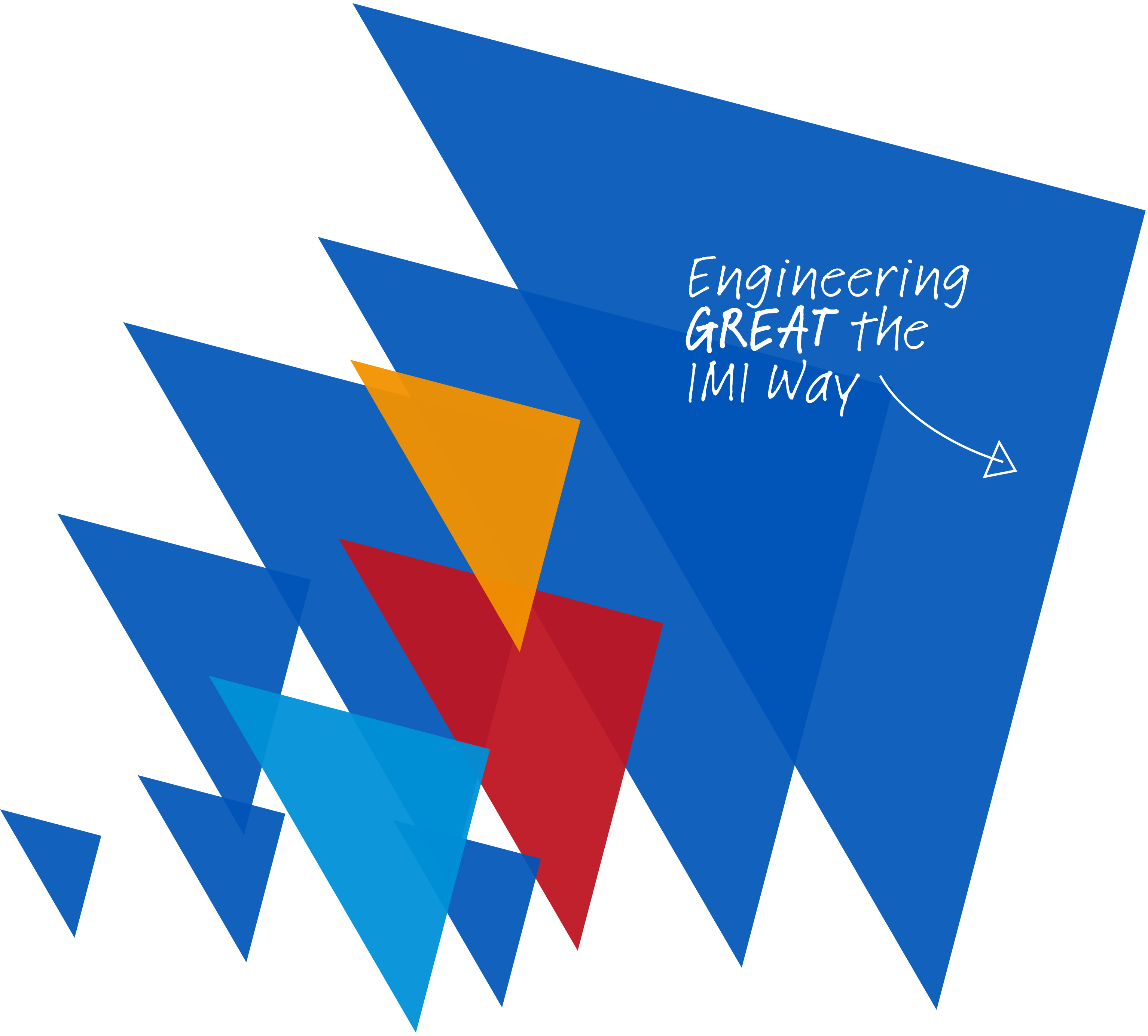
IMI plc
Annual Report & Accounts
2016



IMI

Our purpose is to deliver great solutions that tackle the most demanding engineering challenges. We help some of the world's biggest industrial companies operate their processes safely, cleanly, efficiently and cost effectively. We operate through three divisions – IMI Critical Engineering, IMI Precision Engineering and IMI Hydronic Engineering – and employ 11,000 people in over 50 countries around the world.

Performance at a glance

Reported revenue*	£1,649m	-5%
Statutory revenue	£1,657m	+6%
Reported profit before tax*	£208m	-5%
Statutory profit before tax	£165m	+2%
Segmental operating margin*	13.8%	-160bps
Operating cash flow*	£246m	+6%
Reported basic earnings per share*	59.8p	-4%
Total dividend for year	38.7p	+1%

- Significant progress on strategic initiatives
- Results in-line with market expectations
- Strong operating cash flow of £246m
- Recommending a 1% increase in the full year dividend
- De-risking of global pension liabilities with UK remaining in surplus

† The Strategic Report on pages 4 to 43 has been approved by the Board of Directors and signed on their behalf by Mark Selway, Chief Executive, on 23 February 2017.

* These figures are non statutory alternative performance measures. See page 85 for explanations and rationale for using these and the associated definitions and reconciliations to statutory measures.

Throughout this Report, unless otherwise stated, references to revenue and profit before tax are on a reported basis. References to operating profit, unless otherwise stated, relate to reported segmental operating profit.

Chairman's statement
"Good progress in a tough environment"

Despite difficult market conditions our results for 2016 were in-line with expectations and the Group continued to deliver against our ambitious strategic objectives. The combination of necessary management actions to address the current market difficulties and the continued progress in the execution of our strategy underpin our plans to enhance customer relationships, grow our market shares and further improve working capital. The Group's balance sheet is strong and our operations are inherently cash generative which provides the headroom to invest in organic development and appropriate acquisition opportunities as they arise.

Lord Smith of Kelvin
Chairman

Continuing to execute our strategy

During 2016, the considerable work being undertaken to improve our businesses gained traction as we continued to improve both our operations and our customer offering. The strategic initiatives behind that work remain our priority, despite the market headwinds our industry currently faces. There is no question that IMI is becoming a stronger, more efficient and more competitive company capable of delivering long-term sustainable growth.

As our businesses continue to improve, the resulting benefits are becoming increasingly evident to our customers – improved on-time-delivery, faster response times and reduced scrap rates are the fundamental pre-requisites that will confirm IMI as a world-class supplier. We have also improved significantly our product offering in 2016, having launched many new products and re-vitalised our go-to–market and sales strategies in several parts of the Group. All of these initiatives are significantly enhancing our customers' service experience and our competitiveness. More details about these positive developments are set out in the Chief Executive's review on pages 4 to 43.

Our people

The improvements being made in all parts of the Group are due to our people who, despite the on-going difficult economic and market conditions, are relentlessly driving our many strategic and operational growth initiatives. I have seen this first hand during the site visits we undertook during the year. In October, the Board met in Germany where we had an opportunity to visit Hydronic Engineering's plant in Erwitte and Precision Engineering's Buschjost operations. In both locations the progress has been impressive and the hard work and enthusiasm of employees were clearly evident.

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending a final dividend increase of 1% to 24.7p (2015: 24.5p) making a total dividend for the year of 38.7p, an increase of 1% over last year's 38.4p.

Looking ahead

This is an exciting time to be part of IMI. Our various strategic growth initiatives are laying the foundations for long-term shareholder value creation. Today our underlying business is stronger and our ability to compete and win in the marketplace is being significantly enhanced. We will be very well placed to deliver accelerated growth and sustainable and profitable progress as market conditions improve.

Board details
Turn to page 46

Corporate Governance
Turn to page 49

Group overview

IMI plc is a specialised engineering company that designs, manufactures and services highly engineered products that control the precise movement of fluids.

IMI Critical Engineering

IMI Critical Engineering is a world-leading provider of critical flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently.

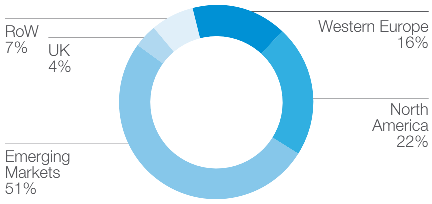
IMI Critical Engineering operational review
Turn to page 22

Revenue
£651m

Operating profit
£81.8m

Number of employees
3,700

Revenue by geography



IMI Precision Engineering

IMI Precision Engineering specialises in developing motion and fluid control technologies for applications where precision, speed and reliability are essential.

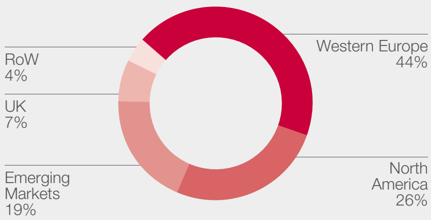
IMI Precision Engineering operational review
Turn to page 24

Revenue
£708m

Operating profit
£118.5m

Number of employees
5,300

Revenue by geography



IMI Hydronic Engineering

IMI Hydronic Engineering is the leading global supplier of products for hydronic distribution systems which deliver optimal and energy efficient heating and cooling systems to the residential and commercial building sectors.

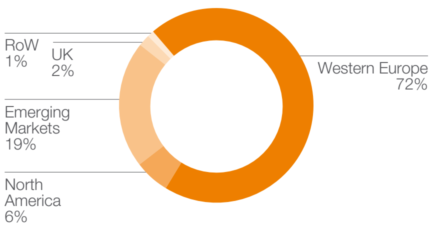
IMI Hydronic Engineering operational review
Turn to page 26

Revenue
£290m

Operating profit
£51.9m

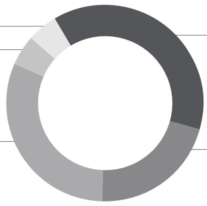
Number of employees
1,900

Revenue by geography

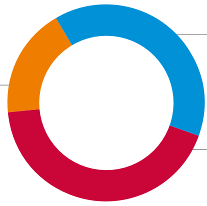


IMI's global footprint
http://www.imiplc.com/about-imi/our-divisions/imi-at-a-glance.aspx

Group revenue by geography



Group revenue by division



Key brands
IMI Bopp & Reuther, IMI CCI, IMI Fluid Kinetics, IMI InterAtiva, IMI NH, IMI Orton, IMI Remosa, IMI SSF, IMI STI, IMI TH Jansen, IMI Truflo Marine, IMI Truflo Rona, IMI Truflo Italy, IMI Z&J, IMI Zikesch

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

Power

We are the world leading supplier of engineered to order turbine bypass valves for critical applications in conventional and nuclear power plants – helping to provide the safest, most reliable and efficient power generation.

2016 Revenue: £280m

Oil & Gas

We supply anti-surge valve and actuator systems to the world's largest LNG compression facilities. Our systems are capable of ultra-fast response to maximise LNG production while protecting the critical process equipment.

2016 Revenue: £187m

Petrochemical

We design and manufacture integrated flow control systems for critical applications in Fluid Catalytic Cracking. We also supply bespoke valves into the ethylene, polypropylene and delayed coking production processes.

2016 Revenue: £98m

Actuation

We focus on the design and production of complete actuation systems to operate industrial valves for the most demanding applications and processes in terms of forces, speed and accuracy.

2016 Revenue: £27m

Key brands
IMI Norgren, IMI Buschjost, IMI FAS, IMI Herion, IMI Maxseal

Major operational locations
Brazil, China, Czech Republic, Germany, Mexico, Switzerland, UK and USA

Industrial Automation

We supply high performance products including valves, valve islands, proportional and pressure monitoring controls and air preparation products, as well as a comprehensive range of pneumatic actuators.

2016 Revenue: £396m

Commercial Vehicle

We design and manufacture a range of cab chassis and powertrain solutions which deliver fuel efficiency, emissions reduction and faster assembly times for the world's leading commercial vehicle manufacturers.

2016 Revenue: £161m

Oil & Gas

We offer a comprehensive range of products which deliver precision control in even the harshest environments, including stainless steel valves and regulators, nuclear class valves and emergency shutdown controls.

2016 Revenue: £63m

Life Sciences

We supply precision flow control solutions used in medical devices, diagnostic equipment and biotech and analytical instruments. We help to reduce the size of customers' products, while enhancing accuracy, throughput and fluid control performance.

2016 Revenue: £57m

Key brands
IMI TA, IMI Flow Design, IMI Heimeier, IMI Pneumatex

Major operational locations
Germany, Poland, Slovenia, Sweden, Switzerland and USA

Balancing & Control

Our hydronic balancing and control solutions enable buildings to keep comfort at the right level while increasing HVAC efficiency by up to 30%. Our expertise covers constant and variable flow and both static and dynamic balancing.

2016 Revenue: £145m

Thermostatic Control

We design and manufacture thermostatic control systems which guarantee direct or automatic control of radiators and underfloor heating systems to precisely control individual room temperatures.

2016 Revenue: £102m

Pressurisation

Reliable pressurisation is a basic requirement for a trouble-free operation of heating, cooling and solar systems. Our robust range of pressure maintenance systems with compressors or pumps and expansion vessels maintains the right pressure in the system at all times.

2016 Revenue: £31m

Water Quality

The single most important component in any hydronic system is the water itself. When compromised, the effects can significantly impact the efficiency of the system. Our dirt and air separators and pressure step degassers protect the installation by keeping water free of microbubbles and sludge.

2016 Revenue: £12m

Strategic Review

Preparing to machine a butterfly valve component in IMI Orton, Italy


FB060002 CORPO

Chief Executive's review
"Building competitive advantage"

2016 was another year of important progress for IMI. As well as continuing to improve both our operational performance and our customer offering, we have acted decisively to ensure our cost-base continues to support our growth ambitions while also protecting near-term performance.

Mark Selway
Chief Executive

Improvement despite headwinds

2016 was a year of significant progress for the Group with results in-line with market expectations despite continuing headwinds in a number of our key markets. Our various initiatives have further improved operational performance, and on-going investment in great new products and customer solutions has enhanced our market competitiveness.

Trading conditions in many of our geographies and markets remained difficult throughout 2016. The cautious industrial investment environment continued to impact new order opportunities as customers tightened spending in the face of economic and political uncertainty.

The Oil & Gas market, which represents almost a third of Critical Engineering's revenues, continued to be impacted by falling investment, including a significant reduction in liquid natural gas (LNG) projects. The Power generation sector was impacted by lower operational spending reflecting delays, particularly in North America, where power providers have extended the time between planned outages.

While European and Asia Pacific truck markets remained resilient, the US heavy truck market declined significantly which impacted revenues in Precision Engineering. Industrial Automation markets globally were broadly flat with some signs of recovery in Europe and North America in the final quarter of the year.

In Hydronic Engineering, European construction markets remained subdued with warmer weather impacting the heating season. In addition, North America and China experienced some project delays.

In response to the protracted deterioration in several of our most important markets, the Group has undertaken a number of restructuring activities that will continue into 2017. These actions include the sale or closure of eight lower growth, higher cost Critical Engineering sites and the reduction of operating costs across the entire Group.

In Precision Engineering, in-line with our strategy to simplify the business and ensure that we have the most efficient platform for future growth, the division undertook an extensive review of its operational footprint. The review – named Project Janus – is now being split into two phases. The implementation of Phase 1 has already begun and involves those projects that can be executed quickly and with the least disruption to our business. This includes a structured programme of cost reductions, insourcing to

Strategic timeline

2014
Year 0:
The hard work begins
☑

2015
Year 1:
Increased investment
☑

2016
Year 2:
Benefits starting to show
☑

2017
Year 3:
Nearly firing on all cylinders
☐

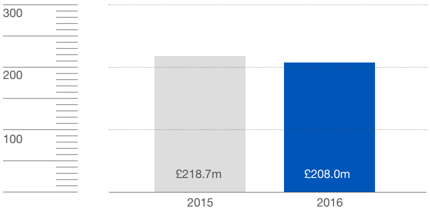
2018
Year 4:
Up to full speed
☐

Ambition:
Double operating profits
☐

Supported by value enhancing acquisitions

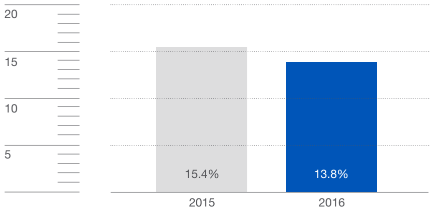
Reported profit before tax

£208.0m Down 5%



Segmental operating margin

13.8% Down 160bps



increase machining capacity utilisation, simplification of the organisational structure and further leverage of our low cost European manufacturing operations. A second phase is contingent on market conditions and anticipates potentially substantial and more complex changes, particularly in areas such as Commercial Vehicle, where significant new project quotation activity exists. All of these actions will help to protect operating margins and improve our competitive position in what remains an uncertain market environment.

In Hydronic Engineering, the subdued environment in key European markets, combined with greater efficiencies resulting from the IT and operational improvements, have provided the basis to reduce operating costs, which will be evident in the division's activities in 2017.

Results overview

Reported Group revenues were 6% higher at £1,649m (2015: £1,557m). Excluding favourable exchange rate movements and disposals, Group revenues on an organic basis were 5% lower due to continuing difficult end markets. Reported segmental operating profit was 5% lower at £228m (2015: £239m). Excluding the impact of favourable exchange rate movements and disposals, segmental operating profit was 17% lower on an organic basis reflecting lower volumes and continued investments, partially offset by the benefits of restructuring. The Group's operating margin was 13.8% (2015: 15.4%) and reported earnings per share were 4% lower at 59.8p (2015: 62.2p). Operating cash flow of £246m (2015: £232m) reflected the benefits of the Group's lean initiatives which underpinned working capital improvements in the year.

Net Debt of £283m (2015: £237m) was impacted by adverse currency of £97m and resulted in a Net Debt to EBITDA ratio of 1.0x against 0.9x at the end of 2015.

Good strategic progress

It is particularly rewarding to report a further year of successful execution of our strategy. Key achievements, including a significant and positive cultural shift with a passion for continuous improvement, improved operational performance and success in our endeavours to add high quality products across all three divisions, have all contributed to our results in 2016. We move forward with confidence that we will achieve world-class performance by 2019, as envisaged in our original 2014 plan. Our objective to double operating profit by that point also remains our goal, although achieving that will clearly rely upon a more favourable market environment, and will almost certainly be reached beyond the original 2019 timescale.

Improving our operational performance

Improving operational performance is fundamental to our objective of creating competitive advantage and remains a key part of our strategic growth plan. During the year the efficiency of our operations improved significantly.

Our operational improvements are assessed twice yearly using an industry recognised lean benchmarking methodology. During 2016, the Group's average lean score has continued to improve, and ended the year at 66% against 59% at the same point in 2015. As a result of more efficient operations, scrap rates continued to improve, on-time-delivery and inventory management both made good progress and the benefits were evident in the Group's working capital in the year. This improved productivity and operational performance provides an important foundation to underpin our increased competitiveness and responsiveness to customers.

IMI Critical Engineering has world-class cryogenic testing facilities, for all classes of valves. Here butterfly valves are being lowered into the liquid nitrogen

The IMI Executive team discover Hydronic Engineering's new Zeparo G-Force turnable dirt separators at the plant in Switzerland

Mark Selway with Oliver Wehking, Managing Director of IMI Buschjost, on a visit to Precision Engineering's site in Germany

Readying our businesses for growth

In the past two years, we have invested heavily in new systems and processes which are essential to the Group's sustainable competitive advantage. During 2016 new integrated IT systems, that make day-to-day operations more cost and time efficient, were successfully installed on-time and on-budget in Critical Engineering's plants in Sweden, Japan, India and Korea, two of Precision Engineering's US operations, Hydronic Engineering's Polish plant and at its headquarters in Switzerland. In 2017, Critical Engineering will roll out an additional six sites in the US and Asia, Precision Engineering will complete their remaining sites in the US, and Hydronic Engineering will largely complete the vast majority of their factories and sales offices.

In addition to much needed IT investment, our focus also extends to embedding disciplined and efficient processes, including New Product Development, competitor product tear-downs and the application of Value Engineering. These processes underpin the sustainability of continuous improvement and ensure that investment ultimately delivers an earlier and greater return. Much has been achieved to simplify the way our businesses operate.

New product portfolios

Our focus on New Product Development gained significant momentum during the year and as a result we have expanded our portfolio of great new products which enhance the competitiveness of the Group. The Group's advanced product

quality planning process (APQP) and competitor product tear-downs have resulted in the development of an industry-leading range of platform products in Precision Engineering which represent the first significant investment for more than 10 years. During the year Hydronic Engineering maintained its development pipeline and launched 13 new products while Critical Engineering introduced a significant number of enhanced products. All three divisions have ambitious plans to continue their product development strategies in 2017 and beyond.

Compelling customer solutions

During the year, Critical Engineering developed an aggressive Value Engineering programme to enhance its competitiveness. Despite challenging market conditions, Value Engineering helped to deliver new orders totalling £80m at historic margin levels while providing, on average, a 15% cost reduction for customers. In addition, Value Engineering has opened up a number of new product markets where we are now able to offer our world-class valve technologies, providing an additional basis for profitable growth.

Revised go-to-market strategies

In our Precision Engineering division, following the work undertaken in 2015 to identify the markets that offer the greatest growth potential, the division's US and European operations have been reorganised around key industry verticals of Industrial Automation, Commercial Vehicle, Life Sciences and Energy. This new structure delivers sector marketing strategies that address distinct customer requirements, target specific market opportunities and build stronger customer relationships. In November, Precision Engineering launched an innovative IMI Norgren Express App which enables customers, using their smartphones, to identify, locate and purchase replacement parts quickly and easily.

Business development

Alongside our organic growth initiatives, targeted acquisitions that meet our clearly defined and disciplined criteria remain a core part of our strategy. While market conditions have reduced the pipeline of opportunities, we continue to refine our targets, enhance our integration processes and make our underlying businesses stronger, all of which will facilitate the success of any future developments.

Our people

As the Chairman highlights in his statement, the progress that we continued to make in the year is due to our employees around the world. I would like to thank them for their hard work and on-going drive and passion to deliver our strategic ambitions. I am pleased to report the significant cultural progress which has been achieved across the whole of IMI. The business today has a passion for continuous improvement and the ambition to improve competitiveness and deliver better customer outcomes is firmly embedded throughout the organisation. I remain convinced that these core ambitions underpin the future success of IMI.

Outlook

Based on current market conditions, we expect organic revenues in the first half of 2017 to reflect a similar percentage reduction to the first half of 2016, with margins slightly lower than the first half of last year. Results for the full year are expected to include a second half bias reflecting the timing of restructuring benefits and normal trading seasonality.

Executive Committee

Mark Selway
Chief Executive

Daniel Shook
Finance Director

Roy Twite
Divisional Managing Director, IMI Critical Engineering

Massimo Grassi
Divisional Managing Director, IMI Precision Engineering

Peter Spencer
Divisional Managing Director, IMI Hydronic Engineering

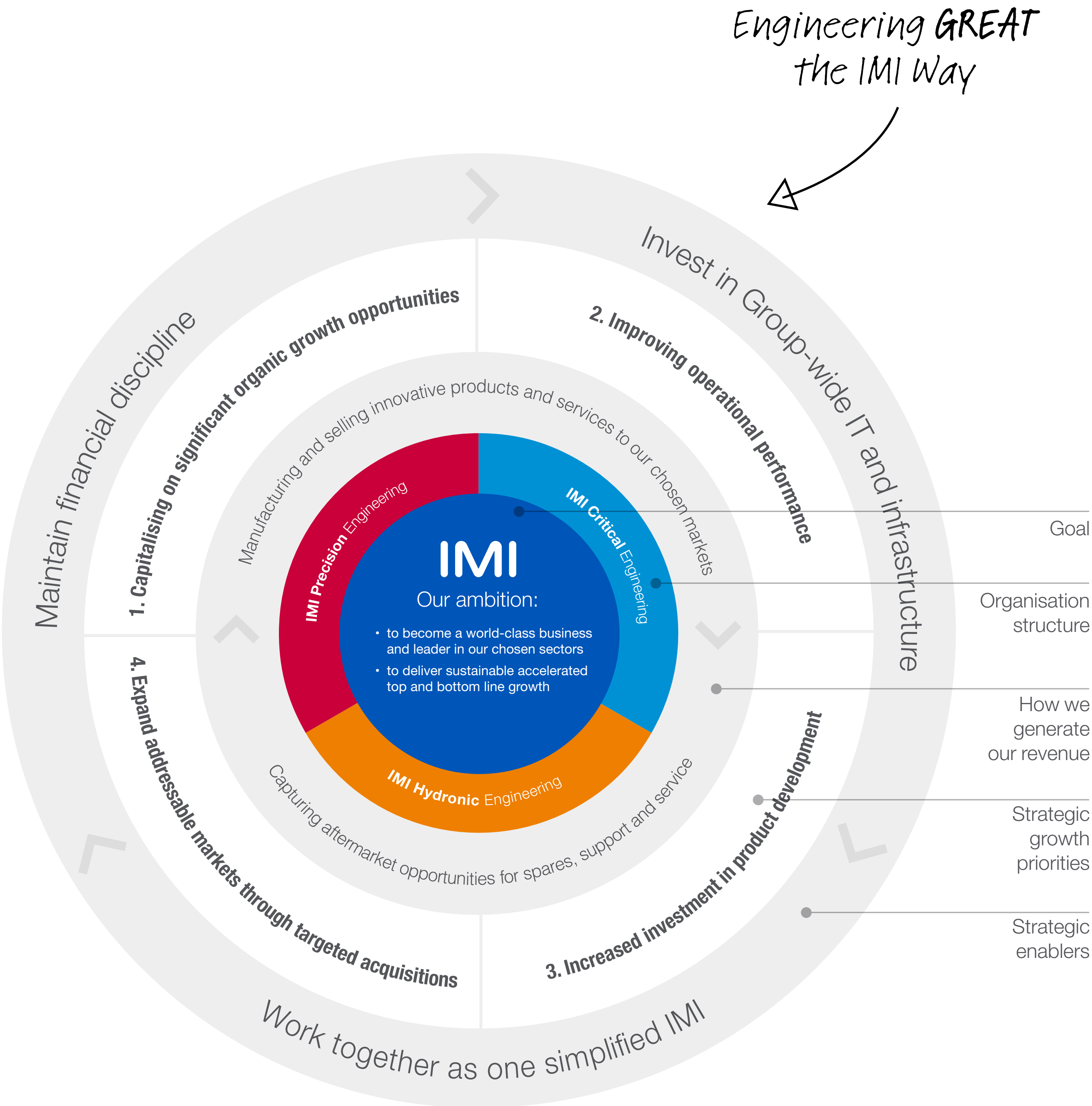
Paul Roberts
Group Business Development Director

Geoff Tranfield
Group Human Resources Director

John O'Shea
Group Legal Director and Company Secretary

Our strategic model

Our business model is built around our core strategic priorities of capitalising on growth opportunities, operational excellence, investment in product development and targeted acquisitions. Continuous investment in these areas will deliver improved, more innovative products and services to our customers and help us increase our competitive advantage. By meeting our customers' needs and investing in our leading market positions, we are well placed to grow profitably to the benefit of all stakeholders including our shareholders.



Strategic growth enablers

To deliver our strategic growth objectives while capitalising on the geographic and operational capabilities of the Group we have outlined the following key strategic enablers.

Working together as one simplified IMI

To harness the Group's full potential we remain determined to channel and maximise our scale to act as one IMI. Establishing core processes has provided a strong platform that underpins a framework for creating consistent Group–wide standards and behaviours.

Originally developed by our Precision Engineering division, the structured performance testing, tear-down and detailed analysis of competitor products is a key part of our new product development process. This tear-down procedure, which ensures that our new products will out run the competition, has now been adopted within the divisions' development processes. It is one of several disciplines that have been embraced by all three of the divisions as they share best practice.

Maintaining financial discipline

As we execute our strategy to deliver accelerated growth, we will continue to maintain financial discipline. Capital will be allocated to drive organic growth, maintain a progressive dividend policy in line with earnings and fund acquisitions. Whilst retaining flexibility to develop IMI's full potential, we will continue to focus on maintaining an efficient balance sheet and, in the event of us having cash in excess of the Group's current needs, we will return this excess capital to shareholders. Through the life of our five year plan we will work to maintain net debt to EBITDA of no more than two times through the cycle.

Net debt to adjusted EBITDA

2015 0.9x **2016 1.0x**

Investing in Group-wide IT and infrastructure

The programme to equip our businesses with effective IT is well underway with the first sites either launched or on track to do so across all three of the Group's operating divisions. This commitment, alongside selective investment to upgrade or replace our manufacturing facilities, and our on-going initiatives, is a pre-requisite to achieving our strategic goals. IT implementations are being phased on a site by site basis to minimise risk and deliver an optimal solution. Overall capital spending is progressively increasing to closer to two times depreciation where it will remain for the first few years of the plan. During 2016 all three divisions have progressed their ERP programmes. In Critical Engineering, implementation has taken place in Japan, Sweden, India and Korea. In Precision Engineering, it has been installed in two facilities in the US and Hydronic Engineering have rolled it out at their facility in Poland and their HQ in Switzerland.

Strategic growth priorities

Capitalising on significant organic growth opportunities

The Group currently operates in attractive end-markets and to achieve our ambitions we must focus on those that offer the greatest potential in terms of delivering top and bottom line growth. Our priority is to capitalise on those end-markets where we already are, or have the potential to be, in a leading position – markets where we can grow and where there are significant higher margin aftermarket opportunities.

IMI Critical Engineering Field Service Engineers ensure our customers' plants run optimally around the world

Focusing on markets that offer the greatest growth

The Asian market offers significant growth potential and we have been expanding our presence in the region. In China, our enlarged footprint has enabled us to localise the manufacture of a number of our products for the Chinese market at our manufacturing plant in the Qingpu Industrial Zone. This development brings us closer to both our existing customers and a range of potential new customers, and it also enhances our cost competitiveness.

Case studies on-line
www.imiplc.com/media/imi-in-action

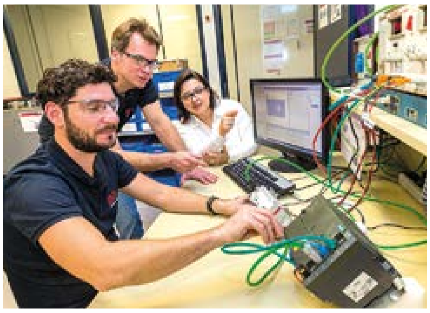
World-class facilities support our customers in high potential markets

In South Korea, home of some of the world's largest engineering design houses, IMI CCI's manufacturing facility at Paju, a city to the North West of Seoul, achieved several significant milestones during the year. Opened in 2015, the Group's lean operational processes are now embedded in all parts of the facility and it is now recognised as the most efficient plant in the Critical Engineering division.

The engineering team at IMI CCI Florence ensure the highest safety integrity levels on our High Integrity Pressure Protection Systems

New product development processes have been accelerated and, during the year, an enhanced range of conventional valves, which significantly expand our power sector product offering, were developed and launched. In March 2016, following extensive reviews of its engineering and quality assurance systems, its products and facilities, the business was additionally awarded approved supplier status for semi-severe control valves by Korea Hydro and Nuclear Power Co. Ltd, the largest power generation company in South Korea which provides approximately 30% of the country's electricity supply.


The product development team in Fellbach, Germany


Electronic testing of new products

Driving growth with a new go-to-market strategy

In 2015 we undertook an extensive review of all the businesses within our Precision Engineering division to identify the markets and products that offered the greatest potential to deliver the best returns. Building on the findings of this review, during the year we changed our go-to-market strategy and put in place a new regional, vertically focused, organisational structure.

Case studies on-line
www.imiplc.com/media/imi-in-action

Given the diversity of products and brands in the division, and the differences in the markets and regions where we operate, by structuring our operations by region in accordance with the key verticals we serve – Industrial Automation, Commercial Vehicle, Life Sciences and Energy – we are now able to provide a bespoke offering tailored to our customers' specific requirements. In particular, we can now execute country and vertical marketing strategies that address distinct customer requirements, and target specific market opportunities focused on building stronger customer relationships. By organising our businesses in this clear way, both visibility and accountability across our operations have been greatly improved. With a single regional leadership team, we are all able to drive our lean and other operational improvement initiatives more consistently and effectively.

This new organisation structure was adopted across our US businesses during the first half of 2016 and in the second half of the year, following the merger of our Western Europe and Continental European operations, it was implemented in our new single European business.

Broadening our market presence and customer reach

Our Hydronic Engineering division is a market leader in products for water-based heating and cooling systems and room temperature controls. In 2015 we capitalised on this leadership position and strengthened our over-the-counter sales channel by securing a strategic partnership with one of the largest European wholesalers of building parts and materials.

Case studies on-line
www.imiplc.com/media/imi-in-action


Packaging designed to grab attention hits wholesaler shelves across Europe

This key development extends and underpins our international market presence and enables us to penetrate the European market faster, particularly in the small residential and renovation segment. During 2016 much progress has been made to further enhance this route to market. In particular, a number of new agreements have been entered into with major wholesalers such that we now have a growing distributor network with broad international reach. To capture the market opportunity that this provides, we have redefined our sales team's roles and responsibilities to ensure that we have dedicated resource focused on our distributor customers.

Strategic growth priorities

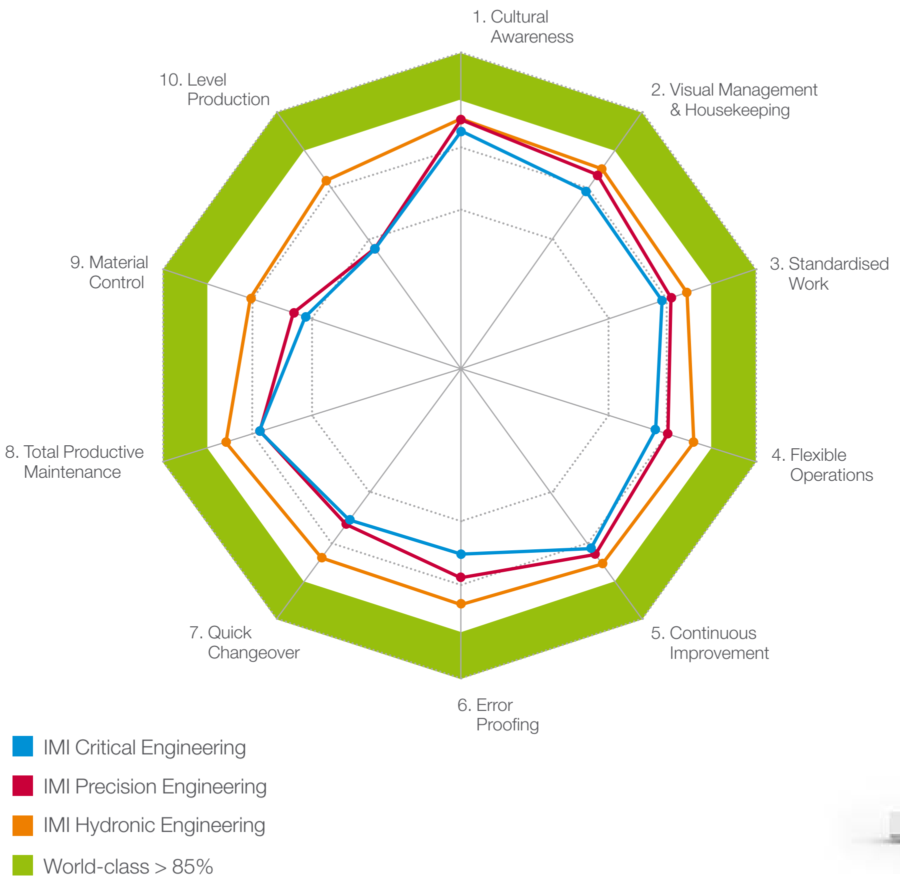
Improving operational performance

The benefits of moving towards and achieving best in class operational performance are very significant. As we improve how our businesses operate we will better utilise capacity, enhance our competitiveness, reduce working capital and generate cost savings by operating more efficiently. By doing this, we will also improve services for our customers. Our ambition is to progressively self-fund our organic growth initiatives using the benefits generated from our operational improvements. We are on a self-help lean journey, underpinned by the engagement of management and employees at all levels and we remain absolutely confident that embedding lean across the whole of IMI is the best way to deliver and sustain our achievements.

The 10 areas of lean

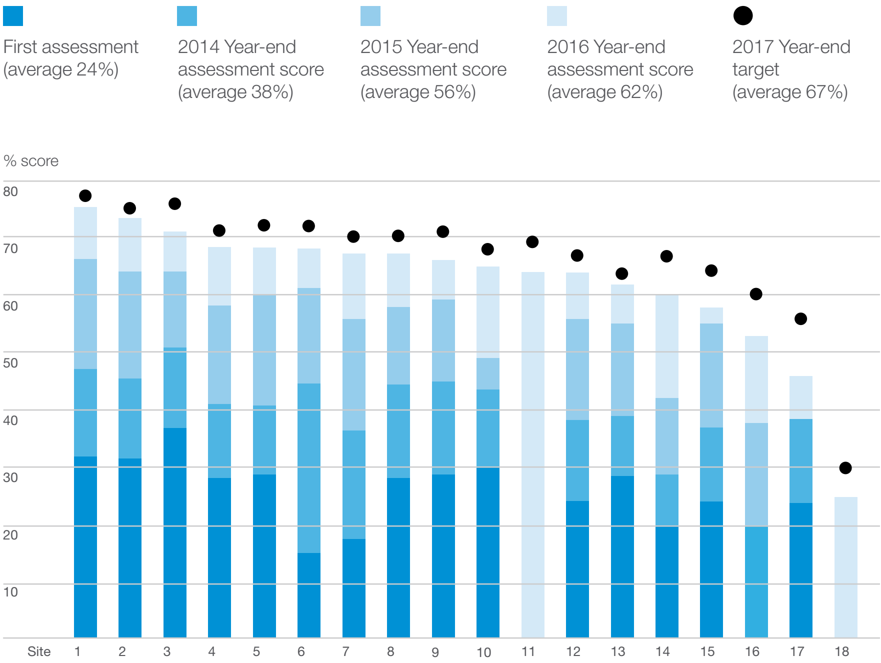
All sites are benchmarked against these areas of lean every six months

Status as of December 2016:



The operational performance of every site in the Group is benchmarked every six months against the ten areas of lean and significant progress has already been achieved. A world-class operational performance score is 85% or higher. At the time of the first benchmark in 2014, none of our facilities came close to achieving this, with the average score being 31%. At the most recent review, the average score reached 66%, and our Hydronic Engineering division now has two facilities with a world-class score. All of our businesses continue to implement detailed plans to achieve world-class performance by 2018.

The lean assessment score for every IMI site is available for all employees to view via the lean benchmarking application on the global intranet. Benchmarking identifies best practice within IMI and provides visibility of where to focus improvements and where to go for assistance to improve performance going forward.



Site key:

1 IMI CCI Korea	14 IMI SSF
2 IMI CCI RSM	15 IMI Z&J Germany
3 IMI CCI Brno	16 IMI Bopp & Reuther
4 IMI CCI SriCity	17 IMI Truflo Rona Belgium
5 IMI CCI Japan	18 IMI Truflo Italy
6 IMI STI	
7 IMI Critical Engineering Houston	
8 IMI Fluid Kinetics	
9 IMI InterAtiva	
10 IMI Truflo Marine	
11 IMI Critical Engineering China	
12 IMI Remosa	
13 IMI Orton	

Modern, lean and efficient plants result in competitive, highly engineered products

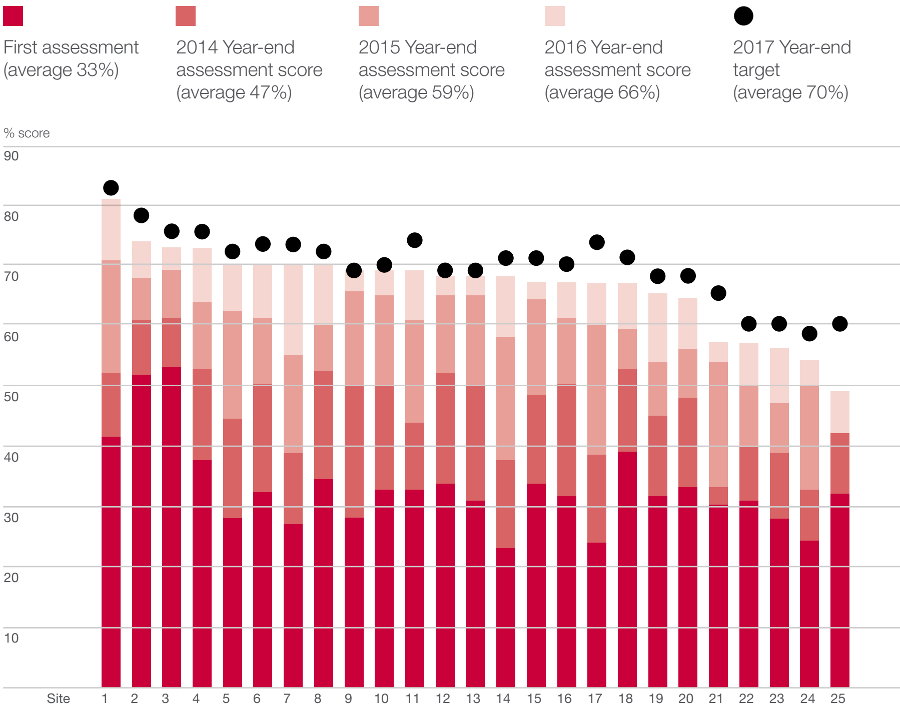
IMI CCI designs actuation and control systems to deliver the highest safety levels in the world

Driving efficiency to offset market conditions

As highlighted in the Chief Executive's Review on page 6, in many of our markets we are facing challenging trading conditions. To ensure that we continue to be competitive and remain on the path to sustainable growth in our Critical Engineering division, we have undertaken a number of cost management initiatives and accelerated some of the improvement projects which were scheduled for implementation in the later phases of our five-year strategic plan. As part of the consolidation of our European manufacturing footprint we have created an engineering centre of excellence within IMI Z&J's manufacturing plant in Düren, Germany. Using the new and improved R&D facilities within the centre, IMI Z&J has accelerated its new product pipeline and developed a number of lighter, more efficient and cost effective products.

Continuous improvement is embedded in our culture and we continue to work towards achieving world-class operational performance in all our businesses. During the year, across the whole of our Critical Engineering division, approximately 12,000 improvement actions have been undertaken.

As a result, our lean score assessments have improved year-on-year and we are continuing to reduce our operating costs, with an overarching objective of enhancing our market competitiveness. During 2016, our operational infrastructure was further strengthened. New IT systems were installed in more of our factories, including our plants in Sweden, Japan, India and Korea, and the Obeya project management system which significantly enhances our project management capabilities, is now operating in Critical Engineering's major plants around the world.



