward contract entered into to hedge foreign exchange movements relating to the US dollar proceeds of the sale of the Retail Dispense businesses, movements in the value of the derivative are recognised directly in equity to the extent the hedge is effective. The Company assesses the effectiveness of the hedge based on the expected fair value of the amount to be received and the movement in the fair value of the derivative designated as the hedge.

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.

K. 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 D.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be 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.

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.

SECTION 5 – OTHER NOTES

Continued

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.

L. 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 D of these accounting policies, because of its inherent volatility. The accounting policy for goodwill is described in section K.

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 the intangible assets. Amortisation commences from the date the intangible asset becomes available for use.

The estimated maximum useful lives for:

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

M. 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

N. 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.

O. 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.

P. Cash and cash equivalents

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

Q. 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.

R. 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.

S. 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 the fair value of any plan assets are deducted. Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment,

and the date that the Group recognises restructuring-related costs.

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. Any deduction made by the tax authorities in the event of a refund of a surplus would be regarded by the Group as an income tax.

When the benefits of a plan are improved, the expense is recognised immediately in the income statement. Re-measurement gains and losses are recognised immediately in equity and disclosed in the statement of comprehensive income.

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

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

iv. Equity and equity-related compensation benefits

The Group operates a number of equity and equity-related compensation benefits as set out in section 4.7. 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.

T. 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.

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 38 and 39 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

5 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC (GROUP)

We have audited the Group financial statements of IMI plc for the year ended 31 December 2013 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows, and the related sections 1 to 5. 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 144, 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 and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- Revenue and profit recognition, particularly in Severe Service
- Inventory valuation, particularly in Severe Service
- Valuation of the overall pension scheme liabilities and the pension asset associated with the Scottish Limited Partnership (SLP)
- Accounting treatment of the disposal of the Beverage Dispense and Merchandising businesses including the associated tax effect of the transaction
- The assessment of the carrying value of goodwill and intangible assets.

Our application of materiality

We determined materiality for the Group to be £16 million (2012: £16 million), which is below 5% (2012: 5%) of profit before tax. In calculating materiality, we excluded the effects of certain non-recurring items from profit before tax. For 2013, these related to contingent consideration and preparatory costs associated with the disposal of the Beverage Dispense and Merchandising businesses. Our materiality provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% (2012: 50%) of materiality, namely £8 million (2012: £8 million). Our objective in adopting this approach was to ensure that undetected audit differences in all accounts did not exceed our planning materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8 million (2012: £0.8 million), as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC (GROUP)

Continued

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected 69 entities from the Group's five reportable segments which account for 79% (81%) of the Group's revenue and 93% (86%) of the Group's profit before tax. Of these entities, 18 were subject to a full audit, 35 were subject to audits of specific account balances and 16 were subject to review procedures. None of the entities in the Group is individually significant in size. Therefore, the full and specific scope entities are selected based on risk. For the remaining entities, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements. The entities were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above and the different local systems operating across the Group.

The Group audit team focuses its involvement in higher risks areas through regular conference calls with entity teams and review of key working papers. In addition, the Group team follows a programme of site visits to higher risk locations.

Our response to the risks identified above was as follows:

- **Revenue and profit recognition, particularly in Severe Service**

We performed testing around the timing of revenue recognition, examining new contracts to ensure the recording of revenue reflects the underlying terms and conditions. In addition, we audited management's assessment of forecast costs to complete and the underlying assumptions to ensure contract losses are appropriately recognised. We also performed substantive analytical procedures and assessed whether the revenue recognition policies adopted complied with IFRS.

- **Inventory valuation, particularly in Severe Service**

We tested the accumulation of cost within inventory, ensuring the valuation reflected the physical inventory counts and the product's stage of completion. We also tested the appropriateness of overhead absorption in the inventory valuation and audited provisions against inventory to ensure they appropriately reflected potential excess and/or obsolete issues.

- **Valuation of the overall pension scheme liabilities and the pension asset associated with the Scottish Limited Partnership (SLP)**

With the assistance of Ernst & Young LLP pension specialists, we considered the appropriateness of the actuarial assumptions based on reports provided by Towers Watson. In addition to testing the valuation of other pension assets, we confirmed the consistency of the valuation principles used for the SLP pension assets and challenged the assumptions supporting their valuation in conjunction with Ernst & Young LLP valuation specialists.

- **Accounting treatment for disposal of the Beverage Dispense and Merchandising businesses**

In respect of the disposals of the Beverage Dispense and Merchandising businesses, we audited the assumptions underpinning the valuation of assets held for sale and the related disclosures to ensure that they complied with the requirements of IFRS 5. In addition, we audited the related tax effects of the disposals.

