

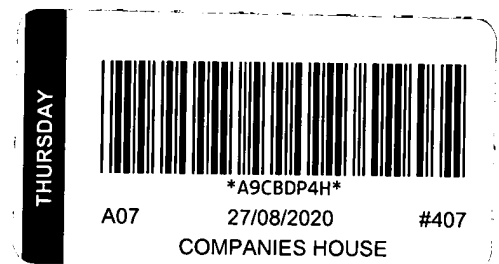
Registered No. 00713735

IMI Kynoch Limited

Strategic Report, Directors' Report and Financial Statements

For the year ended 31 December 2019

(Registered in England and Wales - number 00713735)



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IMI Kynoch Limited
Registered No. 00713735
Strategic Report
for the year ended 31 December 2019

The directors of IMI Kynoch Limited (the 'Company') submit their Strategic Report for the year ended 31 December 2019.

1. Principal activities

The Company is a wholly owned subsidiary of IMI Group Limited.

The Company's principal activity is to operate as an intermediate holding company and provide services, including financial facilities, to other IMI plc group companies. There have not been any significant changes in the Company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year. The overall Company performance for the year and the future is dependent upon dividend income from its subsidiaries, the financing structure of its net current assets and the service levels for its IMI plc group customers.

2. Business review

The Company recorded an operating profit of £0.9m for the year (2018: £0.8m loss). Profit before tax increased to £41.1m (2018: £33.2m) including dividends from the Company's subsidiaries which were £36.2m (2018: £6.8m).

Details of amounts loaned to the parent company, IMI Group Limited, are shown in note 14.

As the Company is an intermediate holding company, the Company's directors believe that analysis using key performance indicators for the Company is neither necessary nor appropriate for an understanding of the development, performance or position of the business of the Company.

3. Future developments

The Company anticipates that it will continue to pursue its principal activities for the foreseeable future.

4. Principal risks and uncertainties

The Company is financed by variable rate loans from other IMI plc group companies.

The Company is exposed to a number of financial market risks including credit risk, liquidity risk, fluctuations in foreign exchange rates and interest rates.

Although the Company takes steps to manage its own financial risks, overall risks are managed at a group level including the impact of the COVID-19 pandemic. For this reason, the Company's directors believe that a discussion of the Company's risks would not be relevant for an understanding of the development, performance or position of the Company's business.

Given the nature of this entity's operations and the fact it is financed by IMI plc, the principal risks and uncertainties are the same as those which relate to the Group as a whole. The details of which can be found in the IMI plc annual report and financial statements, which do not form part of this report.

5. Section 172 Statement & Stakeholder Interests

A statement pursuant to Section 172 of the Companies Act 2006 is required content for the first time in these statutory accounts. The primary duty of the directors under Section 172 is to act in the way they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and to do so having regard as appropriate to certain statutory factors and other relevant matters.

All director decisions are made with the Company's long-term success in mind and the directors have regard to a broad range of matters including the voice of stakeholders. Set out below is specific commentary in relation to each of the Section 172 factors:

The likely consequences of any decision in the long-term

The overall Company performance is largely dependent upon dividend income, interest and service charges from other group companies who have adopted a five-year business planning period and set strategies with a view to long-term success. In achieving this, throughout the strategic review process, there was focus on the most attractive markets.

The Company paid an interim dividend of £30m during the year. Refer to note 9.

The interests of the Company's employees

The Company depends on its employees for its success and invests considerable time and resources on employee engagement, training and development.

Health and safety of our employees is of paramount importance and receives appropriate director and management attention and investments. Reflecting this importance, the directors measure and track performance closely.

Given how important our people are to our success we maintain an active dialogue with them. Some of the channels we use to facilitate this dialogue include an annual employee survey which is undertaken during the annual IMI Way Day. The directors use the data generated from this survey to continually improve our organisation. If specific local issues are identified, the directors undertake further work to gather more detail and then implement appropriate measures to drive improvement.

The Company forms part of the IMI plc group of companies. To support the Company a non-executive director of IMI plc has been in place since 1 January 2019 in relation to employee engagement and has reported to the IMI plc Board in respect of employee views presented to her.

In addition to engagement on site visits and at the annual management conference, the non-executive attended the European Communications Forum at which representatives from the Company (and/or its subsidiaries) to discuss health and safety, strategic progress and performance and following each meeting minutes and newsletters are produced and used by the employee representatives to share information with their colleagues. Views expressed were positive and constructive.