Site key:

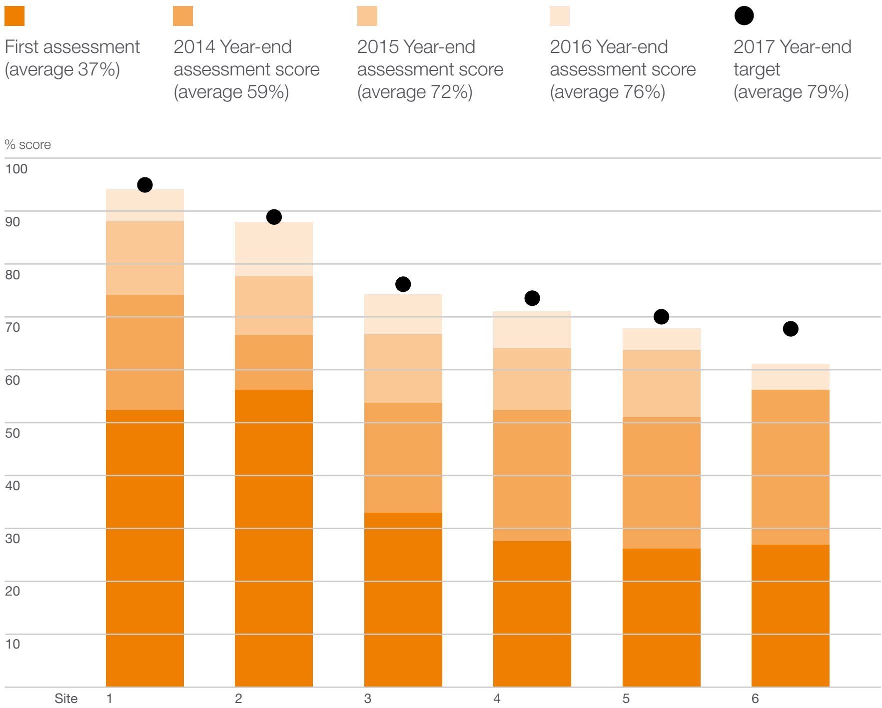
1 IMI Norgren Seattle
2 IMI FAS Switzerland
3 IMI Norgren Brno
4 IMI EDC Warehouse Alpen
5 IMI Poole
6 IMI Norgren Germany Fellbach
7 IMI Norgren Detroit
8 IMI Norgren Queretaro
9 IMI Norgren Australia
10 IMI Norgren China
11 IMI Buschjost
12 IMI Norgren India
13 IMI Norgren Singapore
14 IMI Norgren Warehouse Louisville
15 IMI Leeds
16 IMI Norgren Germany Alpen
17 IMI Norgren Fradley
18 IMI Bristol
19 IMI Norgren Littleton
20 IMI Norgren Farmington
21 IMI Norgren Brookville
22 IMI Norgren Brazil
23 IMI Herion Systemtechnik
24 IMI IMF
25 IMI Norgren Las Vegas

Establishing a strong foundation for future accelerated growth

Testing of products in India

Historically our Precision Engineering division had a complex and fragmented structure which has impeded its growth. Over the last two years a great deal of work has been undertaken to resolve some of the fundamental issues and today the division's structure is simpler and, as a result, the way it operates is more efficient and effective. During 2016 our Fix8 programme, an initiative specifically focused on reducing complexity and improving market competitiveness, delivered material benefits including a significantly streamlined product offering. Work continues to further rationalise the product portfolio with a view to offering customers better solutions delivered by fewer products.

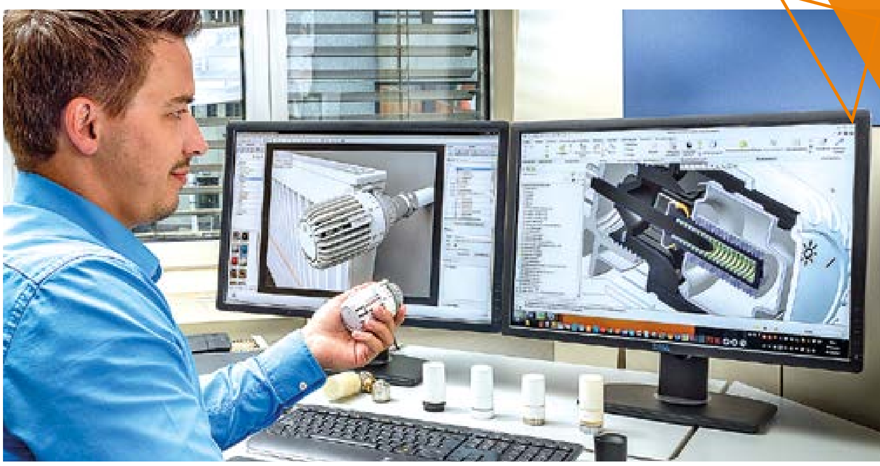
In-line with our strategy to simplify the business and ensure that we have the most efficient platform for future growth, the division undertook an extensive review of its operational footprint. The review – named Project Janus – is now being split into two phases. The implementation of Phase 1 has already begun and involves those projects that can be executed quickly and with the least disruption to our business. This includes a structured programme of cost reductions, insourcing to increase machining capacity utilisation, simplification of the organisational structure and further leverage of our low cost European manufacturing operations. A second phase is contingent on market conditions and anticipates potentially substantial and more complex changes, particularly in areas such as Commercial Vehicle, where significant new project quotation activity exists. All of these actions will help to protect operating margins and improve our competitive position in what remains an uncertain market environment.



Site key:

1 IMI Hydronic Poland
2 IMI Hydronic Slovenia
3 IMI Hydronic Germany
4 IMI Hydronic Switzerland
5 IMI Hydronic North America
6 IMI Hydronic Sweden

Accelerating operational excellence, further enhancing competitiveness



Greater efficiencies ensure increased capacity to keep up with higher customer demands

Improvements in lean have helped Hydronic Engineering get their products faster onto the shelves of wholesalers

Lean operating principles are now firmly embedded across the Hydronic Engineering division and the commercial benefits of these activities are becoming increasingly apparent. The division's Olkusz plant was the first of our Group operations to achieve world-class lean status and during the year our Slovenian facility was awarded this status with a score of 88%. To further enhance competitiveness we continue to focus on delivering operational improvements and during the year, a new integrated IT system was installed, on time and to budget, at the Olkusz plant and across a large part of Hydronic Engineering's Swiss based business. During the course of 2017, these new systems will be introduced across the entire division to further embed common ways of working and accurate data collection, all of which will make our businesses more efficient and competitive.

Strategic growth priorities

Increasing investment in new product development

Having successfully established the new systems and disciplines essential to effective new product development – including advanced product quality planning ('APQP'), rigorous competitor product tear-down and Value Engineering – all three divisions are increasingly delivering on our promise to introduce great new products and solutions for our customers, more quickly and more effectively than ever before.

Continuing to innovate to secure leadership position

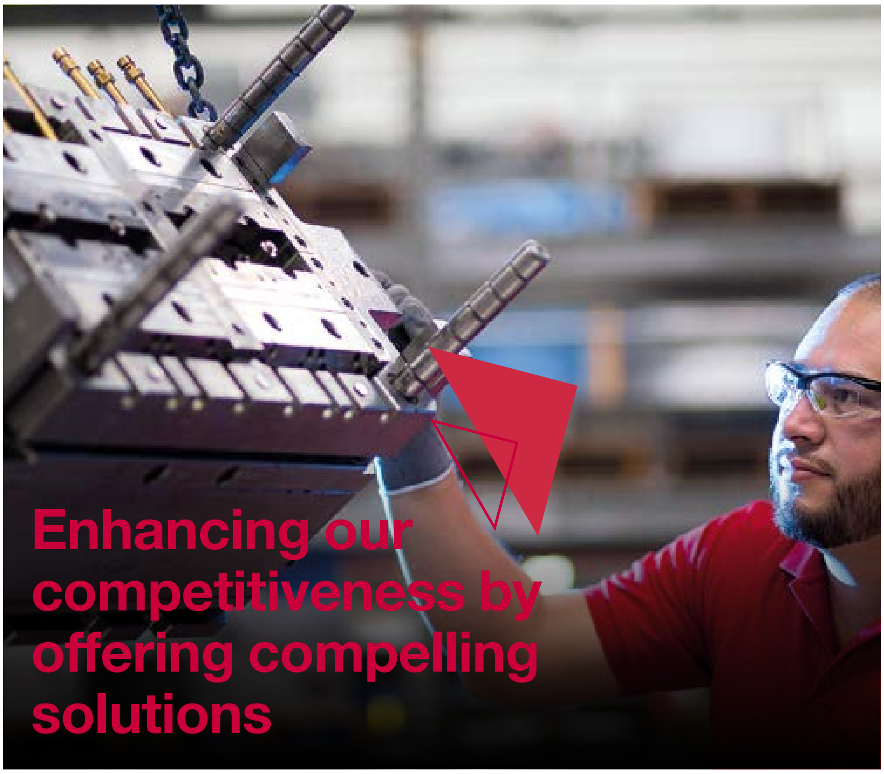
To maintain our market leading positions and reputation for engineering expertise, our product offering must respond to changing market dynamics so that at all times we provide customers with the best competitive solution that meets their current requirements. As the leading supplier of valves to the liquefied natural gas ('LNG') sector, we are well positioned to identify developing trends and anticipate likely changes in customer demand. In particular, impacted by the oil price decline and following a period of rapid growth when a number of sizeable LNG plants using large valves were constructed, it was clear that customer requirements would change as they looked to build smaller and more cost efficient plants. In response, our product development teams created a new lightweight valve which has a computationally optimised profile, replacing the previous valve's heavier and more expensive body. This new spherical profile optimises the design of the valve, reduces its weight and improves performance without compromising its strength or durability.

Case studies on-line
www.imiplc.com/media/imi-in-action

Assembly of metal on metal seated, triple offset butterfly valves

Using the new robust product development processes now embedded across the Group, our product development activities made great progress in the year. For the first time in a decade, we are ready to launch a new platform Precision Engineering product offering which will underpin growth in the years to come. Currently the new development pipeline includes a range of products, that will be launched in April 2017 at Hannover Messe, the world leading industrial technology trade fair. Included in the new product offering is an enhanced range of compressed air preparation units, which clean compressed air in production processes and help prevent damage to machines and costly production shutdowns. This enhanced product range, while retaining the original range's renowned robust characteristics, is lighter and smaller, easier to install and maintain and also offers a number of new safety features.

Case studies on-line
www.imiplc.com/media/imi-in-action



Enhancing our competitiveness by offering compelling solutions

Building a sustainable competitive advantage

To drive competitive advantage and market leading positions we must offer customers cutting edge products and technologies that solve their engineering challenges in the most efficient and environmentally sustainable way. Hydronic Engineering was the first of our divisions to bring new products to market with the launch of 14 new products in 2014 and 15 new products in 2015. During the year, new product development momentum has been maintained largely through the advanced product quality process which involves the systematic tear-down of competitor products. During 2016, Hydronic Engineering further broadened its customer offering with the launch of another 15 new products. These include an innovative dirt separator, G-Force, which quickly and effectively removes dirt from water-based heating systems, eliminating the risk of damage or shut downs. The G-Force incorporates highly efficient cyclonic technology, which cleans heating and cooling systems up to nine times more efficiently than any other dirt separator on the market. It is also the only dirt separator on the market with flexible installation positions which are of great benefit to customers if space is a challenge during installation. These new product launches will make an important contribution to the division's growth.

Case studies on-line
www.imiplc.com/media/imi-in-action

Strategic growth priorities

Expanding our addressable markets through targeted acquisitions

We will supplement our organic growth initiatives with targeted acquisitions, capable of producing returns in excess of the Group's weighted average cost of capital within three years. Beyond our existing business portfolio, we have identified the potential to double the Group's addressable market by making acquisitions in adjacent non-valve product markets. Criteria for such acquisitions include a focus on North American revenues, strong aftermarket dynamics and critical products that create significant barriers to entry.

Our process and approach

The M&A function forms an integral part of our strategic planning process, working closely with the divisions to support their strategies and evaluate potential acquisitions and partners for the future. The processes involved have improved considerably and are now much more effective at identifying opportunities with regards to geographic, market, product and cultural suitability as well as commercial logic and financial impact. Overall, these enhancements have driven a reduction in the number of opportunities assessed, whilst significantly increasing their quality. This much more focused approach has also enabled us to spend more time developing important relationships with companies, leaving us well positioned to efficiently execute a transaction, whenever the time is right.

Our acquisition strategies for the divisions are:

Within Critical Engineering, bolt-on acquisitions to extend both our product range of semi-severe and configured products and our geographic footprint in both our existing and adjacent markets remain our focus. Opportunities with attractive aftermarkets are always important, but particularly given recent market conditions.

We remain pleased with the acquisition of IMI Bopp & Reuther, which has helped us address a number of our strategic objectives. The business is now fully integrated into IMI Critical Engineering and provided a vital foundation to consolidating Critical Engineering's global Nuclear Power business into its Mannheim facility.

Precision Engineering continues to simplify its organisation, implementing robust systems and lean improvements, while developing a list of value enhancing potential acquisitions. At the same time, the Precision Executive, supported by the IMI Business Development team, are building senior level relationships in readiness for both large and small scale acquisitions.

Our product strategy is well underway in Hydronic Engineering, as we start to focus on high quality well run European acquisition opportunities. We have developed a well-defined pipeline of opportunities, many of which are family owned which would fit well with IMI's culture, whilst enabling us to leverage their strong brands and management capabilities.

Broadening the acquisition universe

- Potential to double addressable market
- Leverage existing positions in attractive end-markets
- Non-valve related products and businesses

Geographies
- North America
- Europe
- Latin America
- Asia

Market dynamics
- Aftermarket >30%
- Growth rate >5% pa
- Customer intimacy

Products
- Barriers to entry
- Criticality of application
- Predictable aftermarket

An engineer checks the measurements of a component at IMI Precision Engineering's factory in Queretaro, Mexico

Operational review
IMI Critical Engineering

IMI Critical Engineering

IMI Critical Engineering is a world-leading provider of flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently.

Revenue
£651m Down 7%*

Operating profit
£81.8m Down 24%*

*organic

Key achievements

- Value Engineering initiative helped to secure £80m of new orders
- Introduced 23 new products
- Rationalisation programme delivered on-time and on-budget with £12m profit benefit
- On-time and on-budget ERP implementation at four sites
- Increased average lean score to 62%
- Successful consolidation of three sites into new world-class facility in China
- Sale of loss-making Italian service business

IMI Critical Engineering Website
www.imi-critical.com

Performance

Full year order intake at £614m (2015: £619m) was 11% lower on an organic basis, after adjusting for disposals and exchange rate movements. In the second half, order intake was 7% below the same period in 2015. In the year, as predicted, new construction Oil & Gas intake was 13% lower resulting from reduced LNG orders, following the peak in new project activity in 2015. Significant improvements were evident in both midstream, where a large Kazakhstan order was booked in the year, and in HIPPS, where a £15m order was booked in the second half. New construction Fossil Power orders were 23% lower due to reduced activity levels, particularly in the Middle East and Asia. Significant orders were also awarded in Petrochemical where full year order input was 2% higher, including a strong performance in the first half of the year.

Aftermarket orders were 6% lower when compared to 2015 with a return to 2015 levels in the second half of the year. In the full year, Oil & Gas was 11% lower reflecting reduced parts activity in the upstream sector which offset good growth in our downstream activities. Lower levels of spend, particularly in North America, resulted in a 13% reduction in Fossil Power while Nuclear Aftermarket increased 36%, reflecting a substantial Korean order in the fourth quarter.

After adjusting for £77m of exchange rate benefit and £6m from prior year disposals, revenues of £651m (2015: £631m) were 7% lower on an organic basis and 3% higher on a reported basis. Segmental operating profit of £82m (2015: £93m) was 12% lower on a reported basis and 24% lower on an organic basis. Reflecting the impact of lower volumes, margins were 12.6% against 14.8% in 2015.

The division's Value Engineering initiative continued to have a significant positive impact and contributed to £80m of new bookings in an increasingly competitive market environment. Value Engineering and improved project management activities helped deliver a year-end order book of £486m at broadly equivalent margins to the prior year. Lean scores also improved significantly to 62% against 56% at the year-end in 2015.

Outlook

Based on the current order book and market outlook, we expect first half organic revenues to reflect a similar percentage reduction to the first half of 2016 with margins broadly similar to the first half of last year. Results for the full year are expected to include a second half bias reflecting the timing of restructuring benefits and normal trading seasonality.

"During a year when the market was challenging, IMI Critical Engineering made further important improvements in its competitiveness and manufacturing footprint. We also accelerated our Value Engineering and new product programmes, significantly increasing the value proposition for our customers while improving our order intake."

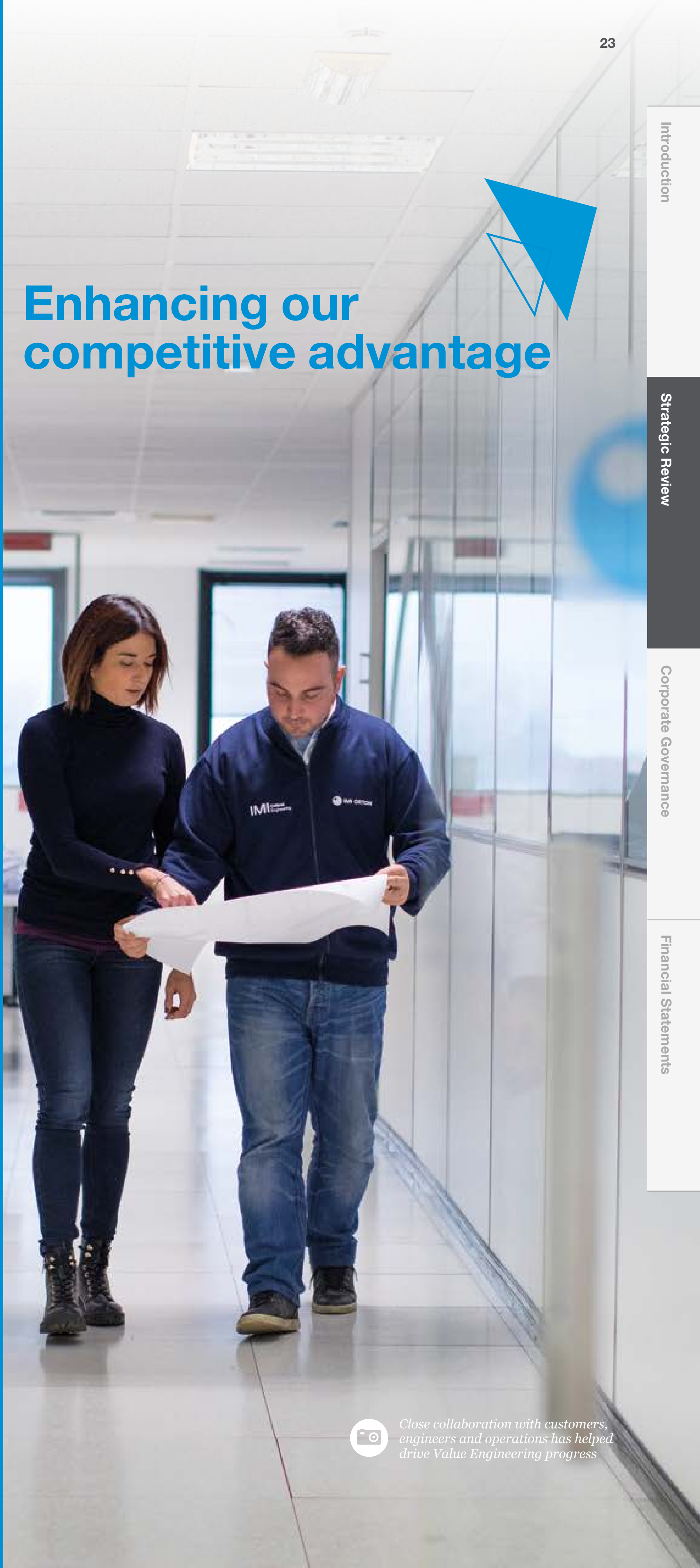
Roy Twite
Divisional Managing Director

Enhancing our competitive advantage

During 2016, we significantly enhanced our Value Engineering skills and capability and won new orders totalling £80m as a direct result of our new improved levels of competitiveness.

Despite the tough market conditions, these new orders were secured at margin levels in line with our historic average while still delivering, on average, a 15% cost reduction for our customers. Value Engineering, which covers all aspects of design and manufacture, systematically reviews every aspect of a product and its production process to make it more efficient and cost effective, without affecting product functionality. As a result, we are able to deliver cost competitive solutions to our customers while still preserving our margins. The use of Value Engineering has also enabled us to access a number of new lower-priced markets with our world-class valve technologies at now acceptable margins. The contract wins Value Engineering has helped us to secure include:

- a £5.6m order to supply valves and attemperators, which control heat and steam to NEM Energy B.V. – a world leading supplier of heat recovery steam generators to the power generation sector;
- a £15m contract for a semi-severe choke valve for installation in a large Middle East oil company's gas development, which will extract gas from one of the world's biggest sour carbonate gas reservoirs for use in power generation and the chemical industry; and
- a £15m contract to supply a High Integrity Pressure Protection System for installation in the Middle East which will be used to protect a pipeline and process plant from the danger of over pressure and also to reduce gas emissions into the atmosphere.



Close collaboration with customers, engineers and operations has helped drive Value Engineering progress

Operational review
IMI Precision Engineering

IMI
Precision Engineering

IMI Precision Engineering is a world leader in motion and fluid control technologies wherever precision, speed and reliability of process are essential. We deliver integrated solutions which improve the productivity and efficiency of our customers' equipment.

Revenue
£708m Down 3%*

Operating profit
£118.5m Down 10%*

*organic

Key Achievements

- Successfully developed first new platform products for launch in 2017
- Improved operational performance resulted in new Commercial Vehicle opportunities
- Launched innovative IMI Norgren Express App
- 22% reduction in scrap costs
- Seven day improvement in inventory turns
- Janus Phase 1 now being implemented

IMI Precision Engineering Website
www.imi-precision.com

Performance

After adjusting for £72m of exchange rate benefit and £1m from prior year disposals, revenues of £708m (2015: £662m) were 3% lower on an organic basis and 7% higher on a reported basis. Industrial Automation revenues were 1% lower principally driven by a small decline in Europe which offset broadly equivalent revenues in the balance of our core markets. The revenue profile in the year included a 5% pick-up in the final quarter providing early indications of a potential, so far unconfirmed, improvement in the sector.

In the year, Commercial Vehicle sales were 9% lower reflecting a 22% decline in North America due to lower truck production in that region. European Commercial Vehicle revenues were broadly consistent with the prior year whilst Asia improved. Energy sales continued to be impacted by lower investment and were 7% lower than 2015 while Life Sciences and Rail were broadly equivalent to 2015.

Segmental operating profit of £119m (2015: £118m) was 1% higher on a reported basis and, after adjusting for £13m of exchange rate benefit and disposals, 10% lower on an organic basis. Operating margins of 16.7% compared to 17.8% in 2015 and reflected the impact of lower overhead recoveries following weaker market conditions and investment to support long-term growth.

Our detailed review of the Industrial Automation market and its various sub-sectors confirmed that we have excellent market positions with a valuable installed base and high margin aftermarket and identified those sub-sectors and products that would provide us with the greatest opportunity for growth. In response, the division has embarked on a significant programme of new product development with the first of our great new products due to launch in the first half of 2017. This review also formed the basis for a structured programme of reorganisation, including Janus, to capitalise on the most significant opportunities.

The successful implementation of lean throughout the division has continued to make excellent progress with the score increasing to 66% against 59% at the 2015 year-end. The impact of lean was clearly evident in the results with improved productivity, a 22% reduction in scrap costs and a seven day improvement in inventory days in the year.

Outlook

The global industrial outlook remains mixed albeit with some leading indicators and improved fourth quarter sales providing a more positive backdrop for Industrial Automation in the year ahead. We remain cautious given the considerable economic, political and industry uncertainty that remains across many markets and geographies. We expect the European heavy truck and North American Class 8 volumes to soften in 2017 which, when combined with the conclusion of £13m of Commercial Vehicle contracts, will result in lower revenues in the year ahead.

Based on current market conditions, we expect first half organic revenues to be slightly lower than the first half of 2016. Excluding the £4m benefit from 2016 property disposals, margins will be comparable to the first half of last year. While markets remain uncertain, the benefits of further restructuring activities and new product launches are expected to deliver broadly equivalent margins for the full year.

"At IMI Precision Engineering we made further significant progress on a number of strategic initiatives in the year, continuing to improve operational performance through the application of lean, re-organising the business to be even more customer-focused and preparing for some important new product launches for 2017 and beyond."

Massimo Grassi
Divisional Managing Director

Driving the aftermarket through innovative sales channel

A significant proportion of Precision Engineering's revenue is generated by aftermarket sales. To maintain our strong existing market positions, and to increase the rate at which we convert competitor's products into our own, a number of new initiatives were launched to enhance the customer service experience.

A particularly innovative initiative is the IMI Norgren Express™ App, which enables customers using their smartphone, to quickly find and buy replacement parts, including the replacement of competitors' products. All a customer has to do is scan the required part and they will receive full details of the product and its price on the IMI Norgren Express website, enabling them to purchase the product immediately.

If the part number or data matrix is not visible, or the part to be replaced is a competitor's product, using the App, the customer can simply photograph the part and, within 30 minutes, they will be sent relevant replacement details or compatible options. The App also provides information about the required part's availability within the distributor network, allowing the customer to find the closest local stockist. Following the IMI Norgren Express App's launch in November 2016, customer reaction has been extremely positive.

The new, unique IMI Norgren Express App enables maintenance engineers to find and buy replacement pneumatic products fast

Operational review
IMI Hydronic Engineering

IMI Hydronic Engineering

IMI Hydronic Engineering is the leading global provider and recognised expert in hydronic distribution systems and room temperature control, with experience in more than 100,000 construction projects world-wide.

Revenue
£290m Down 1%*

Operating profit
£51.9m Down 10%*

*organic

Key achievements

- 19% of revenue from products launched in the last three years
- Two substantial over-the-counter sales contracts signed
- Successful Product Development momentum building sustainable competitive advantage
- Refurbishment of foundry in Germany significantly reduces scrap
- Lean score increased to 76%

IMI Hydronic Engineering Website
www.imi-hydronic.com

Performance

Revenues on a reported basis of £290m (2015: £264m) were 10% higher than 2015 and after adjusting for £30m of exchange rate benefit, were 1% lower on an organic basis. While warmer weather impacted the heating season in the division's largest European markets, revenues in that region were marginally higher than the previous year. Due to project delays, sales in China were significantly reduced in the first half before recovering with positive momentum in the final quarter of the year. North American sales reflected an overall increase of 6% in the year.

Segmental operating profit of £52m (2015: £52m) was equivalent on a reported basis and, after adjusting for £6m of exchange rate benefit, 10% lower on an organic basis. As expected, operating margins showed a second half seasonal improvement to 19.4% while full year margins at 17.9% (2015: 19.6%) were lower than the prior year reflecting the impact of lower volumes and the on-going investment in great new products and operational excellence.

New products launched in the last three years continued to have an important, positive impact on the results and generated £55m of sales in the year. Included in the 2016 product launches were a number of products specifically targeted at the development of the division's over-the-counter sales strategy, which resulted in two significant new agreements being signed in Europe.

These agreements, while having relatively modest impact on the 2016 results, are expected to underpin increased trading in future years. The previously announced entry into the actuator market, with TA-Slider, has received an excellent market reception and 2017 plans include further product launches.

The division's lean scores continued to improve and increased to 76% against 72% at year-end 2015. In the year, Hydronic Engineering's Polish operations, the Group's highest lean scoring plant, successfully launched the division's standard J D Edwards ERP system. This system is now providing increased efficiencies and forms the foundations for future ERP roll-outs across the division. Also in 2016, the division's largest manufacturing plant, in Germany, undertook a total refurbishment of its foundry facilities resulting in a significant reduction in scrap and work in progress.

Outlook

While the European construction markets are forecast to remain subdued, the success of new products and over-the-counter sales are expected to result in organic revenue growth in the year, albeit weighted to the second half. Operating margins are also expected to show their normal second half improvement and will include the benefits of restructuring.

"As well as delivering another great performance in the application of lean and maintaining strong momentum in new product development, at IMI Hydronic Engineering we also made good progress with a new over-the-counter sales strategy, successfully re-opening an important market segment for the business."

Peter Spencer
Divisional Managing Director

Revitalising our sales and marketing activities to drive revenue

To support our significant new product offering and our strengthened over-the-counter sales strategy, we have revitalised our sales and marketing activities within the division.

At the heart of our new approach is our sales team, who have dedicated roles and responsibilities tailored to meet the specific needs of our wholesale and project based customers to ensure that at all times an optimum customer experience is delivered. Feedback to date has been very positive, as evidenced by improved Net Promoter Scores ('NPS') which measure customers' satisfaction. In particular, NPS feedback indicates that 86% of our customers rank Hydronic Engineering as a 'true innovator'.

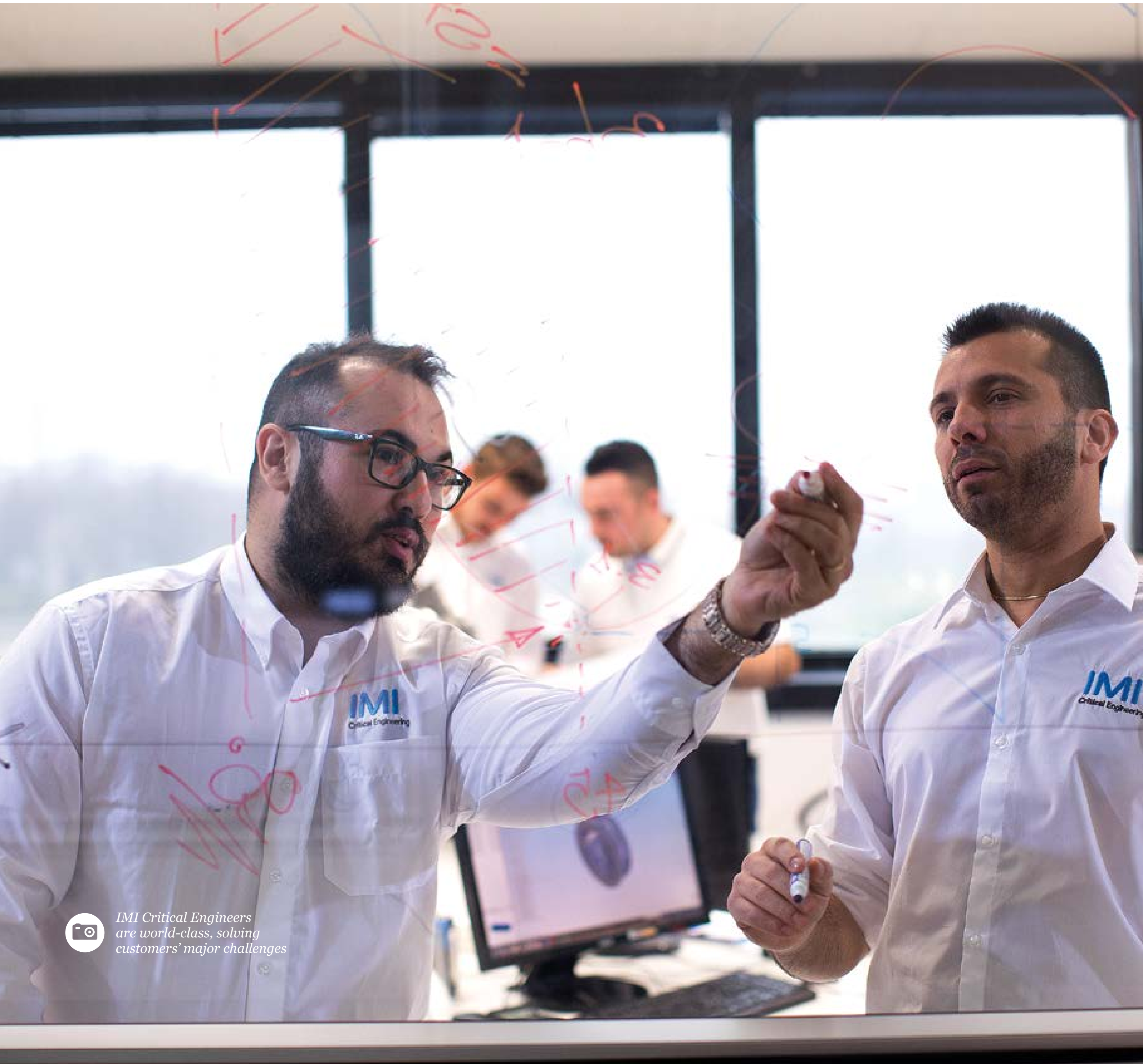
In addition to creating a dedicated specialist sales force to drive our new over-the-counter sales strategy, we have reviewed how best our products should be merchandised within wholesalers and new and attractive packaging has been created to maximise the profile of the product in crowded retail environments. To coincide with the development of our new product pipeline we have also significantly increased our digital marketing activities. Today, every new product launch has its own bespoke digital campaign which delivers far greater exposure for less cost and provides a more effective platform to showcase our product technologies and engage with our customers.

In addition to Hydronic Engineering's great new products, packaging and installation support materials are customer driven from the start

Corporate responsibility
Our approach

"Our ambition is for IMI to become a truly great company that is preferred by all its stakeholders because of our market leading products and services and the way we operate all aspects of our business. We achieve this by maintaining a long-term focus, investing in our future and at all times operating our business in an ethical and responsible way. This approach is fundamental to delivering sustainable profitable growth."

Mark Selway
Chief Executive



IMI Critical Engineers are world-class, solving customers' major challenges

Our people

Geoff Tranfield
Group Human Resources Director

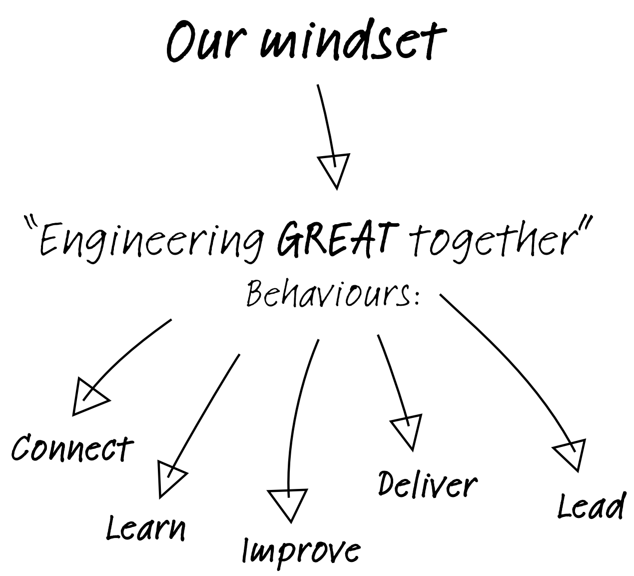
"We employ some 11,000 people around the world. On a daily basis they are tasked with delivering our strategy and the progress IMI has made this year is down to their hard work. To ensure that this progress continues, we must continue to attract and retain good people, ensure we have relevant skills and leadership capabilities across the Group and foster a positive working environment which provides our people with development and engagement opportunities."

Shaping our culture - The IMI Way

At the heart of making IMI a great company are our values and behaviours – which, in conjunction with the launch of our new strategy, were refreshed and rolled out across the Group in 2014. These values and behaviours, which help shape our culture and outline the standards and conduct everyone in the Group should comply with, are integral to 'The IMI Way' which defines how we do business. Reviewed and endorsed by the Board our IMI values and behaviours are now embedded in all aspects of our business including our recruitment and induction processes, our bi-annual management performance assessments and our succession planning.

As outlined on page 11 of this Strategic Report, connecting and collaborating with colleagues across the Group to share best practice and establish consistent Group-wide standards and process is one of our key enablers helping us deliver our strategic plan. This way of working, which is improving our competitiveness and profitability, is becoming common practice across IMI. Collaborative projects undertaken during the year included:-

- Precision Engineering's enhanced range of compressed air preparation units have been developed in conjunction with our Hydronic Engineering division. The range incorporates one of Hydronic Engineering's new world-class ball valve designs, which provides excellent value for money, great performance and is perfectly matched to the needs of our Precision Engineering customers. In addition, the new product offering is manufactured on a new automated assembly system, developed, designed and built by Hydronic's Polish-based assembly system supplier, which has resulted in reduced costs and lead times. This new product range enhances Precision Engineering's customer offering and creates a new market for one of Hydronic Engineering's existing products;
- the transfer of specialist value engineering resource and skills from Precision Engineering to Critical Engineering has enhanced Critical Engineering's world class capabilities and has helped the division win new orders in excess of £80 million at our historic margin levels while still delivering, on average, a 20% cost reduction for our customers.



Corporate responsibility
Our people (cont'd)

Our work environment

In addition to reinforcing the IMI values and behaviours across our business we are committed to ensuring that all employees and workers are treated fairly in an environment which is free from any form of discrimination with regard to the nine protected characteristics outlined in the Equality Act 2010, which are age, religion, race, sex, disability, gender reassignment, marriage/civil partnership, pregnancy and maternity and sexual orientation. Further detail about our Diversity and Inclusion Policy, which was revised in 2014, is set out below in the paragraph titled 'Diversity and Inclusion'.

The IMI Code

It is essential that we run our business in an ethical way with the highest standards of integrity. As part of their induction, every employee who joins the Group receives training in relation to our Code of Conduct (the 'Code'), which covers anti-bribery, anti-corruption and fair market competition. Refresher training on the Code is provided regularly as appropriate and is reinforced through face-to-face sessions at the annual IMI Way Day.

During the year Code training was enhanced by the introduction of a number of e-learning programmes which utilise the Group's global intranet that employees, regardless of location, are able to access. In April we ran a Group-wide e-learning module focused specifically on anti-bribery and anti-corruption. The module was completed across our businesses within six weeks. In October, as part of our supplier evaluation process, all our purchasing teams participated in an e-learning programme to raise awareness of slavery and human trafficking to ensure neither take place in either our own or our suppliers' businesses.

We encourage all employees to report to their manager any incident that is not in keeping with the IMI values and behaviours. We also operate a confidential independent compliance hotline in more than 20 languages which employees can use to report issues anonymously. Hotline activity is reviewed on a monthly basis by the Group's Ethics and Compliance Committee, which I chair, and all reports are investigated thoroughly and, where required, appropriate action is taken to resolve issues quickly. During 2016 48 cases were reported via the hotline which compared to 97 in 2015 and 103 in 2014.

Community activities

Consistent with our values we believe we have a responsibility to the communities around the world in which we operate. In addition to creating jobs and investing in our local communities, each year employees across the Group participate in what has become known as The IMI Way Day during which they receive face-to-face refresher training on both The IMI Way and the Code and spend time supporting a local community charity or project. As well as being the right thing to do, these initiatives contribute to the local community, help build trust and reinforce our team building and collaborative approach. Some of the local charities our employees supported during the 2016 IMI Way Day included:

A group of our graduates receive a tour of Hydronic Engineering's facility in Poland

- a charity that provides food to families on low incomes in and around Selangor, Malaysia;
- a home for the terminally ill in Bangalore and Sai Kripa, a charitable organisation which provides food, shelter and education for homeless and orphan children in India;
- Newlands Bishop Farm near Solihull that provides opportunities for people with learning disabilities and mental health problems to learn work-based skills, in the UK;
- a school for disabled children in Bad Oeynhausen, Germany; and
- a rehabilitation centre for recovering alcoholics in Paju, South Korea.

Code on-line
www.imiplc.com/corporate-responsibility

Colleagues from Critical Engineering and Precision Engineering collaborate during The IMI Way Day

Employees from IMI Buschjost support a local school for children and young adults with disabilities at their sportsday

Employees receive face-to-face training on The IMI Way Day at Hydronic Engineering's facility in Brazil

"I joined IMI in 2015 after I graduated from The University of Nottingham with a BEng (Hons) Mechanical Engineering degree. Previously I had done an internship at IMI's business in Bristol working within the Research & Development (R&D) team, where I had the opportunity to see first-hand how the graduate scheme operated. In particular, I was attracted by the scheme's focus on development and the chance to gain experience in diverse aspects of the business through different placements. Currently I am in the middle of my third of four six month placements in a Project Management role within the Global Procurement team, where I am working on a number of supplier monitoring tools including a procurement dashboard and supplier scorecard. During my previous placements I was part of the Operations team in Precision's UK Poole based business, where I focused on implementing a new system to improve efficiency and reduce downtimes on machines, and before that I worked at Precision's business in Leeds in the R&D function where we carried out competitor product tear-downs and I was part of the team developing concept designs for a next-generation product."

Sinneli Jayampathy
IMI Precision Engineering

Attracting good people

Recruitment

Our performance and our ability to execute our strategy is dependent on recruiting the best people with the most relevant skills and experience who are aligned with our values and behaviours and our strategic ambition. During the year we continued to improve our recruitment processes. In particular our graduate programme, which was refreshed at the beginning of 2015, continued to go from strength to strength as we recruited twice as many graduates in 2016 (31) compared to 2014 (15).

Diversity and Inclusion

At IMI we believe it is essential that we employ and retain the very best people to serve our global business and our diverse customer base. In 2015, a revised Diversity and Inclusion Policy was embedded in the recruitment and other human resource processes and procedures that we operate across the Group. By applying this policy, we aim to recruit the best people to execute our strategic priorities and to reflect the location of our operations, customers and markets. Additionally, when creating shortlists for internal and external vacancies, we insist that external recruiters take account of our policy and, as part of our internal management performance process, each Divisional Managing Director is set objectives aimed at improving diversity in their division. These objectives include an ambition to recruit local talent and during 2016 much progress was made in this area. By way of example, at the end of December 2014 across the Group, 32 of our management or senior technical roles were undertaken by expatriate employees on secondment from their home country. Today only 11 of these positions are undertaken by expatriates who have returned to roles in their home countries and have been replaced by talent developed or recruited locally.

During 2016 our approach to diversity and inclusion was further embedded by the addition of a number of diversity awareness training programmes. Our leadership development programme, Leading the Way to Engineering GREAT, includes a session on diversity and inclusion and we have piloted a standalone e-learning programme on diversity, which employees can access via our global intranet.

Gender mix across the Group

	Female	Female %	Male	Male %
All employees	3,157	27%	8,575	73%
Managers	223	20%	901	80%
Senior managers	104	16%	530	84%
Board directors	2	22%	7	78%

A group of 2015 intake graduates undertake a mock lean audit at Hydronic Engineering's facility in Poland as part of their development workshop

Corporate responsibility
Our people (cont'd)

IMI's 2016 graduate intake during their two week induction at HQ

Developing our people

Development programmes

To achieve our strategy we must continue to ensure that our employees have the relevant business and leadership capabilities.

In 2016 around 100 people participated in our 'Leading the way to engineering Great' programme, which is focused on our senior management team and potential future leaders. In addition, across the Group, 200 people joined our 'Being a Great IMI Manager' development programme which is targeted at employees who have recently been promoted to a management role. The programme's two and a half day training course was run in China, the Czech Republic, Germany, the UK and the US and, in 2017, the programme will be further extended to include Italy, Poland and Sweden.

IMI Learn, our e-learning platform which is hosted on our global intranet, was launched in February and during 2016 over 8,000 employees around the Group participated in e-learning modules on a wide range of business specific topics as well as training in relation to anti-bribery and anti-corruption and diversity and inclusion, both of which are highlighted above.

Our Operations Fast Track programme, which runs for 12 months and covers both professional and personal development, was first launched in our Hydronic Engineering division in April 2015 and has continued to be rolled-out across the division during the year. The programme focuses on our next generation of managers and its main objective is to accelerate their development and create internal succession candidates.

"When I joined Operations Fast Track I was assigned a mentor, Hydronic Engineering's, Operations Director, who has provided advice and support to me throughout the programme.

In addition to improving my technical capabilities, I have had the opportunity to improve my people management skills and the programme has also accelerated my personal development, including presentation techniques and language skills. My three month secondment to Hydronic's Operations team in Sweden, where I headed-up the production department, provided great insight into another part of the Hydronic division and also helped me to further develop my leadership skills."

Felix Bömer
Hydronic Engineering - Value Stream Leader, Globo and Special Valves, Germany

"When I graduated from Inha University in South Korea, I was attracted by IMI Critical Engineering's graduate programme, primarily because it offered practical engineering experience and the opportunity to work in different geographic locations. The programme's induction and training workshop, which all new graduates participate in, was extremely helpful. It provided a good insight into IMI and its business and it enabled all the graduates to get to know each other and build a network which is very active. I am now at the start of my second placement, based in California at IMI CCI RSM, working as a Project Engineer on new design modifications for our customers in the fossil power and LNG sectors. Prior to that I was a Design Engineer in IMI CCI Korea involved in the development of a number of products which are now in their manufacturing phase which is very exciting to see. To date, the graduate programme has provided me with the practical engineering experience I had hoped for. Learning new things while working on live projects can be challenging, but I am surrounded by colleagues who are always willing to help, give advice and share their knowledge."