- **The assessment of the carrying value of goodwill and intangible assets**

We audited management's assumptions used in the impairment model for goodwill and intangible assets, including specifically the long-term growth rates, discount rates, cash flow projections and sensitivities used.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report and Accounts is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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 54, 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.

Other matter

We have reported separately on the parent company financial statements of IMI plc for the year ended 31 December 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Walton (Senior statutory auditor)

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

Birmingham

5 March 2014

1 The maintenance and integrity of the IMI plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IMI PLC (COMPANY)

We have audited the Parent Company financial statements of IMI plc for the year ended 31 December 2013 which comprise the Company Balance Sheet and the related notes C1 to C12. 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 144, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013;
- 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 Strategic Report and 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 2013.

Andrew Walton (Senior statutory auditor)

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

5 March 2014

1. The maintenance and integrity of the IMI plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

COMPANY BALANCE SHEET

At 31 December 2013

	Note	2013 £m	2012 £m
Fixed Assets			
Investments	C6	573.4	574.0
Current assets			
Debtors (including £nil due after more than one year (2012: £0.8m))	C7	88.0	78.5
Cash at bank and in hand		-	1.0
		88.0	79.5
Creditors:			
amounts falling due within one year			
Bank overdraft		(2.5)	-
Borrowings	C9	(19.0)	-
Other creditors	C8	(41.0)	(41.0)
Net current assets		25.5	38.5
Total assets less current liabilities		598.9	612.5
Creditors:			
amounts falling due after more than one year			
Borrowings	C9	-	(20.6)
Net assets		598.9	591.9
Capital and reserves			
Called up share capital	C10	85.3	85.2
Share premium account	C10	171.8	170.3
Capital redemption reserve	C10	7.9	7.9
Profit and loss account	C10	333.9	328.5
Equity shareholders' funds		598.9	591.9

Approved by the Board of Directors on 5 March 2014 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 55 to 79 and in section 5.2 on page 137 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 investments 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 section 4.7 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.

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 55 to 79.

C3. Remuneration of auditors

The detailed information concerning the auditor's remuneration is shown in section 2.1.3.3 of the Group Financial Statements.

C4. Staff numbers and costs

The number of people employed by the Company, including Directors, during the year was 25 (2012: 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. Section 4.5 to the Group financial statements provides further details regarding the defined benefit scheme.

COMPANY NOTES TO THE FINANCIAL STATEMENTS

Continued

C5. Dividends

The aggregate amount of dividends comprises:

	2013 £m	2012 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	66.0	60.3
Interim dividends paid in respect of the current year	40.2	37.5
Aggregate amount of dividends paid in the financial year	106.2	97.8

Dividends paid in the year of £106.2m represent 33.5p per share (2012: 30.8p).

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.

	2013 £m	2012 £m
22.5p per qualifying ordinary share (2012: 20.7p)*	60.7	66.1

* Whilst the final dividend per share for 2013 has increased from 20.7p to 22.5p, the cost of the unprovided proposed dividend has decreased because the aforementioned 7 for 8 share consolidation in February 2014 resulted in a lower estimated number of shares eligible for a dividend on the record date.

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 2013 cost and net book value	173.2	400.8	574.0
Acquisitions in the period	65.9		65.9
Repayments during the year		(66.5)	(66.5)
At 31 December 2013 at cost and net book value	239.1	334.3	573.4

During the period IMI plc acquired Artform International Limited for consideration of £65.9m from another Group company.

Details of subsidiary undertakings as at 31 December 2013 are shown on page 153.

C7. Debtors

	2013 £m	2012 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	86.3	76.0
Prepayments and accrued income	0.9	0.4
Other financial assets	0.8	1.3
	88.0	77.7
Falling due for payment after one year:		
Other financial assets	-	0.8
	-	0.8
	88.0	78.5

C8. Other creditors falling due within one year

	2013 £m	2012 £m
Amounts owed to subsidiary undertakings	39.5	39.6
Other payables	1.0	0.8
Accruals and deferred income	0.5	0.6
	41.0	41.0

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 section 4.4 in the Group Financial Statements.