The group has an IMI wide intranet that is available to all employees and this is kept up to date with not only policy changes, but financial results and other announcements.

Training and development of employees is important to the directors with management and leadership training courses available alongside training programmes for specific qualifications.

Pension scheme participants benefit from the IMI plc group's approach to pension provision and financial prudence in reducing the funding deficit in relation to defined benefit obligations.

The need to foster business relationships with suppliers and others

The Company works closely with third parties engaged to provide banking facilities, professional services and other administrative services who are closely managed from a commercial and compliance perspective. The directors foster strong business relationships where there is ongoing commercial dialogue and fair payment terms in place.

The impact of operations on the community and the environment

The Company has a positive contribution to the local community as employers and through employee training and community activities including the annual IMI Way Day, charitable activity and donations. During the course of 2019 IMI Way Day employees took part in a range of community activities including gardening at a large community project.

The Company monitors minimising our impact on the environment with energy and waste initiatives. The environmental policy and metrics for IMI plc are published within the 2019 Annual Report & Accounts (page 33) and demonstrate a responsible approach.

The desirability of maintaining a reputation for high standards of business conduct

The Company is careful of its reputation and decisions reflect this and the great importance attached to the reputation by all key stakeholders. The Company demands high standards of conduct from all directors and employees and expects management to be mindful of how and with whom business is conducted. The Company will decline to have dealings with third parties who display poor business conduct.

The need to act fairly between shareholders of the Company

The directors understand the importance of treating shareholders fairly. The Company has only one class of share in issue and all shareholders individually enjoy the same shareholder rights as the others.

By order of the Board

A handwritten signature in black ink, appearing to read 'D J Shook', with a stylized flourish at the end.

D J Shook
Director
31 July 2020

IMI Kynoch Limited
Registered No. 00713735
Directors' Report
for the year ended 31 December 2019

The directors of IMI Kynoch Limited (the 'Company') submit their Directors' Report together with the Strategic Report and audited financial statements for the year ended 31 December 2019.

1. Profits and dividends

The results for the financial year are shown in the financial statements. The Company paid an interim dividend of £30,000,000 in 2019 (2018: £100,000,000). The directors have not recommended a final dividend for the year (2018: £nil).

2. Directors

The directors who held office during the year and since 31 December 2019 were as follows:-

D J Shook	J O'Shea
A Edwards (Appointed on 24 September 2019)	I Johnson (resigned on 30 September 2019)
Luke Grant (Appointed on 22 January 2020)	S McKone (resigned on 22 January 2020)
P Roberts (resigned on 30 June 2019)	J Segal (resigned on 30 June 2019)

The Company's ultimate parent, IMI plc, maintained directors' liability insurance for all directors during the financial year.

3. Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they should have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

4. Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review and Principal risks and uncertainties sections of the Strategic Report.

The financial statements have been prepared on a going concern basis. The directors have prepared forecasts including cash flow forecasts which are for a period in excess of 12 months from the date of approval of these financial statements. These demonstrate that the Company has sufficient headroom within its facilities to meet its liabilities as they fall due.

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company's financial forecasts, taking into consideration the current environment, show that the Company is expected to remain profitable and generate positive cash flows in the form of dividends from its subsidiaries and group service charges from all three IMI divisions, giving the Company the ability to continue to operate for the foreseeable future. Furthermore, the parent entity, IMI Group Limited, has confirmed they will continue to provide financial support to the Company for a period of not less than 12 months from the date of approval of these financial statements. As with any Company placing reliance on its parent for financial support, the directors acknowledge that there can be no absolute certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects. The main impact is on the financial performance and operations of the Company's investments and the Group's divisional companies rather than the Company itself, which could lead to a reduction in the income received in the form of dividends and group service charges in the going concern period. However, financial support is available from the parent if it is required and based on the latest forecasts this is not expected to be called upon. Furthermore, specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for employees. Whilst it is difficult to predict the full extent of the impact of COVID-19, the directors note that events such as announcements or the enactment of new measures to contain the virus are considered to be non-adjusting events subsequent to the 2019 results reported. Therefore, there have been no adjustments made in these financial statements in respect of such developments.

Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

5. Auditors

Pursuant to Section 485 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

6. Disclosure requirements

In accordance with the Companies Act 2006 section 414C(11), the Company's Strategic Report contains certain disclosures required in the Directors' Report. The requirements are included within the Principal Activities, Business Review and Principal risks and uncertainties sections of the Strategic Report.