JiEun Kim
IMI Critical Engineering

During a week of development activities for our 2015 intake of graduates, one of IMI Precision Engineering's current graduates presents his most recent project to his peers in the Czech Republic

Succession planning

During the year as part of the talent and succession process, we again undertook an extensive review of our management succession plans to ensure that we have strength and depth of leadership talent across the Group. The performance of our managers was assessed against a number of criteria including leadership skills, values and behaviours and their business's performance. The findings of this process have been used to build individual development plans and inform our future planning, thereby ensuring that we have a pipeline of high calibre talent throughout the Group.

Engaging our people

At IMI we also recognise that we must retain good people. In addition to the development opportunities outlined above, providing a positive working environment which enables our employees to understand the contribution they make and be fully engaged is key to our success.

The global intranet has been instrumental in keeping employees informed and connected across the Group and it has also facilitated cross-business collaboration and the sharing of best practice. In terms of face-to-face engagement our annual Group and divisional conferences, which involve our top 350 managers, serve as a catalyst to cascade information across our businesses and all management who attend are required to share conference key messages with their broader teams. The Group's financial results, strategic progress and important initiatives in areas such as health and safety are communicated through a number of mechanisms including regular town hall meetings. We also work with our European Works Council, covering 11 countries across Europe, to further encourage effective employee communication and engagement.

Twice a year we publish our cross divisional magazine, the IMI Eye, which features news stories generated by our businesses around the world and is distributed in multiple languages to employees and key stakeholders.

We gather feedback from employees annually. This takes the form of a survey that is completed at the end of the IMI Way Day and covers a number of key areas. All survey feedback is reviewed and areas where understanding needs to be improved or potential concerns are identified and further investigated via a pulse survey (a quick and effective real time survey that gathers further detail) in the relevant part of the business. If required, based on the pulse data information, appropriate actions are put in place to resolve issues and clarify understanding.

Corporate responsibility

Our operations and products

Health & Safety

The health and safety of our employees and the health and safety of our other stakeholders, including our customers and suppliers, is paramount. This unconditional commitment to health and safety is also consistent with our strategy to significantly improve the operational performance and the efficiency of our businesses. By prioritising health and safety and reducing the occurrence of incidents, we will also minimise the time spent investigating issues, reduce the amount of time lost to absence and sick leave and save on legal, insurance and medical costs.

Our ambition is to achieve world-class health and safety performance. To ensure that we realise this, we have embedded a proactive continuous improvement approach to health and safety across our entire organisation and during the year we made significant progress. The number of Lost Time Accidents significantly reduced in 2016 (15 in 2016 compared to 31 in 2015) and a number of our facilities have recorded significant periods of zero Lost Time Accidents, including IMI CCI Korea in our Critical Engineering division, which in July 2016 marked 2,000 days without a Lost Time Accident.

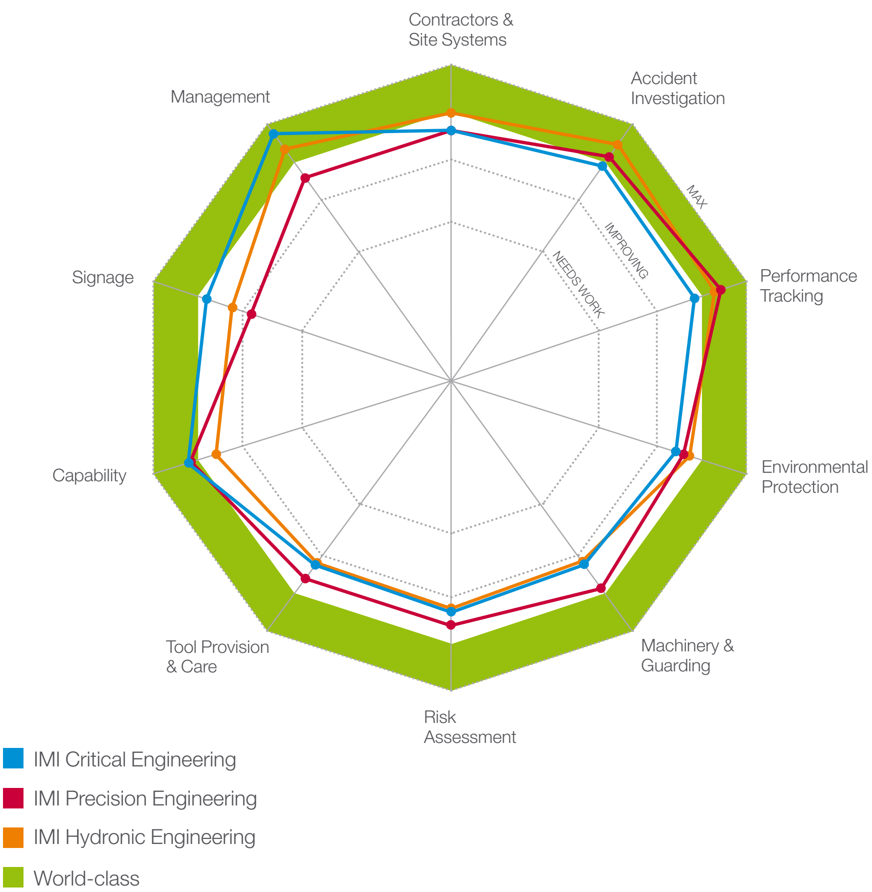
Our proactive approach to health and safety, which is aimed at continuously improving the identification and remediation of safety weaknesses in our processes and procedures and the removal of potential hazards in our facilities, covers all operations and all levels of management and includes:

- a rigorous bi-annual assessment of the ten operational and safety areas we consider most important in order to keep our employees free from harm and our operations effective and efficient.

  This assessment process, which is combined with the bi-annual lean benchmarking reviews (further details

Early in 2016, IMI CCI Korea celebrated 2,000 days with no lost time accidents

The ten attributes of safety - fourth round assessment average HSE scores by division



Machine assisted welding provides additional safety for our employees

of which are set out on pages 14 to 17), is undertaken by specialist health and safety experts in each operating unit which drives greater ownership of the process and ensures that health and safety is embedded in each business. Each local assessment is then independently reviewed by one of the Group or Divisional Health and Safety champions and a combined Lean-HSE report is produced which measures progress since the last assessment, identifies potential hazards, recommends remedial actions and targets further overall improvements. All assessments are posted on the Group intranet which ensures performance is visible and facilitates the sharing of best practice across all of our businesses. In addition, the combined Lean-HSE reports are analysed to identify any commonly recurring Group-wide hazards which require specific remedial action. During the year this analysis, combined with scrutiny of our accident reports,

Product testing at Precision Engineering's facility in Shanghai, China

confirmed the need to reinforce our efforts on hand injuries and in response, a Group-wide campaign focusing specifically on hand safety was launched recently;

- real time monitoring of our health and safety performance: during the year the Group enhanced our HSE 360 IT system which operates in all our facilities to track any and every incident which requires first aid or any other medical intervention. In addition, in the case of an incident requiring more than first aid treatment, a report is issued to the relevant divisional management team and a remediation plan is agreed and implemented; and
- regular health and safety training for all employees: every employee who joins IMI receives relevant health and safety training as part of their induction and where appropriate, participates in further on-site training focused on hazard identification, risk assessment and action planning. In addition, site management is responsible for detailed health and safety 'Gemba Walks', (a lean manufacturing term used to describe the personal observation of work which involves a detailed physical review of the factory to observe and identify real time potential hazards and risks). This, in addition to our bi-annual assessment process described above, has made a measurable impact on both our Lean-HSE scores and accident reduction.

Corporate responsibility

Our operations and products (cont'd)

IMI Hydronic Engineering uses paints which are water based or free of volatile organic compounds on all its pressurisation vessels to ensure minimal impact on the environment and a healthy working environment for our employees

Our operations

We have a responsibility to minimise the environmental impact of our day-to-day operations.

Given the nature of our production processes, our main focus is on energy efficiency. Historically we have regularly conducted internal reviews of our energy usage. In 2015, in accordance with the European Union Energy Directive, we augmented this process by undertaking independent energy assessment surveys across our major European operations. Data and recommendations from these surveys were collated and fed into our Group-wide energy efficiency programme that was developed and rolled out during the course of the year. This programme has delivered a number of efficiency improvements including:

- Precision Engineering's Fellbach facility in Germany installed a new boiler for their heating system that is estimated will achieve annual savings of some 300 tonnes of CO_2 and £100,000; and
- IMI CCI's Brno plant in the Czech Republic and IMI Truflo Marine's operation in Birmingham, England, upgraded lighting and lighting controls and are anticipating a combined 300 tonne reduction in CO_2 emissions each year, with an investment payback on these improvements in under two years.

During the year we continued to make good progress to reduce our CO_2e emissions. In 2015 we set our minimum baseline performance at 61,250 tonnes and during 2016, we reduced this further by 2%. In keeping with our continuous improvement culture, we will look to deliver further reductions year on year.

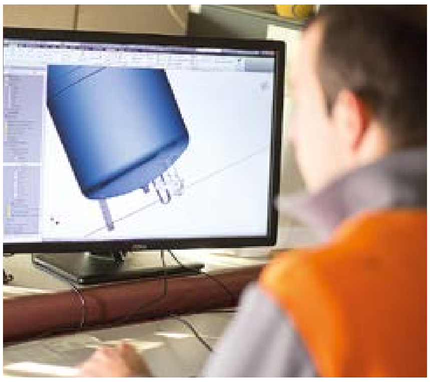
Employees at Precision Engineering's facility in Shanghai, China, inspect a pneumatic manifold for a customer

As detailed on pages 14 to 17, we have made significant progress in improving the operational efficiency of our facilities through the application of lean processes. A key part of the lean process is the elimination of waste and during the year, the improvement in the Group's inventory turns has freed up £9.6m in cash.

Our products

We design and manufacture products that help our customers operate their systems and processes safely, cleanly and cost effectively. We also sell products that directly help to tackle some of the biggest issues facing the world today including global warming and resource scarcity.

High Integrity Pressure Protection Systems (HIPPS), designed by our Critical Engineering division, and installed in pipelines and processing plants, control the build-up of fluid and gas pressure in the system and ensure safe operation whilst avoiding harmful emissions being released into the atmosphere.



We continuously look at our products to see how they can better satisfy customer needs

The new IMI Maxseal solenoid valve, designed and produced by our Precision Engineering division, for a wide range of Oil & Gas applications, uses less power helping customers save energy without sacrificing reliability or performance.

Eclipse, the thermostatic radiator valve, designed and manufactured by our Hydronic Engineering division, delivers a constant room temperature which enhances the efficiency of the heating system and saves on energy costs.

HIPPS unit, designed by IMI CCI, provides the highest safety levels and zero emissions

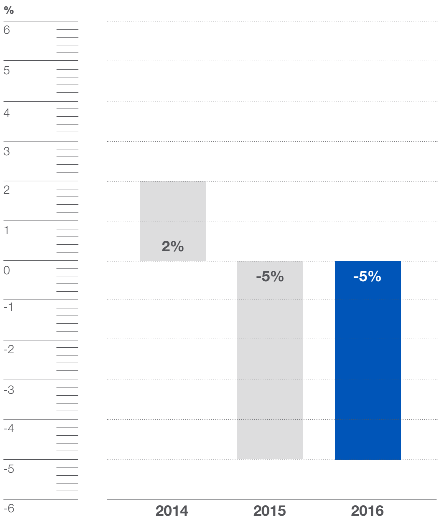
Collapsible handrail, actuated with pneumatic cylinders. Courtesy of Booth Engineering

Measurements and targets

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

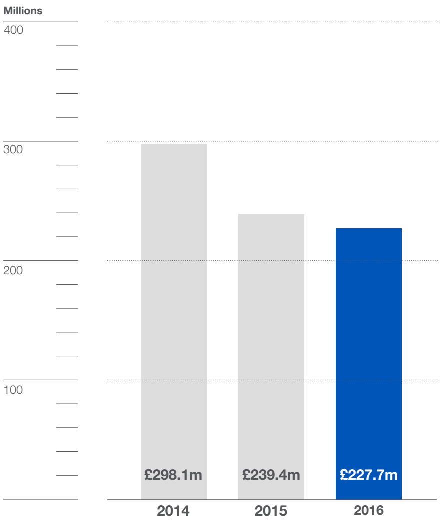
Each IMI business participates in an annual round of planning meetings with the Executive Committee, during which performance and future plans for that business are reviewed and updated. These business plans have all been aligned with the Group's strategy. The Key Performance Indicators ('KPIs') set out below represent the financial and non-financial targets which are integral to the delivery of the Group's strategy.

Organic revenue growth



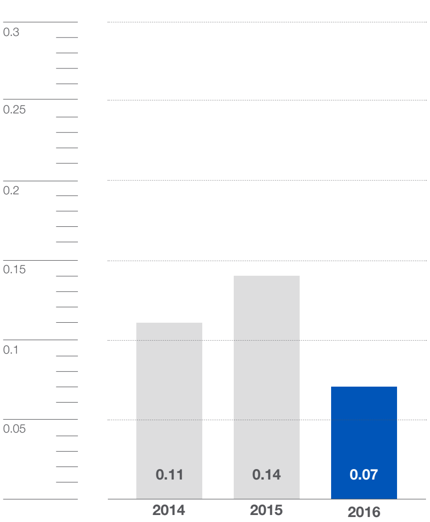
Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2016, the Group's continuing businesses experienced a drop in organic revenue of 5%.

Segmental operating profit



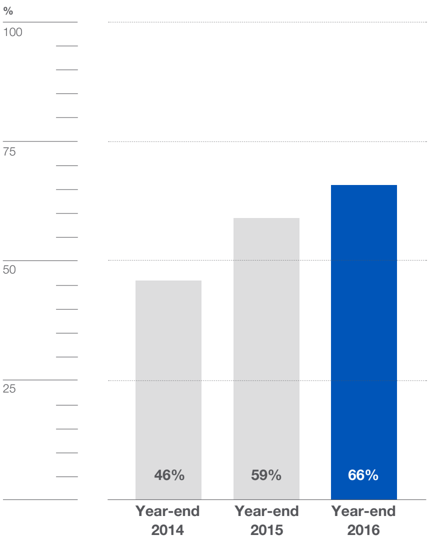
In 2016, Group segmental operating profit was £228m compared to £239m representing a reduction of 5% on a reported basis. On an organic basis, after adjusting for the favourable impact of exchange rates and acquisitions and disposals, segmental operating profit was lower by 17%.

Lost time accident rate



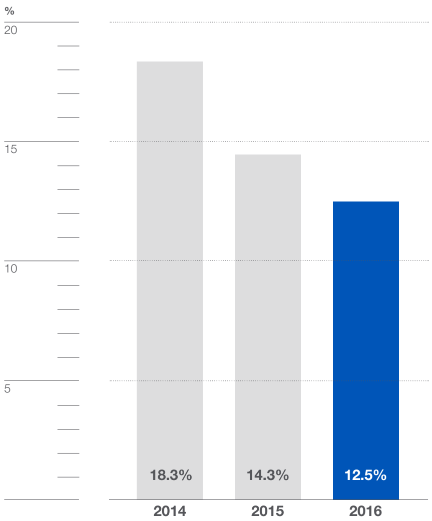
The health and safety of all our employees remains paramount. We measure our progress in this area by tracking our >1 day lost time accident frequency rate ('LTA rate'). In 2016, our LTA rate improved relative to 2015. Our work to reduce workplace hazards and integrate health and safety audits with the Group lean audit programme in 2016 had a very positive impact on our performance.

Lean assessment



During the year we continued to improve our lean scores and moved closer towards achieving Group-wide world-class operational performance. Our highest score is now 94% and the average has increased from 31% when we first benchmarked the business in 2014 to 66% in the year-end 2016 assessment process.

Return on capital employed



Return on capital employed ('ROCE') is defined as segmental operating profit after tax divided by capital employed. In 2016 ROCE was 12.5% which compares to 14.3% in 2015 and reflects the reduced operating profit impacted by market headwinds.

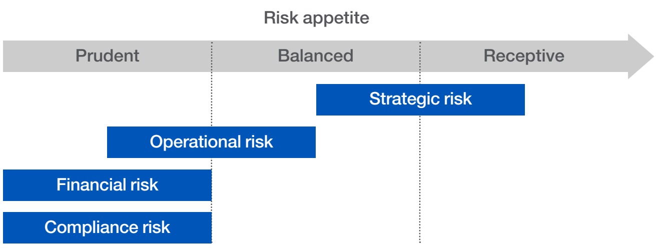
Principal risks and uncertainties

Our risk management processes were significantly updated in 2015 and are now well embedded in all our businesses. These processes identify, evaluate and manage the risks which could impact the performance or reputation of IMI and its ability to implement its growth strategy.

The Board determines the Group's risk appetite and reviews the Group's risks formally throughout the year. Responsibility for implementing and monitoring internal controls and other elements of risk management, is delegated to the Group Chief Executive and the Executive Committee. The Executive Committee operates alongside 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.

Risk appetite

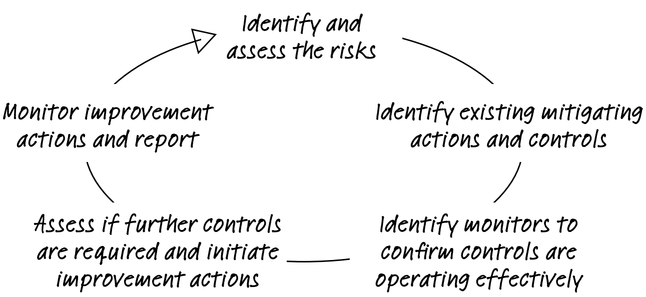
The Board is responsible for determining the nature and extent of the principal risks it is prepared to accept to achieve the Group's strategic objectives. Specific risk exposures and appetites vary according to the nature of the risk, including the organisation's ability to mitigate its impact.



Details on risk appetite are communicated to the Divisional Managing Directors and the Group's Executive Committee to ensure that decision making and behaviours across the business are consistent with the guidance set by the Board.

Risk management

The risk management processes we operate ensure that we have a common, Group-wide approach to the identification, assessment and quantification of risks and the way in which they are managed, mitigated and monitored.



Our risk management processes are embedded in all parts of our operations and our bottom up risk management framework, which is described below, ensures that the Board and the senior leadership team is able to actively assess risks and monitor the measures used to mitigate, transfer or avoid such risks.

All of the Group's manufacturing operations are required to maintain an up-to-date risk profile which identifies the key risks facing the business, assesses the mitigating processes and controls in place to manage the risk and monitors and measures the effectiveness of those controls. The risk profile enables management to identify issues and areas that require improvement and to efficiently develop remediation action plans. During the year, the formality and rigour of risk assessment within our manufacturing businesses was enhanced principally through incorporating it into each business' monthly management reporting procedures. This monthly review increases management ownership and accountability, both of which are crucial to ensuring an effective risk management framework.

Bi-annually each manufacturing operation uploads its risk profile to the Group intranet. Each of our three divisions review and consolidate their most significant site level risks and mitigation strategies into a summarised divisional risk profile, which includes any additional divisional level risks as appropriate. The divisional risk profiles are then consolidated into a single Group risk profile using the same methodology. Both the divisional and Group risk profiles are presented and reviewed by the Executive Committee twice a year. The Executive Committee's review, which includes a detailed analysis of the Group risk profile, the supporting divisional summaries and actions undertaken to ensure compliance with the enhanced requirements of the UK Corporate Governance Code, are all submitted to the Board.

The key strategic, operational, financial and compliance risks facing the Group, in order of priority, are shown in the table on the following pages. This analysis includes why we think the risk is important, how we are mitigating the risk, our perception of whether the risk has increased or not, and the main changes during 2016.

In addition to strategic, operational and compliance risks, the Group is also exposed to broader financial market risks, in particular, currency exchange rate volatility following the Brexit referendum. A description of these risks and our centralised approach to managing them is described in Section 4.4 of the financial statements.

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
MACRO-ECONOMIC INSTABILITY **GLOBAL ECONOMIC OR POLITICAL INSTABILITY IMPACTING THE GROUP'S ABILITY TO ACHIEVE FORECAST AND MARKET EXPECTATIONS** RISK MOVEMENT	The Group operates in global markets and demand for our products is dependent on economic and sector-facing environments. A downturn in a global / regional economy or political instability could impact end-market demand and the Group's ability to achieve market expectations. The risks associated with Brexit are not considered as material to the Group.	• Divisional management monitor key customers and respond quickly to changes in customer demand. • Our core forecasting process utilises early indications of reduced demand and ensures operational output can be right sized appropriately. • The Group operates across a range of regional markets and our strategy is to ensure that we have a balanced portfolio with no single dependency on a single market sector or geography. • Enhanced stress testing and sensitivity analysis of business plans with regular reviews of key market and sector metrics. • Increased investment in new product development, enhanced operation performance to improve competitiveness.
CHANGES DURING 2016	Economic and market conditions have remained challenging throughout 2016. Critical Engineering experienced reduced activity in Oil & Gas and Power generation as the effects of the low oil price continue to impact these and related sectors. Precision Engineering was affected by lower demand in Europe and Asia for Industrial Automation and the Commercial Vehicle market was significantly down in the Americas. The Group has continued to increase investment in new product development, enhanced operational performance and increased value engineering initiatives to improve competitiveness. To mitigate the impact of current market weakness, all three divisions have implemented significant cost-reduction programmes which will be executed in the early part of 2017.	
MAJOR PROJECT IMPLEMENTATION **FAILURE TO DELIVER MAJOR TRANSFORMATIONAL PROJECTS ON TIME AND ON BUDGET** RISK MOVEMENT	The Group is undertaking a number of major change projects to adjust to the changing economic conditions including: business reorganisations and implementation of new IT systems. Failure to deliver the desired objectives on time and on budget and failure to react quickly enough to changing market conditions, could have an adverse financial impact on the Group.	• Continued management of resources to execute projects. • Detailed plans with clear and measurable milestones reviewed by the Divisional Managing Directors to track progress. • Regular review of major project progress by the Executive Committee. • Enhanced risk assessment process including full mitigation action plans for all major change projects. • Specialist IT and Group Assurance reviews of major IT projects. • Detailed contingency plans.
CHANGES DURING 2016	In response to adverse market developments, the Group continues to execute major change projects relating to business re-organisations. The continued ERP investment programme will also see a number of complex IT system implementations. All significant projects during 2016 have received substantial senior management oversight in the form of bi-weekly Executive project reviews to ensure they are appropriately resourced and remain on track to deliver the objectives that were approved at project initiation.	
PRODUCT QUALITY **QUALITY ISSUES LEADING TO PRODUCT FAILURE, RECALL, WARRANTY ISSUES, INJURY, DAMAGE OR DISRUPTION TO CUSTOMERS' BUSINESS** RISK MOVEMENT	The Group's investment in innovative engineering solutions will continue to be a priority across all three divisions. The quality and safety of our products is of the highest importance and failure to deliver the quality required would result in negative financial and reputational impact.	• Adherence to Group-wide standard for Advanced Product Quality Planning process (APQP). • Continued focus on quality management systems, including audits to appropriate quality standards. • Testing of finished product and customer sign off on the most critical of products. • Targeted lean events to improve quality and application of problem solving tools. • Upgrade of talent and focus on excellence in quality and product development.
CHANGES DURING 2016	The Group has continued to implement lean manufacturing methodology to improve how we create value, reduce waste and improve performance. Lean assessments continue to show significant improvements in 2016. In order to extend the benefits of sharing Group-wide best practice, management have instigated a combined metric which consists of the lean assessment, the Health, Safety and Environment assessment and five key performance indicators: cost of quality, on time delivery, productivity, inventory turns and Lost Time Accidents. In addition, the APQP process introduced in 2015 now underpins new product development across all divisions and manufacturing operations.	
ACQUISITION RISK **FAILURE TO INTEGRATE ACQUISITIONS SUCCESSFULLY AND DELIVER THE REQUIRED SYNERGIES** RISK MOVEMENT	An integral part of the Group's strategy is to make value enhancing acquisitions that complement our product portfolio. Failure to deliver the post integration strategy would reduce the value of acquired businesses.	• Central M&A function, suitably resourced, working with divisions to identify hard and soft synergies within targeted acquisition opportunities. • Formalised acquisition approval, due diligence and post-acquisition integration processes. • Documented process and toolkit to monitor and effectively manage 100 days post-acquisition integration.
CHANGES DURING 2016	The revised and formalised integration process used in the acquisition of Bopp & Reuther has been further enhanced. This process results in a mix of divisional and Group resources being assigned to ensure the right skills and people across all disciplines are available to successfully project manage acquisition integration.	

Principal risks and uncertainties (cont'd)

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
REGULATORY BREACH **FAILURE TO COMPLY WITH LEGISLATION OR A BREACH OF OUR OWN HIGH STANDARDS OF ETHICAL BEHAVIOUR** RISK MOVEMENT	IMI has established a framework which instigates the highest standards to ethics and regulatory compliance across our business. As we expand our operations to achieve growth it is important that we maintain these standards. Legislative requirements around tax, anti-bribery, fraud and competition law require rigorous monitoring and training to avoid financial and reputational damage.	• Commitment to good governance practices which are embodied in the IMI Way. • Continued enhancement of the internal controls declaration process and continued rigorous financial audits by our Group Assurance team. • The annual IMI Way Day was held in June across the Group and included ethics training for all employees. • Policies, manuals and guidelines are available to all employees under the legal, compliance and financial sections of the IMI global intranet. • Group, division and specific territory resources dedicated to legal 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. • The confidential IMI hotline to report concerns. • Group standard operating procedures are available on the intranet and increased rigour around core legal and compliance processes. • Third party agent due diligence and approval procedures, standard agency agreements and terminated non-compliant agents.
CHANGES DURING 2016	IMI has a zero appetite for compliance risk and the challenging market and regulatory environment demands the very highest standards of conduct. Our processes and procedures have continued to strengthen and embed throughout the business. During 2016 we trained over half our workforce on anti-bribery and a third of our employees on competition law using eLearning modules hosted on our new IMI Learn platform. This system provides the ability to target particular employee groups and tracks completion of required compliance training. The introduction of stringent new procedures and processes to operate in high risk territories ensures compliance when we address future business opportunities in these regions.	
SUPPLY CHAIN **FAILURE TO MANAGE THE SUPPLY CHAIN** RISK MOVEMENT	The Group has a significant number of contracts with a broad base of suppliers. Failure to meet customers' requirements in respect of quality or delivery, could have a material impact on the Group's results.	• Monitoring of risks and development of contingency plans to mitigate the impact of a supplier failure or increased prices. • Preferred supplier lists for all major materials and components in each of the divisions. • Adequate safety stock and/or dual supply for critical components. • Supplier scorecard process to monitor performance, capability and resilience.
CHANGES DURING 2016	The implementation of a supply scorecard. The supplier risk assessment selection tool and introduction of commodity experts, has resulted in a reduction in the likelihood of a critical, strategic supplier failure. Preferred suppliers lists have been produced to concentrate strategic purchasing with certified and approved suppliers. Framework agreements have been introduced to increase formality in standard purchase agreements.	
CYBER SECURITY **UNAUTHORISED ACCESS TO OUR IT SYSTEMS** RISK MOVEMENT	Unapproved access to IT systems could result in loss of intellectual property, fraudulent activity, theft and business interruption.	• IT Security Improvement programme underway across the Group. • IT security steering group comprising representatives from all divisions with corporate sponsorship and oversight. • Cyber security awareness training for all employees, particularly with regard to fraud. • Disaster recovery plans instigated on all critical IT assets.
CHANGES DURING 2016	The Group is in the second year of a three year Group-wide Security Improvement Programme and during 2016, a 24/7 security operation centre was established to monitor and resolve security incidents. The programme includes deployment of consistent anti-virus, firewalls, intruder detection, device control and encryption software across the Group. Combined with greater cyber risk awareness and behaviours from our employees, these developments have helped mitigate the increasing cyber threat to a level consistent with 2015.	

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
COMPETITIVE MARKETS INCREASINGLY COMPETITIVE MARKETS LEADING TO PRICING PRESSURES OR LOSS OF CUSTOMERS RISK MOVEMENT	Increased volatility and slowdown in major economies could result in increased competition, leading to loss of customers and/or pricing pressures leading to lost sales and reduced profits.	• Competitor tear-down and value engineering procedures. • Review of site capacity as part of the lean benchmarking to better utilise facilities and improve productivity. • Standard costings to ensure thorough understanding of product cost. • Monitoring of markets to ensure cost competitiveness and market shares. • Formal market, competitor and peer reviews undertaken quarterly.
CHANGES DURING 2016	Improvements in operational capabilities, routine tear-down testing and competitive benchmarking of competitor products in all three divisions has underpinned new product development and value engineering initiatives. These procedures have proved crucial success factors in winning business, particularly in the Critical Engineering division. The APQP process is also producing tangible benefits across the Group following its successful introduction in 2015.	

RISK	RISK DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
NEW PRODUCT DEVELOPMENT RISK MOVEMENT	The Group's strategy for sustainable long-term growth will be achieved in part by delivering a pipeline of innovative new products. Failure to deliver market leading products will impact our ability to grow.	• Five year technology roadmaps included in divisional strategies. • Continued investment in research and development to ensure we target the most profitable opportunities. • Centres of design and technological excellence established with dedicated teams to monitor progress. • New product introduction procedures in place. • Tracking of key performance metrics – level of sales from new products and level of research and development spend against sales.
CHANGES DURING 2016	The APQP process launched in 2015 is now operating effectively across all three divisions. Hydronic Engineering, the division which pioneered the process, continued to benefit from the pipeline of new products, generating £30m of sales in 2016 (£30m in 2015). New product development is now an integral component of the five year strategic planning cycle and establishes commercial priorities and development roadmaps for all the Group's principal markets.	

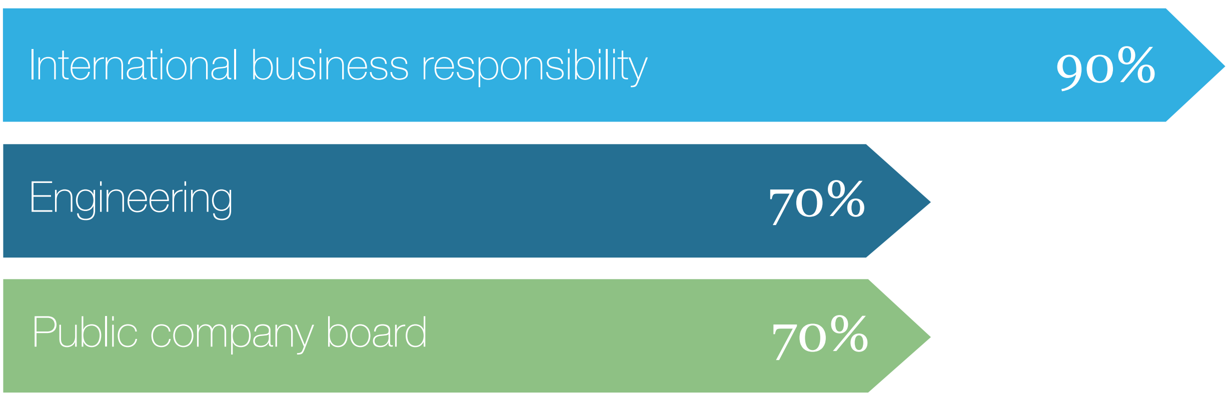
Corporate Governance

A Life Sciences customer in India uses Precision Engineering's products in a medical device

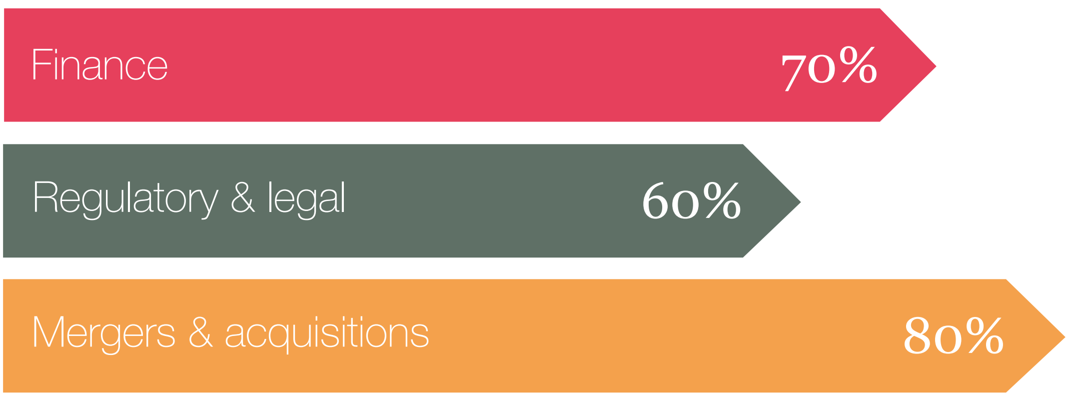
Board of Directors

	Lord Smith of Kelvin Chairman	Mark Selway Chief Executive	Roy Twite Executive Director	Daniel Shook Finance Director	Bob Stack Senior independent non-executive director
					
Nationality	British	Australian	British	American British	American
Committee membership	Nominations Committee – Chair	Executive Committee	Executive Committee	Executive Committee	Nominations Committee Remuneration Committee – Chair
Date of appointment	2015	2013	2007	2015	2008
Expertise	Significant UK and international board experience Extensive knowledge of both engineering and manufacturing Strong track record in private equity, mergers and acquisitions Specialist capability in finance	Experienced and proven Chief Executive Solid track record running international engineering businesses In-depth knowledge of relevant end-markets including oil & gas, energy and automotive	Proven organisational and engineering expertise Management capability having run all of IMI's divisions Extensive knowledge of end-markets and customer base	Extensive financial management experience Extensive knowledge of complex process manufacturing across a range of industrial sectors Strong international perspective, having worked in a number of key geographies during his time with two leading global businesses	Experienced non-executive director at public company level Significant international business experience Specialist capability in human resources, organisational change and corporate affairs
Key external appointments	Non-executive Chairman of Alliance Trust plc Non-executive Chairman of the UK Green Investment Bank plc		Non-executive director of Halma plc		Non-executive director of the Earthwatch Institute Non-executive director of Signet Jewellers Limited

Board experience



	Carl-Peter Forster Non-executive director	**Birgit Nørgaard** Non-executive director	**Ross McInnes** Non-executive director	**Isobel Sharp** Non-executive director
				
Nationality	German	Danish	French Australian	British
Committee membership	Audit Committee Nominations Committee Remuneration Committee	Audit Committee Nominations Committee Remuneration Committee	Audit Committee – Chair Nominations Committee	Audit Committee Nominations Committee
Date of appointment	2012	2012	2014	2015
Expertise	Experienced international business leader In-depth knowledge of the automotive sector Expert in operational excellence and lean manufacturing Significant experience in technology management	Experienced non-executive Held senior executive positions in engineering consultancy Wide ranging sectoral experience including energy, water, infrastructure and building industries Experience in strategy as well as finance and accounting	Considerable financial expertise Significant knowledge and experience of working in large international companies that operate in global markets	Considerable accounting, audit, governance and transactions experience including time as the Senior Technical Partner at Deloitte in London, President of the Institute of Chartered Accountants of Scotland and membership of the UK Accounting Standards Board and the Financial Review Panel
Key external appointments	Non-executive director of Geely Automobile Holdings, Hong Kong Chairman of London Taxi Company Non-executive director of Volvo Cars Corporation, Gothenburg, Sweden Chairman of Chemring Group plc	Non-executive director of DSV A/S Non-executive director of WSP Global Inc. and Chairman of the Governance, Ethics and Compliance Committee Non-executive director of Cobham plc	Non-executive Chairman of Safran SA Non-executive director and Chairman of the Audit Committee at Faurecia SA Non-executive director and Chairman of the Audit Committee at Eutelsat Communications SA	Non-executive director of the UK Green Investment Bank plc Non-executive director and Audit Committee Chair of Winton Group Limited Honorary Professor at Edinburgh University Business School



Find out more about the Board on-line
www.imiplc.com/about-imi/leadership-and-governance/board

Corporate Governance introduction
Chairman's Governance letter

Lord Smith of Kelvin
Chairman

Dear Shareholder

Strong governance is of great importance to me and my fellow directors. We firmly believe it makes a real difference to Board effectiveness, underpins a healthy culture and contributes to IMI's sustainable success. In the Corporate Governance Report on pages 49 to 54 of this Annual Report, we describe our governance practices and the workings of the Board and its committees.

Compliance with the 2014 UK Corporate Governance Code

I am pleased to report that IMI complied with the 2014 UK Corporate Governance Code (the 'Code') throughout the year. Further details of how we comply with the Code are provided in the Corporate Governance Report. In keeping with our Group-wide focus on continuous improvement, during 2016 the Company's Corporate Governance Framework (the 'Governance Framework'), which incorporates the vital elements of our Board level governance arrangements, was reviewed and refreshed. Changes to the Governance Framework included updating the remits of each of the Board's committees and refining the matters reserved to the Board. The Governance Framework appears on the IMI website www.imiplc.com.

Leadership

During my second year as Chairman, the various changes made to the Board and the Executive during 2015 have been bedded in. Our non-executive directors are making a positive contribution and the dialogue with Management is open and transparent. As a result we enjoy a good quality of discussion at meetings. Through regular contact between formal meetings, I have developed a strong working relationship with the Chief Executive and Mark and I enjoy frank, constructive and suitably challenging debates.

Culture

In 2014 the Board adopted a clear set of values which flow through all parts of IMI and are reflected in the culture and behaviours of our people across the Group. These values, which are key to the delivery of our strategy, inform all our operational processes. They are also built into our people development programmes and are assessed bi-annually as part of the staff performance review process. Further information about our values and behaviours is detailed in the Corporate Responsibility section on pages 28 to 37.

Strategy and familiarisation

During the year we dedicated more time as a Board to reviewing the detailed implementation of our strategy, which we reaffirmed at our strategy day in September 2016. We visited two of our major facilities in Germany and our largest UK manufacturing operation. In addition, several of the non-executive directors and I attended the Group management conference and we have all visited sites on an individual basis. This direct contact with the Group's businesses is critically important as it accelerates our understanding of IMI's operations and helps us get to know the wider management team. It also allows us to see the great work our people do on a daily basis which is clearly evident in the operational improvements we are seeing across the Group.

Strengthening IMI

As highlighted in my statement on page 1, through effective execution of our strategy we continue to see significant improvements being made across the Group and as a result IMI is becoming a stronger company.

Progress is being made in all parts of the Group and across all functions. In particular, our financial controls have been further strengthened and I am pleased to report that the level of control effectiveness across the Group remains high. Another area where we have seen good progress is in relation to succession planning, which is key to IMI's long-term success. As described in the Corporate Responsibility section on pages 28 to 37, during the year we undertook an extensive review of management succession planning which involved an assessment of the Group's top 230 leaders. I am pleased with the significant progress being made towards building a pipeline of high calibre management talent.

I enjoy engagement with shareholders and appreciate the support shown by our institutional shareholders. I look forward to meeting shareholders again at our Annual General Meeting.

Yours faithfully

Lord Smith of Kelvin
Chairman

23 February 2017

Introduction

Strategic Review

Corporate Governance

Financial Statements

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.

UK Corporate Governance Code - Compliance statement

The Board is committed to maintaining high standards of corporate governance and confirms that throughout the year-ending 31 December 2016 the Company has applied the principles of good governance contained in the 2014 UK Corporate Governance Code (the 'Code') and complied with its best practice provisions. Further details appear below, and in the Directors' Report and other cross-referenced sections of this Annual Report, all of which are incorporated by reference into this report. There are no provisions in respect of which an explanation is needed under the "comply or explain" requirement.

A description of the main features of the Company's internal control system and disclosures on other regulatory matters including statements on going concern and viability can be found on pages 132 to 135 in the Directors' Report. A summary of our risk management systems and information about the risks and uncertainties that relate to our business is detailed within the Principal Risks and Uncertainties section on pages 40 to 43. Information on corporate responsibility can be found in the Corporate Responsibility section on pages 28 to 37.

The Board

Composition

Throughout 2016 and to date in 2017, the Board comprised nine directors: the Chairman; the Chief Executive; five independent non-executive directors; the Finance Director and one operational executive director.

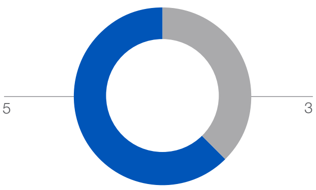
In line with the Code, all continuing directors submit themselves for election or re-election at each Annual General Meeting. The role of the Board and the clear division of responsibilities between the Chairman and the Chief Executive are outlined in the Directors' Report on pages 132 to 135.

Independence of non-executive directors

The Board considers that all five non-executive directors are free from any business or other relationship which could materially interfere with the exercise of their independent judgement and all meet the criteria for independence under the Code. Isobel Sharp is a co-director with Lord Smith on the board of the UK Green Investment Bank plc, a government owned financial institution. Cross-directorships are recognised in the Code as a potential consideration in relation to the assessment of independence. The Board has considered the circumstances and regards Isobel and all of the other non-executive directors as independent. The Chairman was also regarded as independent at the date of his appointment to the Board.

Board diversity

The non-executive directors are a diverse group from different backgrounds and nationalities and bring with them a wide range of skills and experience in commerce, finance and industry in various parts of the world. There are six nationalities on the Board and two of the nine directors are female (i.e. 22%). Our approach to diversity is set out in more detail in the Corporate Responsibility section on pages 28 to 37 and in the Nominations Committee Report on page 58.



3 Executive directors
5 Independent non-executive directors

Under the Code, the Chairman is excluded when considering the independent non-executive composition of the Board.

Dates of appointment

Name	Date of appointment	Date of current letter of appointment	Anticipated expiry of current term
Carl-Peter Forster	1 October 2012	3 January 2017	30 September 2018
Ross McInnes	1 October 2014	3 January 2017	30 September 2017
Birgit Nørgaard	6 November 2012	3 January 2017	5 November 2018
Isobel Sharp	1 September 2015	3 January 2017	31 August 2018
Lord Robert Smith	7 May 2015	3 January 2017	6 May 2018
Bob Stack	13 June 2008	3 January 2017	12 June 2017

Meetings and use of Board time

The Board met on six occasions during the year including two results reporting meetings, a day dedicated to strategy discussions and regular review meetings. In addition, there were several days spent on group site visits to three operating units.

Corporate Governance Report (cont'd)

Board activity

Highlights of Board activity in the year were:

- Bedding in the Board and Executive membership following various changes during 2015
- Reaffirming the commitment to the strategy
- Overseeing progress with growth and process investments
  - Continuing growth investments made in new products and business IT systems
  - Driving core process disciplines including lean, risk, compliance, advanced product quality planning and policy deployment
- Approval and review of strategy implementation including
  - Manufacturing transfers in IMI Critical Engineering
  - Adopting a new organisation structure in IMI Precision Engineering
  - Reviewing the "go to market" strategy in IMI Precision Engineering
  - New product introductions in IMI Hydronic Engineering
- Overseeing risk and the continuing actions to strengthen the internal control environment
- Reviewing talent and succession management and the continued embedding of our people development processes including succession plans, talent programmes and improvements in management capability

Board attendance

Director	Board meetings	% attended where eligible
Carl-Peter Forster	6/6	100
Ross McInnes	6/6	100
Birgit Nørgaard	6/6	100
Isobel Sharp	6/6	100
Lord Smith	6/6	100
Bob Stack	6/6	100
Mark Selway	6/6	100
Daniel Shook	6/6	100
Roy Twite[i]	4/6	67

[i] Roy Twite did not participate in two meetings due to attendance at a leadership and strategic development programme at the Company's request.

In 2017 to date the Board has met once with all members in attendance.

Board roles and reserved matters

A description of Board roles and reserved matters is included in the Governance Framework and summarised in the Directors' Report on pages 132 to 135.

Induction and continuing development programme

A formal induction process for new non-executive directors is well established and is the responsibility of the Chairman with support from the Chief Executive and Company Secretary.