	2013 £m	2012 £m
Due within one year:		
Unsecured US loan notes 2014	19.0	-
Due between one and two years:		
Unsecured US loan notes 2014	-	20.6

C10. Share capital and reserves

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2012	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
Retained profit for the year				288.9	288.9
Shares issued in the year	0.1	1.5			1.6
Dividends paid *				(106.2)	(106.2)
Share-based payments				11.2	11.2
Shares acquired for*:					
employee share scheme trust				(24.2)	(24.2)
share buyback programme				(164.3)	(164.3)
At 31 December 2013	85.3	171.8	7.9	333.9	598.9

* Details of treasury and employee trust share scheme movements are contained in section 4.6 to the Group Financial Statements and details of dividends paid and proposed in the year are shown in note C5.

COMPANY NOTES TO THE FINANCIAL STATEMENTS

Continued

Share capital

	2013 £m	2012 £m
Authorised		
480.0m (2012: 480.0m) ordinary shares of 25p each	120.0	120.0
Issued and fully paid		
341.0m (2012: 340.7m) ordinary share of 25p each	85.3	85.2

C11. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £74.1m (2012: £65.8m).

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company, as parent of the IMI Group, has contingent liabilities in respect of contingencies within the Group as described in section 5.1 to the Group Financial Statements.

C12. Post balance sheet events

During the period IMI plc acquired Artform International Limited for consideration of £65.9m from another Group company. Artform International Limited was subsequently sold on 1 January 2014 for an estimated consideration of £65.1m realising a loss of £0.8m, which principally results from exchange rate movements between the dates of acquisition and disposal.

Details of the return of cash and share consolidation are contained within section 5.3.

GEOGRAPHIC DISTRIBUTION OF EMPLOYEES

The following table shows the geographic distribution of employees as at 31 December 2013 and is not required to be audited.

United Kingdom	2,143
Continental Europe	6,986
Americas	4,458
Asia Pacific	1,986
Others	66
Total	15,639

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 2014. 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 Netherlands
 Asterm SAS France
 Buschjost GmbH Germany
 CCI AG Switzerland
 CCI América do Sul Comércio de Equipamentos Industriais Ltda Brazil
 CCI (Asia Pacific) Pte Ltd Singapore
 CCI Czech Republic sro Czech Republic
 CCI Flow Control (Shanghai) Co. Ltd China
 CCI Italy srl Italy
 CCI KK Japan
 CCI Ltd Korea
 CCI Switzerland AG Switzerland
 CCI Valve Technology AB Sweden
 CCI Valve Technology GmbH Austria
 Control Components Inc USA
 Control Component India Pvt Ltd India
 Eley Ltd
 Flow Design Inc USA
 Fluid Automation Systems GmbH Germany
 Fluid Automation Systems SA Switzerland
 Fluid Automation Systems Technologies SA Switzerland
 Herion Systemtechnik GmbH Germany
 Hochdruck-Reduziertechnik GmbH Germany
 IMI Components Inc USA
 IMI Components Ltd
 IMI Indoor Climate Trading (Shanghai) Co Ltd China
 IMI International Kft Hungary
 IMI International LLC Russia
 IMI International sro Czech Republic
 IMI International sp z o.o Poland
 IMI Norgren Herion Pvt Ltd India
 IMI Norgren Oy Finland
 IMI Norgren SA Spain
 IMI Scott Ltd
 IMI Webber Ltd
 Industrie Mecanique Pour Les Fluides SAS France
 Interativa Indústria, Comércio e Representações Ltda Brazil
 Newman Hattersley Ltd Canada
 Norgren A/S Denmark
 Norgren AG Switzerland
 Norgren AS Norway
 Norgren Automation Solutions LLC USA
 Norgren BV Netherlands
 Norgren Co Ltd China

Norgren European Logistics Company Ltd
 Norgren GesmbH Austria
 Norgren GmbH Germany
 Norgren GT Development Corporation Inc USA
 Norgren Inc USA
 Norgren Kloehn Inc USA
 Norgren Ltd
 Norgren Ltd Hong Kong
 Norgren Ltd New Zealand
 Norgren Ltda Brazil
 Norgren Manufacturing Co Ltd China
 Norgren Manufacturing de Mexico SA Mexico
 Norgren NV Belgium
 Norgren Pte Ltd Singapore
 Norgren Pty Ltd Australia
 Norgren SA de CV Mexico
 Norgren SAS France
 Norgren SpA Italy
 Norgren Sweden AB Sweden
 Orton srl Italy
 Pneumatex & CIE NV Belgium
 Pneumatex BV Netherlands
 Pneumatex GmbH Germany
 Pneumatex SARL France
 Remosa Service & Construction SpA Italy
 Remosa SpA Italy
 Shanghai CCI Power Control Equipment Co Ltd China (70%)
 Stainless Steel Fasteners Ltd
 STI srl Italy
 TA Heimeier GmbH Germany
 TA Hydronics AB Sweden
 TA Hydronics AS Norway
 TA Hydronics BV Netherlands
 TA Hydronics FZE Dubai, UAE
 TA Hydronics GesmbH Austria
 TA Hydronics Ltd
 TA Hydronics Oy Finland
 TA Hydronics SA France
 TA Hydronics SA Switzerland
 TA Hydronics Switzerland AG Switzerland
 TA Isitma ve Havalandirma Sanayi Ticaret ve Servis Limited Sirketi Turkey
 TA Regulator d.o.o Slovenia
 Th Jansen-Armaturen GmbH Germany
 Thompson Valves Ltd
 Tour & Andersson A/S Denmark
 Tour & Andersson Ltda Brazil
 Tour & Andersson NV/SA Belgium