By order of the Board

A handwritten signature in black ink, appearing to be 'D J Shook', written in a cursive style.

D J Shook
Director
31 July 2020

IMI Kynoch Limited**Statement of Directors' Responsibilities in respect of the Strategic Report,
the Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the member of IMI Kynoch Limited

Opinion

We have audited the financial statements of IMI Kynoch Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the member of IMI Kynoch Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young LLP

Andy Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
31 July 2020

IMI Kynoch Limited
Income statement and statement of comprehensive income
for the year ended 31 December 2019

Income statement

	Notes	2019 £m	2018 £m
Group service charges		62.2	59.4
Rental income		0.3	0.4
Income on Disposal of Fixed Asset		1.5	-
Administrative expenses		(63.1)	(60.6)
<i>Operating Profit/(loss)</i>	3	0.9	(0.8)
Interest receivable and similar income	6	47.4	48.0
Interest payable and similar costs	7	(32.0)	(24.3)
IFRS 16 finance expense	13	(0.2)	-
Income from shares in group undertakings		36.2	6.8
Exchange losses on foreign currency loans		(12.1)	(0.4)
Gain on special pension events	19	-	3.8
Net finance income relating to defined benefit pension scheme	19	0.9	0.1
		40.2	34.0
<i>Profit on ordinary activities before taxation</i>		41.1	33.2
Income tax credit/(charge)	8	(1.6)	(3.5)
<i>Profit for the financial year</i>		39.5	29.7

Statement of comprehensive income

	Notes	2019 £m	2018 £m
Profit for the financial year		39.5	29.7
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss:</i>			
Net actuarial gain on defined benefit pension schemes	19	12.2	12.2
Change in fair value of pension asset associated with SLPs	19	(2.4)	(19.8)
Tax on net actuarial loss	8	(3.2)	(3.8)
<i>Other comprehensive income/(expense) for the year, net of tax</i>		6.6	(11.4)
<i>Total comprehensive income for the year</i>		46.1	18.3

All activities relate to continuing operations.

IMI Kynoch Limited
Balance sheet
as at 31 December 2019

	Notes	2019 £m	2018 £m
<i>Fixed assets</i>			
Intangible assets	10	7.8	7.8
Tangible assets	11	2.7	5.2
Right of use assets	13	6.1	-
Investments	12	632.1	630.2
Employee benefit assets	19	98.6	80.9
		<u>747.3</u>	<u>724.1</u>
<i>Current assets</i>			
<i>Debtors:</i>			
Amount falling due within one year	14	303.7	349.7
Amount falling due after one year	14	1,377.6	1,391.3
Other financial assets	18	1.4	0.8
Cash at bank and in hand		-	0.4
		<u>1,682.7</u>	<u>1,742.2</u>
Creditors: amounts falling due within one year	15	(1,338.7)	(1,408.1)
Current lease liabilities	13	(0.5)	-
		<u>(1,339.2)</u>	<u>(1,408.1)</u>
Net current assets		343.5	334.1
Total assets less current liabilities		1,090.8	1,058.2
Creditors: amounts falling due after more than one year	16	(600.5)	(593.2)
Non current lease liabilities	13	(5.7)	-
Deferred tax liability	8	(7.4)	(3.9)
<i>Net assets</i>		<u>477.2</u>	<u>461.1</u>
<i>Capital and reserves</i>			
Called up share capital	17	27.5	27.5
Share premium account		52.5	52.5
Profit and loss account		397.2	381.1
Total equity		<u>477.2</u>	<u>461.1</u>

These financial statements were authorised for issue by the board of directors on 31 July 2020 and were signed on its behalf by:



D J Shook
Director

IMI Kynoch Limited
Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£m	£m	£m	£m
At 1 January 2018	27.5	52.5	462.8	542.8
Profit for the financial year	-	-	29.7	29.7
Other comprehensive expense	-	-	(11.4)	(11.4)
Total comprehensive income for the year	-	-	18.3	18.3
Equity dividends paid	-	-	(100.0)	(100.0)
At 31 December 2018	<u>27.5</u>	<u>52.5</u>	<u>381.1</u>	<u>461.1</u>
Profit for the financial year	-	-	39.5	39.5
Other comprehensive income	-	-	6.6	6.6
Total comprehensive income for the year	-	-	46.1	46.1
Equity dividends paid	-	-	(30.0)	(30.0)
At 31 December 2019	<u>27.5</u>	<u>52.5</u>	<u>397.2</u>	<u>477.2</u>

IMI Kynoch Limited
Notes to the financial statements
for the year ended 31 December 2019

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of IMI Kynoch Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the board of directors on 31 July 2020 and the balance sheet was signed on the Board's behalf by D J Shook. The Company is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 '*Reduced Disclosure Framework*' ('FRS 101') and in accordance with applicable accounting standards.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of IMI plc.