Business familiarisation is at the core of induction and continuing development for non-executive directors at IMI and is based around gaining an understanding of the business and getting to know the wider management team. In addition all non-executive directors attend a corporate induction day for senior managers held at head office. There is also a committee induction process designed to brief new committee members on the relevant committee's activity and the issues it faces.

Non-executive directors are required to visit business units around the Group and to meet face-to-face with senior operating management and key corporate staff. Non-executive directors continue to become familiar with the businesses after induction and there is regular contact between management and non-executive directors during site visits, formal meetings and events.

During 2016 all of the non-executive directors made site visits and the whole Board spent several days in Germany, where they visited sites in both IMI Precision Engineering and IMI Hydronic Engineering. There was also a visit to the Group's largest UK operation.

Appropriate coaching and access to training and other continuing professional development is available to all non-executive directors and appropriate updates are given during the year at Board and committee meetings. Special governance and regulatory refresher sessions were held during the year and were attended by all of the non-executive directors. In 2016, these included update sessions for all three of the standing committees and governance updates for the Board which covered the EU Market Abuse Regulation and other developments.

The Board receive a tour of two manufacturing sites in Germany; (top) IMI Buschjost, Precision Engineering and (bottom) IMI Heimeier, Hydronic Engineering

Corporate Governance Report (cont'd)

Board visits to IMI Buschjost and IMI Heimeier in Germany

IMI has a substantial presence in Germany which is home to business units in all three divisions and IMI's largest European market. In October the Board visited Germany where it held meetings and visited two outstanding manufacturing sites, one in Precision Engineering, IMI Buschjost, and the other in Hydronic Engineering, IMI Heimeier.

IMI Buschjost is a key brand for Precision Engineering and offers a comprehensive range of valves ideally suited to the process industry including solenoid valves, angle-seat valves, motorised valves and systems for dust filters. IMI Heimeier is a key brand for Hydronic Engineering and offers thermostatic radiator valves, actuators and room thermostats.

During the factory tours, the engineers and machine operators had the opportunity to showcase new product development and operational improvements. Local and divisional management made business presentations and after the site visits they enjoyed dinner with the Board.

The Board commended the investment in lean improvement, new products and innovation and the high standards of operational management. IMI's core processes were seen to be well embedded at each site. The Board was very impressed with both businesses and congratulated local management for the progress being made.

Site visits are an important, regular feature of the Board calendar. Such visits provide an excellent opportunity for the Board to meet a wider group of employees and gain a more in-depth understanding of the business.

The Board with members of IMI Buschjost's management team

Board evaluation

In 2016 an internal evaluation exercise was carried out through questionnaires and canvassing comments from directors. The Board received the findings of the internal evaluation in December 2016 and relevant elements were shared with the committees. While the findings of the internal evaluation were overwhelmingly positive, in keeping with the Group's commitment to continuous improvement, the Board agreed that some areas should be further developed over the coming year, including changes to the order of meetings.

Action taken in response to the internal evaluation undertaken in 2015 included the appointment of all non-executive directors to the Nominations Committee and subsequent training on best practice for the expanded Nominations Committee.

The Board reviewed effectiveness, taking account of the Financial Reporting Council's best practice guidance on board effectiveness, and the directors confirmed that the Board is fulfilling its responsibilities appropriately and that the Board and its committees were effective. Evaluations of individual Board directors were also undertaken to assess whether each continuing director has demonstrated an effective contribution and commitment to the role. The Chairman fed back to individual directors the relevant findings.

As senior independent director, Bob Stack conducted a review of the Chairman with the other non-executive directors and shared the results with the Chairman. During the year the Chairman also met with the non-executive directors to review the performance of the Chief Executive. The Chairman passed on to the Chief Executive appropriate feedback from the review of his performance.

In line with the Code, the Board has agreed that the Chairman will arrange an externally facilitated evaluation process every three years and the next such process will be conducted in 2017 facilitated by Egon Zehnder.

Standing committees of the Board

The standing committees of the Board are the Audit Committee, the Nominations Committee and the Remuneration 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 are part of the Governance Framework. The committees report to the Board on their work, normally through their respective chair, following each meeting.

Separate reports from the committees appear in this Annual Report as follows: Audit Committee Report on pages 55 to 57; Nominations Committee Report on page 58 and Remuneration Committee Report on pages 59 to 71.

Audit Committee

Ross McInnes
Chairman

Membership:
- Carl-Peter Forster
- Birgit Nørgaard
- Isobel Sharp

Main responsibilities:

Financial reporting
- Oversight role in relation to financial statements
- Reviewing significant areas of judgement and accounting policies
- Reviewing the proposed statements on going concern and viability to appear in the Annual Report
- Advising the Board on whether the draft Annual Report is fair, balanced and understandable
- Monitoring announcements in respect of financial performance

Financial control and risk
- Reviewing the effectiveness of internal financial controls
- Reviewing financial risk including fraud risk
- Oversight of internal audit
- Managing the external audit process, its objectivity, effectiveness and cost
- Appointment of the auditor and responsibility for the audit fee
- Reviewing the system for confidential whistleblowing and the treatment of reports received

Nominations Committee

Lord Smith of Kelvin
Chairman

Membership:
- Carl-Peter Forster
- Ross McInnes
- Birgit Nørgaard
- Isobel Sharp
- Bob Stack

Main responsibilities:
- Board and committee composition
- Succession plans for the Board and for 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 the appointment and removal of divisional business leaders

Remuneration Committee

Bob Stack
Chairman

Membership:
- Carl-Peter Forster
- Birgit Nørgaard

Main responsibilities:
- Define and recommend the remuneration policy
- Determine the individual remuneration packages for the most senior executives and the Chairman within the policy approved by shareholders
- Set annual and long-term incentive metrics and awards and determine the outcomes
- Report on remuneration matters and constructively engage with shareholders
- Assess risk in respect of remuneration and incentive structures in particular

Corporate Governance Report (cont'd)

Executive Committee

The Executive Committee is chaired by the Chief Executive and the other members are shown on page 9. Regular attendees include the Head of Group Finance, Director of Risk and Compliance, and the Head of Investor Relations. Other senior executives and line managers from around the Group are regularly called upon to attend meetings of the Executive Committee. The Committee meets monthly and more often as may be required.

The Executive Committee is the senior Management body and as part of the broad remit set by the Chief Executive it monitors and manages business performance, reviews progress against strategic objectives and considers divisional management issues. It also formulates budgets and proposals on strategy, policy and resource allocation for consideration by the Board. The Executive Committee is a Management committee which takes its authority from the Chief Executive and is not a committee of the Board.

The Executive Committee plays a key part in risk assessment, risk management and monitoring processes and receives regular reports on health and safety, compliance, legal and corporate affairs.

Investor relations

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. The Chief Executive and Finance Director have primary responsibility at Board level for investor relations and they, and the Head of Investor Relations, report to the Board on shareholder issues at every Board meeting during the year. Financial analysts' notes are circulated to the directors and the Board receives regular feedback reports from the Company's brokers and public relations advisers as well as from Management. Dialogue is maintained with shareholders and the executive directors meet regularly with institutional investors: during 2016 there were over 130 such meetings with institutional shareholders. The Chairman and the senior independent director also are available to shareholders as needed and both have had contact with investors during the year.

The 2016 Annual General Meeting was presided over by the Chairman and attended by all of the directors. The Chairman encouraged debate and questions at the formal meeting and the directors met shareholders informally afterwards. Each substantively separate issue was put to the Annual General Meeting as an individual motion. A resolution for the approval of the Directors' Remuneration Report was also put to the meeting. Notice of the Annual General Meeting was issued more than twenty working days in advance and the level of votes lodged for and against each resolution, together with details of abstentions are shown on the IMI website. The Board values the support of shareholders and the poll results for all resolutions proposed at the Annual General Meeting were well above 90% in favour in each case.

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).

By order of the Board

John O'Shea
Group Legal Director and Company Secretary

23 February 2017

Audit Committee Report

Ross McInnes
Chairman of the Audit Committee

Dear Shareholder

I am pleased to present my third report as Chairman of the Audit Committee. This report is intended to give an account of the Committee and its activity in support of the Board. The core responsibility of the Committee is oversight in relation to financial reporting, internal financial controls and assurance provided by internal and external audit.

Composition of the Audit Committee

Birgit Nørgaard, Carl-Peter Forster, Isobel Sharp and I were members of the Audit Committee throughout the year. All of the Committee members are regarded by the Board as independent non-executive directors. I have chaired the Audit Committee since 1 January 2015 and became a member on 1 October 2014. I was a career finance director until my retirement from executive office with Safran in 2015 and I have significant recent and relevant financial experience. I also chair the audit committees at two French public companies, Faurecia SA and Eutelsat Communications SA. My colleagues on the Committee have experience at audit committee level and Isobel Sharp is a Chartered Accountant with a strong financial assurance background through her career in audit practice. Together the Committee members have the skills, experience and objectivity to be an effective audit committee and constructively challenge Management.

The Committee generally asks the following to join its meetings: the Chairman, the Chief Executive, the Finance Director, the Head of Group Finance, the Director of Risk and Compliance, the Group Assurance Director and the external auditor, EY. I consult with the Finance Director and other key staff and with the external auditor ahead of meetings to ensure issues are well understood and the meeting papers are appropriate.

The Committee holds at least part of several meetings each year alone with the external auditor and with the Director of Risk and Compliance and the Group Assurance Director. The Committee has the powers to call on any employees to come before it. The Secretary to the Committee is the Company Secretary, who is also the Group Legal Director.

Main areas of activity

The Audit Committee met four times in 2016, including two results reporting meetings and two planning and review meetings.

Financial controls continued to be a key focus area for the Committee and Management has continued to make significant progress in strengthening internal financial controls and risk management processes. Based on its review of selected key controls, EY agreed with Management's assessment that the level of control effectiveness at full and specific scope locations remains high at 98%. The IT investment and infrastructure programme will further strengthen the control environment in the years ahead and facilitate efficiency improvements in the audit.

The Committee has received reports on the six-monthly Internal Control Declarations which are submitted by each business unit and cover internal controls in relation to financial affairs, IT, human resources and other key areas. The process is managed by Group Assurance, which routinely audits and follows up declarations to review scores and appropriate improvement actions.

The Committee's work also included reviewing the financial statements, the effectiveness of internal financial controls and assurance processes and the significant issues of judgement described below.

The Committee reviewed and approved for submission to the Board the statements on going concern and viability, which appear in the Directors' Report on pages 132 to 135.

The Committee remit calls upon it to advise the Board in relation to the fair, balanced and understandable requirements in respect of the Annual Report and the Committee has made a positive report to the Board in this connection. This is also an area for review by the auditor in relation to which it did not report any exceptions. The statement of Directors' responsibilities on page 136 includes confirmation by the Board that it considers the report and accounts, taken as a whole, to be fair, balanced and understandable.

During the year, the Committee received a technical and governance update covering changes in accounting standards, developments in audit reform and other key topics.

Audit Committee Report (cont'd)

Attendance

Director	Audit Committee meetings	% attended where eligible
Carl-Peter Forster	4/4	100
Ross McInnes	4/4	100
Birgit Nørgaard	4/4	100
Isobel Sharp	4/4	100

Oversight of financial reporting

The Committee acts in an oversight role in respect of the Annual Report and announcements with financial content all of which are prepared by Management. The Committee received reports on the annual and interim financial statements from Management and the external auditor who presented to its meetings. The auditor's report including a summary of key areas of audit focus is set out on pages 137 to 143.

Significant judgements related to the financial statements

In preparing the accounts, there are a number of areas requiring the exercise by Management of judgement and estimation. The Committee reviews the most significant accounting areas involving such judgements and estimates and these are described below.

Impairment of goodwill and intangibles arising from acquisitions

We considered the level of goodwill held on the Group's balance sheet in respect of a number of past acquisitions and whether, given the future prospects of these businesses, the value of goodwill in each case remains appropriate.

The Committee reviewed the assumptions and calculations used by Management in the assessment of any impairment of goodwill and intangible assets and agreed that no impairment charges were required save for a £5m charge in respect of Stainless Steel Fasteners Limited. Impairment was also a focus area for EY which reported its findings to the Committee. Section 3.2 to the financial statements on page 97 provides details regarding the Group's intangible assets and goodwill and the impairment charge mentioned above.

Revenue recognition

The Committee discussed the timing of revenue recognition on some of the Group's larger contracts. In addition, this is an area of audit focus on which EY reported to the Committee. Having reviewed Management's process and EY's report, the Committee concluded that revenues were appropriately reflected in the financial statements. Section 5 note C to the financial statements on page 127 provides further information.

The Committee also reviewed Management's assessment of the impact of IFRS 15 *'Revenue from Contracts with Customers'* which is discussed further in Section 1 on page 84.

Pensions accounting

The Committee reviewed the appropriateness of the accounting treatment in respect of pension scheme liabilities, including the actuarial assumptions used and the impact of one-off special pension events. The Committee also reviewed reporting from the external auditor, which concurred with the accounting for pensions as proposed by Management. The Committee supported Management's on-going effort to de-risk its pension obligations. Further details can be found in Section 4.5 on page 114.

Inventory valuation

The Committee reviewed the judgements applied to standard costing valuations and provisions against excess and obsolete inventory and concurred with Management's assessment. This was another focus area for EY, in respect of which it reported to the Committee that inventory valuation across the Group is considered appropriate. Note 3.1.1 to the financial statements on page 96 provides details of inventory valuation.

Other judgement areas

In addition the Committee reviewed the appropriateness of restructuring costs disclosed as exceptional, property sales and the adequacy of taxation provisions. Further details on these matters can be found in Sections 2.2 and 2.4 respectively.

External audit independence and performance review

The Committee approved the proposed external audit approach and its scope based on the size and level of risk of the entities concerned. The Committee takes a risk based approach to audit and other assurance activity. The key audit risks identified by EY are set out in its report on page 137 and were reviewed by the Committee in approving the audit scope and plan.

The Committee considered the independence and objectivity of the external auditor. In assessing auditor independence the Committee had regard to the Financial Reporting Council's latest best practice guidance for audit committees. In addition, the auditor confirmed that its ethics and independence policies complied with the requirements of the Institute of Chartered Accountants in England and Wales.

The policy on the use of the auditor for non-audit work was reviewed and updated by the Committee in 2016 to take account of developments in regulatory requirements and ethical guidelines for the audit profession. The policy requires approval by the Committee for any non-audit engagement which is more than trivial. The Finance Director monitors any proposed non-audit engagement of EY and refers to the Committee for approval as appropriate. The policy 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 (2015: £0.2m), which represents 8% of the audit fee and demonstrates the tight control which is maintained in this area. No non-audit engagements involved fees above £30,000 and the main areas of activity were tax compliance and the interim results review. We are of the view that the level and nature of non-audit work does not compromise the independence of the external auditor.

Benchmarking of the audit fee was conducted to ensure that it is appropriate and competitive and the Committee approved the proposed audit fee payable to EY.

We formally reviewed the effectiveness of the external audit process. A questionnaire was used to review the external auditor and was completed by each member of the Committee and by the Finance Director. Feedback was also received from the Chief Executive, the Head of Group Finance, Group and Divisional Management. The output from this process was considered by the Committee and was provided to the external auditor. As a result of this exercise the Committee believes the external auditor's performance has been satisfactory and the external auditor is considered to be effective. To further enhance the external audit process, certain improvement actions were identified in the effectiveness review and plans have been put in place by EY to address these. These included a focus on improving continuity of staff and earlier completion of certain locations statutory accounts.

Auditor choice, tenure and tendering

The Committee recommended and the Board approved the proposal to re-appoint EY as the external auditor at the forthcoming Annual General Meeting. EY was first appointed as auditor for the year-ending 31 December 2009, following a competitive tendering 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.

To maintain the objectivity of the audit process, the external audit partner responsible for the Group is rotated within EY at least every five years and the current Senior Statutory Auditor, Andrew Walton, has now been in place for four years and will change following completion of the 2017 audit. Succession planning has been carried out and a new audit partner designate has been approved by the Committee. New regulations for audit tendering and rotation of audit firms have been introduced which require mandatory tendering after ten years (i.e. ahead of the 31 December 2019 audit) and a change of audit firm after 20 years (i.e. ahead of the 31 December 2029 audit). The Committee does not currently intend to do so but reserves the right to run a tender for the audit role at an earlier date if that is right for the Company and otherwise, will conduct a tender by the regulatory deadline.

Internal audit

The Committee also receives reports from and monitors the work of the internal audit function, known as Group Assurance. Group Assurance reports through the Director of Risk and Compliance to the Chief Executive. Group Assurance also has a direct reporting line to the Committee. Assurance work is primarily directed towards financial control audits but has been broadened into other areas including major business change project planning and implementation and internal control declarations. The principal projects reviewed in 2016 were major computer systems implementations in each of the three divisions.

Group Assurance is working closely with the divisions to develop improved monitoring and review processes to complement the internal and external audit coverage. The annual plan and resourcing for internal audit were approved by the Committee and take account of the enhanced monitoring and review activity planned within the divisions.

The Committee reviewed the effectiveness of Group Assurance with Management and received input from the external auditor. The Committee was pleased to note the contribution that Group Assurance had made to the further strengthening of internal financial controls during the year.

Compliance hotline

The Committee reviews the operation of the independent compliance hotline for reporting concerns, oversees the more significant reports received and considers how these are investigated and followed up. We believe that the hotline process and investigations are effective and that proportionate action is taken by Management in response.

Committee evaluation

The Audit Committee reviewed its own performance and terms of reference and received positive feedback from the evaluation exercise carried out in relation to the Board and each of its standing committees.

The Committee approved the foregoing report on its work.

Yours faithfully

Ross McInnes
Chairman of the Audit Committee

23 February 2017

Nominations Committee Report

Lord Smith of Kelvin
Chairman of the Nominations Committee

Dear Shareholder

Composition

Carl-Peter Forster, Ross McInnes, Birgit Nørgaard, Isobel Sharp, Bob Stack and I were members of the Committee throughout the year. All of the other members of the Committee are regarded as independent non-executive directors.

Attendance

Director	Nominations Committee meetings	% attended where eligible
Carl-Peter Forster	3/3	100
Ross McInnes	3/3	100
Birgit Nørgaard	3/3	100
Isobel Sharp	3/3	100
Lord Smith	3/3	100
Bob Stack	3/3	100

Main areas of activity in 2016

No new directors have been appointed during the year. All of the directors are recommended for re-election at the 2017 Annual General Meeting. The Board approved all of the recommendations made by the Committee for the renewals of appointment for continuing directors. Other key areas of activity are described below.

Succession planning

The Committee reviews Board composition and has formulated a structured, medium-term plan for Board succession. During the year we reviewed talent development and succession planning for the top 230 roles in the Group with the support of the Chief Executive and Group Human Resources Director. We were encouraged to see that significant progress continues to be made in terms of cultivating a pipeline of high-calibre talent. Further details of the Management succession planning process are set out in the Corporate Responsibility section on pages 28 to 37. The Committee noted the Financial Reporting Council's 2016 feedback statement on UK Board succession planning as a useful point of reference.

Review of time commitments and contributions

The appointments of the Chairman and non-executive directors are made on the basis of a formal letter of appointment including a stated minimum time commitment judged appropriate by the Committee. The Committee considers that the time given to IMI by each non-executive director is sufficient. The Board is satisfied that I have the necessary time to devote to my role as Chairman.

Diversity

The Board recognises the benefits a diverse pool of talent can bring to a boardroom and remains committed to increasing diversity in the businesses 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. At Board level, there are six nationalities, two of the five non-executive directors are female and there is a broad mix of backgrounds and experience. Further information on diversity matters is given in the Corporate Responsibility section on pages 28 to 37.

Committee evaluation

The Nominations Committee reviewed its own performance and terms of reference and received positive feedback from the evaluation exercise carried out in respect of the Board and each of its committees. Following the Board evaluation in 2015, the Committee membership during 2016 has included all of the non-executive directors and an update on Nominations Committee best practice was provided for the expanded Committee.

The Committee approved the foregoing report on its work.

Yours faithfully

Lord Smith of Kelvin
Chairman of the Nominations Committee

23 February 2017

Directors' Remuneration Report
Annual Statement from the Chairman of the Committee

Bob Stack
Chairman of the Remuneration Committee

Dear Shareholder

2016 was the second year under our remuneration policy following its approval by shareholders in 2015. In line with last year's approach and to simplify this year's report, our approved remuneration policy can be found in the 2014 Annual Report on the IMI website. Our focus this year has been twofold: to ensure consistent application of our policy and to ensure remuneration arrangements remain appropriate in light of the continuing tough economic and market conditions.

2016 has been a challenging year for IMI with continued difficult economic and market conditions putting pressure on the Group's ability to deliver progress in many of the key financial measures. It is pleasing to report that many of the longer term actions have been executed well and the new product pipeline, operational improvements and ERP implementation have all made excellent progress in the year.

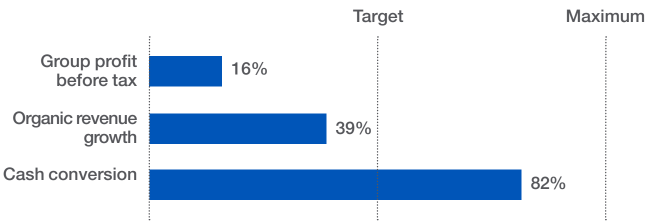
Group profit before tax has decreased by 5% to £208m while organic revenue was lower by 5% to £1,649m. EPS was also lower by 4% in 2016 and shareholders received a dividend of 38.7p – an increase of 1% from last year.

Despite the challenges encountered, we remain focused on executing our strategy, investing in the business and capitalising on long-term growth opportunities. In particular, the investments made over the course of 2015 and 2016 give us improved potential to grow shareholder value in the long-term and we remain confident that we are well positioned to capitalise on future market recovery. The Committee believes that the remuneration arrangements in place will continue to support the strategic business plan and ensure a strong focus on growth and efficiency.

How were pay outcomes linked to performance in 2016?

Remuneration for the executive directors is closely tied to business performance, with a high proportion of total remuneration delivered through variable pay linked to our strategic plan. At IMI we remain committed to a pay-for-performance philosophy and as a result of the performance challenges I have outlined, the outcomes under our variable pay schemes are below the on-target level.

Annual incentive awards to executive directors for 2016 were based on a combination of Group profit before tax (40%), organic revenue growth (20%), cash conversion (20%) and strategic and personal objectives (20%). Although only threshold levels were achieved in respect of Group profit before tax and organic revenues, above target levels were achieved for cash conversion which together with achievement against strategic and personal objectives resulted in the annual incentive bonus payments, and consequently the single total figure, being marginally higher than last year. The Committee is confident that this represents a fair reflection of performance in the context of the aforementioned challenges faced by the business. Summary outcomes against financial targets are presented in the chart below:



Additional to the annual incentive awards is the IMI Incentive Plan, which is further explained on page 66. This plan was only implemented in 2015, the first vesting of the award will be in 2018. M W Selway and R M Twite were granted a matching share award and performance award in 2014 and the awards vested at 0% and 0% respectively.

Directors' Remuneration Report
Annual Statement from the Chairman of the Committee (cont'd)

What decisions were made in 2016?

The Committee reviewed remuneration arrangements for the executive directors during the year and decided that no change to remuneration policy or to structure in 2016 or 2017 is appropriate or necessary.

The Committee reviewed the base salary levels for executive directors in light of 2016 business performance and concluded that an increase of 2%, effective 1 January 2017, was appropriate and in line with the wider employee workforce.

The Chairman and non-executive director fees were also reviewed and were increased by 2%, effective 1 January 2017.

Looking forward

The Committee will keep the existing remuneration policy under review to ensure it continues to support IMI's strategic objectives. With this is mind, it is noted that the remuneration policy was last approved by shareholders in 2015 and is due to be reviewed before a policy is put to the 2018 Annual General Meeting. This policy review will be a key area of focus for the Committee ahead of the 2018 Annual General Meeting.

Yours faithfully

Bob Stack
Chairman of the Remuneration Committee

23 February 2017

Directors' Remuneration Report
Annual Remuneration Report

Introduction

The Committee presents the Directors' Remuneration Report, which will be put to shareholders for an advisory (non-binding) vote at the Annual General Meeting to be held on 4 May 2017. The report includes details of the Committee, the pay received by our executive directors during the year in accordance with our current remuneration policy (approved on 7 May 2015) and comparative internal and external data.

The Remuneration Committee ('the Committee')

Composition

The members of the Committee throughout the year were Bob Stack (Chairman), Carl-Peter Forster and Birgit Nørgaard. In accordance with the 2014 UK Corporate Governance Code, all of the non-executive directors were regarded by the Board as independent.

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 considered the levels of pay across the broader Group. A copy of the Committee's terms of reference, which are reviewed annually, is included in the IMI Corporate Governance Framework and available in the Corporate Governance section of the IMI website.

Internal advisors to the Committee

During the year, the Committee consulted the Chief Executive, regarding the packages of the other executive directors and senior managers. It also received support from the Finance Director, the Group Human Resources Director, the Head of Group Reward and the Company Secretary, who is also secretary to the Committee. None of these individuals were involved in determining their own remuneration.

External advisers to the Committee

Independent remuneration consultant, Willis Towers Watson, is formally appointed by the Committee and provided advice on directors' remuneration to the Committee in 2016. The Committee noted that the firm are actuaries and administrators for the IMI Pension Fund. The Committee is comfortable that these activities do not represent a conflict of interest and that objective and independent advice continues to be received by the Committee from the dedicated team servicing it at Willis Towers Watson.

During 2016, Willis Towers Watson has also supported management on some broader reward and human resource matters. The fees charged by Willis Towers Watson in respect of advice and services to the Committee totalled £50,000 and for support to management totalled £17,000 in 2016. Willis Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK.

A summary of the Committee activities during 2016

The Committee had three formal meetings during the year, and each was attended by all members. The principal agenda items were as follows:

- a review of total compensation packages of the executive directors and the most senior management of the Group to ensure alignment with IMI's strategic growth plan;
- approval of achievements and outcomes under the incentive plans;
- consideration of the fees for the Chairman;
- setting the framework and target levels for the 2016 incentive cycle including review of the performance targets attaching to the 2017 long-term incentive plan awards;
- approval of the granting of share awards to executive directors and certain other levels of management;
- a review of the UK corporate governance environment relative to remuneration;
- a risk review of the remuneration framework;
- a review of the engagement of the independent remuneration consultants to the Committee; and
- a review of the Committee's own performance, constitution and terms of reference.

Attendance

Director	Remuneration Committee meetings	% attended where eligible
R J Stack	3	100%
C-P Forster	3	100%
B Nørgaard	3	100%

Voting outcome at the 2016 Annual General Meeting

The following table summarises the details of votes cast for and against the remuneration report resolution including those votes withheld. The Committee was pleased with the level of support shown by shareholders and will continue to consider the views of, and feedback from, shareholders when setting and reporting on remuneration arrangements.

Directors' Remuneration Report	Votes for	Votes against	Votes withheld
Annual Remuneration Policy	98.73%	1.27%	2,406,779

Directors' Remuneration Report
Annual Remuneration Report (cont'd)

Executive single figure table (audited)

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 64	Page 64	Page 65	Pages 65 to 66	Page 67	Pages 67 to 68		Page 69	Page 69	
M W Selway	2016	785	236	42	781	-	38	38	4	-	1,886
	2015	770	231	50	611	-	-	-	5	-	1,667
R M Twite	2016	454	159	19	311	-	-	-	4	-	947
	2015	445	156	19	194	135	-	135	4	-	953
D J Shook	2016	410	82	34	252	-	-	-	4	-	782
	2015	400	80	100	193	-	-	-	-	-	773

R M Twite served on the Board of Halma plc during the year and received fees of £51,000 in respect of this appointment which he retained.

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.

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 (see share price assumptions adjacent).

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 (see share price assumptions adjacent).

Share price assumptions: for shares vesting in 2017, that related to performance in the three years to 31 December 2016, the average share price over the final three months of 2016 1,007.51 pence is used to estimate the value of shares on vesting. For shares vested in 2016, relating to performance in the three years to 31 December 2015, previously reported figures[1] are updated to reflect the actual share price on the date of vesting (925.50 pence for the Share Matching Plan and 938.00 pence for the Performance Share Plan).

All-employee share plans: the value of free shares at award and dividends under the Employee Share Ownership Plan in the relevant financial year and the intrinsic value of Save as You Earn share options on the date of grant in the relevant financial year (applying a 10% discount as permitted under the Save as You Earn Share Plan).

Dividend equivalent 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.

[1] The average share price over the final three months of 2015 (940.93 pence) was used.

Comparative data of pay spend

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

Relative importance of pay spend

	2016 (£m)	2015 (£m)	Change
Acquisitions	-	106.2	-100%
Dividends	104.2	102.5	2%
Total employment costs for Group (see Section 2.1.3.1 on page 89)	566.6	508.2	11%

In 2016, the total dividend for the year of 38.7 pence represented an increase of 1% over last year's 38.4 pence.

Relative percentage change in remuneration for Chief Executive

The Committee actively considers any increases in base pay for the Chief Executive relative to the broader employee population. However, benefits and bonus payments are not typically compared given they are driven by a far broader range of factors, such as local practices, eligibility, individual circumstances and role.

	Chief Executive	Employees[1]
Base salary	2%	2%
Benefits	-16%	5%
Annual bonus	28%	37%

[1] All UK head office employees. This comparison excludes our international workforce which we feel would not provide a true comparison given differing local market factors.

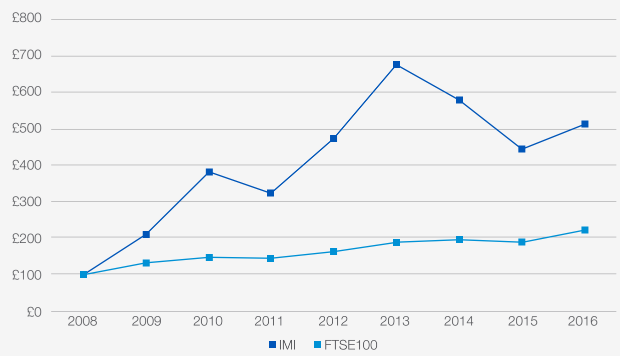
Historical performance and remuneration

In addition to considering executive remuneration in the context of internal comparisons, the Committee reviews historical outcomes under the variable pay plans.

The graph below compares IMI's total shareholder return ('TSR') to the FTSE100 over the last eight years. We compare performance to the FTSE100 as IMI has been included in the index in the past and it is a position where IMI aspires to be. TSR measures the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends (source: DataStream), with data averaged over the final 30 days of each financial year.

As the graph below illustrates, IMI's absolute and relative TSR performance has been strong over the last eight years. This is reflected in the outcomes under our variable pay plans, which are largely driven by the financial performance of the Group and IMI's share price.

Value of a hypothetical £100 investment



Introduction
Strategic Review
Corporate Governance
Financial Statements

Directors' Remuneration Report
Annual Remuneration Report (cont'd)

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

Financial year-ended 31 December	2009[1]	2010[1]	2011[1]	2012[1]	2013[1]	2014[2]	2015[2]	2016
Total remuneration (single figure, £000)	2,547	4,439	12,289	7,954	6,688	1,567	1,667	1,886
Annual variable pay (% of maximum)	91%	95%	85%	47%	62%	36%	40%	50%
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%	-	-	3.5%

[1] Represents remuneration for M J Lamb who was Chief Executive from before 2008 until 31 December 2013.

[2] Represents remuneration for M W Selway who was appointed Chief Executive on 1 January 2014.

Executive remuneration received in respect of 2016

Base salary

Salaries effective January 2016 were agreed taking into account a range of factors including the prevailing economic conditions, the financial performance of the Group and salary increases for other employees. The average increase for employees was 2.7%, compared to 2.1% for the executive directors. M W Selway's, R M Twite's and D J Shook's salaries were increased by 1.9%, 2.0%, and 2.5% to £785,000, £454,000 and £410,000 respectively.

Pension

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. M W Selway receives a cash allowance of 30% of salary and D J Shook receives a cash allowance of 20% of salary. R M Twite receives a cash allowance of 35% of salary as a legacy obligation from his appointment as an executive director which continues to be honoured.

Pension benefits for past service

R M Twite was previously an active member of the defined benefit IMI Pension Fund. He opted out with effect from 1 February 2007, before he became an executive director and as a result, he retains past pensionable service up to that date in the IMI 2014 Deferred Fund ('the Fund').

The key elements of the benefits in the Fund are summarised below:

- the normal retirement age under the Fund is 62 and R M 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 50% of the member's pension;
- should he die within the first five years of retirement, the dependant's pension is increased to 100% of the member's pension for the remainder of the five year period; and
- 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.

	Accrued pension in the Fund as at 31 December 2016 £000pa	Accrued pension in the Fund as at 31 December 2015 £000pa
R M Twite	70	69

Benefits

During the year the executive directors received a number of benefits. These are summarised below and amounts less than £10,000 p.a. are combined.

	M W Selway		R M Twite		D J Shook	
	2016	2015	2016	2015	2016	2015
Non-cash benefits (£000)						
Total	1	1	2	2	15	11
Cash benefits and taxable allowances (£000)						
Company car and fuel allowance	20	20	17	17	14	14
Relocation	-	-	-	-	-	75
Other	21	29	-	-	5	-
Total	42	50	19	19	34	100

In addition to the above benefits and allowances that are included in the single figure (refer to table on page 62), the executive directors are also beneficiaries of company policies that have no taxable value, including directors' and officers' insurance, death in service cover, travel insurance, the use of a company driver and personal accident cover.

Annual incentive bonus

The 2016 bonus plan focused on the financial performance of IMI during the year, considering Group profit before tax (40%), organic revenue growth (20%), cash conversion (20%) and strategic and personal objectives (20%). Health and safety will serve as an underpin to ensure bonuses are only paid out when minimum standards are achieved.

2016 was a challenging year for IMI with difficult economic and market conditions contributing to weaker than targeted financial results when compared to 2015:

- Group profit before tax decreased to £208m in 2016 from £219m in 2015, representing a 5% decrease;
- Group revenue decreased by 5% on an organic basis compared to 2015;
- cash conversion was 95%, compared with 97% in 2015;
- the total dividend for the year increased by 1% compared to 2015; and
- strong performance for health and safety with leading measures showing benefits from lean and HSE integration in the year.

Summarised in the table below is the achievement against Group targets set at the beginning of the year alongside the resulting contribution to bonus payout.

Annual bonus metrics[1]		2016 performance required	Actual performance[2]	Payout as a percentage of maximum	Weighting as a percentage of total bonus opportunity	Contribution to payout as a percentage of maximum bonus opportunity
Group profit before tax	Threshold	£172.5m	£180.4m	16%	40%	6%
	Target	£197.2m				
	Maximum	£216.9m				
Group organic revenue growth	Threshold	£1,454m	£1,486m	39%	20%	8%
	Target	£1,494m				
	Maximum	£1,534m				
Group cash conversion (FY figures shown)	Threshold	76.0%	95%	82%	20%	18%
	Target	89.0%				
	Maximum	98.0%				

1 R M Twite's annual bonus opportunity is dependent on a combination of Group (35%) and Critical Engineering (45%) financial objectives in line with his role's responsibilities. The Committee believes that the divisional targets are commercially sensitive and these are therefore not disclosed in the table above.

2 Actual performance is stated at the exchange rates used in the targets.

Directors' Remuneration Report
Annual Remuneration Report (cont'd)

In addition, each executive director has a number of personal objectives agreed with the individual during the first quarter of the financial year, and which pertain to areas directly within their remit. The Committee seeks to set personal objectives that are demanding and measurable, and in all cases they are subject to a robust and rigorous validation exercise at both the half and full year which take into account multiple points of reference. These personal objectives and the Committee's assessment of each executive director's performance against them is described below.

Individual performance metrics	2016 performance required	Payout as a percentage of maximum	Weighting as a percentage of total bonus opportunity	Contribution to payout as a percentage of maximum bonus opportunity
Individual performance objectives are robustly set and are customised for each individual. All objectives are measurable and are objectively determined. Individual objectives for 2016 were built around the Group's key performance indicators.	**M W Selway:** Objectives included areas such as organisation, strategy, financial integrity and specific projects.	89.2%	20.0%	17.8%
	R M Twite: Objectives included areas such as diversity, strategy, core process and specific projects.	96.6%	20.0%	19.3%
	D J Shook: Objectives included areas such as strengthening investor/analyst relationships, financial process improvements, strategy and specific information technology projects.	86.0%	20.0%	17.2%

In aggregate this resulted in the following annual incentive bonus outcomes:

	2016 maximum bonus opportunity (% of salary)	Total bonus awarded (£000)	Total bonus awarded (% of salary)	Achievement of share ownership guidelines at 31 Dec 2016[1]	Bonus delivered in form of cash (£000)	Bonus delivered in form of shares (£000)
M W Selway	200%	781	100	21%	390	391
R M Twite	150%	311	69	141%	311	-
D J Shook	125%	252	61	16%	126	126

[1] Executive directors are subject to guidelines which require them to build a shareholding in IMI worth at least 250% of salary for M W Selway, 150% of salary for D J Shook and 200% of salary for R M Twite. 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. Although M W Selway and D J Shook continue to make progress towards this guideline, and have a material interest in the Company's shares (as can be noted in the table on page 70), as a consequence of awards not having vested the Committee has determined that half of the annual bonus payable to M W Selway and D J Shook shall be delivered in shares which must be held for a period of at least three years and until the shareholding guideline has been met.

Share interests granted to executive directors during 2016 (audited)

Grants made under the IMI Incentive Plan ('IIP')

Grants under the IIP were made on 9 March 2016 in the form of nil-cost options. Awards are due to vest on 9 March 2019, subject to performance in three core areas aligned to our longer-term strategic priorities: return on capital employed (25%), relative Total Shareholder Return (25%) and Group profit before tax growth (50%).

The performance targets that apply to the 2016 IIP awards are as follows:

	ROCE	Relative TSR	Group profit before tax growth	Level of vesting
Threshold	40%	Median	2.5%	25%
Maximum	50%	Upper quartile	7.5%	100%
Weighting	25%	25%	50%	-

The following grants were approved and made in 2016:

	IIP shares awarded	Value on date of award[1] (£000)	Award as a percentage of salary
M W Selway	213,007	1,962	250%
R M Twite	98,553	908	200%
D J Shook	66,751	615	150%

[1] The three day average mid-market price on the date of award was 921.33 pence.

The IIP is also used to grant deferred bonus awards exercisable after three years to satisfy annual bonuses delivered in the form of shares. Details of these additional IIP awards made in 2016 are shown in the table on page 70 under the 'without performance conditions' column.

Awards vesting under legacy share plans

The Share Matching Plan ('SMP') – the last grant made under this plan was in 2014 and it will vest in April 2017.

M W Selway and R M Twite received an award under the SMP in April 2014.

Vesting was subject to the achievement of an Economic Value Added ('EVA') performance condition, measured over the three years ending 31 December 2016. 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 2014 to 2016 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 vest; and for growth between 6% and 17%, 25% to 100% of matching shares vest. Within each range, vesting is calculated on a straight-line basis.

Over the period IMI delivered compound annual EVA growth of -5.6% based on three-year EVA from 2014 to 2016 of £479.7m compared to three-year EVA from 2011 to 2013 of £570.3m. The resultant vesting outcome in April 2017 is nil:

	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 W Selway	8,528	26,146	390	-	-	-	-
R M Twite	17,356	65,494	976	-	-	-	-

[1] The mid-market price on the date of award was 1,490.00 pence.

[2] Awards will lapse in full on 1 April 2017 as a result of the EVA performance threshold not having been met.

The Performance Share Plan ('PSP') – the last grant made under this plan was in 2014 and will vest in March 2017.

In March 2014, awards were made to M W Selway and R M Twite with vesting of the awards subject to the achievement of three independent performance conditions: EPS growth (50%), relative TSR (25%) and organic revenue growth (25%), measured over the three-year period ending 31 December 2016.

On appointment (1 October 2013) M W Selway was made an award under the PSP worth 200% of salary subject to four independent performance conditions: TSR (20%) measured over the period 1 October 2013 to 30 September 2016, organic revenue growth (20%), EVA (20%) and EPS (40%) each measured over the period 1 January 2013 to 31 December 2015. The award vested in October 2016.

- EPS growth

  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 impairment losses, profit/ loss on disposal of a subsidiary, rationalisation costs, acquired intangible amortisation and IAS 39 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 the EPS element of the awards were eligible to vest in full for EPS growth of 15% per annum. Over the three year period ending 31 December 2016 IMI delivered EPS growth of -10.9% per annum, decreasing EPS from 72.6 pence in 2013 to a comparable 51.4 pence at the end of 2016[3]. Over the three year period ending 31 December 2015 IMI delivered EPS growth of -5.7% per annum, decreasing EPS from 64.7 pence in 2012[4] to a comparable 54.2 pence at the end of 2015[3].

[3] Adjusted for 2014 share consolidation and the acquisition of Bopp & Reuther.

[4] Adjusted for IAS 19.

- Relative TSR

  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 October 2013 and March 2014 peer groups each comprised of the companies shown on page 68, adjusted to take account of merger and acquisition activity during the performance period in line with the Committee's established guidelines.

Directors' Remuneration Report
Annual Remuneration Report (cont'd)

At the end of the three-year performance periods ending 30 September 2016 and 31 December 2016, the Company ranked 34 and 35 respectively in the peer groups. The Committee was in agreement that the outcomes under the TSR measure was reflective of the general underlying financial performance of the Company.

- Organic revenue growth

  Organic growth is calculated as an average annual growth rate, to encourage continued focus on organic growth. Revenue is defined as segmental 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.

  Organic revenue growth of 2.7% per annum would trigger the minimum level of vesting (25% of the organic revenue element) increasing on a straight-line basis such that this element of the awards were eligible to vest in full for growth of 8% per annum. Over the three year period ending 31 December 2016 IMI delivered growth of -2.5%. Over the three year period ending 31 December 2015 IMI delivered growth of -0.7%.

- Economic Value Added ('EVA')

  Vesting in respect of the 2013 PSP award made to M W Selway was subject to the achievement of an EVA performance condition, measured over the three years ending 31 December 2015. 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 2013 to 2015 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 shares vest; and for growth between 6% and 17%, 25% to 100% of the shares vest. Within each range, vesting is calculated on a straight-line basis. As disclosed in last year's report, over the period ending 31 December 2015, IMI delivered compound annual EVA growth of 2.9% based on three-year EVA from 2013 to 2015 of £557.4m compared to three-year EVA from 2010 to 2012 of £511.5m.

UK	US
BBA Aviation	Borgwarner
Bodycote	Eaton
Cobham	Emerson Electric
GKN	Flowserve Corp
Halma	Honeywell
Johnson Matthey	IDEX
Meggitt	Ingersoll-Rand
Rotork	Illinois Tool Works
Spectris	Johnson Controls[1]
Spirax-Sarco Engineering	Manitowoc
Vesuvius	Parker-Hannifin
Weir Group	Pentair

Japan	Continental Europe
Amada	Atlas Copco
Fanuc	Heidelberg Druckmaschinen
NSK	Metso Corporation
SMC	Sandvik
THK	SKF B
Yaskawa Electric	Sulzer AG

[1] Johnson Controls acquired Tyco International in September 2016.

The 2013 PSP award in respect of M W Selway will vest only in relation to the EVA target having been met to an extent and consequently will vest at 3.46%. The 2014 PSP award in respect of M W Selway and R M Twite will lapse in full as a result of the performance thresholds not being met.

	Initial award	Value on date of award[2] (£000)	Number of shares vesting	Additional dividend equivalent shares	Total shares vesting	Value of shares on vesting (£000)
M W Selway 2013	98,792	1,500	3,418	339	3,757	38
M W Selway 2014[3]	75,950	1,114	-	-	-	-
R M Twite 2014[3]	29,300	430	-	-	-	-

[2] The three day average mid-market price on the date of the 2013 and 2014 awards was 1,518.33 pence and 1,467.00 pence respectively.