Tour & Andersson SA Spain
 Truflo Marine Ltd
 Truflo Rona SA Belgium
 Truflo Rona srl Italy
 Z & J Technologies GmbH Germany
 Zimmermann & Jansen Inc USA
 Zimmermann & Jansen South Africa (Pty) Ltd South Africa

Retail Dispense

3Wire Group Inc USA
 Artform International Inc USA
 Artform International Ltd
 Cannon Equipment LLC USA
 DCI Marketing Inc USA
 Display Technologies LLC USA
 IMI Cornelius España SA Spain
 IMI Cornelius Europe SA Belgium
 IMI Cornelius (Pacific) Ltd Hong Kong
 IMI Cornelius (Tianjin) Co Ltd China
 IMI Cornelius (UK) Ltd
 IMI Cornelius Australia Pty Ltd Australia
 IMI Cornelius de Mexico SA de CV Mexico
 IMI Cornelius Deutschland GmbH Germany
 IMI Cornelius Hellas SA Greece
 IMI Cornelius Inc USA
 IMI Cornelius Italia srl Italy
 IMI Cornelius Österreich GesmbH Austria
 IMI Cornelius (Singapore) Pte Ltd Singapore
 IMI Cornelius Ukraine LLC Ukraine
 IMI Manufacturing de Mexico SA de CV Mexico
 Trade Fixtures LLC USA

Corporate

IMI Group Ltd
 IMI Kynoch Ltd
 IMI Overseas Investments Ltd*
 IMI Property Investments Ltd
 IMI Americas Inc USA
 IMI Fluid Controls Holdings Inc USA
 IMI Retail Dispense Holdings Inc USA
 IMI Consulting (Shanghai) Co Limited
 IMI Germany Holding Limited & Co KG Germany
 Brookvale International Insurance Ltd Bermuda

* This entity has issued debt listed on the official list of the Channel Islands Stock Exchange

FIVE YEAR SUMMARY

The restated figures in the tables below relate to the exclusion of the Retail Dispense businesses, which were sold on 1 January 2014. Further information is included within section 2.5.

Income statement

	Restated 2009 £m	Restated 2010 £m	Restated 2011 £m	Restated 2012 £m	2013 £m
Revenue	1,331	1,427	1,645	1,694	1,743
Segmental revenue*	1,324	1,433	1,649	1,696	1,744
Segmental operating profit*	194.9	262.4	307.6	300.1	321.6
Adjusted profit before tax*	168.8	235.4	280.9	274.8	297.7
Net credit on special pension events	-	-	-	10.9	-
Employee benefit curtailment					
- UK scheme	-	15.1	-	-	-
Restructuring costs	(26.8)	(10.7)	(21.4)	(18.9)	(14.2)
Acquired intangible amortisation and impairment	(6.8)	(6.7)	(32.3)	(29.6)	(21.9)
Other acquisition-related costs	-	-	-	(6.3)	(1.9)
Costs related to the Retail Dispense disposal	-	-	-	-	(8.0)
Financial instruments excluding economic hedge contract gains/losses	16.6	9.6	(6.2)	(1.0)	(2.4)
Profit before tax from continuing operations	151.8	242.7	221.0	229.9	249.3
EBITDA†	218	320	321	318	332

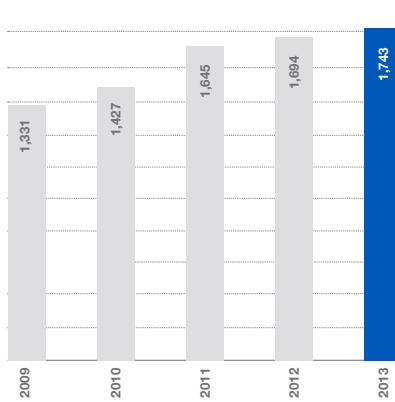
* Before exceptional items.