[3] Awards will lapse in full on 11 March 2017 as a result of the performance thresholds not having been met.

All-employee share plans

Executive directors are eligible to participate in the all-employee share plans on the same terms as other eligible employees at IMI. In 2016, M W Selway, R M Twite and D J Shook received free share awards under the All Employee Share Ownership Plan. D J Shook received Save As You Earn awards in 2016 of 2,129 shares.

		All Employee Share Ownership Plan		SAYE			
		Number of shares awarded	Value of free share award[1] (£000)	Number of options awarded	Value of SAYE options[2] (£000)	Dividends (£000)	Total value under the all-employee share plans (£000)
M W Selway	2016	363	4	-	-	-	4
	2015	289	4	836	1	-	5
R M Twite	2016	363	4	-	-	-	4
	2015	289	4	-	-	-	4
D J Shook	2016	242	2	2,129	2	-	4
	2015	-	-	-	-	-	-

[1] In 2016 free shares were awarded at a share price of 990.71 pence (1,245.00 pence in 2015).

[2] In 2016 SAYE awards were made at a 10% discount and the value shown is the intrinsic gain at the date of the grant, calculated in accordance with the single figure requirements (on page 62). See Section 4.7.1 on page 122.

Dividend payments

Under the SMP and PSP, dividend equivalent payments are made on vested but unexercised share awards, which take the form of nil-cost options. 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 have been included in the single figure (the table on page 62) based on the number of dividend equivalents notionally accrued in the 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.

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.

As all of the subsisting SMP and PSP awards made to D M Hurt in 2014 (who retired from the Board on 7 May 2015) have lapsed in full due to the minimum performance thresholds outlined above not being met, there were no payments to past directors during the year.

Dividend equivalent payments for vested but unexercised nil-cost option awards will continue to be made to past directors under the terms of the original grant.

Directors' Remuneration Report
Annual Remuneration Report (cont'd)

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 2016 and 31 December 2015.

Director	2016 (£000)			2015 (£000)		
	Base fees	Additional fees	Total	Base fees	Additional fees	Total
Lord Smith of Kelvin	306	-	306	195[1]	-	195
C-P Forster	61	-	61	60	-	60
B Nørgaard	61	-	61	60	-	60
R J Stack	61	26[2]	87	60	22[2]	82
R McInnes	61	16[3]	77	60	15[3]	75
I Sharp	61	-	61	20[4]	-	20

[1] Joined the IMI Board in 2015 and became the Chairman at the 2015 AGM. Annualised fee for the Chairman in 2015 was £300,000.

[2] Includes fees for being Chairman of the Remuneration Committee and Senior Independent Director.

[3] Includes fees for being Chairman of the Audit Committee.

[4] Joined the IMI Board on 1 September 2015 and is a member of the Audit Committee.

Directors' shareholdings and share interests (audited)

The following table summarises the share interests of any director who served during the year as at 31 December 2016 or at the date of retirement from the Board.

During the period 31 December 2016 to 23 February 2017 there were no changes in the interests of any current director from those shown save for purchases within the IMI All Employee Share Ownership Plan on 10 January 2017 of 12 shares on behalf of M W Selway, R M Twite and D J Shook at 1,067p per share and 14 February 2017 of 10 shares on behalf of each of M W Selway, R M Twite and D J Shook at 1,216.75p per share.

Director	Total interests	Beneficial interests	Scheme interests				
			Nil-cost options				All-employee share plans
			With performance conditions		Without performance conditions		
			Unvested	Vested but unexercised	Unvested	Vested but unexercised	
M W Selway	567,785	9,335	496,087	3,757	57,457	-	1,149
R M Twite	408,925	120,354	281,751	-	-	-	6,820
D J Shook	135,426	4,000	120,014	-	10,914	-	498
Lord Smith of Kelvin	8,300	8,300	-	-	-	-	-
C-P Forster	2,625	2,625	-	-	-	-	-
B Nørgaard	2,625	2,625	-	-	-	-	-
R J Stack	13,125	13,125	-	-	-	-	-
R McInnes	3,000	3,000	-	-	-	-	-
I Sharp	3,000	3,000	-	-	-	-	-

From 2015, the Committee requires M W Selway to build up a shareholding of at least 250% of salary, 200% of salary in the case of R M Twite and 150% of salary for D J Shook, to mirror the IMI Incentive Plan award. At the end of the year R M Twite significantly exceeded the share ownership guideline.

Application of the Directors' Remuneration Policy in 2017

Service contracts

The unexpired terms of the non-executive directors' service contracts can be reviewed in the Board's Corporate Governance Report on page 49.

Executive director fixed pay

Salaries effective January 2017 were agreed taking into account a range of factors including the prevailing economic conditions, the financial performance of the Group and salary increases for other employees.

The average increase for employees was 2.6%, compared to 2.0% for the executive directors. M W Selway's, R M Twite's and D J Shook's salaries were all increased by 2% to £801,000, £463,000 and £418,000 respectively.

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

Incentive pay

Annual bonus

In accordance with the approved remuneration policy, the annual bonus plan will be operated as follows in 2017:

- as in 2016, the 2017 maximum bonus opportunity is set at 200% of salary for M W Selway, 150% for R M Twite and 125% for D J Shook;
- as in 2016, the annual bonus for M W Selway and D J Shook will be subject to performance in Group profit before tax (40%), organic revenue (20%), cash conversion (20%) and strategic and personal objectives (20%). Health and safety will serve as an underpin to ensure bonuses are only paid out when minimum standards are achieved;
- as in 2016, the annual bonus for R M Twite in 2017 will be subject to performance in Group profit before tax (35%), Critical Engineering operating profit (15%), Critical Engineering organic revenue (15%), Critical Engineering cash conversion (15%) and strategic and personal objectives (20%); and
- the Committee has determined that the targets associated with the performance measures will be disclosed retrospectively on the same basis and to the same extent as for 2016 targets (see annual bonus metrics table on page 65).

IMI Incentive Plan ('IIP')

In accordance with the approved remuneration policy, the IIP will be operated as follows in 2017:

- 2017 awards are set at 250% of salary for M W Selway, 200% for R M Twite and 150% for D J Shook; and
- awards will vest subject to performance in three core areas aligned to our longer-term strategic priorities: return on capital employed (25%), relative Total Shareholder Return (25%) and Group profit before tax growth (50%).

The performance targets that will apply to the 2017 IIP awards are as follows:

	ROCE	Relative TSR	Group profit before tax growth	Level of vesting
Threshold	40%	Median	2.5%	25%
Maximum	50%	Upper quartile	7.5%	100%
Weighting	25%	25%	50%	-

Fees for the Chairman and non-executive directors

The Chairman and non-executive directors' remuneration increased by 2%, effective 1 January 2017. This is in line with the executive directors and the wider employee workforce.

Share ownership for the Chairman and non-executive directors

The Chairman and non-executive directors are encouraged to hold some shares in IMI within a reasonable period after their appointment. As at 23 February 2017, the Chairman and non-executive directors hold IMI shares as set out in the table on page 70.

Bob Stack
Chairman of the Remuneration Committee
for and on behalf of the Board

23 February 2017

Financial Statements

The production line for Hydronic Engineering’s new actuator range TA-Slider, is the most advanced in terms of error proofing, which helps to ensure great quality for our customers


IMI
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Financial statements

Finance Director's Introduction

Introduction from Daniel Shook

Dear Shareholder

Welcome to the financial statements section of our Annual Report.

My financial review commentary is set out in this section alongside the primary statements. These financial statements are presented with the primary statements first, followed by five sections: 'Basis of preparation', 'Results for the year', 'Operating assets and liabilities', 'Capital structure and financing costs' and 'Other notes'.

IMI continues to enhance its overall control environment and financial risk management. Operational improvements in the year have delivered further working capital reductions and the Group's pension position remains strong despite adverse discount rate and inflation movements during the year.

Although market conditions remain challenging, IMI is strengthening its business foundations to enable us to benefit long-term.

Daniel Shook
Finance Director

Financial statements

Table of contents

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.

Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 Reported £m	2016 Exceptional items £m	2016 Statutory £m	2015 Reported £m	2015 Exceptional items £m	2015 Statutory £m
Revenue	2.1	**1,649**	8	**1,657**	1,557	10	1,567
Segmental operating profit	2.1	**227.7**		**227.7**	239.4		239.4
Reversal of net economic hedge contract losses	2.2.1		**5.6**	**5.6**		7.6	7.6
Restructuring costs	2.2.2	**(3.5)**	**(18.8)**	**(22.3)**	(2.1)	(27.1)	(29.2)
Gains on special pension events	2.2.3		**2.8**	**2.8**		9.1	9.1
Impairment losses	2.2.4		**(5.0)**	**(5.0)**		-	-
Acquired intangible amortisation	2.2.4		**(20.5)**	**(20.5)**		(32.2)	(32.2)
Loss on disposal of subsidiaries	2.2.5		-	-	(0.4)	(8.4)	(8.8)
Operating profit		**224.2**	**(35.9)**	**188.3**	236.9	(51.0)	185.9
Financial income	4.3	**4.5**	**12.6**	**17.1**	3.2	20.9	24.1
Financial expense	4.3	**(21.8)**	**(19.4)**	**(41.2)**	(21.6)	(25.9)	(47.5)
Net financial income relating to defined benefit pension schemes	4.5.3.3	**1.1**		**1.1**	0.2		0.2
Net financial expense		**(16.2)**	**(6.8)**	**(23.0)**	(18.2)	(5.0)	(23.2)
Profit before tax		**208.0**	**(42.7)**	**165.3**	218.7	(56.0)	162.7
Taxation	2.4.5	**(43.7)**	**11.6**	**(32.1)**	(48.1)	8.7	(39.4)
Profit from continuing operations after tax		**164.3**	**(31.1)**	**133.2**	170.6	(47.3)	123.3
Profit from discontinued operations after tax	2.5		-	-		6.7	6.7
Total profit for the year		**164.3**	**(31.1)**	**133.2**	170.6	(40.6)	130.0
Attributable to:							
Owners of the parent		**161.9**		**130.8**	168.2		127.6
Non-controlling interests	4.8	**2.4**		**2.4**	2.4		2.4
Profit for the year		**164.3**		**133.2**	170.6		130.0
Earnings per share	2.3						
Basic - from profit for the year		**59.8p**		**48.3p**	62.2p		47.2p
Diluted - from profit for the year		**59.4p**		**48.0p**	61.7p		46.8p
Basic - from continuing operations		**59.8p**		**48.3p**	62.2p		44.7p
Diluted - from continuing operations		**59.4p**		**48.0p**	61.7p		44.4p

Commentary on the consolidated income statement

Results summary

Reported revenue increased by 6% to £1,649m (2015: £1,557m). After adjusting for a favourable exchange rate impact of £179m and the contribution from acquisitions and disposals, organic revenue decreased by 5% reflecting difficult market conditions, particularly in Critical Engineering which continues to be impacted by the low oil price.

Segmental operating profit of £228m (2015: £239m) fell by 5% on a reported basis and by 17% at constant exchange rates and excluding acquisitions and disposals. The segmental operating margin was 13.8% (2015: 15.4%). Further information on the each of the division's segmental results is included within the performance review section on pages 22 to 27. Statutory operating profit was £188m (2015: £186m) after the deduction of exceptional items which are discussed in more detail below.

Reported net interest costs on net borrowings were £17m (2015: £18m), reflecting the repayment of US$75m of borrowings in July 2016. These were covered 16 times (2015: 15 times) by continuing earnings before interest, tax, depreciation, amortisation, impairment and exceptional items of £273m (2015: £275m). The net pension financing income under IAS 19 was £1.1m (2015: £0.2m).

Profit before taxation and exceptional items was £208m (2015: £219m), a decrease on the previous year of 5%.

The effective tax rate for the Group before exceptional items reduced to 21% (2015: 22%). The total reported tax charge for the year on continuing operations was £44m (2015: £48m) and continuing reported profit after tax was £164m (2015: £171m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Tax Policy which is explained further in Section 2.4.

Exceptional items

Operating profit was £188m (2015: £186m) after the deduction of exceptional items which are discussed below:

Reversal of net economic hedge contract losses

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 and the loss of £6m (2015: £8m) and records a charge within interest (see Section 2.2.1).

Restructuring costs

The restructuring costs treated as exceptional in 2016 of £19m (2015: £27m) are as a result of a number of significant restructuring projects across the Group, in particular within Critical Engineering and Precision Engineering. This restructuring is explained in more detail in Section 2.2.2 on page 90. Restructuring costs of £4m (2015: £2m) that arose from normal recurring cost reduction exercises have not been treated as exceptional.

Pensions

During 2016, following the conversion to a non-inflation linked pension for certain members of our UK Funds, an exceptional net gain of £6.1m was realised. In addition, following further restructuring exercises in Switzerland, a curtailment gain of £1.4m was recognised. These exceptional gains were partially offset by an exceptional loss of £4.7m relating to the distribution of pension assets to members from our previously overfunded Swiss schemes.

Impairment and acquired intangible amortisation

The Group recorded an exceptional impairment charge of £5m (2015: nil) against the goodwill associated with the Stainless Steel Fasteners ('SSF') CGU in the IMI Critical Engineering division. Acquired intangible amortisation decreased to £21m (2015: £32m) following the full amortisation in 2015 of the order book acquired from Bopp & Reuther.

Loss on disposal of subsidiaries

There were no disposals of subsidiaries during 2016.

Financing costs

A net charge arose on the revaluation of financial instruments and derivatives under IAS 39 of £7m (2015: £5m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Taxation

An exceptional tax credit of £12m (2015: £9m) arose in connection with business restructuring and other exceptional items.

Profit from continuing operations after tax and exceptional items

Profit after taxation and exceptional items was £133m (2015: £123m).

Earnings per share ('EPS')

The Board considers that a more meaningful indication of the underlying performance of the Group is provided by reported earnings per share. Details of this calculation are given in Section 2.3 to the Group financial statements on page 91. Reported EPS was 59.8p, a decrease of 4% on last year's 62.2p. Statutory basic EPS was up 2% to 48.3p (2015: 47.2p) and statutory diluted EPS was up 3% to 48.0p (2015: 46.8p).

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:

	2016	2015
Euro	1.22	1.38
US dollar	1.36	1.53

The movement in average exchange rates between 2015 and 2016 resulted in our reported 2016 revenue being 11% higher and segmental operating profit being 13% higher as the average euro and US dollar rates against sterling were 12% and 11% stronger, respectively.

If the exchange rates as at 6th February 2017 of US$1.25 and €1.16 were projected for the full year and applied to our 2016 results, it is estimated that reported revenue would have been 6% higher and segmental operating profit would have been approximately 7% higher.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016		2015	
	£m	£m	£m	£m
Profit for the year		133.2		130.0
Items reclassified to profit and loss in the year				
Foreign exchange loss reclassified to income statement on disposal of operations	-		2.0	
		-		2.0
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	(2.8)		(11.0)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	39.4		2.9	
Fair value loss on available for sale financial assets	-		(1.7)	
Related tax effect on items that may subsequently be reclassified to profit and loss	0.6		(1.6)	
		37.2		(11.4)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement (loss)/gain on defined benefit plans	(78.2)		27.8	
Related taxation effect	15.3		(5.6)	
Taxation in relation to restructure of UK Pension Fund	-		0.5	
Effect of taxation rate change on previously recognised items	(2.5)		(5.1)	
		(65.4)		17.6
Other comprehensive (expense)/income for the year, net of taxation		(28.2)		8.2
Total comprehensive income for the year, net of taxation		105.0		138.2
Attributable to:				
Owners of the parent		102.6		135.8
Non-controlling interests		2.4		2.4
Total comprehensive income for the year, net of taxation		105.0		138.2

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 2016 was £543m (2015: £546m). Movements in shareholders' equity can be split into three categories:

- the profit for the year attributable to the equity shareholders of £131m (2015: £128m). This is discussed on the page opposite the income statement.
- other comprehensive income movements in the year decreased shareholders' equity by £28m (2015: £8m increase). These are discussed below.
- movements taken directly to equity in the year reduced shareholders' equity by £106m (2015: £99m). 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 comprehensive income. In accordance with the amendment to IAS 1, these items are allocated between those items that have been reclassified to the income statement, those that may be reclassified to the income statement and those items that will not subsequently be reclassified to the income statement.

Any net investment hedge derivatives which have not settled by the year-end are marked to market on the balance sheet at the year-end and the movements are recorded in the hedging reserve. This movement is also included in other comprehensive income and in 2016, amounted to a loss of £2m (2015: £10m loss) including the related taxation effect.

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 gain of £39m in 2016 (2015: loss of nil).

Movements in available-for-sale assets, which are principally used to fund defined benefit obligations in the US, are also recorded in other comprehensive income and amounted to a gain of nil (2015: loss of £1m) including the related taxation effect.

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
As at 1 January 2015	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1
Profit for the year						127.6	127.6	2.4	130.0
Other comprehensive income/(expense)				(10.1)	1.8	16.5	8.2		8.2
Total comprehensive income/(expense)				(10.1)	1.8	144.1	135.8	2.4	138.2
Issue of share capital	0.1	1.0					1.1		1.1
Dividends paid						(102.5)	(102.5)	-	(102.5)
Share-based payments (net of tax)						0.1	0.1		0.1
Shares issued by:									
employee share scheme trust						2.3	2.3		2.3
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2015	81.8	11.8	174.4	0.6	1.4	276.1	546.1	42.8	588.9
Changes in equity in 2016									
Profit for the year						**130.8**	**130.8**	**2.4**	**133.2**
Other comprehensive income/(expense)				**(2.2)**	**39.4**	**(65.4)**	**(28.2)**	**-**	**(28.2)**
Total comprehensive income/(expense)				**(2.2)**	**39.4**	**65.4**	**102.6**	**2.4**	**105.0**
Issue of share capital	**-**	**0.3**					**0.3**		**0.3**
Dividends paid						**(104.2)**	**(104.2)**	**(0.8)**	**(105.0)**
Share-based payments (net of tax)						**5.8**	**5.8**		**5.8**
Shares acquired for:									
employee share scheme trust						**(7.4)**	**(7.4)**		**(7.4)**
Income earned by partnership							**-**	**(4.4)**	**(4.4)**
As at 31 December 2016	**81.8**	**12.1**	**174.4**	**(1.6)**	**40.8**	**235.7**	**543.2**	**40.0**	**583.2**

Actuarial movements in the Group's defined benefit pension obligations are also recorded in other comprehensive income. The Group completed a bulk insurance buy-in exercise in relation to certain members of the UK Funds during the year and the difference between the value of the liabilities insured and the cost of the premium to insure them has been recognised in other comprehensive income. These movements are explained in detail in Section 4.5 on page 114. Together with the taxation effect, the loss in the year was £63m (2015: £22m gain).

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.

0.1m (2015: 0.2m) shares were issued during the year, realising £0.3m (2015: £1.0m) in the share capital and share premium account.

The 2015 final dividend of 24.5p per share and the 2016 interim dividend of 14.0p per share were paid during the year (2015: 2014 final dividend of 24.0p and 2015 interim dividend of 13.9p), which reduced equity by £104m (2015: £103m).

The credit for share-based payments, which reverses the £6m (2015: £1m) 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, together with the reversal of the associated nil tax credit (2015: £1m).

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 £7m (2015: £2m credit), refer to Section 4.6 for more information.

Consolidated balance sheet

At 31 December 2016

	Notes	2016 £m	2015 £m
Assets			
Intangible assets	3.2	**521.2**	457.2
Property, plant and equipment	3.3	**266.2**	230.8
Employee benefit assets	4.5	**57.8**	88.7
Deferred tax assets	2.4.7	**22.8**	19.8
Other receivables		**5.7**	4.6
Total non-current assets		**873.7**	801.1
Inventories	3.1.1	**255.2**	233.3
Trade and other receivables	3.1.2	**400.5**	351.4
Other current financial assets	4.4.6	**2.9**	2.8
Current tax		**7.1**	10.4
Investments	4.4.6	**29.9**	27.0
Cash and cash equivalents	4.1	**79.7**	114.2
Total current assets		**775.3**	739.1
Total assets		**1,649.0**	1,540.2
Liabilities			
Bank overdraft	4.1	**(12.2)**	(6.4)
Interest-bearing loans and borrowings	4.2	**(6.8)**	(54.1)
Provisions	3.6	**(19.9)**	(25.1)
Current tax		**(62.8)**	(44.6)
Trade and other payables	3.1.3	**(407.9)**	(342.1)
Other current financial liabilities	4.4.6	**(13.5)**	(8.9)
Total current liabilities		**(523.1)**	(481.2)
Interest-bearing loans and borrowings	4.2	**(343.3)**	(290.6)
Employee benefit obligations	4.5	**(137.6)**	(84.3)
Provisions	3.6	**(19.1)**	(17.5)
Deferred tax liabilities	2.4.7	**(32.0)**	(53.5)
Other payables		**(10.7)**	(24.2)
Total non-current liabilities		**(542.7)**	(470.1)
Total liabilities		**(1,065.8)**	(951.3)
Net assets		**583.2**	588.9
Equity			
Share capital	4.6.1	**81.8**	81.8
Share premium		**12.1**	11.8
Other reserves		**213.6**	176.4
Retained earnings		**235.7**	276.1
Equity attributable to owners of the parent		**543.2**	546.1
Non-controlling interests	4.8	**40.0**	42.8
Total equity		**583.2**	588.9

Approved by the Board of Directors on 23 February 2017 and signed on its behalf by:

Lord Smith of Kelvin
Chairman

Commentary on the consolidated balance sheet

Net debt

Net debt at the year-end was £283m compared to £237m at the end of the previous year, largely reflecting the impact of sterling depreciation on the Group's euro and US dollar denominated debt. The net debt is composed of a cash balance of £80m (2015: £114m), a bank overdraft of £12m (2015: £6m) and interest-bearing loans and borrowings of £350m (2015: £345m).

The year-end net debt to EBITDA ratio was 1.0 times (2015: 0.9 times) based on continuing EBITDA before exceptional items. Following the repayment of US$75m during the year, at the end of 2016 the loan notes totalled £343m (2015: £341m), with a weighted average maturity of 4.3 years (2015: 4.6 years) and other loans including bank overdrafts totalled £20m (2015: £10m). Total committed bank loan facilities available to the Group at the year-end were £301m (2015: £294m), of which £nil (2015: £nil) was drawn.

Intangible assets

The value of the Group's intangible assets increased to £521m at 31 December 2016 (2015: £457m) This increase was due to exchange gains of £75m (2015: £9m loss) and additions to intangible assets of £24m (2015: £20m), partially offset by the amortisation charge for the year of £29m (2015: £38m) and impairment of £6m (2015: £nil).

Property, plant and equipment ('PPE')

The net book value of the Group's PPE at 31 December 2016 was £266m (2015: £231m). Capital expenditure on PPE amounted to £47m (2015: £51m), with significant capital expenditure on expanding our existing manufacturing facilities in Germany and China within IMI Critical Engineering and a revamped factory layout which promotes operational excellence in the Czech Republic in Precision Engineering. Including capitalised intangible assets, total capital expenditure was £71m (2015: £71m) and was 1.5 times (2015: 1.9 times) the depreciation and amortisation charge (excluding acquired intangible amortisation) for the year of £46m (2015: £38m).

Working capital

The increase in the Group's trade and other receivables of £49m is due to foreign exchange movements of £56m, partially offset by favourable cash movements of £7m.

The Group's inventory increased by £22m during the year due to foreign exchange movements of £40m, partially offset by favourable cash movements of £18m.

The Group's trade and other payables increased by £52m due to foreign exchange movements of £47m and favourable cash movements of £6m.

The working capital cash movements during the year are discussed in more detail in the narrative opposite the consolidated cash flow statement.

Taxation

The current tax asset reduced to £7m (2015: £10m) as the Group recovered tax prepayments from prior years. The current tax liability increased by £17m to £62m (2015: £45m) due to currency movements and limitations on UK double tax relief against overseas tax liabilities. Deferred tax assets increased by £3m to £23m (2015: £20m) and deferred tax liabilities decreased by £22m during the year to £32m (2015: £54m). The significant movements, net of the effect of foreign exchange movements, relate to the deferred tax recognised in respect of the pension funds, the effect of the amortisation of intangible assets and the reduction of the provision for the tax effect of unremitted earnings of overseas subsidiaries. More analysis of the deferred tax movement in the year is shown in Section 2.4.7.

Pensions

The Group has 63 (2015: 63) defined benefit obligations in existence as at 31 December 2016. 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 possible and providing in their place appropriate defined contribution arrangements.

The net deficit for defined benefit obligations at 31 December 2016 was £80m (2015: £4m surplus). The UK funds surplus was £24m as at 31 December 2016 (2015: £89m) and constituted 88% (2015: 88%) of the total defined benefit liabilities and 94% (2015: 95%) of the total defined benefit assets. The reduction in the UK surplus in 2016 principally arose from actuarial losses of £76m related to movements in the discount rate and activities during the year to further de-risk the position.

The deficit in the overseas funds as at 31 December 2016 was £103m (2015: £84m). The increase in the overseas deficit is predominantly as a result of adverse exchange movements of £15m during the year.

Details of movements in actuarial assumptions are discussed in Section 4.5.

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 105. 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	
	2016	2015
Euro	**1.17**	1.36
US dollar	**1.23**	1.47

Return on capital employed

Post tax return on capital employed ('ROCE') from continuing operations was 12.5% compared to 14.3% in 2015. Continued investment in the business in the year and the underlying performance in 2016 has impacted the ROCE metric alongside an adverse impact from the weakening in sterling.

Dividend

The Board has recommended a final dividend in respect of 2016 of 24.7p (2015: 24.5p) per share, an increase of 1% over the 2015 final dividend. This makes the total dividend for 2016 38.7p (2015: 38.4p). The cost of the final dividend is expected to be £67m (2015: £66m), leading to a total dividend cost of £105m (2015: £104m) in respect of the year ended 31 December 2016. Dividend cover based on reported earnings for the continuing businesses is 1.5 times (2015: 1.6 times). As detailed in note C9 of the Company financial statements on page 148, all of the retained earnings at both 31 December 2016 and 31 December 2015 are considered to be distributable reserves.

Whilst the Group does not have a formal dividend policy or payout ratio, the Group's aim is to continue with progressive dividends, which typically increase at a steady rate for both the interim and final dividend payments, with an aim that the dividend should, through the cycle, be covered by at least two times reported earnings. In making its dividend recommendations, the Board considers the levels of cash and debt within the Group, forecasted operating and capital cash flow requirements and the availability of distributable reserves. The Board also monitors the Group's dividend cover based on reported earnings for the continuing business. For more details refer to Section 4.4.4.4.

Share price and shareholder return

The share price at 31 December 2016 was £10.40 (2015: £8.62) and the average for the year was £9.69 (2015: £11.34) representing an increase of 21% and decrease of 15% respectively. Based on the 2016 average share price, the proposed total dividend of 38.7p represents a yield of 4.0%.

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 £m	2015 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	188.3	185.9
Operating profit for the year from discontinued operations	-	0.9
Adjustments for:		
Depreciation and amortisation	66.3	70.4
Impairment of property, plant and equipment and intangible assets	8.0	6.9
Loss on disposal of subsidiaries	-	8.8
Gain on special pension events	(2.8)	(9.1)
Profit on sale of property, plant and equipment	(1.6)	(6.9)
Equity-settled share-based payment expense	5.8	1.1
Decrease/(increase) in inventories	17.5	(3.5)
Decrease in trade and other receivables	6.8	29.2
Increase/(decrease) in trade and other payables	5.5	(7.3)
(Decrease)/increase in provisions and employee benefits	(8.6)	5.6
Cash generated from the operations	285.2	282.0
Income taxes paid	(31.7)	(36.2)
Cash generated from the operations after tax	253.5	245.8
Additional pension scheme funding - UK and overseas	(1.9)	(2.9)
Net cash from operating activities	251.6	242.9
Cash flows from investing activities		
Interest received	4.5	3.2
Proceeds from sale of property, plant and equipment	6.8	12.0
Purchase of investments	(0.4)	(0.8)
Settlement of transactional derivatives	(2.4)	(5.0)
Settlement of currency derivatives hedging balance sheet	(41.8)	29.0
Acquisitions of subsidiaries net of cash	-	(106.2)
Acquisition of property, plant and equipment and non-acquired intangibles	(70.9)	(70.6)
Proceeds from disposal of subsidiaries net of cash	-	0.6
Net cash from investing activities	(104.2)	(137.8)
Cash flows from financing activities		
Interest paid	(21.8)	(21.6)
Payment to non-controlling interest	(4.4)	(4.4)
Shares (acquired for)/issued by employee share scheme trust	(7.4)	2.3
Proceeds from the issue of share capital for employee share schemes	0.3	1.1
Net (repayment)/drawdown of borrowings	(54.6)	107.9
Dividends paid to equity shareholders and non-controlling interest	(105.0)	(102.5)
Net cash from financing activities	(192.9)	(17.2)
Net (decrease)/increase in cash and cash equivalents	(45.5)	87.9
Cash and cash equivalents at the start of the year	107.8	20.8
Effect of exchange rate fluctuations on cash held	5.2	(0.9)
Cash and cash equivalents at the end of the year*	67.5	107.8

* Net of bank overdrafts of £12.2m (2015: £6.4m).

Notes to the cash flow appear in Section 4.1.

Commentary on the consolidated cash flow statement

Movement in net debt	2016 £m	2015 £m
EBITDA* from continuing operations	**273.0**	275.1
Working capital movements	29.8	18.4
Capital and development expenditure	(70.9)	(70.6)
Loss on disposal of subsidiaries	-	0.4
Provisions and employee benefit movements**	(2.2)	(4.1)
Other	16.2	13.0
Operating cash flow (pre-exceptional items)*	**245.9**	232.2
Exceptional items****	(25.2)	(9.6)
Operating cash flow (post-exceptional items)	**220.7**	222.6
Tax paid	(31.7)	(36.2)
Interest and derivatives	(61.5)	5.6
Cash generation	**127.5**	192.0
Additional pension scheme funding	(1.9)	(2.9)
Free cash flow before corporate activity	**125.6**	189.1
Acquisitions (before net cash acquired)	-	(109.2)
Dividends paid to equity shareholders and non-controlling interest	(105.0)	(102.5)
Proceeds from disposal of subsidiaries	-	1.4
Payment to non-controlling interest	(4.4)	(4.4)
Net (purchase)/issue of own shares	(7.1)	3.4
Net cash flow (excluding debt movements)	**9.1**	(22.2)
Opening net debt	(236.9)	(200.0)
Net cash disposed	-	(0.8)
Net debt acquired	-	(5.6)
Foreign exchange translation	(54.8)	(8.3)
Closing net debt	**(282.6)**	(236.9)

* Reported earnings before interest (£16.2m), tax (£43.7m), depreciation (£37.8m), amortisation (£8.0m) and impairment (£3.0m).

** Movement in provisions and employee benefits as per the statement of cash flows (£8.6m), adjusted for the decrease in exceptional restructuring provisions (£3.1m) and the decrease in provisions relating to discontinued operations (£3.3m).

*** Operating cash flow (pre-exceptional items) is the cash generated from the operations shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, after adjusting for the cash impact of exceptional items. This measure best reflects the underlying operating cash flows of the Group.

**** Cash impact of exceptional items, including an outflow relating to restructuring costs of £21.9m and a cash outflow of £3.3m in relation to discontinued operations.

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 operating 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 (pre-exceptional items) and net debt is shown in the table to the left, upon which this section provides commentary.

Operating cash flow

The operating cash flow (pre-exceptional items) was £246m (2015: £232m). After the £25m (2015: £10m) cash outflow from exceptional items, the operating cash flow (post-exceptional items) was £221m (2015: £223m). This represents a conversion rate of total Group segmental operating profit after restructuring costs into operating cash flow of 107% (2015: 106%).

Net working capital balances decreased by £30m (2015: £18m) during the year. Inventory decreased by £18m (2015: £4m increase) due to decreases in inventory within Critical Engineering and Precision Engineering. The Group's receivables decreased by £7m (2015: £29m) as a result of both a reduction in revenue and increased efforts across the Group to improve the collection of receivables. Payables increased by £6m (2015: £7m decrease) due to payment timing and proactive supplier term management across each of the divisions.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £71m (2015: £71m) which was equivalent to 1.5 times (2015: 1.9 times) depreciation and amortisation thereon. Continuing research and development spend including capitalised intangible development costs of £8m (2015: £5m) totalled £57m (2015: £52m).

In 2016 the Group paid tax of £32m (2015: £36m) which was 73% (2015: 75%) of the reported tax charge for the year. This reflects the timing of estimated tax payments on account and is discussed in more detail in Section 2.4.

In 2016 there was a £62m cash outflow (2015: £6m inflow) from interest and derivatives, including a £42m outflow (2015: £29m inflow) from the settlement of currency derivatives hedging the balance sheet.

After payment of interest and tax, the free cash flow generated from operations was £128m (2015: £192m).

Free cash flow before corporate activity

As noted in Section 4.5, following the special pension events in Switzerland, £2m of additional pension contributions were made. Free cash flow before corporate activity was £126m (2015: £189m).

Net cash outflow (excluding debt movements)

Dividends paid to shareholders totalled £104m (2015: £103m) and there was a cash outflow of £7m (2015: £3m inflow) for net share purchases to satisfy employee share options.

The total net cash inflow (excluding debt movements) was £9m (2015: outflow of £22m).

Closing net debt

The opening net debt was £237m (2015: £200m). There were exchange rate losses of £55m (2015: £8m), principally on US dollar and euro denominated borrowings. After the net cash inflow in the year of £9m (2015: £22m outflow), closing net debt was £283m (2015: £237m).

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 FRS 101 and these are presented on pages 144 to 148. The financial statements were approved by the Board of Directors on 23 February 2017.

1.2 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 sections have been applied consistently throughout the Group for the purposes of these consolidated financial statements except as discussed below. Refer to Section 5.4 for the Group's significant accounting policies.

i) New or amended EU Endorsed Accounting Standards adopted by the Group during 2016

The following amended standards were adopted in these financial statements during 2016, none of which had any impact.

- IFRS 5 *'Non Current Assets Held for Sale and Discontinued Operations'*
- IFRS 7 *'Financial Instruments: Disclosures'*
- IFRS 10 *'Consolidated Financial Statements'*
- IFRS 12 *'Disclosure of Interests in Other Entities'*
- IAS 1 *'Presentation of Financial Statements'*
- IAS 16 *'Property, Plant and Equipment'*
- IAS 19 *'Employee Benefits'*
- IAS 34 *'Interim Financial Reporting'*
- IAS 38 *'Intangible Assets'*

ii) Issued Accounting Standards which are not effective for the year ended 31 December 2016

The IASB and IFRIC have issued a number of new accounting standards and amendments with an effective date after the date of these financial statements.

- IFRS 9 *'Financial Instruments'* (2014)

A finalised version of IFRS 9 was issued in July 2014, incorporating requirements for classification and measurement, impairment, general hedge accounting and de-recognition. The Group has completed an initial impact assessment of IFRS 9 and noted that several of the Group's equity investments, currently held at historic cost, will need to be recognised at fair value under IFRS 9. In addition, the Group intends to reassess the effectiveness of its cash flow hedging. The standard will be adopted from 1 January 2018.

- IFRS 15 *'Revenue from Contracts with Customers'* (2015)

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The Group has completed an assessment of IFRS 15 and concluded that the adoption of this standard on 1 January 2018 will not have a significant impact on the financial statements. In the vast majority of cases, the contracts within the Group do not meet the criteria under IFRS 15 for recognising revenue over time and therefore we will continue to recognise revenue at a point in time when control passes to the customer. Currently there are certain isolated contracts within IMI Critical Engineering which would meet the criteria for recognising revenue over time under IFRS 15. However, the financial impact of changing the revenue recognition for these contracts is not expected to be significant.

- IFRS 16 *'Leases'* (2015)

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group has completed an initial impact assessment of IFRS 16 and noted that a significant portion of leases currently accounted for as operating leases (therefore off balance sheet) would be recognised as assets with a corresponding liability under IFRS 16. The standard will be adopted from 1 January 2019.

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. You will also find a summary of the Group's alternative performance measures, including the definition of each and the rationale for their use.

2.1
Segmental information

Organic revenue growth and operating profit 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 reported revenues and segmental operating profits, are analysed by reference to the performance and activities of the Group's segments and their operating costs.

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 was presented to the chief operating decision-maker, being the Executive Committee. As described on page 2, each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

IMI Critical Engineering
IMI Critical Engineering is a world-leading provider of critical flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently.

IMI Precision Engineering
IMI Precision Engineering specialises in developing motion and fluid control technologies for applications where precision, speed and reliability are essential.

IMI Hydronic Engineering
IMI Hydronic Engineering designs and manufactures technologies which deliver optimal and energy efficient heating and cooling systems to the residential and commercial building sectors.

Performance is measured based on reported segmental operating profit which is defined in the table opposite.

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 IAS 39, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of reported revenue and operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Alternative Performance Measures
To facilitate a more meaningful review of performance, certain alternative performance measures ('APMs') have been included within this Annual Report. These APMs are used by the Executive Committee to monitor and manage the performance of the Group in order to ensure that decisions taken align with its long-term interests. These APMs exclude exceptional and other items in order to best reflect the underlying performance of the Group. Movements in reported revenue and segmental operating profit are given on an organic basis (see definition opposite) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. For each alternative performance measure, the table opposite details the definition and a reference to where it can be reconciled to the equivalent statutory measure.

APM	Definition	Reconciliation to statutory measure
Reported revenue Reported profit before tax Reported earnings per share	These measures all exclude exceptional items.	See income statement on page 76.
Reported segmental operating profit and margin	These measures exclude exceptional items, underlying restructuring costs and underlying gains and losses on disposal of subsidiaries.	See income statement on page 76 and segmental reporting note in Section 2.1.1.
Organic growth	Movements are after adjusting for exceptional items and the impact of acquisitions, disposals and movements in exchange rates.	See segmental reporting note in Section 2.1.1.
Operating cash flow	Operating cash flow is cash generated from the operations as shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, after adjusting for the cash impact of exceptional items.	See cash flow commentary on page 83.

Section 2 – results for the year
(cont'd)

The following table illustrates how the results for the segments reconcile to the overall results reported in the income statement.

	Revenue		Operating profit		Operating margin	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 %	2015 %
Continuing operations						
IMI Critical Engineering	**651**	631	**81.8**	93.1	**12.6%**	14.8%
IMI Precision Engineering	**708**	662	**118.5**	117.7	**16.7%**	17.8%
IMI Hydronic Engineering	**290**	264	**51.9**	51.8	**17.9%**	19.6%
Corporate costs			**(24.5)**	(23.2)		
Total reported revenue/segmental operating profit and margin	**1,649**	1,557	**227.7**	239.4	**13.8%**	15.4%
Restructuring costs (non-exceptional)			**(3.5)**	(2.1)		
Loss on disposal of subsidiaries (non-exceptional)			**-**	(0.4)		
Total reported revenue/operating profit and margin	**1,649**	1,557	**224.2**	236.9	**13.6%**	15.2%
Reversal of net economic hedge contract losses	**8**	10	**5.6**	7.6		
Restructuring costs			**(18.8)**	(27.1)		
Gains on special pension events			**2.8**	9.1		
Impairment losses			**(5.0)**	-		
Acquired intangible amortisation			**(20.5)**	(32.2)		
Loss on disposal of subsidiaries			**-**	(8.4)		
Statutory revenue/operating profit	**1,657**	1,567	**188.3**	185.9		
Net financial expense			**(23.0)**	(23.2)		
Statutory profit before tax from continuing operations			**165.3**	162.7		

The following table illustrates how revenue and operating profit have been impacted by movements in foreign exchange, acquisitions and disposals.

	Year ended 31 December 2015				Year ended 31 December 2016			
	As reported	Movement in foreign exchange	Disposals	Organic	As reported	Organic	Reported growth (%)	Organic growth (%)
Reported revenue								
IMI Critical Engineering	631	77	(6)	702	**651**	**651**	3%	-7%
IMI Precision Engineering	662	72	(1)	733	**708**	**708**	7%	-3%
IMI Hydronic Engineering	264	30		294	**290**	**290**	10%	-1%
Total	1,557	179	(7)	1,729	**1,649**	**1,649**	6%	-5%
Segmental operating profit								
IMI Critical Engineering	93.1	14.4	0.1	107.6	**81.8**	**81.8**	-12%	-24%
IMI Precision Engineering	117.7	12.6	1.1	131.4	**118.5**	**118.5**	1%	-10%
IMI Hydronic Engineering	51.8	5.6		57.4	**51.9**	**51.9**	0%	-10%
Corporate costs	(23.2)			(23.2)	**(24.5)**	**(24.5)**		
Total	239.4	32.6	1.2	273.2	**227.7**	**227.7**	-5%	-17%
Segmental operating profit margin (%)	15.4%			15.8%	**13.8%**	**13.8%**		

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
IMI Critical Engineering	**752.6**	682.1	**230.9**	196.9
IMI Precision Engineering	**482.0**	419.2	**103.2**	90.7
IMI Hydronic Engineering	**204.1**	165.6	**63.2**	53.7
Total segmental assets/liabilities	**1,438.7**	1,266.9	**397.3**	341.3
Corporate items	**11.5**	9.1	**55.8**	61.5
Employee benefits	**57.8**	88.7	**137.6**	84.3
Investments	**29.9**	27.0	**-**	-
Net debt items	**79.7**	114.2	**362.3**	351.1
Net taxation and others	**31.4**	34.3	**112.8**	113.1
Total assets and liabilities in Group balance sheet	**1,649.0**	1,540.2	**1,065.8**	951.3

The following table includes other information to show how certain costs are allocated between the segments of the Group.

	Restructuring costs*		Capital expenditure		Amortisation**		Depreciation	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
IMI Critical Engineering	**19.7**	13.4	**25.2**	22.4	**24.0**	33.2	**13.3**	11.7
IMI Precision Engineering	**2.6**	13.6	**27.4**	30.4	**2.5**	3.0	**16.7**	14.1
IMI Hydronic Engineering	**-**	2.2	**17.5**	17.2	**1.6**	1.3	**7.2**	6.3
	22.3	29.2	**70.1**	70.0	**28.1**	37.5	**37.2**	32.1
Corporate costs	**-**	-	**0.8**	0.6	**0.4**	-	**0.6**	0.8
Total	**22.3**	29.2	**70.9**	70.6	**28.5**	37.5	**37.8**	32.9

* Restructuring costs include both exceptional and non-exceptional.

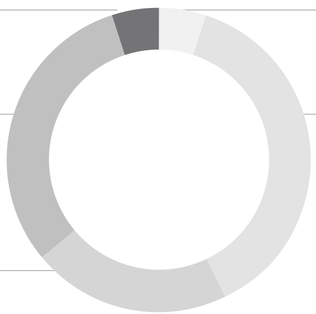
** The amortisation figures above include the amortisation of acquired intangibles. £19.9m (2015: £30.8m) is included in respect of Critical Engineering, £0.5m (2015: £1.2m) is included in respect of Precision Engineering and £0.1m (2015: £0.2m) is included in respect of Hydronic Engineering.

Section 2 – results for the year
(cont'd)

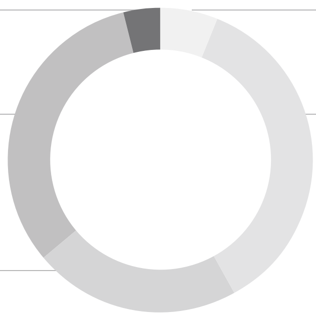
The following table shows a geographical analysis of how the Group's revenue is derived by destination.

	2016 Revenue £m	2015 Revenue £m
UK	**75**	90
Germany	*240*	*219*
Other Western Europe	*390*	*344*
Western Europe	**630**	563
USA	*327*	*311*
Canada	*17*	*23*
North America	**344**	334
Emerging Markets	**520**	505
Rest of World	**80**	65
Total reported revenue	**1,649**	1,557
Reversal of economic hedge contract losses	8	10
Total statutory revenue	**1,657**	1,567

Reported revenue by destination (2016)



Reported revenue by destination (2015)



The following table shows a geographical analysis of the location of the Group's property, plant and equipment and intangible assets.

	2016 £m	2015 £m
UK	**77.7**	77.5
Germany	**251.5**	223.2
Rest of Europe	**238.2**	205.3
USA	**152.1**	129.4
Asia Pacific	**51.1**	39.0
Rest of World	**16.8**	13.6
Total	**787.4**	688.0

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.

	2016 £m	2015 £m
Reported revenue	1,649.0	1,557.0
Cost of sales	(923.8)	(866.7)
Segmental gross profit	725.2	690.3
Selling and distribution costs	(223.6)	(199.9)
Administrative expenses	(273.9)	(251.0)
Loss on disposal	-	(0.4)
Restructuring costs	(3.5)	(2.1)
Reported operating profit	224.2	236.9
Exceptional items*	(35.9)	(51.0)
Statutory operating profit	188.3	185.9

* 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.

2.1.3.1 Employee information

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

	2016	2015
IMI Critical Engineering	3,836	4,236
IMI Precision Engineering	5,284	5,482
IMI Hydronic Engineering	1,843	1,862
Corporate	118	131
Total Group	11,081	11,711

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

	2016 £m	2015 £m
Wages and salaries	465.9	427.9
Share based payments	5.8	1.1
Social security costs	82.6	77.0
Pension costs*	12.3	2.2
Total	566.6	508.2

* In 2016, pension costs include the £2.8m gains on special pension events which are disclosed as exceptional items, see Section 4.5.3.3. The 2015 comparatives include a curtailment gain of £4.2m in relation to our restructuring exercise in Switzerland and settlement gains of £4.9m relating to other exercises in Switzerland and the US.

The aggregate gains made by directors on the exercise of share options was £0.2m (2015: £2.9m). The remuneration, as defined in the Companies Act 2006 Schedule 5, for the executive directors comprises fixed and annual variable pay as set out in the table on page 62 of the Remuneration Report. For details of the non-executive directors' remuneration please refer to page 70 of the Remuneration Report.

2.1.3.2 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 £14.7m (2015: £14.7m) relating to the lease of properties and a charge of £7.6m (2015: £7.7m) 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:

	2016		2015	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	15.9	7.1	13.7	6.6
In the second to fifth year	39.3	10.0	39.4	8.6
After five years	17.5	-	20.7	-
	72.7	17.1	73.8	15.2

2.1.3.3 Research and development expenditure

The continuing cost of research and development expenditure charged directly to the income statement was £48.4m (2015: £46.7m). In addition, amortisation of capitalised intangible development costs amounted to £3.1m (2015: £2.5m) and across the Group a further £8.1m (2015: £5.3m) was capitalised.

2.1.3.4 Exchange impact on operating activities net of hedging arrangements

The transactional foreign exchange losses in the Group were £1.5m (2015: losses of £1.3m).

2.1.3.5 Audit Fees

The Group engages its auditor, 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 on page 56. Fees earned by EY and its associates during the year are set out below:

	2016 £m	2015 £m
Fees earned by the Company's auditor for the audit of the Company's annual accounts	0.2	0.2
The audit of the Company's subsidiaries, pursuant to legislation	2.4	2.5
Tax compliance services	0.1	0.1
Other assurance services	0.1	0.1
Total	2.8	2.9

Section 2 – results for the year
(cont'd)

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 losses/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 settlement, are included in the reported revenues and operating profit of the relevant business segment. The exceptional items at the operating level reverse 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 comprised a reversal of a loss of £5.6m (2015: reversal of a loss of £7.6m) and the latter amounted to a loss of £6.8m (2015: loss of £5.0m).

2.2.2
Restructuring costs

The restructuring costs treated as exceptional in 2016 of £18.8m (2015: £27.1m) are as a result of a number of significant restructuring projects across the Group, predominantly in Critical Engineering. These include £7.6m relating to the closure of one our Critical Engineering sites in Germany, £1.7m from the closure of one of our Critical Engineering sites in Italy, £3.2m for the continuing European restructuring exercise commenced in 2015 and £5.6m from the restructuring of our Swedish business.

Exceptional restructuring costs in 2015 included £9.6m relating to a large European restructuring exercise across each of the divisions and £9.3m in relation to the restructuring of our Switzerland business. £3.6m was also incurred in relation to the closure of two of our Petrochemical sites in Italy and Germany, £1.7m in relation to the closure of our Canadian Nuclear business and £1.1m as part of Critical Engineering's localisation plan in China.

Other restructuring costs of £3.5m (2015: £2.1m) are not included in the measure of segmental operating profit reported to the Executive Committee. These costs have been charged below segmental operating profit and included in reported operating profit as, based on their quantum, they do not meet our definition of exceptional items.

2.2.3
Gains on special pension events

During 2016, following the conversion to a non-inflation linked pension for certain members of our UK Funds, an exceptional net gain of £6.1m was realised. In addition, following further restructuring exercises in Switzerland, a curtailment gain of £1.4m was recognised. These exceptional gains were partially offset by an exceptional loss of £4.7m, relating to the distribution of pension assets to members from our previously overfunded Swiss schemes. Gains on special pension events in the UK, US and Switzerland of £9.1m were recognised in 2015.

2.2.4
Acquired intangible amortisation and impairment losses

As reported on page 98, following completion of the Group's annual impairment review, an exceptional impairment charge of £5m (2015: nil) was recorded against the goodwill associated with the Stainless Steel Fasteners ('SSF') CGU in the IMI Critical Engineering division. As described in 2.2.2, an impairment charge of £2.2m (2015: £6.9m) was recognised against property, plant and equipment directly resulting from a number of significant restructuring projects.

Acquired intangible amortisation decreased to £21m (2015: £32m) following the full amortisation in 2015 of the order book acquired from Bopp & Reuther. An analysis by segment of acquired intangible amortisation is included in Section 2.1.1.

2.2.5
Losses on disposal of subsidiaries

No subsidiaries were disposed of during the year. Losses on the disposal of Scott, Z&J SA and part of our NPSL business in 2015 are discussed in Section 3.5.

2.2.6
Taxation

The tax effects of the above items are included in the exceptional column of the income statement.

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 a reported 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.

	Key	**2016 million**	2015 million
Weighted average number of shares for the purpose of basic earnings per share	A	**270.8**	270.6
Dilutive effect of employee share options		**1.8**	1.9
Weighted average number of shares for the purpose of diluted earnings per share	B	**272.6**	272.5

	Key	**£m**	£m
Statutory profit for the year		**133.2**	130.0
Non-controlling interests		**(2.4)**	(2.4)
Statutory profit for the year attributable to owners of the parent	C	**130.8**	127.6
Statutory profit from discontinued operations, net of tax		**-**	(6.7)
Continuing statutory profit for the year attributable to owners of the parent	D	**130.8**	120.9
Total exceptional charges included in profit before tax		**42.7**	56.0
Total exceptional credits included in taxation		**(11.6)**	(8.7)
Earnings for reported EPS	E	**161.9**	168.2

	Key	**2016**	2015
Statutory EPS measures			
Statutory basic EPS	C/A	**48.3p**	47.2p
Statutory diluted EPS	C/B	**48.0p**	46.8p
Statutory basic continuing EPS	D/A	**48.3p**	44.7p
Statutory diluted continuing EPS	D/B	**48.0p**	44.4p
Reported EPS measures			
Reported basic EPS	E/A	**59.8p**	62.2p
Reported diluted EPS	E/B	**59.4p**	61.7p

Discontinued earnings per share

Statutory basic discontinued earnings per share were nil (2015: 2.5p). Statutory diluted discontinued earnings per share were nil (2015: 2.4p).

Section 2 – results for the year
(cont'd)

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 only 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 balance sheet date. The profits of each company are subject to certain adjustments as specified by applicable tax laws in each country to arrive at the tax liability that is expected to result on their tax returns. Where these adjustments have future tax impact then deferred taxes may also be recorded.

2.4.1
Tax governance, risk and strategy

IMI recognises its corporate responsibility to ensure that all businesses within the IMI Group follow responsible tax practices. Accordingly, the IMI Tax Policy sets the core principles of compliance, fairness, value and transparency for the management of the Group's tax affairs.

This Policy has been approved by the Board, fully communicated to subsidiary businesses and is reviewed to ensure responsible business practices across the Group are maintained. A robust tax governance framework has also been established under which the Executive Committee and the IMI Board are appraised on a regular basis of any material or significant tax matters, so that appropriate action can be effected. Through the IMI Global Intranet the Group communicates policies, procedures, guidance and best practices to improve the management of taxation across its subsidiary companies worldwide.

Compliance: IMI seeks to manage its taxation obligations worldwide in compliance with all applicable tax laws and regulations, as well as fully in line with the Group's Code of Conduct. Accordingly, the tax contribution by the individual businesses is monitored and standard processes installed such that all corporate tax returns should be accurately and timely filed with the tax authorities around the world and the declared taxes paid on time. Furthermore, the preparation and filing of the corporate income tax returns for IMI subsidiary companies worldwide have been largely outsourced to one tax advisory firm.

Tax laws are often complex, which can lead to inconsistent interpretations by different stakeholders. Where this occurs, IMI may reduce uncertainty and controversy through various actions, including proactive discussion with the fiscal authorities to obtain early resolution and securing external tax advice to ensure the robust interpretation of tax laws and practices.

Fairness: IMI seeks to record its profits across the subsidiary companies around the world on an arm's length basis in accordance with internationally accepted best practices, recognising the relative contributions of people, assets, intellectual property and risks borne by the various businesses. The resulting allocation of profits is regularly tested for compliance with this standard. IMI is prepared to meet the enhanced transfer pricing disclosures and documentation recommended by the Base Erosion & Profit Shifting (commonly referred to as BEPS) initiative by the OECD.

Value: IMI manages the impact of taxation on its businesses in a responsible manner by only adopting legitimate, commercial and generally acceptable positions. In particular, IMI seeks to follow not only the law itself but the intention of the local laws where this can reasonably be ascertained. As a UK Headquartered group, IMI's profits are ultimately subject to UK taxation, although as the Group pays significant taxes overseas, the overall effective tax rate for the Group is marginally above the UK statutory tax rate.

Transparency: IMI aims to build positive working relationships with tax authorities by co-operating in a constructive, open and timely manner. IMI seeks to disclose its tax affairs in its published accounts and taxation returns fully in accordance with the applicable standards and, where appropriate, will supplement its tax disclosures with further information to better inform, and to be transparent to, its stakeholders.

IMI engages external support to manage tax risks and achieve the strategic objectives outlined above. Tax risks are regularly assessed for all companies within the Group, promptly addressed and reported so that they may be appropriately provided and disclosed in the relevant accounts and tax returns. To the extent that identified tax risks are material they will be reported to the Executive Committee through the Group's process for strategic risk management as described at page 40.

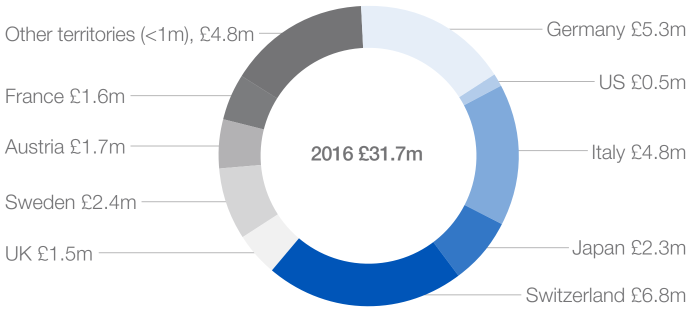
2.4.2
UK corporation tax

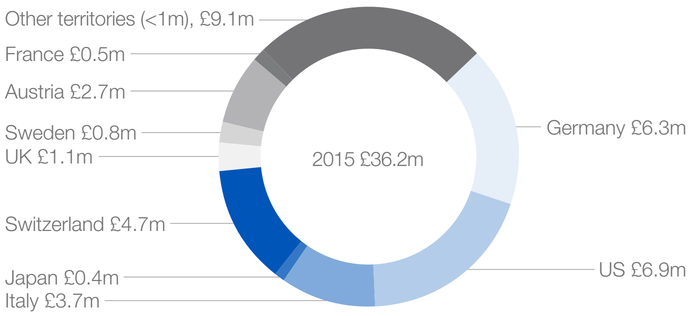
The average weighted rate of corporation tax in the UK for the 2016 calendar year was 20% (2015: 20.25%). Changes to the rate of UK corporation tax were substantively enacted in 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The budget of 16 March 2016 then proposed to further reduce the rate to 17% from 1 April 2020. This additional change was substantively enacted on 6 September 2016. UK deferred tax assets and liabilities have therefore predominantly been calculated using a rate of 17% (2015: 18%).

2.4.3
Tax payments

During the year, the Group made payments of corporate income tax of £31.7m (2015: £36.2m), principally arising as follows:

Jurisdiction of companies making corporate income tax payments:





There is normally an element of volatility in the annual payments of corporate income taxes due to the timing of assessments, acquisition and disposals, exceptional items and payments on account in the many countries in which the Group operates. Changes in the jurisdictions in which profits are earned can also have an impact which may take time to be reflected in the tax cashflow. The level of payments made during 2016 reduced from 2015 as the Group recovered certain tax prepayments, principally in the US.

The Group makes substantial other tax payments relating to employment, consumption, procurement and investment to local authorities around the world.

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.

	2016 £m	2015 £m
Current tax charge		
Current tax charge	42.5	34.6
Adjustments in respect of prior years	5.5	3.3
	48.0	37.9
Deferred taxation		
Origination and reversal of temporary differences	(15.9)	0.1
Total income tax charge	32.1	38.0

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

	2016 £m	2015 £m
Current tax charge		
Continuing operations	48.0	39.3
Discontinued operations	-	(1.4)
	48.0	37.9
Deferred tax charge		
Continuing operations	(15.9)	0.1
	(15.9)	0.1

	2016 £m	2015 £m
Total income tax charge		
Continuing operations	32.1	39.4
Discontinued operations	-	(1.4)
	32.1	38.0

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:

		2016			2015		
	Section	Reported £m	Exceptional items £m	Statutory £m	Reported £m	Exceptional items £m	Statutory £m
Profit before tax from continuing operations		208.0	(42.7)	165.3	218.7	(56.0)	162.7
Profit before tax from discontinued operations	2.5		-	-		5.3	5.3
Profit before tax		208.0	(42.7)	165.3	218.7	(50.7)	168.0
Income tax using the Company's domestic rate of tax of 20% (2015: 20.25%)		41.6	(8.5)	33.1	44.3	(10.3)	34.0
Effects of:							
Non-deductible items		3.2	0.6	3.8	2.7	1.5	4.2
Non-taxable loss on disposal of businesses		-		-	0.1	0.5	0.6
Release of deferred tax asset		-		-	1.0	1.6	2.6
Utilisation of losses on which no deferred tax had been recognised		(1.0)		(1.0)	(2.6)	-	(2.6)
Current year losses for which no deferred tax asset has been recognised		3.5		3.5	3.2	-	3.2
Change in future tax rate on UK deferred tax		(3.0)		(3.0)	(5.5)	-	(5.5)
Differing tax rates		(2.8)	(3.7)	(6.5)	0.1	(3.5)	(3.4)
Under provided in prior years		2.2		2.2	4.8	0.1	4.9
Total tax in income statement	2.4	43.7	(11.6)	32.1	48.1	(10.1)	38.0
Income tax expense reported in the consolidated income statement		43.7	(11.6)	32.1	48.1	(8.7)	39.4
Effective rate of tax - continuing operations:		21.0%		19.4%	22.0%		24.2%
Income tax attributable to discontinued operations	2.5		-	-		(1.4)	(1.4)
Effective rate of tax - discontinued operations:							-26.4%
Total tax in income statement	2.4	43.7	(11.6)	32.1	48.1	(10.1)	38.0
Effective rate of tax - total Group:		21.0%		19.4%	22.0%		22.6%

Section 2 – results for the year
(cont'd)

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 (credited)/charged directly to equity or through other comprehensive income, which can be analysed as follows:

	2016 £m	2015 £m
Deferred tax:		
On equity-settled transactions	-	0.9
On change in value of effective net investment hedge derivatives	-	(0.9)
On available for sale financial assets	-	(0.6)
On re-measurement gains and on defined benefit plans	(12.8)	10.7
	(12.8)	10.1
Current tax:		
On pension restructuring	-	(0.5)
On foreign currency translation differences	-	3.1
On change in value of effective net investment hedge derivatives	(0.6)	-
On equity-settled transactions	-	0.1
	(13.4)	12.8
Of which the following amounts are (credited)/charged:		
to the statement of comprehensive income	(13.4)	11.8
to the statement of changes in equity	-	1.0
	(13.4)	12.8

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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Non-current assets	1.1	1.9	(46.9)	(48.1)	(45.8)	(46.2)
Inventories	4.2	3.1	(5.1)	(4.1)	(0.9)	(1.0)
On revaluation of derivatives	0.8	0.7	(2.0)	(2.2)	(1.2)	(1.5)
Employee benefits and provisions	42.1	30.0	(3.9)	(15.9)	38.2	14.1
Other tax assets	0.5	0.9	-	-	0.5	0.9
	48.7	36.6	(57.9)	(70.3)	(9.2)	(33.7)
Offsetting within tax jurisdictions	(25.9)	(16.8)	25.9	16.8	-	-
Total deferred tax assets and liabilities	22.8	19.8	(32.0)	(53.5)	(9.2)	(33.7)

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

	Balance at 1 Jan 16 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions /disposals £m	Balance at 31 Dec 16 £m
Non-current assets	(46.2)	7.9	-	(7.5)	-	(45.8)
Inventories	(1.0)	0.7	-	(0.6)	-	(0.9)
On revaluation of derivatives	(1.5)	0.3	-	-	-	(1.2)
Employee benefits and provisions	14.1	7.4	12.8	3.9	-	38.2
Other tax assets	0.9	(0.4)	-	-	-	0.5
Net deferred tax liability	(33.7)	15.9	12.8	(4.2)	-	(9.2)

	Balance at 1 Jan 15 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Disposals £m	Balance at 31 Dec 15 £m
Non-current assets	(37.1)	8.3	-	2.0	(19.4)	(46.2)
Inventories	(0.6)	(0.2)	-	(0.2)	-	(1.0)
On revaluation of derivatives	(0.5)	(1.8)	0.9	(0.1)	-	(1.5)
Employee benefits and provisions	29.8	(5.1)	(11.0)	0.3	0.1	14.1
Other tax assets	2.5	(1.3)	-	(0.3)	-	0.9
Net deferred tax liability	(5.9)	(0.1)	(10.1)	1.7	(19.3)	(33.7)

All exchange movements are taken through the translation reserve.

2.4.8
Unrecognised deferred tax assets and liabilities

Deferred tax assets of £56.2m (2015: £48.9m) have not been recognised in respect of tax losses of £47.9m (2015: £32.8m), interest of £61.3m (2015: £59.0m) and capital losses of £119.1m (2015: £123.2m). The majority of the tax losses have no expiry date. No deferred tax asset has been recognised for these temporary differences due to uncertainty over their offset against future taxable profits and therefore their recoverability. In some instances, these balances are also yet to be accepted by the tax authorities and so could be challenged in the event of an audit.

It is likely that the majority of unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption. However £48.9m (2015: £74.3m) 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 £2.9m (2015: £5.3m), of which £2.7m (2015: £4.7m) has been provided on the basis that the Group expects to remit these amounts. The balance has not been provided as the Group is able to control the timing of dividends and does not expect to pay up these amounts in the foreseeable future.

2.5
Discontinued operations

When the Group has assets and liabilities that have been sold in the year or 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.

There has been no profit or loss from discontinued operations in 2016.

The prior year comparative includes a pre-tax and post-tax gain of £4.4m as a result of the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses as well as a pre-tax gain of £0.9m and post-tax gain of £2.3m relating to other discontinued operations.

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, an important measure 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 Inventories

	2016 £m	2015 £m
Raw materials and consumables	77.0	78.8
Work in progress	113.9	99.7
Finished goods	64.3	54.8
	255.2	233.3

In 2016 the cost of inventories recognised as an expense (being segmental cost of sales) amounted to £923.8m (2015: £866.7m). The Group's inventory increased by £21.9m due to foreign exchange movements of £39.4m. These increases were partially offset by a £17.5m decrease due to favourable cash movements.

In 2016 the write-down of inventories to net realisable value amounted to £9.1m (2015: £5.8m). The reversal of write-downs amounted to £1.8m (2015: £2.5m). 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.

3.1.2 Trade and other receivables

	2016 £m	2015 £m
Current		
Trade receivables	337.0	291.3
Other receivables	42.6	39.8
Prepayments and accrued income	20.9	20.3
	400.5	351.4
Receivables are stated after:		
Allowance for impairment	11.5	8.9

The increase in the Group's trade and other receivables of £49.1m is due to foreign exchange movements of £55.9m, partially offset by favourable cash movements of £6.8m.

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

3.1.3 Trade and other payables

	2016 £m	2015 £m
Current		
Trade payables	214.2	171.2
Social security and other taxation	22.3	21.1
Other payables	23.0	5.9
Accruals and deferred income	148.4	143.9
	407.9	342.1
Non-current		
Other payables	10.7	24.2
	418.6	366.3

The Group's trade and other payables increased by £52.3m due to foreign exchange movements of £46.8m and favourable cash movements of £5.5m.

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, 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 recognised. 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	Non-acquired intangibles under construction £m	Total £m
Cost							
As at 1 January 2015	320.7	131.2	82.1	534.0	52.6	10.7	597.3
Exchange adjustments	(4.5)	(7.7)	(1.8)	(14.0)	0.2	(0.1)	(13.9)
Acquisitions	52.5	43.9	20.7	117.1	1.0	-	118.1
Disposals of subsidiaries	(2.4)	(1.0)	(15.0)	(18.4)	-	-	(18.4)
Additions	-	-	-	-	5.9	14.1	20.0
Transfers from assets in the course of construction	-	-	-	-	6.0	(6.0)	-
Disposals	-	-	-	-	(0.9)	-	(0.9)
As at 31 December 2015	366.3	166.4	86.0	618.7	64.8	18.7	702.2
Exchange adjustments	**60.6**	**27.0**	**13.9**	**101.5**	**10.8**	**2.7**	**115.0**
Additions	**-**	**-**	**-**	**-**	**11.2**	**12.7**	**23.9**
Transfers from assets in the course of construction	**-**	**-**	**-**	**-**	**9.9**	**(9.9)**	**-**
Disposals	**-**	**-**	**-**	**-**	**(0.8)**	**(0.1)**	**(0.9)**
As at 31 December 2016	**426.9**	**193.4**	**99.9**	**720.2**	**95.9**	**24.1**	**840.2**
Amortisation							
As at 1 January 2015	27.8	92.9	75.6	196.3	33.3	-	229.6
Exchange adjustments	(1.3)	(2.9)	(0.6)	(4.8)	(0.3)	-	(5.1)
Disposals of subsidiaries	(0.9)	(0.7)	(14.5)	(16.1)	-	-	(16.1)
Disposals	-	-	-	-	(0.9)	-	(0.9)
Amortisation for year	-	19.7	12.5	32.2	5.3	-	37.5
As at 31 December 2015	25.6	109.0	73.0	207.6	37.4	-	245.0
Exchange adjustments	**4.1**	**18.1**	**12.3**	**34.5**	**5.9**	**-**	**40.4**
Disposals	**-**	**-**	**-**	**-**	**(0.7)**	**-**	**(0.7)**
Impairment	**5.0**	**-**	**-**	**5.0**	**0.8**	**-**	**5.8**
Amortisation for year	**-**	**18.0**	**2.5**	**20.5**	**8.0**	**-**	**28.5**
As at 31 December 2016	**34.7**	**145.1**	**87.8**	**267.6**	**51.4**	**-**	**319.0**
Net book value at 31 December 2015	340.7	57.4	13.0	411.1	27.4	18.7	457.2
Net book value at 31 December 2016	**392.2**	**48.3**	**12.1**	**452.6**	**44.5**	**24.1**	**521.2**

Section 3 – operating assets and liabilities
(cont'd)

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 20 (2015: 20) cash generating units to which goodwill is allocated. The composition of CGUs reflects both the way in which cash inflows are generated and the internal reporting structure. Where our businesses operate closely with each other 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, forecasts and plans approved by the Board covering a five-year period and include a terminal value multiple. 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% (2015: 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:

	2016 %	2015 %
Pre-tax discount rate	**9.0 – 14.9**	9.9 – 16.2
Long-term growth rate	**0.9 – 2.1**	1.0 – 2.1

Following our impairment review, the goodwill associated with the Stainless Steel Fasteners ('SSF') CGU, within the IMI Critical Engineering division, was considered to be impaired. This impairment has arisen due to a continued deterioration in the end markets that SSF sell into. A value in use calculation was used to determine the £2.0m recoverable amount of the SSF CGU, which used a discount rate of 11.5%. As a result, the Group has recognised an exceptional impairment loss of £5.0m.

For the purpose of assessing the significance of CGUs, the Group uses a threshold of 20% of the total goodwill balance. Goodwill of £85.1m (2015: £78.4m) associated with the Control Valves CGU in Critical Engineering is considered to be significant. The recoverable amount of the CGU is determined from a value in use calculation. The key assumptions for the value in use valuation are the discount rate, growth rate and operating cashflows. These estimates are determined using the methodology discussed above. The discount rate applied for Control Valves is 10.9% (2015: 12.5%) and a growth rate of 2.1% (2015: 1.6%) is applied into perpetuity.

No other CGUs have goodwill that is considered significant in the context of the Group's total goodwill balance, nor do any CGUs use the same key assumptions for the purposes of impairment testing in either this year or the last.

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 £39m (2015: £34m).

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 Section 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 £m	Plant & equipment £m	Assets in the course of construction £m	Total £m
Cost				
As at 1 January 2015	163.4	533.8	20.0	717.2
Exchange adjustments	(3.0)	(9.4)	0.1	(12.3)
Acquisitions	0.4	3.8	-	4.2
Disposals of subsidiaries	(0.4)	(3.0)	-	(3.4)
Additions	1.8	22.9	25.9	50.6
Transfers from assets in the course of construction	5.3	19.0	(24.3)	-
Disposals	(8.0)	(42.5)	-	(50.5)
As at 31 December 2015	159.5	524.6	21.7	705.8
Exchange adjustments	**27.1**	**81.7**	**2.0**	**110.8**
Additions	**1.8**	**20.9**	**24.3**	**47.0**
Transfers from assets in the course of construction	**2.3**	**22.4**	**(24.7)**	**-**
Disposals	**(8.3)**	**(24.2)**	**(0.4)**	**(32.9)**
As at 31 December 2016	**182.4**	**625.4**	**22.9**	**830.7**
Depreciation				
As at 1 January 2015	77.7	413.0	-	490.7
Exchange adjustments	(1.4)	(7.0)	-	(8.4)
Disposals of subsidiaries	-	(1.7)	-	(1.7)
Disposals	(3.4)	(42.0)	-	(45.4)
Impairment charge	5.1	1.8	-	6.9
Depreciation	3.3	29.6	-	32.9
As at 31 December 2015	81.3	393.7	-	475.0
Exchange adjustments	**14.5**	**62.9**	**-**	**77.4**
Disposals	**(5.3)**	**(22.6)**	**-**	**(27.9)**
Impairment charge	**1.4**	**0.8**	**-**	**2.2**
Depreciation	**3.9**	**33.9**	**-**	**37.8**
As at 31 December 2016	**95.8**	**468.7**	**-**	**564.5**
NBV at 31 December 2015	78.2	130.9	21.7	230.8
NBV at 31 December 2016	**86.6**	**156.7**	**22.9**	**266.2**

A net impairment charge of £2.2m relating to continuing operations occurred during the year (2015: £6.9m) as described in Section 2.2. The recoverable amount of these assets has been determined using their fair value less costs to sell, estimated by both internal and external valuation specialists.

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date relating to the continuing business amounted to £7.4m (2015: £6.9m).

Included in the total net book value of plant and equipment is £0.6m (2015: £0.7m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.2m (2015: £0.3m).

Section 3 – operating assets and liabilities
(cont'd)

3.4
Acquisitions

The following section discusses businesses acquired by the Group, 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 asset and liabilities.

3.4.1
Acquisitions in the current year

There were no acquisitions during 2016.

3.4.2
Acquisitions in the prior year

On 2 January 2015, the Group acquired the entire share capital of B&R Holding GmbH ('Bopp & Reuther') for a cash consideration of £109.2m (€140.8m), recognising identifiable net assets of £56.7m and goodwill of £52.5m.

Bopp & Reuther is a leading manufacturer of safety, control and shut-off valve technology for process industries as well as conventional fossil and nuclear power plants worldwide. Its head office and manufacturing plant is located in Mannheim, Germany and it has service centres in Germany, Austria, Romania and China. Bopp & Reuther joined the IMI Critical Engineering division and is now effectively integrated into its control valve business ('CCI').

3.5
Disposals

3.5.1
Disposals in the current year

There were no disposals of subsidiaries during 2016.

3.5.2
Disposals in the prior year

Asterm SAS ('Asterm')

The Group disposed of Asterm SAS on 21 January 2015 for proceeds of £0.4m resulting in a post-tax loss on disposal of £0.4m.

IMI Scott Limited ('Scott')

The Group disposed of IMI Scott Limited on 30 October 2015 for proceeds of £1.2m resulting in a post-tax loss on disposal of £2.1 million, after disposing of £2.7m of net assets and incurring £0.6m of associated costs.

Zimmermann & Jansen South Africa (Pty.) Ltd ('Z&J SA')

The Group disposed of Zimmermann & Jansen South Africa (Pty.) Ltd on 13 November 2015 for proceeds of £0.2m resulting in a post-tax loss on disposal of £4.4m. Net assets disposed of equalled £2.2m, with associated costs incurred of £0.4 and a foreign exchange loss of £2.0m

Nano Porous Solutions Limited ('NPSL')

The Group disposed of non-core elements of Nano Porous Solutions Limited on 16 December 2015 for proceeds of £0.7m resulting in a post-tax loss of £1.9m. The remainder of the NPSL business was transferred to Norgren UK.

3.6 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; and
- provide against indemnities following the disposal of subsidiaries.

Analysis of the Group's provisions:

	Restructuring £m	Trade warranties £m	Environmental, legal & indemnity £m	Total £m
Current	12.5	9.3	3.3	25.1
Non-current	0.9	6.2	10.4	17.5
At 1 January 2016	13.4	15.5	13.7	42.6
Arising during the year	**19.3**	**5.2**	**(0.5)**	**24.0**
Utilised during the year	**(22.4)**	**(5.1)**	**(3.7)**	**(31.2)**
Exchange adjustment	**1.8**	**1.8**	**-**	**3.6**
At 31 December 2016	**12.1**	**17.4**	**9.5**	**39.0**
Current	**11.1**	**8.0**	**0.8**	**19.9**
Non-current	**1.0**	**9.4**	**8.7**	**19.1**
	12.1	**17.4**	**9.5**	**39.0**

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects and the majority is expected to be utilised within the next 12 months.

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.

Provisions for indemnities included in the agreed terms of disposals of subsidiaries are provided for based on the expected probability of indemnified losses that may be suffered by the purchaser.

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.

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 debt

Net 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) are held in foreign currencies. Movements in foreign exchange rates affect the sterling value of the net debt.

a) Reconciliation of cash and cash equivalents

	2016 £m	2015 £m
Cash and cash equivalents in current assets	79.7	114.2
Bank overdraft in current liabilities	(12.2)	(6.4)
Cash and cash equivalents	67.5	107.8

b) Reconciliation of net cash to movement in net borrowings

	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents excluding foreign exchange and net cash disposed/acquired	(45.5)	85.7
Net repayment/(drawdown) of borrowings	54.6	(107.9)
Decrease/(increase) in net debt before acquisitions, disposals and foreign exchange	9.1	(22.2)
Net cash disposed	-	(0.8)
Net debt acquired	-	(5.6)
Currency translation differences	(54.8)	(8.3)
Movement in net borrowings in the year	(45.7)	(36.9)
Net borrowings at the start of the year	(236.9)	(200.0)
Net borrowings at the end of the year	(282.6)	(236.9)

c) Analysis of net debt

	Cash and cash equivalents £m	Borrowings and finance leases due within one year £m	Borrowings and finance leases due after more than one year £m	Total net debt £m
At 1 January 2016	107.8	(54.1)	(290.6)	(236.9)
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash disposed of/acquired	(3.7)	53.1	1.5	50.9
Settlement of currency derivatives hedging balance sheet	(41.8)			(41.8)
Currency translation differences	5.2	(5.8)	(54.2)	(54.8)
At 31 December 2016	67.5	(6.8)	(343.3)	(282.6)

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.

	2016 £m	2015 £m
Current liabilities		
Unsecured loan notes and other loans	6.3	53.6
Finance lease liabilities	0.5	0.5
	6.8	54.1
Non-current liabilities		
Unsecured loan notes and other loans	342.8	290.2
Finance lease liabilities	0.5	0.4
	343.3	290.6

Section 4 – capital structure and financing costs
(cont'd)

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 reported earnings per share.

Recognised in the income statement

	2016			2015		
	Interest £m	Financial instruments £m	Total £m	Interest £m	Financial instruments £m	Total £m
Interest income on bank deposits	4.5		4.5	3.2		3.2
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		5.6	5.6		14.5	14.5
- future year transactions		7.0	7.0		6.4	6.4
Financial income	4.5	12.6	17.1	3.2	20.9	24.1
Interest expense on interest-bearing loans and borrowings	(21.8)		(21.8)	(21.6)		(21.6)
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		(7.5)	(7.5)		(16.8)	(16.8)
- future year transactions		(11.9)	(11.9)		(9.1)	(9.1)
Financial expense	(21.8)	(19.4)	(41.2)	(21.6)	(25.9)	(47.5)
Net financial income relating to defined benefit pension schemes	1.1		1.1	0.2		0.2
Net financial expense	(16.2)	(6.8)	(23.0)	(18.2)	(5.0)	(23.2)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in reported revenue and 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

	2016 £m	2015 £m
Change in fair value of effective portion of net investment hedges	(2.8)	(11.0)
Foreign currency translation differences	39.4	2.9
Change in fair value of other financial assets	-	(1.7)
Income tax on items recognised in other comprehensive income	0.6	(1.6)
Total items recognised in other comprehensive income (net of tax)	37.2	(11.4)
Recognised in:		
Hedging reserve	(2.2)	(10.1)
Translation reserve	39.4	(0.2)
Retained earnings	-	(1.1)
	37.2	(11.4)

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 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 2016 these totalled £437.9m (2015: £417.9m).

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. Our largest single customer accounted for 2% of our 2016 revenues (2015: 2%).

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	
	2016 £m	2015 £m
Cash and cash equivalents	**79.7**	107.8
Investments	**21.2**	18.7
Forward exchange contracts*	**-**	0.1
	100.9	126.6

* Forward exchange contracts include the net amount receivable by each entity in the Group, from each financial institution, reflecting the Group's maximum credit exposure since individual entities within the Group have the right but not the obligation to settle these net.

4.4.2.3
Exposure to credit risk in respect of trade receivables

	Carrying amount	
	2016 £m	2015 £m
UK	**17.3**	18.4
Germany	**29.6**	25.9
Rest of Europe	**106.0**	77.0
USA	**49.6**	43.6
Asia Pacific	**83.6**	74.1
Rest of World	**50.9**	52.3
	337.0	291.3

The maximum exposure to credit risk for trade receivables at the reporting date by segment was as follows:

	Carrying amount	
	2016 £m	2015 £m
IMI Critical Engineering	**180.6**	156.8
IMI Precision Engineering	**109.5**	95.6
IMI Hydronic Engineering	**46.9**	38.9
	337.0	291.3

Section 4 – capital structure and financing costs
(cont'd)

4.4.2.4
Impairment provisions for trade receivables

The ageing of trade receivables at the reporting date was:

	2016		2015	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	**287.6**	**(0.5)**	247.9	(0.3)
Past due 1-30 days	**28.2**	**(0.5)**	22.9	(0.5)
Past due 31-90 days	**11.9**	**(0.5)**	14.4	(0.7)
Past due over 90 days	**20.7**	**(9.9)**	15.0	(7.4)
Total	**348.4**	**(11.4)**	300.2	(8.9)

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

	2016 £m	2015 £m
Net balance at 1 January	**8.9**	7.1
Utilised during the year	**(1.1)**	(1.0)
Charged to the income statement	**3.8**	3.5
Released	**(1.6)**	(0.4)
Exchange	**1.4**	(0.3)
Net balance at 31 December	**11.4**	8.9

The net impairment charge recognised of £2.2m (2015: charge of £3.1m) 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 2016 credit exposure including cash deposited did not exceed £14.0m with any single institution (2015: £23.2m).

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 periodically adjusted following regular reviews. On this basis over 50% of the Group's annual exposures to transactional risk 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.

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 exposures 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. Any ineffective portion is recognised immediately in the income statement.

d) Currency profile of assets and liabilities

	Cash* 2016 £m	Debt 2016 £m	Exchange contracts 2016 £m	Assets subject to interest rate risk 2016 £m	Other net assets 2016 £m	Total net assets 2016 £m	Total net assets 2015 £m
Sterling	25	-	387	412	25	437	412
US dollar	5	(215)	61	(149)	164	15	-
Euro	4	(129)	(286)	(411)	422	11	60
Other	34	(7)	(162)	(135)	255	120	117
Total	68	(351)	-	(283)	866	583	589

* 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.

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 following analysis.

Section 4 – capital structure and financing costs
(cont'd)

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 2016 £m	Cash and exchange contracts 2016 £m	Assets subject to interest rate risk 2016 £m	Floating rate 2016 £m	Fixed rate 2016 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	412	412	412			
US dollar	(215)	65	(150)	65	(215)	6.7	2.0
Euro	(414)	4	(410)	(282)	(128)	1.4	8.3
Other	(169)	34	(135)	(135)			
Total	(798)	515	(283)	60	(343)		

	Debt and exchange contracts 2015 £m	Cash and exchange contracts 2015 £m	Assets subject to interest rate risk 2015 £m	Floating rate 2015 £m	Fixed rate 2015 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	335	335	335	-		
US dollar	(231)	90	(141)	90	(231)	6.8	2.4
Euro	(320)	3	(317)	(207)	(110)	1.4	9.3
Other	(149)	35	(114)	(114)	-		
Total	(700)	463	(237)	104	(341)		

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.

The Group's operating companies purchase metal and metal components and are therefore exposed to changes in commodity prices.

Management of commodity risk

The Group manages this exposure through a centralised process hedging copper, zinc and aluminium 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. In addition, we undertake regular covenant compliance reviews to ensure that we remain fully within those covenant limits. At the end of 2016 the Group had undrawn committed facilities totaling £301m (2015: £294m) and was holding cash and cash equivalents of £80m (2015: £114m). 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

	2016 £m	2015 £m
Total equity	**583**	589
Gross debt including overdrafts	**363**	351
Gross cash	**(80)**	(114)
Capital base	**866**	826
Employee benefits and deferred tax assets	**57**	(24)
Extended capital base	**923**	802
Undrawn funding facilities	**301**	294
Available capital base	**1,224**	1,096

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 Group is considered regularly by the Board in light of market conditions, business forecasts, growth opportunities and the ratio of net debt to continuing EBITDA before exceptional items. Funding covenants currently limit net debt to a maximum of 3.0 times EBITDA. The net debt to EBITDA ratio at the end of 2016 was 1.0 times (2015: 0.9 times). Through the life of our five year plan, the Board would consider appropriate acquisitions that could take net debt up to 2.5 times EBITDA on acquisition, provided that a clear plan exists to reduce this ratio back to under 2.0 times. It is expected that at these levels our debt would continue to 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 buyback programme.

Whilst the Group does not have a formal dividend policy or payout ratio, the Group's aim is to continue with progressive dividends, which typically increase at a steady rate for both the interim and final dividend payments, with an aim that the dividend should, through the cycle, be covered by at least two times reported 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 buybacks or special dividends will be considered. It should be noted that a number of shares are regularly bought in the market by an employee benefit trust in order to hedge the exposure under certain management incentive plans. Details of these purchases are shown in Section 4.6.2 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% (2015: 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.

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:

	2016 £m	2015 £m
Expiring within one year	**50.0**	22.1
Expiring between one and two years	**50.6**	75.0
Expiring after more than two years	**200.0**	197.1
	300.6	294.2

The weighted average life of these facilities is 2.7 years (2015: 3.2 years).

Section 4 – capital structure and financing costs
(cont'd)

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
2016									
Cash and cash equivalents	**Floating**	**79.7**	**79.7**	**79.7**					
US loan notes 2018	**5.98%**	**(121.6)**	**(129.9)**	**(7.3)**	**(122.6)**				
US loan notes 2019	**7.61%**	**(81.0)**	**(96.9)**	**(6.2)**	**(6.2)**	**(84.5)**			
US loan notes 2022	**7.17%**	**(12.2)**	**(17.5)**	**(0.9)**	**(0.9)**	**(0.9)**	**(0.9)**	**(0.9)**	**(13.0)**
US loan notes 2025	**1.39%**	**(128.0)**	**(142.8)**	**(1.8)**	**(1.8)**	**(1.8)**	**(1.8)**	**(1.8)**	**(133.8)**
Finance leases	**Various**	**(1.0)**	**(1.0)**	**(0.5)**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.1)**	
Bank overdrafts	**Floating**	**(12.2)**	**(12.2)**	**(12.2)**					
Unsecured bank loans	**Floating**	**(6.3)**	**(6.6)**	**(6.5)**	**(0.1)**				
Total		**(282.6)**	**(327.2)**	**44.3**	**(131.8)**	**(87.3)**	**(2.8)**	**(2.8)**	**(146.8)**
2015									
Cash and cash equivalents	Floating	114.2	114.2	114.2					
US loan notes 2016	7.26%	(50.9)	(53.0)	(53.0)					
US loan notes 2018	5.98%	(101.7)	(114.8)	(6.1)	(6.1)	(102.6)			
US loan notes 2019	7.61%	(67.8)	(86.4)	(5.2)	(5.2)	(5.2)	(70.8)		
US loan notes 2022	7.17%	(10.2)	(15.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(11.6)
US loan notes 2025	1.39%	(110.4)	(124.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(117.0)
Finance leases	Various	(1.0)	(1.0)	(0.5)	(0.3)	(0.1)	(0.1)		
Bank overdrafts	Floating	(6.4)	(6.4)	(6.4)					
Unsecured bank loans	Floating	(2.7)	(2.9)	(2.7)	(0.1)	(0.1)			
Total		(236.9)	(289.9)	38.1	(13.9)	(110.2)	(73.1)	(2.2)	(128.6)

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 the 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 2016 and 31 December 2015. Under IAS 39, 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.

	Fair value					
	Designated at fair value £m	Other derivatives at fair value £m	Available for sale assets at fair value £m	At amortised cost £m	Total carrying value £m	Fair value if different £m
2016						
Cash and cash equivalents			79.7		79.7	
Bank overdrafts				(12.2)	(12.2)	
Borrowings due within one year				(6.8)	(6.8)	
Borrowings due after one year				(343.4)	(343.4)	(360.7)
Trade and other payables*				(402.3)	(402.3)	
Trade receivables				337.0	337.0	
Investments			21.2	8.7	29.9	
Other current financial assets/(liabilities)					-	
Derivative assets**		2.9			2.9	
Derivative liabilities***	(5.7)	(7.8)			(13.5)	
Total	(5.7)	(4.9)	100.9	(419.0)	(328.7)	
2015						
Cash and cash equivalents			114.2		114.2	
Bank overdrafts				(6.4)	(6.4)	
Borrowings due within one year				(54.1)	(54.1)	(55.6)
Borrowings due after one year				(290.6)	(290.6)	(308.3)
Trade and other payables*				(352.6)	(352.6)	
Trade receivables				291.3	291.3	
Investments			18.7	8.3	27.0	
Derivative assets**		2.8			2.8	
Derivative liabilities***	(2.9)	(6.0)			(8.9)	
Total	(2.9)	(3.2)	132.9	(404.1)	(277.3)	

* Trade and other payables exclude corporation tax and other tax liabilities and include liabilities of £10.7m (2015: £10.5m) falling due after more than one year.