† Earnings before interest, tax, depreciation, amortisation and impairment and other income.

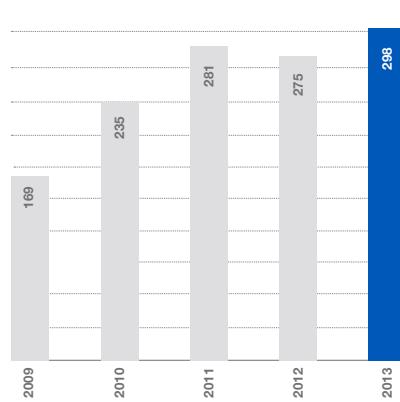
Group sales by destination

	Restated 2009 £m	Restated 2010 £m	Restated 2011 £m	Restated 2012 £m	2013 £m
UK	82	92	91	101	104
Western Europe	619	669	744	694	686
North America	230	259	297	306	338
Emerging Markets	315	327	396	462	504
Rest of World	78	86	121	133	112
	1,324	1,433	1,649	1,696	1,744

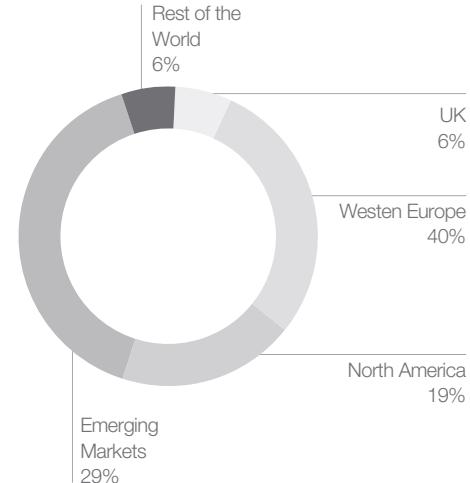
Revenue £m



Adjusted profit before tax* £m



Continuing revenue by geographic destination 2013



Earnings and dividends

	Restated 2009	Restated 2010	Restated 2011	Restated 2012	2013
Adjusted earnings per share (continuing)	37.4p	52.6p	64.5p	64.7p	72.6p
Basic earnings per share (continuing)	33.6p	54.3p	50.5p	53.9p	60.4p
Ordinary dividend per share	21.2p	26.0p	30.0p	32.5p	35.3p

Balance sheet

	Restated 2009 £m	Restated 2010 £m	Restated 2011 £m	Restated 2012 £m	2013 £m
Segmental net assets					
Continuing	637	791	806	906	897
Discontinued	213	194	192	189	196
Other net non-operating liabilities excluding borrowings (gross)	(276)	(264)	(275)	(267)	(246)
Net debt					
Continuing	(187)	(164)	(127)	(160)	(226)
Discontinued	15	19	18	16	27
Net assets	402	576	614	684	648

Statistics

	Restated 2009	Restated 2010	Restated 2011	Restated 2012	2013
Segmental operating profit as a percentage of segmental revenue	14.7%	18.3%	18.7%	17.7%	18.4%
Segmental operating profit as a percentage of segmental net assets	30.6%	33.2%	38.2%	33.1%	35.9%
Effective tax rate on adjusted profit before tax	28.0%	28.0%	26.0%	24.0%	22.0%
Net assets per share (excluding treasury and EBT shares)	125.9p	181.9p	193.5p	214.0p	210.0p
Net debt as a percentage of shareholders' funds	46.5%	28.5%	20.7%	23.4%	34.9%
Net debt: EBITDA	0.9	0.5	0.4	0.5	0.7
EBITDA: Interest	12	21	19	18	21

SHAREHOLDER AND GENERAL INFORMATION

Announcement of trading results

The trading results for the Group for the first half of 2014 will be announced on 1 August 2014.

The trading results for the full year ending 31 December 2014 will be announced in March 2015.

Interim management statements will be issued in May and November 2014.

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 2013 was 1,525.00p (2012: 1,097.00p).

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.

Individual Savings Account (ISA)

IMI's ordinary shares can be held in an ISA. For information about the ISA operated by our Registrar, Equiniti, please call the Equiniti ISA helpline on 0845 300 0430. Lines are open from 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 Depository Receipts

IMI plc have an American Depository 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.

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

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Solicitors

Pinsent Masons LLP
3 Colmore Circus
Birmingham
B4 6BH

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Stockbrokers

J.P. Morgan Cazenove
25 Bank Street
London
E14 5LB

Citi
33 Canada Square
Canary Wharf
London
E14 5JP

Auditor

Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

IMI plc is registered in England
No.714275

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

www.imiplc.com