** Includes nil (2015: £0.2) falling due after more than one year.

*** Derivative liabilities include liabilities of £0.7m (2015: £0.3m) falling due after more than one year: £0.7m in 1-2 years and nil in 2-3 years (2015: £0.3m in 1-2 yrs and nil 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 derivative liabilities in the year of £2.8m is shown in the consolidated statement of comprehensive income (net of tax).

There are no other financial liabilities included within payables disclosed above and finance leases disclosed in Section 4.4.5.2.

Section 4 – capital structure and financing costs
(cont'd)

The following table shows the Group's financial instruments held at fair value.

	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
As at 31 December 2016				
Financial assets measured at fair value				
Equity instruments*	21.2			21.2
Cash and cash equivalents	79.7			79.7
Foreign currency forward contracts		2.9		2.9
	100.9	2.9	-	103.8
Financial liabilities measured at fair value				
Foreign currency forward contracts		(13.5)		(13.5)
	-	(13.5)	-	(13.5)
As at 31 December 2015				
Financial assets measured at fair value				
Equity instruments*	18.7			18.7
Cash and cash equivalents	114.2			114.2
Foreign currency forward contracts		2.8		2.8
	132.9	2.8	-	135.7
Financial liabilities measured at fair value				
Foreign currency forward contracts		(8.9)		(8.9)
	-	(8.9)	-	(8.9)

* Equity instruments relate to investments in funds in order to satisfy long-term benefit arrangements.

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £2.9m and £13.5m 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

The Group has no financial assets or financial liabilities measured at fair value using significant unobservable (level 3) inputs.

4.4.6.2 Valuation methodology

Cash and cash equivalents, bank overdrafts, trade payables and trade receivables 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, where this option exists. 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 determined by the unadjusted 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 derivatives 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 derivatives 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 2016						
Impact on income statement: (loss)/gain	**-**	**-**	**(2.4)**	**2.4**	**(0.3)**	**0.3**
Impact on equity: (loss)/gain	**-**	**-**	**(67.4)**	**67.4**	**-**	**-**
At 31 December 2015						
Impact on income statement: (loss)/gain	-	-	(0.7)	0.7	(0.3)	0.3
Impact on equity: (loss)/gain	-	-	(55.3)	55.3	-	-

Section 4 – capital structure and financing costs
(cont'd)

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 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.

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.

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 income statement as incurred.

Defined benefit ('DB'): 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.

4.5.1
Summary information

Net pension deficit: £79.8m (2015: surplus of £4.4m)

The net pension deficit or 'net liability for defined benefit obligations' ('DBO') at 31 December 2016 was £79.8m (2015: surplus of £4.4m). The assets and liabilities of the schemes are aggregated, recognised in the consolidated balance sheet and shown within non-current liabilities or in non-current assets if a scheme is in surplus and it is recoverable.

Number of defined benefit arrangements: 63 (2015: 63)

The number of defined benefit arrangements remained constant following the recognition of an additional scheme in Germany, offset by the wind-up of a scheme in Italy.

The following table shows a summary of the geographical profile of the Group's DBOs:

	Quantity 2016	Quantity 2015	Assets £m	DBO £m	Surplus/ (deficit) £m
Australia	2	2	-	(0.4)	(0.4)
Austria	6	6	-	(3.2)	(3.2)
France	3	3	0.1	(1.3)	(1.2)
Germany	28	27	6.0	(56.5)	(50.5)
India	6	6	-	(0.6)	(0.6)
Italy	5	6	-	(2.9)	(2.9)
Spain	2	2	-	(0.1)	(0.1)
Switzerland	5	5	80.2	(103.2)	(23.0)
US*	3	3	-	(21.5)	(21.5)
UK	3	3	1,423.9	(1,400.3)	23.6
	63	63	1,510.2	(1,590.0)	(79.8)

* The US deficit above excludes £21.2m of assets relating to unqualified plans classified as investments (see Section 4.4.6).

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 %	DBO £m	% of total liabilities %
2016					
Final salary*	**21**	**1,424.0**	**94%**	**1,459.6**	**92%**
Cash balance**	**10**	**80.2**	**5%**	**106.1**	**7%**
Jubilee***	**14**	**-**	**0%**	**2.8**	**0%**
Other	**18**	**6.0**	**0%**	**21.5**	**1%**
Total	**63**	**1,510.2**	**100%**	**1,590.0**	**100%**
2015					
Final salary*	21	1,273.4	95%	1,233.0	92%
Cash balance**	11	68.3	5%	89.4	7%
Jubilee***	13	-	0%	2.0	0%
Other	18	5.0	0%	16.9	1%
Total	63	1,346.7	100%	1,341.3	100%
Asset Ceiling		(0.2)			
Revised assets		1,346.5			

*** 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).

**** 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.

***** 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.

Asset profile of schemes

The following table sets out the profile of the overall assets of the schemes (to give an indication of their risk profile), the comparative amounts of the funded and unfunded DBO and a split of the balance sheet impact between schemes with a net pension surplus and a net pension deficit.

	2016 £m	2015 £m
Quoted equities	**34.4**	77.8
Quoted bonds	**688.3**	661.8
Total quoted assets	**722.7**	739.6
Private equities	**114.4**	92.3
Insurance policies*	**525.4**	273.9
IMI Scottish Limited Partnership	**18.0**	17.4
Hedge funds	**14.1**	142.7
Property	**29.8**	30.1
Other**	**85.8**	50.3
Total unquoted assets	**787.5**	606.7
Fair value of assets	**1,510.2**	1,346.3
Restriction due to asset ceiling	**-**	(0.2)
DBOs for funded schemes	**(1,512.5)**	(1,277.1)
DBOs for unfunded schemes	**(77.5)**	(64.6)
Net surplus/ (deficit) for DBOs	**(79.8)**	4.4
Schemes in net pension deficit	**(137.6)**	(84.3)
Schemes in net pension surplus	**57.8**	88.7

* The fair values assigned to the insurance policies are established by an independent third party actuary having regard to the liabilities insured and in particular the IAS 19 discount rate, the expected pension increases and the assumed life expectancy of the members covered.

** 'Other' assets include the market value of interest, inflation, equity and currency swaps relating to UK scheme assets and liabilities.

The overseas assets of £86.3m (2015: £73.2m) comprise equities of £34.4m (2015: £12.5m), bonds of £25.2m (2015: £22.2m), insurance of £7.6m (2015: £28.8m), property of £15.1m (2015: £6.5m) and other assets of £4.0m (2015: £3.2m).

Funded: The majority of the Group defined benefit and other post-employment benefit arrangements are funded, which means they are linked to specific plan assets that have been segregated in a trust or foundation.

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.

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	15.9
Switzerland	19.4
USA	9.2
Eurozone	15.5

Section 4 – capital structure and financing costs
(cont'd)

4.5.2
The UK and overseas pension funds

4.5.2.1
The UK Funds

The United Kingdom constitutes 88% (2015: 88%) of total defined benefit liabilities and 94% (2015: 95%) of total defined benefit assets. Historically the IMI Pension Fund offered final salary benefits to UK employees until it closed to new entrants in 2005 and to future accrual on 31 December 2010. In December 2014 winding-up procedures commenced and those members who were not eligible or did not take up the offer of a single cash lump sum transferred to one of two new Funds (IMI 2014 Pensioner Fund or the IMI 2014 Deferred Fund – 'the UK Funds'). Ongoing pension benefits in the UK are provided via the Trustee's defined contribution plan - The IMI Retirement Savings Plan. All UK pension assets are run on behalf of the Trustee by the Board of the IMI Common Investment 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% and at the March 2016 valuation the UK Funds were 91.8% funded on this level.

Asset allocation
The Trustee has, over recent valuations, continued to reduce asset volatility and sensitivity to UK interest rates, inflation and foreign currencies. This work continued in 2016 with the purchase of a further £306.5m of insurance policies. On 31 January 2017 approximately £430m of liabilities covered by insurance policies were permanently transferred to the underlying insurance companies through a formal buy-out transaction. This resulted in the pension asset and corresponding DBO being removed from the balance sheet. This impact has not been reflected in the 2016 financials but will be in the 2017 interim results.

Liability management
The Trustee has continued to undertake, where practicable liability management programs. In December 2014 over 2,500 members (£25.2m of payments) accepted either minimal commutation payments or winding-up lump sums as full settlement of their pension. In summer 2015 a further trivial commutation exercise was carried out with a further £10.1m of settlements. In June 2016, a Pension Increase Exchange exercise was carried out which allowed pensioners to increase their current monthly income in return for removing part or all of their annual inflationary increases. This exercise resulted in a gross settlement gain of £7.6m (see Section 2.2.3).

Contributions
The recovery plan from the 2011 valuation agreed annual contributions of £16.8m until 2016. The Trustee agreed, as part of the 2015 valuation, the payments for 2015 and 2016 were not to be paid and instead a contingent contribution plan was agreed for the IMI 2014 Pensioner Fund. The amount of contributions due, if any, will depend on asset performance over the next three triennial valuations with contributions payable where asset returns are less than 1.5% over gilts. The maximum amounts payable, where asset returns are less than or equal to 0.7% over gilts would be:

£13m	due 30 June 2019
£12m	due 30 June 2022
£12m	due 30 June 2025

4.5.2.2
Overseas pension funds

Following the 2015 Swiss scheme mergers, two of our Swiss schemes were overfunded. As a result, assets were distributed to members in excess of their current DBO, resulting in an exceptional loss of £4.7m. Following the continuation of a restructuring exercise in Switzerland, a curtailment gain of £1.5m was realised.

Following the deduction of associated fees of £0.1m, these events led to the special pension events which are classified as exceptional items (see Section 2.2.3).

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/increase the net surplus.
- **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/income on the net deficit/surplus position is also recognised in the income statement.
- **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.

The table below reconciles the movement in the UK and overseas defined benefit surplus/(obligation) between 1 January 2016 and 31 December 2016.

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) at 1 January 2016	88.7	(84.3)	4.4
Movement recognised in:			
Income statement	**10.9**	**(12.4)**	**(1.5)**
OCI	**(76.1)**	**(16.9)**	**(93.0)**
Cash flow statement	**0.1**	**10.2**	**10.3**
Net defined benefit surplus/(obligation) at 31 December 2016	**23.6**	**(103.4)**	**(79.8)**

4.5.3.1
Cash flow impacts

	2016			2015		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Amounts from employees	-	2.5	2.5	-	2.8	2.8
Amounts from employers	0.1	4.9	5.0	-	5.2	5.2
Benefits and settlements paid directly by the Group	-	5.3	5.3	-	4.5	4.5
Total	0.1	12.7	12.8	-	12.5	12.5

The expected contributions to the defined benefit arrangements in 2017 are £3.0m of normal employer contributions and £2.4m of normal employee contributions, both in relation to overseas pension funds.

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:

	2016				2015			
	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	(203.2)	(8.8)	-	(212.0)	28.2	2.8	-	31.0
Change in inflation	(43.0)	2.4	-	(40.6)	-	0.4	-	0.4
Change in other assumptions	(4.3)	0.9	-	(3.4)	(8.0)	0.9	-	(7.1)
Actuarial experience	6.5	1.2	-	7.7	31.6	(2.6)	-	29.0
Asset experience	167.9	2.0	-	169.9	(25.9)	0.5	-	(25.4)
Actuarial gains/(losses) in the year	(76.1)	(2.3)	-	(78.4)	25.9	2.0	-	27.9
Change in the asset ceiling	-	0.2	-	0.2	-	(0.1)	-	(0.1)
Exchange gains/(losses)	-	(13.0)	(1.8)	(14.8)	-	0.1	(0.1)	-
Gains/(losses) recognised through equity	(76.1)	(15.1)	(1.8)	(93.0)	25.9	2.0	(0.1)	27.8

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 and pension increases and inflation. The assumptions used for this purpose in these financial statements are summarised below:

	Weighted Averages					
	31 Dec 2016		31 Dec 2015		31 Dec 2014	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.4	n/a	3.1	n/a	3.1	n/a
Inflation - CPI	2.4	1.2	2.1	1.5	2.1	1.7
Discount rate	2.6	1.4	3.7	1.7	3.6	2.1
Expected salary increases	2.2	1.4	2.5	1.7	n/a	2.2
Rate of pension increases	3.4	0.4	3.1	0.4	3.1	0.3

Section 4 – capital structure and financing costs
(cont'd)

	2016 Years	2015 Years	2014 Years
Life expectancy at age 65 (UK Funds only)			
Current male pensioners	21.2	21.1	21.2
Current female pensioners	24.1	24.0	24.0
Future male pensioners	23.3	23.2	23.0
Future female pensioners	26.4	26.3	26.0

The mortality assumptions used for the UK Funds above reflect its scheme specific 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 2014, and the assumptions used as at 31 December 2016 and 2015 reflect the results of this review.

The table below illustrates how the UK Funds' net pension surplus would decrease (excluding the impact of inflation rate and interest rate hedging), as at 31 December 2016, in the event of the following reasonable changes in the key assumptions above.

UK	
Discount rate 0.1% pa lower	£17.0m
Inflation-linked pension increases 0.1% pa higher*	£10.5m
Increase of one year in life expectancy from age 65	£32.9m
10% fall in non-bond-like assets**	£21.4m

* This is an in-payment pension increase sensitivity.

** Fund assets excluding cash, bonds, insurance policies and the Funds' interest in the IMI Scottish Limited Partnership.

The table below shows how the net pension deficit for IMI's non-UK plans would increase, in the event of the following reasonable changes in the key assumptions above.

Non-UK	
Discount rate 0.1% pa lower	£3.1m
Salary increases 0.1% higher	£0.5m
Increase of one year in life expectancy at age 65	£3.2m

In each case all other assumptions are unchanged.

4.5.3.3
Income statement

In accordance with IAS 19, 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 or surplus 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.

	2016				2015			
	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	-	5.1	1.5	6.6	-	5.0	0.9	5.9
Past service cost/(credit)	(7.6)	4.7	-	(2.9)	-	-	-	-
Settlement/curtailment	-	(1.5)	-	(1.5)	(0.2)	(9.7)	0.1	(9.8)
Recognition of losses/(gains)	-	-	0.4	0.4	-	-	(1.5)	(1.5)
DC employer contributions	-	-	-	-	3.5	4.1	-	7.6
Pension (income)/expense - operating costs	(7.6)	8.3	1.9	2.6	3.3	(0.6)	(0.5)	2.2
Interest on DBO	42.7	2.7	0.4	45.8	43.8	4.1	0.4	48.3
Interest on assets	(46.0)	(0.9)	-	(46.9)	(46.3)	(2.2)	-	(48.5)
Interest (income)/expense - financing costs	(3.3)	1.8	0.4	(1.1)	(2.5)	1.9	0.4	(0.2)

During the year a Pension Increase Exchange exercise was carried out which allowed UK pensioners to increase their current monthly income in return for removing part or all of their annual inflationary increases. This resulted in a gross settlement gain of £7.6m. Following the 2015 Swiss scheme mergers, two of our Swiss schemes were overfunded. As a result, assets were distributed to members in excess of their current DBO, resulting in an exceptional loss of £4.7m. Following the continuation of a restructuring exercise in Switzerland, a curtailment gain of £1.5m was also realised. Fees of £1.6m were incurred as part of these events, resulting in a net gain from special pension events of £2.8m in the income statement.

4.5.4
Overall reconciliation of changes in the net surplus/(liability) for defined benefit obligations

	2016				2015			
	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	(1,341.7)	1,346.3	(0.2)	4.4	(1,510.4)	1,475.8	(0.1)	(34.7)
Current service cost	(6.6)	-	-	(6.6)	(5.9)	-	-	(5.9)
Past service cost	2.9	-	-	2.9	-	-	-	-
Settlement/curtailment	5.0	(3.5)	-	1.5	108.2	(98.4)	-	9.8
Net interest (cost)/income on net defined benefit (liability)/asset	(45.8)	46.9	-	1.1	(48.3)	48.5	-	0.2
Immediate recognition of gains/(losses)	(0.4)	-	-	(0.4)	1.5	-	-	1.5
Total credited/(charged) to income statement	(44.9)	43.4	-	(1.5)	55.5	(49.9)	-	5.6
Actuarial gain due to experience	7.7	-	-	7.7	29.0	-	-	29.0
Actuarial (loss)/gain due to financial assumption changes	(252.6)	-	-	(252.6)	23.7	-	-	23.7
Actuarial (loss)/gain due to demographic assumption changes	(3.4)	-	-	(3.4)	0.6	-	-	0.6
Return on plan assets* greater/(lower) than discount rate	-	169.9	-	169.9	-	(25.4)	-	(25.4)
Change in effect of asset ceiling	-	-	0.2	0.2	-	-	(0.1)	(0.1)
Total remeasurements recognised in other comprehensive income	(248.3)	169.9	0.2	(78.2)	53.3	(25.4)	(0.1)	27.8
Employer contributions	-	5.0	-	5.0	-	5.2	-	5.2
Employee contributions	(2.5)	2.5	-	-	(2.8)	2.8	-	-
Benefits and settlements paid directly by the Group	5.3	-	-	5.3	4.5	-	-	4.5
Benefits paid from plan assets	70.3	(70.3)	-	-	68.0	(68.0)	-	-
Net cash outflow/(inflow)	73.1	(62.8)	-	10.3	69.7	(60.0)	-	9.7
Acquisitions	-	-	-	-	(4.0)	-	-	(4.0)
Changes in exchange rates	(28.2)	13.4	-	(14.8)	(5.8)	5.8	-	-
Total other movements	(28.2)	13.4	-	(14.8)	(9.8)	5.8	-	(4.0)
Carried forward at end of year	(1,590.0)	1,510.2	-	(79.8)	(1,341.7)	1,346.3	(0.2)	4.4

* Net of asset management costs

Section 4 – capital structure and financing costs
(cont'd)

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.

4.6.1
Number and value of shares

	2016		2015	
	Ordinary Shares 28 4/7p per share Number (m)	Value (£m)	Ordinary Shares 28 4/7p per share Number (m)	Value (£m)
In issue at the start of the year	**286.2**	**81.8**	286.0	81.7
Issued to satisfy employee share schemes	-	-	0.2	0.1
In issue at the end of the year	**286.2**	**81.8**	286.2	81.8

All issued share capital at 31 December 2016 is fully paid and conveys the same rights.

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 28 4/7p each (million)			
	Employee Benefit Trust	Treasury	Other	Total
In issue at 31 December 2015	0.9	14.3	271.0	286.2
New issues to satisfy employee share scheme awards	-	-	-	-
Market purchases	**0.8**	-	**(0.8)**	-
Shares allocated under employee share schemes	**(0.8)**	-	**0.8**	-
At 31 December 2016	**0.9**	**14.3**	**271.0**	**286.2**

During the year nil (2015: 0.2m) shares were issued under employee share schemes realising £nil (2015: £0.9m).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of 0.8m (2015: nil) shares with an aggregate market value of £8.0m (2015: £nil) and a nominal value of £0.2m (2015: £nil). Associated transaction costs amounted to £nil (2015: £nil).

Share options exercised in 2016 were settled using the shares in the Group's Employee Benefit Trust. In 2016 0.8m (2015: 0.8m) shares were issued for cash of £0.6m (2015: £2.3m).

Of the 15.2m (2015: 15.2m) shares held within retained earnings, 0.9m (2015: 0.9m) shares with an aggregate market value of £9.4m (2015: £8.0m) are held in trust to satisfy employee share scheme vesting.

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.

	2016 £m	2015 £m
Current year final dividend - 24.7p per qualifying ordinary share (2015: 24.5p)	**67.0**	66.4

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

	2016 £m	2015 £m
Prior year final dividend paid - 24.5p per qualifying ordinary share (2014 final year dividend: 24.0p)	**66.3**	64.9
Current year interim dividend paid - 14.0p per qualifying ordinary share (2015: 13.9p)	**37.9**	37.6
	104.2	102.5

Section 4 – capital structure and financing costs
(cont'd)

4.7
Share-based payments

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 2016, 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	Dates from which exercisable
IMI Sharesave Scheme	06.04.11	363	849.02p	01.08.16
	10.04.12	25,163	890.01p	01.08.17
	05.04.13	32,990	1196.50p	01.08.16 or 01.08.18
	06.05.14	25,109	1384.02p	01.08.17 or 01.08.19
	05.06.15	84,554	1075.32p	01.08.18 or 01.08.20
	29.04.16	212,213	845.10p	01.08.19 or 01.08.21
		380,392		
Global Employee Share Purchase Plans	19.12.11	1,312	849.02p	01.08.16
	10.04.12	672	890.01p	01.08.17
	01.09.15	57,110	911.52p	01.09.17
	15.08.16	35,633	948.60p	15.08.18
		94,727		
IMI Incentive Plan	07.05.15	714,216	-	07.05.17 or 07.05.18
	09.03.16	1,174,352	-	09.03.18 or 09.03.19
		1,888,568		
IMI Share Option Plan	03.09.09	2,989	440.93p	03.09.12
	22.03.10	22,000	645.00p	22.03.13
	23.03.11	235,840	971.83p	23.03.14
	04.05.12	426,400	980.67p	04.05.15
	27.11.12	14,400	1007.33p	27.11.15
	12.03.13	426,450	1322.70p	12.03.16
	10.05.13	10,000	1294.33p	10.05.16
	22.10.13	74,000	1518.33p	22.10.16
	11.03.14	411,323	1467.00p	11.03.17
		1,623,402		
IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan)	05.04.07	2,146	-	29.03.10
	04.04.08	4,500	-	04.04.11
	22.10.13	3,418	-	22.10.16
	11.03.14	146,688	-	11.03.17
		156,752		
Share Matching Plan	07.05.10	3,091	-	22.03.13
	28.03.11	3,154	-	28.03.14
	10.05.12	53,164	-	10.05.15
	09.04.13	35,374	-	09.04.16
	01.04.14	322,394	-	01.04.17
		417,177		
Total		**4,561,018**		

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 US and Germany. The German and US 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 to five years. The US 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. No further awards are intended to be granted under the German GESPP.

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.

IMI 2005 Long-term Incentive Plan (also known as Performance Share Plan ('PSP'))

Awards have been granted to the Company's executive directors and selected senior managers within the Group. Awards have been granted subject to stretching performance targets, the nature of which differs depending upon the year in which the award was granted. No further awards can be granted under the PSP.

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. The SMP has been operated on the basis that 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) has been 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 have also been able to 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 (up 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. No further awards can be granted under the SMP.

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.

The IMI Incentive Plan ('IIP')

In light of the expiry in 2015 of both the PSP and SMP, the IIP was introduced to act as the Company's sole senior executive long-term incentive plan. The IIP acts as an umbrella plan which allows the Company to grant different types of award to different employee groups in an efficient way. The IIP is to be used annually to grant 'Performance Share Awards' in respect of ordinary shares to the executive directors and other members of senior management subject to performance conditions. The IIP will also be used annually to grant 'Bonus Share Awards' below board level. The IIP also gives the Company the ability to grant 'Restricted Stock Unit Awards' and 'Share Options'. It is currently intended that Restricted Stock Unit Awards and share options will only be granted in response to specific business requirements.

Section 4 – capital structure and financing costs
(cont'd)

4.7.4
Options granted during the year

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
SAYE			
2015	227	1075p	2018-2020
2016	**227**	**845p**	**2019-2021**
GESPP			
2015	66	912p	2017
2016	**36**	**949p**	**2018**
IIP			
2015	783	-	2017-2018
2016	**1,238**	**-**	**2018-2019**

4.7.5
Movement in outstanding options in the year

	Options not granted at nil cost [1]			Options granted at nil cost [2]	Total
	Number of options (thousand)	Range of option prices	Weighted average option price	Number of options (thousand)	Number of options (thousand)
Outstanding at 1 January 2015	2,702	201-1518p	1157p	2,857	5,559
Exercisable at 1 January 2015	368	201-972p	862p	508	876
Granted	293	912-1075p	1038p	783	1,076
Exercised	382	201-1384p	858p	487	869
Lapsed	305	201-1467p	1239p	561	866
Outstanding at 31 December 2015	2,308	441-1518p	1180p	2,592	4,900
Exercisable at 31 December 2015	814	441-1007p	961p	653	1,467
Granted	**263**	**845-949p**	**859p**	**1,238**	**1,501**
Exercised	**109**	**511-1197p**	**899p**	**641**	**750**
Lapsed	**363**	**845-1467p**	**1177p**	**727**	**1,090**
Outstanding at 31 December 2016	**2,099**	**441-1518p**	**1156p**	**2,462**	**4,561**
Exercisable at 31 December 2016	**1,236**	**441-1518p**	**1128p**	**105**	**1,341**

[1] Options not granted at nil cost include options granted under the following schemes: IMI Sharesave Scheme, Global Employee Share Purchase Plans and IMI Share Option Plan.

[2] Options granted at nil cost are those granted under the Performance Share Plan, Share Matching Plan and IMI Incentive Plan.

4.7.6
Share-based payment charge for the year

The total expense recognised for the year arising from share-based payments was £5.8m (2015: £1.1m) which comprises a charge of £13.5m (2015: £12.9m) for the year offset by a credit of £7.7m (2015: £11.8m) in respect of lapses.

£3.9m (2015: £3.5m) of the total charge and £2.4m (2015: £4.2m) 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 2016 included a dividend yield of 4.7% (2015: 3.4%), expected share price volatility of 23% (2015: 22%), a weighted average expected life of 3.4 years (2015: 3.5 years) and a weighted average interest rate of 0.5% (2015: 0.6%). 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 2016 is 6.84 years (2015: 6.87 years) and the weighted average fair value of share options granted in the year at their grant date was £7.75 (2015: £9.15).

The weighted average share price at the date of exercise of share options exercised during the year was £9.34 (2015: £11.90).

4.8
Non-controlling interests

Non-controlling interests are recorded as reductions from 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 2016	2.1	40.7	42.8
Profit for the year attributable to non-controlling interests	**(0.4)**	**2.8**	**2.4**
Dividends paid to non-controlling interests	**(0.8)**	**-**	**(0.8)**
Income earned by partnership	**-**	**(4.4)**	**(4.4)**
2016 movement in non-controlling interest	**(1.2)**	**(1.6)**	**(2.8)**
Non controlling interest as at 31 December 2016	**0.9**	**39.1**	**40.0**

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

The non-controlling interest denoted SLP relates to an interest in the IMI Scottish Limited Partnership which is held jointly by the Funds and provides the Funds 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 Funds are fully funded.

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.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £208m (2015: £161m).

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.

	2016 £m	2015 £m
Short-term employee benefits*	4.7	4.6
Share-based payments**	1.6	(0.7)
Total	6.3	3.9

* Short-term employee benefits comprise salary, including employers' social contributions, benefits earned during the year and bonuses awarded for the year.

** For details of the shared based payment (credit)/charge for key management personnel, see Section 4.7.6.

There are no other related party transactions.

5.3 Subsequent events

Events that occur in the period between 31 December and the date of approval of the Annual Report 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.

There were no adjusting subsequent events after the balance sheet date of 31 December 2016. As noted in Section 4.5.2.1, on 31 January 2017 approximately £430m of liabilities covered by insurance policies were permanently transferred to the underlying insurance companies through a formal buy-out transaction. This resulted in the pension asset and corresponding DBO being removed from the balance sheet. This impact has not been reflected in the 2016 financials but will be in the 2017 interim results.

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 2016.

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

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

- derecognises the assets (including any goodwill relating to the subsidiary) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; 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 UK Funds' 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 proportionally 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. Judgements, estimates and assumptions

The key judgements and 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 to five years. The principal assumptions in these calculations are the long-term growth rates and the discount rate applied to forecast cash flows in addition to the achievement of the forecasts themselves. Further information on this process and the assets affected is included in Section 3.2.

Acquired businesses

The Group has over the years acquired a number of businesses. IFRS 3 *'Business Combinations'* requires the acquired assets to be recognised at their fair value at the acquisition date. The valuation of these acquired assets involves the use of estimates and assumptions, in particular with respect to the valuation of acquired intangibles for which there are significant unobservable inputs.

Disposed businesses

The Group has over the years disposed of a number of 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. These assumptions, accompanied by sensitivity analysis thereon, are included in Section 4.5. 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 proportion of the assets, the valuation of the UK Funds' interests in the Scottish Limited Partnership is a highly subjective area because their 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 two UK Pension Funds both became fully funded or become deferred in any year in which no dividend was paid to the shareholders.

Consolidation of the Scottish Limited Partnership ('SLP') and inclusion of the UK Pension Funds' interests 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 ('SLP'), an entity controlled by the Group, which conferred 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 and whether the entity should be consolidated. It was determined that the entity meets the definition of a Special Purpose Entity under IFRS 10 and furthermore, upon consideration of the criteria in this interpretation, it was determined that consolidation was appropriate. 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 and therefore, because the Group has the ability to defer these 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 IAS 32. As such the Pension Funds' interests in this SLP have been recorded as non-controlling interests, as a component of equity. During the prior year the IMI Pension Fund commenced winding up procedures and the relevant liabilities were transferred to one of two new funds, IMI 2014 Deferred Fund and IMI 2014 Pensioner Fund (together 'The Funds'). The interest in the SLP is now held jointly by the Funds.

Development costs

Development costs are capitalised in accordance with the criteria set out in IAS 38: *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 detail is provided 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.

Section 5 – other notes
(cont'd)

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. In limited instances, a customer may request that the Group retains physical possession of an asset for a period after the significant risk and rewards of ownership have transferred to the customer. In these circumstances, the Group provides this storage as a service to the customer and therefore revenue is recognised prior to delivery of the asset.

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 on the face of the income statement and excluded in arriving at reported results, 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;
- 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. Non-significant restructuring costs are not disclosed as exceptional items;
- Special pension events, which comprises settlement gains or losses relating to the Group's defined benefit schemes;
- Impairment losses recorded against goodwill, intangible assets and other operating assets;
- The amortisation of acquired intangible fixed assets;
- Gains or losses on disposals of subsidiaries;
- Costs associated with acquisitions and disposals, which principally represent:
  - Costs payable to the legal and financial advisors assisting with the origination and completion of the transactions; and
  - 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 IFRS 3 (revised) to be treated as remuneration.

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

E. 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 IAS 39 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.

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 shall 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.

F. 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.

G. 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.

H. 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.

I. 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.

J. 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 IAS 39:

- Fixed deposits, principally comprising funds held with banks and other financial institutions are classified as 'available for sale assets' under IAS 39, 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 IAS 39, 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.

Section 5 – other notes
(cont'd)

- 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.

K. 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 IAS 39 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, movements in the value of the derivative are recognised directly in other comprehensive income 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 via other comprehensive income to the extent the hedge is effective. The Group 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.

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 accounting policy D of these accounting policies, because of its inherent volatility. The accounting policy for goodwill is described in accounting policy E.

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 directly attributable 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 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 (including order books, brands and software) 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. Due to 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 forecast 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 IAS 36 *'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.

For newly issued shares, 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.

Directors' Report

The directors present their report, together with the audited financial statements, for the year ended 31 December 2016. The Strategic Report is on pages 4 to 43, sections of which are incorporated into the Directors' Report as set out below.

Results and dividend

The Group consolidated income statement is shown on page 76. Segmental operating profit amounted to £227.7m (2015: £239m) and statutory profit before taxation and discontinued operations amounted to £165.3m (2015: £162.7m).

The directors recommend a final dividend of 24.7p per share (2015: 24.5p per share) on the ordinary share capital payable, subject to shareholder approval at the Annual General Meeting to be held on 4 May 2017, on 19 May 2017 to shareholders on the register at the close of business on 7 April 2017. Together with the interim dividend of 14p per share paid on 16 September 2016, this final dividend will bring the total distribution for the year to 38.7p per share (2015: 38.4p per share).

Research and development

See Section 2.1.3.3 to the financial statements on page 89.

Shareholders' funds

Shareholders' funds decreased from £546m at the end of 2015 to £543.2m at 31 December 2016.

Share capital

As at 31 December 2016, the Company's share capital comprised a single class of share capital which was divided into ordinary shares of 28 4/7p each. Details of the share capital of the Company are set out in Section 4.6 to the financial statements on page 120. The Company's ordinary shares are listed on the London Stock Exchange.

The Company has a Level 1 American Depositary Receipt ('ADR') programme for which Citibank, N.A. acts as depositary. See page 155 for further details.

As at 31 December 2016, 900,304 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.3% 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 2016, 39,475 new ordinary shares were issued under employee share schemes: 39,475 under save as you earn plans and nil 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 carry any special rights with regard to control of the Company. The only restrictions on voting rights are those that apply to the ordinary shares held in treasury. 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.

Own shares acquired by the Company

The Company was granted authority at the Annual General Meeting held on 5 May 2016 to purchase up to 40,790,321 of its ordinary shares of 28 4/7p each. This authority will expire at the conclusion of the next Annual General Meeting to be held on 4 May 2017, where shareholders will be asked to give a similar authority, details of which are given in the separate Notice of Annual General Meeting. In 2016, the Company did not make market purchases of its own ordinary shares.

As at 31 December 2016, 14,248,836 ordinary shares (nominal value £4,071,096) were held in treasury representing 5.2% of the issued share capital (excluding treasury shares) at that time. The maximum number of shares held in treasury during the year ended 31 December 2016 was 14,248,836.

Substantial shareholdings

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules is published on a regulatory information service and on the Company's website. As at 31 December 2016, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure Guidance and Transparency Rules, had been notified to the Company:

	% Held[1]
MFS Investment Management	10.17%
Ameriprise Financial Inc	5.93%
Blackrock Inc	5.01%
Legal & General Group plc	3.03%

[1] As of the date in the notification to the Company.

Subsequent to 31 December 2016 and up to the date of this Report, no changes in the voting interests have been notified to the Company in accordance with the Disclosure Guidance and Transparency Rules.

As far as the Company is aware, there are no persons with substantial 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 49 to 54 and are incorporated into this Directors' Report by reference.

Employment engagement and diversity

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. Further disclosures relating to employee diversity, employee engagement and policies are set out on pages 29 to 33.

Details of employee share schemes are set out in the Remuneration Report on pages 59 to 71 and in Section 4.7 of the financial statements on pages 122 to 125.

Health, safety and the environment

It is Group policy to continuously improve healthy and safe working conditions and to always operate in an environmentally responsible manner.

Our carbon reporting statistics show that our recent performance in gross tonnes of CO2e has continued to improve: 2014 – 62,500, 2015 – 61,250, 2016 – 60,000. As such, we achieved our target to keep emissions at or below 2015 levels for 2016. Of the 2016 total, our direct (Scope 1) emissions of CO2e, essentially gas, diesel and fuel oil consumed, amounted to 17,500 tonnes. Our indirect (Scope 2) emissions of CO2e, essentially the emissions generated on our behalf to provide our electricity, amounted to 42,500 tonnes.

In addition to gross tonnes of CO2e, we report CO2e intensity relative to £million sales; Our result for 2016 is 36.3 which is an improvement relative to 2015's reported figure of 39.5 but a slight deterioration when 2015 is restated on a constant currency basis (35.2). Using 2015 as our new baseline, we plan to continuously improve our emissions performance going forward, including building on the results from the European Energy Directive audits undertaken in 2015 and cascading these lessons throughout our non-European facilities.

Our CO2e accounting methodology follows DEFRA guidelines and includes all material emissions across IMI. See page 36 for further CO2e and energy efficiency details.

Political 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 46 and 47 and are incorporated into this report by reference.

The rules for the appointment and replacement of directors are set out in the Company's articles of association. The Company's articles of association require each director to stand for re-election at each Annual General Meeting.

Qualifying indemnity provisions and liability insurance

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, as a director or employee, subject always to the limitations set by the Companies Act 2006.

The Group operates pension schemes in the UK which provide retirement and death benefits for employees and former employees of the Group. The corporate trustee of the pension schemes is IMI Pensions Trust Limited, a subsidiary of the Company. Qualifying pension scheme indemnity provisions, as defined in Section 235 of the Companies Act 2006, were in force for the financial year ended 31 December 2016 and remain in force for the benefit of each of the directors of the corporate trustee of the pension schemes. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities incurred as a director or officer of the corporate trustee of the pension schemes.

The Group also has in place third party qualifying indemnity provisions, as defined in Section 234 of the Companies Act 2006, in favour of certain employees who discharge responsibilities for various wholly-owned subsidiary companies and these indemnities are given on a similar basis to the above.

Role of the Board

The role of the Board is:

- to promote the success of the Company;
- be guardians of stakeholders' interests;
- to set/monitor leadership behaviour and culture;
- to select and appoint the Executive Committee;
- to provide supportive challenge to the Executive Committee;
- to approve business plans and strategy;
- to oversee governance, risk and the control environment; and
- to monitor and oversee 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 Committee. 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.

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.

Division of responsibilities amongst directors

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 IMI Corporate Governance Framework approved by the Board. In summary, the Chairman is responsible for the leadership and effectiveness of the Board but does not have any executive powers or responsibilities. The Chief Executive leads the Executive Committee 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.

Directors' Report
(cont'd)

Chief Executive:

- leadership of the Executive Committee
- formulating strategy, business plans and budgets
- ensuring the highest compliance and internal control standards are maintained
- developing organisation structure
- resourcing, talent development and succession plans

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 5 May 2016. The current authorities will expire at the conclusion of the next Annual General Meeting to be held on 4 May 2017, 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 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 page 70.

Management of conflicts of interest

The Company's articles of association include certain provisions relevant to the activity of the Board and its committees. 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 2016.

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 any interest in any transaction or arrangement under consideration by the Company. If any director becomes aware of any situation which may 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.

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.

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 to be disclosed under Listing Rules 9.8.4R

Listing Rule	Detail	Section
9.8.4R (1-2)(5-14)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	4.7

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 best practice guidance including the Financial Reporting Council's September 2014 publication, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

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 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 regularly reviews 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 available 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. The internal control declaration process introduced in 2014 is now fully embedded and is enabling improvement in control through bi-annual self-assessments from all operating units. Action plans to improve controls as a result of these assessments are being tracked and reported to the Audit Committee. More information in relation to risk is given on page 40 under the heading 'Principal Risks and Uncertainties'.

Through the procedures outlined here, the Board has considered the effectiveness of all significant aspects of internal control for the year 2016 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.

Financial reporting processes

The use of the Group's 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.

Viability statement

In accordance with the 2014 UK Corporate Governance Code, the directors have assessed the viability of the Company over a relevant period, taking into account the Group's financial and trading position as summarised in this Annual Report, the principal risks and uncertainties set out on pages 40 to 43 and the five-year business plan reviewed by the Board in September 2016. Based on this assessment, and other matters considered and reviewed by the Board, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this Annual Report to 31 December 2021.

The directors have determined that the period to 31 December 2021 constitutes an appropriate period over which to make its assessment of viability. Whilst the directors have no reason to believe the Company will not be viable over a longer timing horizon, the five-year period to 31 December 2021 was chosen as it aligns with the Company's business and strategic planning timing horizon and is a sensible period for such an assessment. It is believed this period provides readers of the Annual Report with an appropriately long-term view with which to assess the Company's prospects although future outcomes cannot be predicted with certainty.

In making its assessment, the Board recognised the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A summary of these risks can be found on pages 40 to 43.

The five-year business plan was used to assess the headroom on the Company's facilities and to stress test ongoing covenant compliance under scenarios where its principal risks materialise. The analysis considered both 'running business' risks, such as reducing revenues and margins, as well as one-off 'event' risks such as product recalls. The Board also considered the Company's ability to raise capital in the future, as well as both the ongoing actions undertaken to prevent occurrence and the potential actions to mitigate the impact of any particular risk.

The directors also recognised a number of key features of the Company's operations. The Company's wide geographical and sector diversification, and the lack of a single major production site, help minimise the risk of serious business interruption. Furthermore, our business model is structured so that the Company is not overly reliant on a few large customers. Our largest customer constitutes only 2% of Group revenue and our top 20 customers account for just over 16% of Group revenue. In addition, our ability to flex our cost base reduces our exposure to sudden adverse economic conditions.

Going concern

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. 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 4 to 43. Principal risks are detailed on pages 40 to 43. 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 potential and realistic changes in trading performance, indicate that the Group is able to operate within the level of facilities either in place on 31 December 2016, or renewed since, without the need to renew any further facilities before 23 February 2018. 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. Such uncertainties as have been identified are not regarded as material uncertainties for the purpose of the going concern assessment.

After making due enquiry, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 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 4 May 2017 at 10am. Notice of the Annual General Meeting will be published on the Company's website.

By order of the Board

John O'Shea
Company Secretary

23 February 2017

IMI plc is registered in England No. 714275

Statement of Directors' Responsibilities

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare 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 and 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 financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies 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;
- state that the Group financial statements have complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- state for the parent company financial statements whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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, as at the date of this report, 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 Annual Report (which includes the Directors' Report and the Strategic Report) 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.

The directors are responsible for preparing the Annual Report in accordance with applicable laws and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

John O'Shea
Company Secretary

23 February 2017

Independent Auditor's Report to the Members of IMI plc

In our opinion:

- IMI plc's Group financial statements and Parent Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

We audited the Group and Parent Company financial statements of IMI plc for the year ended 31 December 2016 which comprise:

Group	Parent Company
Consolidated income statement for the year then ended	Balance sheet as at 31 December 2016
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes C1 to C10 to the financial statements
Consolidated balance sheet as at 31 December 2016	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 5 to the financial statements	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Overview of our audit approach

Risks of material misstatement	- Revenue and profit recognition
	- Inventory valuation
	- Valuation of the overall pension scheme liabilities
	- Carrying value of goodwill and acquired intangible assets
Audit scope	- We performed an audit of the complete financial information of 13 entities and audit procedures on specific balances for a further 27 entities.
	- The entities where we performed full or specific audit procedures accounted for 91% of profit before tax adjusted for non-recurring items, 62% of revenue and 76% of total assets.
Materiality	- Overall Group materiality of £9.2m which represents 5% of profit before tax adjusted for non-recurring items.
What has changed	- In the prior year, our auditor's report included a risk of material misstatement in relation to the accounting for the acquisition of Bopp & Reuther. There have been no further acquisitions in 2016 and accordingly no associated risk.
	- We have set performance materiality at £6.9m (2015: £4.7m) being 75% (2015: 50%) of our planning materiality. The increased percentage reflects the improvement in IMI's internal control environment.

Independent Auditor's Report to the Members of IMI plc
(cont'd)

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk
Revenue and profit recognition (£1,657m, PY comparative £1,567m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 126); and Note 2.1 of the Consolidated Financial Statements (page 85)* Revenue and profit recognition is a significant audit risk across all divisions within the Group. Specifically there is a risk of inappropriate revenue and profit recognition if deliveries are recorded within the wrong accounting period, management override causes contract loss provisions to be misstated or revenue is not accounted for in line with contractual terms. The cyclical nature of deliveries within the Critical Engineering division results in significant shipments near the December period end which increases the risk of a cut-off error. **Risk movement** ↔	We carried out testing of controls over revenue recognition with a focus on those related to the timing of revenue recognition. We performed analytical procedures to compare revenue recognised with our expectations from past experience, management's forecasts and, where possible, external market data. We obtained support for individually unusual and/or material revenue journals. We performed tests of detail for a sample of revenue transactions to confirm the transactions had been appropriately recorded in the income statement and verified that the risks and rewards of ownership of the products had been transferred to the customer by: • analysing the contract and terms of the sale to determine that the Group had fulfilled the requirements of the contract; • confirming revenue could be reliably measured by reference to underlying documentation; and • confirming collectability of the revenue was reasonably assured by agreeing to collection history. We performed cut-off testing by tracing a sample of transactions around the period end to third party delivery note documentation and customer acceptance. In respect of new construction contracts in the Critical Engineering division we tested a sample of management's assessment of forecast costs to complete, corroborating the underlying assumptions against historic experience and future production plans to determine any contract losses are appropriately recognised. We performed these audit procedures at full and specific scope entities over this risk area in 31 locations where revenue is in scope, which represents 62% of the total revenue balance. We also performed specific procedures over £302m of revenue recognised in the 50 Precision and Hydronic divisions' marketing companies. These companies purchase IMI manufactured products, either directly from the manufacturing IMI entity or through the Group's centralised warehousing, and sell into local markets. The specific procedures performed included verifying the occurrence and completeness of a sample of sales transactions recognised by the marketing companies through to goods despatch documentation. We tested a sample of transactions recognised in these companies to determine the measurement of revenue recognised is consistent with the Group's transfer pricing policies and the inter-company transactions eliminate on consolidation.

Key observations communicated to the Audit Committee:
Our year-end audit procedures did not identify evidence of material misstatements regarding revenue or profit recognition in the Group. All transactions tested have been recognised in accordance with contractual terms.

Risk	Our response to the risk
Inventory valuation (£255m, PY comparative £233m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 126); and Note 3.1.1 of the Consolidated Financial Statements (page 96)* The valuation of inventory across the Group is dependent on establishing appropriate valuation controls. This includes reliance on manual processes. Management judgement is applied to formulaic calculations for standard costing and excess and obsolete inventory provisions. If these judgements are not appropriate then this increases the risk that inventory is overstated. **Risk movement**	We carried out testing on controls over inventory valuation to verify the Group values inventory appropriately. We tested the accumulation of cost within inventory, confirming the valuation reflected the products' stage of completion including agreement to the physical inventory counts we attended. We obtained evidence to support the standard costs used and performed procedures to ensure only normal production variances had been capitalised in the year-end inventory balance and any abnormal inefficiencies had been appropriately expensed including comparing actual production rates to budget. We audited the adequacy of excess and obsolete provisions held against inventory by comparing forecast product usage to customer orders, considering historical usage, historical accuracy of provisioning and understanding management's future plans to utilise the inventory. We performed the same audit procedures at full and specific scope entities over this risk area in 26 locations where inventory is in scope, which represents 73% of the total inventory balance.

Key observations communicated to the Audit Committee:

Inventory valuation across the Group is considered appropriate including the adequacy of the excess and obsolete provision. Our audit procedures confirmed variances between standard and actual costs and the overheads absorbed in the inventory valuation had been correctly calculated and accounted for.

Risk	Our response to the risk
Valuation of the overall pension scheme liabilities (£1,590m, PY comparative (£1,341m) within the net pension deficit of £80m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 126); and Note 4.5 of the Consolidated Financial Statements (page 114)* The actuarial assumptions used to value the UK and overseas pension scheme liabilities are judgemental and sensitive. Due to the significance of the value of the pension obligation, a small change in assumptions may result in a material difference to the amounts reported. **Risk movement**	Using external data we benchmarked the key actuarial assumptions, as detailed in Section 4.5.3.2 of the consolidated financial statements, used by management, in determining the pension obligation under IAS 19(R) to determine their assumptions were appropriate, met the requirements of IFRS and were in line with market practice. This included a comparison of life expectancy with relevant mortality tables, benchmarking inflation and discount rates against external market data, considering changes in historical assumptions and evaluating the independence, qualifications and results of work performed by management's experts involved in the valuation process. We used our pension specialists to assist us with these procedures. The audit procedures performed to address this risk have been performed by the Group audit team.

Key observations communicated to the Audit Committee:

The actuarial assumptions used in the valuation of the year-end liabilities are at the middle of the acceptable range when compared to external benchmarks. We consider the valuation of pension scheme liabilities to be appropriate.

Independent Auditor's Report to the Members of IMI plc

(cont'd)

Risk	Our response to the risk
Carrying value of goodwill and acquired intangible assets (£453m, PY comparative £411m) *Refer to the Audit Committee Report (page 55); Accounting policies (page 126); and Note 3.2 of the Consolidated Financial Statements (page 97)* As a consequence of the Group's growth strategy a significant value of goodwill and intangible assets has arisen from acquisitions. There is a risk that cash generating units ('CGUs') may not achieve the anticipated business performance to support the carrying value of these assets leading to an impairment charge that has not been recognised by management. Significant judgement is required in assessing the future cash flows of the CGU, together with the rate at which they are discounted. **Risk movement** ↔	We examined management's methodology, as detailed in Section 3.2 of the consolidated financial statements, and models for assessing the valuation of significant goodwill balances to confirm the composition of management's future cash flow forecasts, the process by which they were drawn up and re-performing the calculations in the model to test the mechanical integrity. This included confirming the underlying cash flows were consistent with the Board approved budgets. In accordance with the requirements of IAS 36 Impairment of Assets, management performed an impairment test on all CGUs that have goodwill allocated. For all CGUs we calculated the degree to which the key assumptions would need to fluctuate before an impairment conclusion was triggered and considered the likelihood of this occurring. In respect of the CGUs identified as having impairment indicators or low levels of headroom we performed detailed testing to critically assess and corroborate the key inputs of the forecast cash flows including: • corroborating the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against comparable organisations; • validating the growth rate assumed by comparing them to economic and industry forecasts; and • analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience. We have reviewed the disclosures in respect of goodwill and intangibles and the impairment of Stainless Steel Fasteners (SSF) with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models. The audit procedures performed to address this risk have been performed by the Group audit team.

Key observations communicated to the Audit Committee:

We consider management's impairment of Stainless Steel Fasteners of £5.0m for the year ended 31 December 2016 to be appropriate. We agree with management's conclusion that none of the remaining CGUs are required to be impaired as at 31 December 2016. Across the Group's CGUs, the level of headroom and conservatism in the forecasts varies. Overall, management's valuations are around the mid-point of our acceptable range.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the level of Group revenue and operating profit, risk profile (including country risk, risk determined to be associated based on the grading of internal audit findings, controls findings, historical knowledge and risk arising from change in the period including changes to IT systems and key management personnel), the number of significant accounts based on performance materiality and any other known factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to achieve adequate quantitative coverage of significant accounts in the financial statements, of the 123 reporting entities of the Group, we selected 40 entities, which represent the principal business units within the Group.

Of the 40 entities selected, we performed an audit of the complete financial information of 13 entities ('full scope entities') which were selected based on their size or risk characteristics. For the remaining 27 entities ('specific scope entities'), we performed audit procedures on specific accounts within that entity that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting entities where we performed audit procedures accounted for 91% (2015: 85%) of the Group's profit before tax adjusted for non-recurring items, 62% (2015: 66%) of the Group's revenue and 76% (2015: 83%) of the Group's total assets.

We also performed procedures over the revenue recognised in the Precision and Hydronic divisions' marketing companies, which provided additional coverage of 18% in respect of the Group's revenue.

Excluding full and specific scope entities, there are a further 83 reporting entities with average revenues of £7.6m and average profit before tax adjusted for non-recurring items of £0.2m. In addition, these locations do not have common systems and controls. As a consequence, we consider the likelihood of any systematic error arising within this population to be low. Notwithstanding this, for the 83 entities we performed other procedures, including analytical review and enquiries of management to address the residual risk of material misstatement.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Changes from the prior year

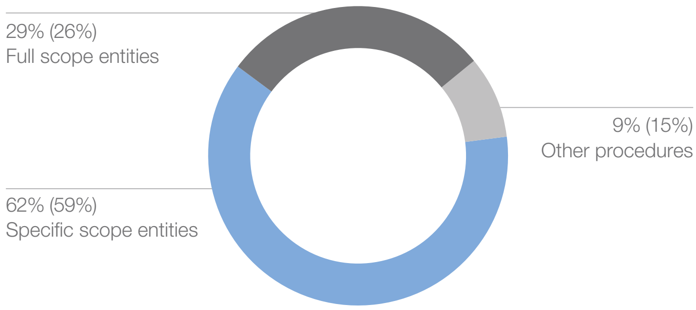
The number of full scope entities has reduced to 13 (2015: 14) and the number of specific scope entities has reduced to 27 (2015: 29). These changes predominantly reflect restructuring undertaken by the Group which has resulted in a reduction of the size and risk profile of entities previously in scope.

In the prior year, our auditor's report included a risk of material misstatement in relation to the accounting for the acquisition of Bopp & Reuther in 2015. In the absence of further acquisitions in the current year, the risk was not included in the current year audit.

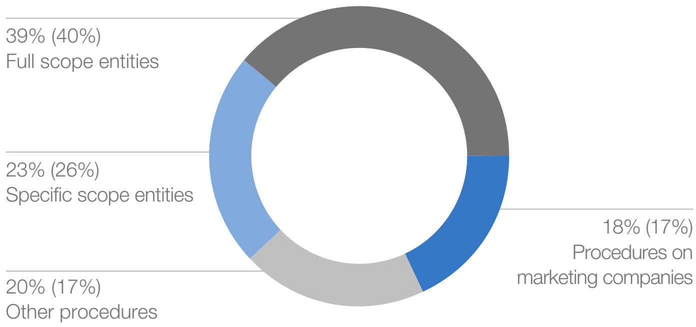
Involvement with entity teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the entities by us, as the primary audit engagement team, or by entity auditors from other EY global network firms operating under our instruction. Of the 13 full scope entities, audit procedures were performed on one of these directly by the Group audit team. For the 27 specific scope entities, where the work was performed by entity auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

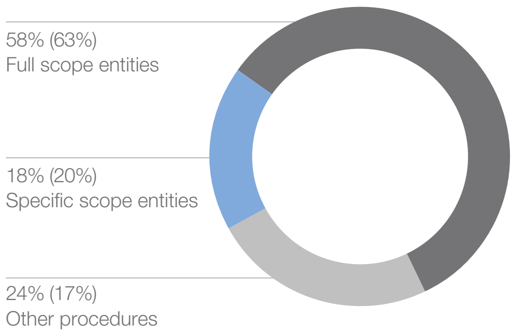
Profit before tax adjusted for non-recurring items - CY / (PY)



Revenue - CY / (PY)



Total assets - CY / (PY)



The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or his delegate visits each full and specific scope location once every three years. During the current year's audit cycle, visits were undertaken by the Group audit team to the entity teams in Belgium, China, Germany, Italy, Japan, Korea, Switzerland and the United Kingdom. These visits involved meeting with our entity team to discuss and direct their audit approach, reviewing and understanding the significant audit findings in response to the risk areas including revenue, profit recognition and inventory valuation, holding meetings with local management, undertaking factory tours and obtaining updates on local regulatory matters including tax, pensions and legal. The Group audit team interacted regularly with the entity teams during various stages of the audit, where appropriate reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Independent Auditor's Report to the Members of IMI plc
(cont'd)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £9.2m (2015: £9.4m), which is approximately 5% (2015: 5%) of profit before tax adjusted for non-recurring items. We believe that profit before tax, adjusted for the items described in the table provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity.

Starting basis	• Profit before tax - £165.3m for the year ended 31 December 2016
Adjustments	• Gain on special pension events - (£2.8m) (Note 2.2.3 to the Financial Statements) • Restructuring - £18.8m (Note 2.2.2 to the Financial Statements) • Impairment of Stainless Steel Fasteners (SSF) - £5.0m (Note 2.2.4 to Financial Statements)
Materiality	• Profit before tax adjusted for non-recurring items - £186.3m (basis for materiality) • Materiality of £9.2m (approximately 5% of materaility basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2015: 50%) of our planning materiality, namely £6.9m (2015: £4.7m). We have set performance materiality at this higher percentage reflecting the improvement in IMI's internal financial control environment and due to the absence of audit differences being identified in recent periods.

Audit work at entity locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement at that entity. In the current year, the range of performance materiality allocated to entities was £0.45m to £1.50m (2015: £0.45m to £1.35m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2015: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 and 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 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 136, the directors are responsible for the preparation of the 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 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.

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.

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
- based on the work undertaken in the course of the audit:
  - 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 financial statements; and
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. We are required 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.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 135, and longer-term viability, set out on page 135; and • the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

Andrew Walton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
23 February 2017

Notes:

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 website.
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 2016

	Note	2016 £m	2015 £m
Fixed assets			
Investments	C5	**173.2**	173.2
Current assets			
Debtors	C6	**364.4**	397.3
Deferred tax assets	C7	**1.1**	1.9
Cash at bank and in hand		**4.8**	11.3
		370.3	410.5
Creditors: amounts falling due within one year			
Other creditors	C8	**(3.0)**	(2.9)
Net current assets		**367.3**	407.6
Total assets less current liabilities		**540.5**	580.8
Net assets		**540.5**	580.8
Capital and reserves			
Called up share capital	C9	**81.8**	81.8
Share premium account	C9	**12.1**	11.8
Capital redemption reserve	C9	**174.4**	174.4
Profit and loss account	C9	**272.2**	312.8
Equity shareholders' funds		**540.5**	580.8

Approved by the Board of Directors on 23 February 2017 and signed on its behalf by:

Lord Smith of Kelvin

Chairman

Company statement of changes in equity

for the year ended 31 December 2016

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2015	81.7	10.8	174.4	320.1	587.0
Retained profit for the year				91.8	91.8
Dividends paid on ordinary shares				(102.5)	(102.5)
Shares issued in the year	0.1	1.0			1.1
Share-based payments				1.1	1.1
Shares issued by:					
employee share scheme trust				2.3	2.3
At 31 December 2015	81.8	11.8	174.4	312.8	580.8
Retained profit for the year				**65.2**	**65.2**
Dividends paid on ordinary shares				**(104.2)**	**(104.2)**
Shares issued in the year		**0.3**			**0.3**
Share-based payments				**5.8**	**5.8**
Shares acquired for:					
employee share scheme trust				**(7.4)**	**(7.4)**
At 31 December 2016	**81.8**	**12.1**	**174.4**	**272.2**	**540.5**

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 were prepared in accordance with Financial Reporting Standard 101 ‘Reduced Disclosure Framework’ (‘FRS 101’).

The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 45 (b) and 46-52 of IFRS 2 ‘Share based Payment’;

b) the requirements of IFRS 7 ‘Financial Instruments’;

c) the requirements of paragraphs 91-99 of IFRS 13 ‘Fair Value Measurement’;

d) the requirement in paragraph 38 of IAS 1 ‘Presentation of Financial Statements’ to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;

e) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS 1;

f) the requirements of IAS 7 ‘Statement of Cash Flows’;

g) the requirements of paragraphs 30 and 31 of IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’;

h) the requirements of paragraph 17 of IAS 24 ‘Related Party Disclosures’; and

i) the requirements in IAS 24 ‘Related Party Disclosures’ to disclose related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member. Related party transactions with the Company’s key management personnel are disclosed in the Remuneration Report on pages 59 to 71 and in Section 5.2 on page 126 of the Group financial statements.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Foreign currencies

The Company’s functional currency and presentation currency is sterling. 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

Investments in subsidiaries are accounted for at cost less any provision for impairment. 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 temporary differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all temporary 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 IAS 12 ‘Income Taxes’. 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.

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 of the Group financial statements. The fair value of the employee services received in exchange for the grant of the options is recharged in full to the principal employing company and accordingly, there is no net charge 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.

For newly issued shares, 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. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to share premium. If treasury shares are subsequently cancelled the nominal value of the cancelled shares is transferred from share capital to the capital redemption reserve. No gain or loss is recognised on the purchase, sale or cancellation of treasury shares.

Dividends

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 59 to 71 and Section 2.1.3 of the Group financial statements.

C3. Staff numbers and costs

The number of people employed by the Company, including directors, during the year was 29 (2015: 32) 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 UK Funds, which are defined benefit schemes in which the assets are held independently. The total net defined benefit costs of these Funds are borne by a subsidiary undertaking and therefore in accordance with IAS 19, no net defined benefit costs are recognised in the Company’s financial statements. Section 4.5 of the Group financial statements provides further details regarding the defined benefit schemes.

C4. Dividends

The aggregate amount of dividends comprises:

	2016 £m	2015 £m
Prior year final dividend paid - 24.5p per qualifying ordinary share (2015: 24.0p)	66.3	64.9
Current year interim dividend paid - 14.0p per qualifying ordinary share (2015: 13.9p)	37.9	37.6
Aggregate amount of dividends paid in the financial year	104.2	102.5

Dividends paid in the year of £104.2m represent 37.9p per share (2015: 37.6p).

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.

	2016 £m	2015 £m
Current year final dividend - 24.7p per qualifying ordinary share (2015: 24.5p)	67.0	66.4

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.

C5. Fixed assets - investments

	Subsidiary undertakings	
	2016 £m	2015 £m
At 1 January 2016 and 31 December 2016 cost and net book value	173.2	173.2

Details of subsidiary undertakings as at 31 December 2016 are shown on pages 149 to 152.

C6. Debtors

	2016 £m	2015 £m
Falling due for payment after more than one year:		
Amounts owed by subsidiary undertakings	278.2	316.4
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	86.2	80.9
	364.4	397.3

C7. Deferred tax

	2016 £m	2015 £m
The deferred tax included in the balance sheet is as follows:		
Employee benefits and share based payments	1.1	1.9
Deferred tax asset included in the balance sheet	1.1	1.9

	£m
Reconciliation of movement in deferred tax asset:	
At 1 January 2016	1.9
Deferred tax charge in the profit and loss account	(0.8)
At 31 December 2016	1.1

Changes to the rate of UK corporation tax were substantively enacted in 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The budget of 16 March 2016 then proposed to further reduce the rate to 17% from 1 April 2020. This additional change was substantively enacted on 6 September 2016. The deferred tax balance has been calculated based on the rates applicable when the balances are expected to reverse, which is mainly 17% (2015: 18%).

Company notes to the financial statements
(cont'd)

C8. Other creditors falling due within one year

	2016 £m	2015 £m
Amounts owed to subsidiary undertakings	1.7	1.0
Other payables	1.3	1.9
	3.0	2.9

C9. Share capital and reserves

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2015	81.7	10.8	174.4	320.1	587.0
Retained profit for the year				91.8	91.8
Dividends paid on ordinary shares*				(102.5)	(102.5)
Shares issued in the year	0.1	1.0			1.1
Share-based payments				1.1	1.1
Shares issued by*:					
employee share scheme trust				2.3	2.3
At 31 December 2015	81.8	11.8	174.4	312.8	580.8
Retained profit for the year				**65.2**	**65.2**
Dividends paid on ordinary shares*				**(104.2)**	**(104.2)**
Shares issued in the year	-	**0.3**			**0.3**
Share-based payments				**5.8**	**5.8**
Shares acquired for*:					
employee share scheme trust				**(7.4)**	**(7.4)**
At 31 December 2016	**81.8**	**12.1**	**174.4**	**272.2**	**540.5**

* Details of treasury and employee trust share scheme movements are contained in Section 4.6 of the Group financial statements and details of dividends paid and proposed in the year are shown in note C4.

All of the retained earnings held at both 31 December 2016 and 31 December 2015 are considered to be distributable reserves.

Share capital

	2016 £m	2015 £m
Issued and fully paid		
286.2m (2015: 286.2m) ordinary shares of 28 4/7p each	81.8	81.8

C10. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £82.4m (2015: £64.4m).

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.

Subsidiary undertakings

A full list of the Group's subsidiary undertakings and registered/principal offices as at 31 December 2016 is included below. Except where indicated, the share capital consists of ordinary shares only. The principal country in which each subsidiary operates and has its registered/principal office 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, IMI Deutschland Verwaltungs GmbH, IMI Lakeside Australia Pty Ltd and Liquick 200 Limited which are 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.

Anson Cast Products Limited, Charles Baynes Netherlands BV Netherlands, FCX North America Limited, FCX Pension Trustees Limited, Holford Estates Limited, IMI CIF Trustee Limited, IMI Deutschland Limited, IMI Euro Finance Limited, IMI Fluid Controls (Finance) Limited, IMI Germany Limited, IMI Group Limited, IMI Kynoch Limited, IMI Lakeside Five Limited, IMI Marston Limited, IMI Overseas Investments Limited, IMI Pensions Trust Limited, IMI plc, IMI Property Investments Limited, IMI Refiners Limited, IMI Retirement Savings Trust Limited, IMI Sweden Finance Limited, IMI Vision Limited, Liquick 211 Limited, Premier Profiles Limited, Truflo Group Limited, Truflo International Limited, Truflo Investments Limited	Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, West Midlands B37 7XZ, United Kingdom
Commtech Limited, The Commtech Group Limited, Engineering Appliances Limited, IMI Group Services Limited, IMI Lakeside One Limited, Liquick 200 Limited, Martonair International Limited	1020 Eskdale Road, Winnersh, Wokingham, RG41 5TS, United Kingdom
IMI Critical Engineering Holding GmbH, IMI Deutschland II GmbH & Co KG, IMI Deutschland Verwaltungs GmbH, IMI Germany Holding Limited & Co. KG, Norgren GmbH	Bruckstrasse 93, 46519, Alpen, Germany
IMI Fluid Controls Holdings Inc, IMI Holdings LLC, Norgren Automation Solutions LLC, Norgren Inc, Norgren Kloehn Inc	CSC, Corporation Trust Centre, 1209 Orange Street, Wilmington DE 19801, United States
IMI Americas Inc, IMI Group Inc, IMI Interamerica Inc, Zimmermann & Jansen Inc	Corporate Service Company, 2711 Centerville Road, Wilmington DE 19808, United States
IMI Australia Pty Ltd, IMI Lakeside Australia Pty Ltd, Tube Fittings Sales Pty Limited	33 South Corporate Avenue, Rowville VIC 3178, Australia
FCX Ireland Limited, IMI Lakeside Ireland Limited, Lakeside Finance Unlimited Company, Lakeside Treasury Unlimited Company	1 Stokes Place, St Stephens Green, Dublin 2, Ireland

Subsidiary undertakings
(cont'd)

CCI AG, CCI Switzerland AG, Norgren AG	Itaslenstrasse 9, 8362, Balterswil, Switzerland
IMI Holding Italy S.r.l., Orton S.R.L., Truflo Rona S.r.l.	Via Stendhal, 65, 20144 Milano, Italy
IMI Hydronic Engineering AB, IMI Indoor Climate AB, IMI Sweden AB	Annelund, SE-524 80, Ljung, Sweden
Aero-Dynamiek Belgie BVBA, IMI Hydronic Engineering NV	Boomsesteenweg 28, B 2627 Schelle, Belgium
B & R Holding GmbH, Bopp & Reuther Sicherheits- und Regelarmaturen GmbH	Carl-Reuther Str. 1, 68305, Mannheim, Germany
Heimeier GmbH, IMI Hydronic Engineering Deutschland GmbH	Voellinghauser Weg 2, Erwitte, DE-59597, Germany
IMI Components Limited, Truflo Marine Limited	Westwood Road, Birmingham, B6 7JF, United Kingdom
IMI Hydronic Engineering BV, IMI Netherlands Holdings BV	Röntgenweg 20, Alphen aan den Rijn, NL-2408 AB, Netherlands
IMI Hydronic Engineering Switzerland AG, TA Hydronics Holding AG	Mühlerainstrasse 26, 4414, Füllinsdorf, Switzerland
IMI Scotland Limited, The IMI Scottish Limited Partnership	15 Atholl Crescent, Edinburgh EH3 8HA, United Kingdom
Norgren Co Limited China, Norgren Manufacturing Co Ltd	Building 3, No. 1885, Duhui Road, Minhang District, Shanghai, China
Norgren Manufacturing De Mexico SA DE CV, Norgren SA de CV	AV De la Montana 120, Parque Industrial Queretaro, Santiago de Queretaro, Queretaro, CP 76220, Mexico
Remosa Service & Construction Srl, Remosa Srl	Viale Pula 37, 09123 sede e stabilimento stradario, 03608, Cagliari, Sardinia, Italy
Valves Holding GmbH, Z & J Technologies GmbH	Bertramsweg 6, 52355, Düren, Germany
Brookvale International Insurance Limited	Clarendon House, Church Street, Hamilton, HM11, Bermuda
Buschjost GmbH	Detmolder Strasse 256, Bad Oeynhausen, D-32545, Germany
C.H. Zikesch Armaturen GmbH	Mercatorstr. 16-18, 46485, Wesel, Germany
CCI (Asia Pacific) Pte Ltd	29 International Business Park , ACER Building, Tower A, #04-01, Singapore, 609923, Singapore
CCI America do Sul Comercio de Equipamentos Industriais Ltda	Rua Itapeva, 286 cjs 95/96/97, Sao Paulo, 01332-000, Brazil
CCI Czech Republic s.r.o.	K Letišti 1804/3, Šlapanice, 62700, Czech Republic
CCI Flow Control (Shanghai) Co Ltd	Room 108, Unit 15, 159 Tian Zhou Road, Cao He Jing Development Zone, Shanghai, 200233, China
CCI International Limited	Unit A3 Brookside Business Park, Greengate, Middleton, Manchester, M24 1GS, United Kingdom
CCI Italy Srl	Via Leopardi 26, 20123, Milan, Italy
CCI KK	6-2-2 Takatsukadai, Nishi-ku, Kobe City, 651-2271, Japan
CCI Limited	14 Dangdong 2-ro, Munsan-eup, Paju-si, Gyeonggi-do, 10816, Republic of Korea
CCI Valve Technology AB	Industrigatan 1-3, Box 603, SE-661 29, Saffle, Sweden
CCI Valve Technology GmbH	Lembockgasse 63/1, A1230, Wien, Austria
Control Component India Pvt Limited	SJR iPark, 6th Floor, EPIP Zone, Whitefield Road, Bangalore, 560066, India
Control Components Inc	22591 Avenida Empresa, Rancho Santa Margarita CA 92688, United States
Deeside Titanium Limited (18%)	Moor Lane, Derby, Derbyshire, DE24 8BJ, United Kingdom
FAS Medic SA	Route de Bossonnens 2, 1607, Palezieux, Switzerland
Fluid Automation Systems GmbH	Schonbergstrasse 35, 73760, Osterfildern, Germany
Fluid Automation Systems SA	126 Route de l'Etraz, 1290, Versoix, Switzerland
Herion Systemtechnik GmbH	Untere Talstrasse 65, D-71263 Weil der Stadt, Germany
IMI Aero-Dynamiek BV	Havenstraat 9, VS 3861, Nijkerk, Netherlands

IMI Consulting (Shanghai) Co Limited	Units 03,06 9 Floor, No. 500 Fushan Road, Pudong New Area, Shanghai, 200122, China
IMI Critical Engineering (Shanghai) Company Limited	B3-2, No. 303, Xinke Road, Qingpu District, Shanghai, China
IMI Energi & VVS Utveckling AB	Annedalsvägen 9, 22764, Lund, Sweden
IMI France SARL	52 Boulevard de Sébastopol, 75003 Paris, France
IMI Hidronik Muhendislik Iklimlendirme Sistemleri Ltd Sti	Atasehir Bulvari Ata Carsi no. 50-59, Atasehir, Istanbul, Turkey
IMI Hydronic Engineering A/S	Lyskaer 9, DK-2730, Herlev, Denmark
IMI Hydronic Engineering AS	Glynitveien 7, Ski, N-1400, Norway
IMI Hydronic Engineering China	Room 306, Xin Mao Building, No 2 Tai Zhong Nan Road, Shanghai, 200131 Pilot Free Trade Zone, China
IMI Hydronic Engineering France S.A.	13, rue de la Perdrix - Les Flamants 8, Paris Nord II BP84004, Tremblay-en-France, 95931, France
IMI Hydronic Engineering FZE	Office 2107 (PO Box 262611), Jafza View 19, Jafza, Dubai, United Arab Emirates
IMI Hydronic Engineering GesmbH	Industriestrasse 9, Obj. 5, 2353, Guntramsdorf, Austria
IMI Hydronic Engineering Inc	8908 Governors Row, Dallas TX 75247, United States
IMI Hydronic Engineering International SA	Route de Crassier 19, Lake Geneva Business Park, 1262, Eysins, Switzerland
IMI Hydronic Engineering Limited	Unit 3 Nimbus Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5WZ, United Kingdom
IMI Hydronic Engineering Ltda	Av Fagundes Filho, 134 cj 43, S. Judas, Sao Paulo, 04304-010, Brazil
IMI Hydronic Engineering OY	Robert Huberin tie 7, Vantaa 1510, Finland
IMI Hydronic Engineering Pte Ltd	223 Mountbatten Road #03-01, Singapore 398008, Singapore
IMI Hydronic Engineering S.A.	9, rue des 3 Cantons, Windhof, L-8399, Luxembourg
IMI Hydronic Engineering (Spain) SAU	Complejo Europa Empresarial, C/Rozabella, 6, Las Rozas, 28290, Madrid, Spain
IMI Hydronic Engineering s.r.l.	Via dei Martinit 3 cap, 20146, Milan, Italy
IMI Hydronic Engineering UAB	A.Juozapaviciaus 27-5, Kaunas, LT – 45258, Lithuania
IMI International Co Srl	28 Chiparosului Street, 2nd Floor, District 3, Bucharest, 031122, Romania
IMI International d.o.o	Alpska cesta 37b, Lesce, 4248, Slovenia
IMI International d.o.o.	Slavonska avenija 17, Zagreb, 10040, Croatia
IMI International d.o.o. Beograd	Milutina Milankovica 1b, Novi Beograd, 11070, Serbia
IMI International Kft.	Kunigunda Útja 60, Budapest, HU-1037, Hungary
IMI International LLC	Leninskaya Street 19 b2, 115280, Moscow, Russian Federation
IMI International s.r.o.	Central Trade Park D1, c.p.1573, Humpolec, 396 01, Czech Republic
IMI International Sp. z.o.o.	Olewin 50 A, PL-32300 , Olkusz, Poland
IMI Norgren Herion PVT Limited	A-62, Sector - 63, Noida, Uttar Pradesh 201301, India
IMI Norgren Limited	137a Slaney Close, Dublin Industrial Estate, Glasnevin, Dublin 11, Ireland
IMI Norgren Pneumatics (Shanghai) Co Limited	1st Floor , No 71 Building, 1066 Quinzhou North Road, Chaohejing Hi-Tech Park, Shanghai, 200233, China
IMI Norgren SA (Sociedad Unipersonal)	Calle Colom, 391, 2 Edif. Tecno, 08223, Terrassa, Spain
IMI Norgren Terracco S.L.	Consell de Cent 57, 08227, Terrassa, Spain
IMI Watson Smith Limited	One Snowhill, Snowhill Queensway, Birmingham, West Midlands, B4 6GH, United Kingdom
IMI Webber Limited	City Business Park, Easton Road, Easton, Bristol, BS5 0SP, United Kingdom
Industrie Mecanique Pour Les Fluides SA	15 Avenue des Cures, 95580, Andilly, France
Interativa Indústria, Comércio e Representações Ltda	Avenida Garabed Gananian, 386 Bairro Aparecidinha, Sorocaba, São Paulo, 18.087-340, Brazil
Kynoch Sweden Holding AB	c/o IMI Hydronic Engineering AB, 52 480 Ljung, Sweden
Liquick 213 Limited	Pinsent Masons, 2 Cornwall Street, Birmingham, West Midlands, B3 2DL, United Kingdom
Newman Hattersley Limited	151 Superior Blvd, Mississauga ON L5T 2L6, Canada
Norgren A/S	Vesterlundvej 18, DK-2730, Herlev, Denmark
Norgren AS	Karihaugveien 89, Oslo, 1086, Norway

Subsidiary undertakings
(cont'd)

Norgren BV Netherlands	Transistorstraat 2, 1322, Almere, Netherlands
Norgren Co Limited	120/34 M.12, Rachedewa, Bangplee, Samutprakarn, 10540, Thailand
Norgren European Logistics Company Limited	4060 Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ, United Kingdom
Norgren Finland OY	Huopalahdentie 24, A-talo FI-00350 Helsinki, Finland
Norgren Ges.m.b.H	Industriezentrum No Sud, Strasse 2, Wiener Neudorf, 2355, Austria
Norgren GT Development Corporation	CT Corporation System, 508 Union Ave SE, Suite 120, Olympia WA 98501, United States
Norgren Limited	6/F Benson Tower, 74 Hung To Road, Kwun Tong, Kowloon, Hong Kong
Norgren Limited	15A Vestey Drive, Auckland, 1060, New Zealand
Norgren Limited	Blenheim Way, Fradley Park, Lichfield, Staffordshire, WS13 8SY, United Kingdom
Norgren Ltda	Av. Eng. Alberto de Zagottis, 696-B, Sao Paulo SP, Brazil
Norgren NV	F Walravensstraat 84, B.1651 Lot, Belgium
Norgren Pte. Limited	16 Tuas Street, Singapore 638453, Singapore
Norgren SAS	4 Boulevard Michael Faraday, 77700 Serris, France
Norgren SDN BHD	Level 22, Axiata Tower No 9, Jalan Sentral 5, 50470 Kuala Lumpur, Malaysia
Norgren SpA	Via trieste 16, Vimercate, 20871, Milan, Italy
Norgren Sweden AB	Box 14001, Ventilgatan 6, S-200 24 Malmo, Sweden
Norgren Taiwan Co Limited	3F, No. 540 Sec. 1, Minsheng N. Rd.,, Guishan Dist., Taoyuan City , 333, Taiwan
Pneumatex GmbH	Planiger Str 34, Halle 53, 55543, Bad Kreuznach, Germany
Quanta Dialysis Technologies Limited (23%)	Tything Road, Alcester, Warwickshire, B49 6EU, United Kingdom
SAIC CCI Valve Co Ltd (44%)	Block B, 123 Chongming Xiushan Road, Chongming County, Shanghai, China
Shanghai CCI Power Control Equipment Co Ltd (70%)	2200 Yang Shu Pu Road, Yangpu District, Shanghai, 200090, China
Stainless Steel Fasteners Limited	Broombank Road, Sheepbridge, Chesterfield, Derbyshire, S41 9QJ, United Kingdom
STI s.r.l.	Via dei Caravaggi 15, 24040, Levate (BG), Italy
TA Hydronics LLC	str. Pymonenko 13-K, Kyiv, 04050, Ukraine
TA Regulator d.o.o.	Orliska Ulica13, Brezice, SI-8250, Slovenia
TH Jansen Armaturen GmbH	Otto-Kaiser Str. 6, 66386, Sankt Ingbert, Germany
Thompson Valves Limited	17 Balena Close, Creekmoor, Poole, Dorset, BH17 7EF, United Kingdom
Truflo Rona S.A.	3e avenue, 16, Parc Industrial des Hauts Sarts, 4040 Herstal, Belgium
Z & J High Temperature Equipment (Shanghai) Co Ltd	819 Yinchun Road, Minhang District, Shanghai, 201109, China

Subsidiary audit exemptions

IMI plc has issued guarantees over the liabilities over the following companies at 31 December 2016 under Section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act:

Company name	Company number
Commtech Limited	01524025
FCX North America Limited	03430451
Holford Estates Limited	01181406
IMI Deutschland Limited	07843551
IMI Euro Finance Limited	07929408
IMI Fluid Controls (Finance) Limited	08528502
IMI Germany Limited	07843576
IMI Lakeside One Limited	00616526
IMI Marston Limited	00155987

Company name	Company number
IMI Refiners Limited	00148305
IMI Scotland Limited	SC378424
IMI Sweden Finance Limited	07272731
IMI Vision Limited	04421176
Premier Profiles Limited	02547749
The Commtech Group Limited	03331461
Truflo Group Limited	04430846
Truflo International Limited	00164822
Truflo Investments Limited	04430927

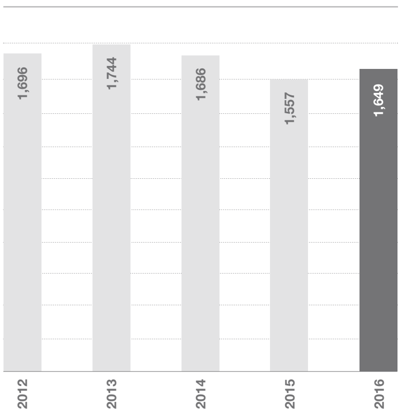
Geographic distribution of employees

The following table shows the geographic distribution of employees as at 31 December 2016 and is not required to be audited.

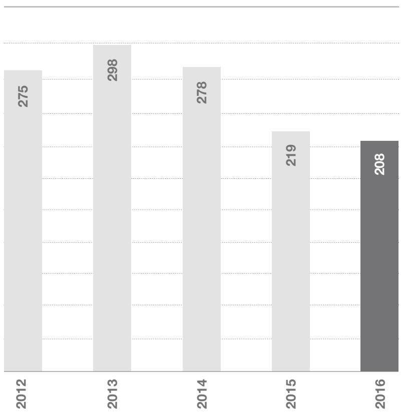
United Kingdom	1,366
Continental Europe	6,021
Americas	2,075
Asia Pacific	1,229
Rest of World	210
Total	**10,901**

Five year summary

Reported revenue £m

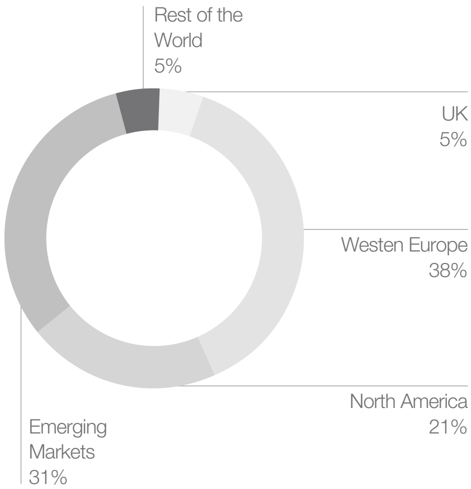


Reported profit before tax* £m



* Before exceptional items.

Group revenue by geography 2016



Income statement

	2012 £m	2013 £m	2014 £m	2015 £m	**2016 £m**
Statutory revenue	1,694	1,743	1,692	1,567	**1,657**
Reported revenue*	1,696	1,744	1,686	1,557	**1,649**
Operating profit*	300.1	321.6	295.5	236.9	**224.2**
Reported profit before tax*	274.8	297.7	278.1	218.7	**208.0**
Special pension events	10.9	-	7.0	9.1	**2.8**
Restructuring costs	(18.9)	(14.2)	(8.6)	(27.1)	**(18.8)**
Acquired intangible amortisation and impairment	(29.6)	(21.9)	(60.4)	(32.2)	**(25.5)**
Acquisition and disposal costs	(6.3)	(9.9)	(1.8)	-	**-**
(Loss)/gain on disposal of subsidiaries	-	-	34.2	(8.4)	**-**
Financial instruments excluding economic hedge contract gains/losses	(1.0)	(2.4)	(2.8)	2.6	**(1.2)**
Profit before tax from continuing operations	229.9	249.3	245.7	162.7	**165.3**
EBITDA†	318	332	371	263	**263**

* Before exceptional items.

† Earnings before interest, tax, depreciation, amortisation and impairment.

Group revenue by geography

	2012 £m	2013 £m	2014 £m	2015 £m	**2016 £m**
UK	101	104	98	90	**75**
Western Europe	694	686	644	563	**630**
North America	306	338	318	334	**344**
Emerging Markets	462	504	544	505	**520**
Rest of World	133	112	82	65	**80**
Reported Revenue	1,696	1,744	1,686	1,557	**1,649**
Reversal of net economic hedge contract losses/(gains)	(2)	(1)	6	10	**8**
Statutory Revenue	1,694	1,743	1,692	1,567	**1,657**

Earnings and dividends

	2012	2013	2014	2015	2016
Reported basic earnings per share	64.7p	72.6p	78.0p	62.2p	**59.8p**
Statutory basic earnings per share (continuing)	53.9p	60.4p	69.2p	44.7p	**48.3p**
Ordinary dividend per share	32.5p	35.3p	37.6p	38.4p	**38.7p**

Balance sheet

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Segmental net assets					
Continuing	906	897	849	926	**1,041**
Discontinued	189	196	-	-	**-**
Other net non-operating liabilities excluding borrowings (gross)	(267)	(246)	(95)	(100)	**(175)**
Net debt					
Continuing	(160)	(226)	(200)	(237)	**(283)**
Discontinued	(16)	(27)	-	-	**-**
Net assets	684	648	554	589	**583**

Statistics

	2012	2013	2014	2015	2016
Segmental operating profit as a percentage of segmental revenue	17.7%	18.4%	17.5%	15.4%	**13.8%**
Segmental operating profit as a percentage of segmental net assets	33.1%	35.9%	34.8%	25.9%	**21.9%**
Effective tax rate on adjusted profit before tax	24.0%	22.0%	22.0%	22.0%	**21.0%**
Net assets per share (excluding treasury and EBT shares)	214.0p	210.0p	218.4p	217.3p	**215.1p**
Net debt as a percentage of shareholders' funds	23.4%	34.9%	36.1%	40.2%	**48.5%**
Net debt: EBITDA*	0.5	0.7	0.6	0.9	**1.0**
EBITDA*: Interest	18	21	23	15	**16**

* EBITDA before exceptional items.

Shareholder and general information

Announcement of trading results

The trading results for the Group for the first half of 2017 will be announced on 28 July 2017. The trading results for the full year ending 31 December 2017 will be announced in early 2018. Interim management statements will be issued in May and November 2017.

Dividend payments in 2017

Final: 19 May 2017

Interim: September 2017

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 2016 was 1,040.00p (2015: 862.00p). 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 (contact details appear to the right).

Please remember to tell Equiniti if you move house, change bank details or if there is any other change to your account information.

Managing your shares online

Shareholders can manage their holdings online by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- help us to reduce print, paper and postage costs and the associated environmental impact of these;
- cast your AGM vote electronically;
- receive an email alert when important shareholder documents are available online such as Annual Reports and Notices of General Meetings;
- access details of your individual shareholding quickly and securely;
- set up a dividend mandate online; and
- change your registered postal address or your dividend mandate details.

To find out more information about the services offered by Shareview and to register, please visit www.shareview.co.uk.

Corporate website

The IMI plc website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares. As well as providing share price data and financial history, the site also provides background information about the Company.

Shareholders are also encouraged to sign up to receive news alerts by email in the Investors section of the website. These include all of the financial news releases from throughout the year that are not sent to shareholders by post. You can access the corporate website at www.imiplc.com.

Annual General Meeting 2017

This year's AGM will be held at the Hilton Birmingham Metropole, National Exhibition Centre, Birmingham, B40 1PP on Thursday 4 May 2017 at 10am. For further information, please refer to the Notice of Meeting which is on the corporate website.

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 0345 300 0430. Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding UK public holidays.

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: 0345 603 7037. Full written details can be obtained from Equiniti (contact details appear to the right).

Share fraud

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. Further information on how to spot share fraud or report a scam can be found on our corporate website.

American Depository Receipts

IMI plc has an American Depositary Receipt (ADR) programme that trades on the Over-The-Counter ('OTC') market in the USA, using the symbol IMIAY. ADR enquiries should be directed to Citibank Shareholder Services, PO Box 43077, Providence, RI 02940-3077, USA. Toll-free number in the USA is 1-877-CITI-ADR (877-248-4237) and from outside the USA is 1-781-575-4555. You can also email citibank@shareholders-online.com.

Headquarters and registered office

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Telephone: +44 121 717 3700

IMI plc is registered in England No.714275

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2916 or from overseas +44 121 415 7047

Lines are open 8.30am to 5.30pm, Monday to Friday (excluding UK public holidays)

Stockbrokers

JPMorgan Cazenove
Bank of America Merrill Lynch

Auditor

Ernst & Young LLP

Cautionary statement

This Annual Report may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this Annual Report. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.

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