The results of IMI plc are included in the consolidated financial statements of IMI plc which are available from Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ.

The financial statements are prepared in sterling and are rounded to the nearest hundred thousand pounds.

2. Accounting policies**Basis of preparation**

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of IFRS7 '*Financial Instruments*';
- b) the requirements of paragraphs 91-99 of IFRS13 '*Fair Value Measurement*';
- c) the requirement in paragraph 38 of IAS1 '*Presentation of Financial Statements*' to present comparative information in respect of paragraph 79(a)(iv) of IAS1, paragraph 73(e) of IAS16 '*Property, Plant and Equipment*' and paragraph 118(e) of IAS38 '*Intangible Assets*';
- d) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS1;
- e) the requirements of IAS7 '*Statement of Cash Flows*';
- f) the requirements of paragraphs 30 and 31 of IAS8 '*Accounting Policies, Changes in Accounting Estimates and Errors*';
- g) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 '*Share-based Payment*';
- h) the requirements of paragraph 17 of IAS24 '*Related Party Disclosures*'; and
- i) the requirements in IAS24 '*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.

The impact of the new International Financial Reporting Standards effective for the entity as of 1 January 2019 is set out below:

IFRS 16 '*Leases*' (note 13) – this standard was adopted with effect from 1 January 2019 using the modified retrospective approach and accordingly prior periods are not restated. The Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 '*Leases*'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in no measurement adjustments to the finance leases held at 1 January 2019.

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 revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Management do not consider that there are any significant judgements which are applicable to the preparation of this set of financial statements.

IMI Kynoch Limited
Notes to the financial statements
for the year ended 31 December 2019

2. Accounting policies (continued)*Employee benefits*

The present value of the 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 note 19. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(a) Service charge income

Service charge income is recognised when the Company's right to receive payment is established.

(b) Interest income

Interest income is recognised as interest accrues using the effective interest rate method.

(c) Income from shares in group undertakings

Dividend income is recognised when the Company's right to receive payment is established.

(d) Rental income

Rental income from fellow IMI plc group companies is recognised on a straight-line basis over the lease term.

(e) Fixed assets and depreciation

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

Freehold buildings	between 30 and 40 years
Leasehold land and buildings	over life of lease
Plant and equipment	between 1 and 5 years

Assets in the course of construction are not depreciated until they are available to be used for their intended purpose.

Fixed assets are reviewed for any indicators of impairment and provided against as appropriate.

(f) Intangible Fixed Assets

Intangible assets are amortised on a straight line basis over their estimated useful economic lives as follows:

Software	Between 3 and 5 years
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Amortisation commences from the date the intangible asset becomes available for use.

(g) Investments

Investments are held at amortised cost less any provisions for impairment.

(h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the income statement.

2. Accounting policies (continued)

(i) Pensions

The Company is a member of the IMI 2014 Deferred Fund providing benefits based on final pensionable pay. As a result of a contractual arrangement, the total net defined benefit obligation of this Fund is now borne by the Company and therefore in accordance with IAS19, net defined benefit costs are recognised in the Company's financial statements. The defined benefit scheme was closed to future accrual on 31 December 2010.

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

The Company also operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

(j) Taxation

The charge or credit 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 measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(k) Leasing

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of:

- (i) fixed payments less any lease incentives receivable;
- (ii) variable lease payments that are based on an index or a rate;
- (iii) amounts expected to be payable by the Company under residual value guarantees;
- (iv) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- (v) payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising:

- i. the amount of the initial measurement of the lease liability;
- ii. any lease payments made at or before the commencement date less any lease incentives received; and
- iii. restoration costs.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

There are no future cash outflows that the Company is potentially exposed to in relation to the measurement of lease liabilities which have not been reflected.

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2. Accounting policies (continued)*Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- i. reliance on previous assessments on the identification of a lease (per IAS 17) for all existing contracts on the date of initial application;
- ii. the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- iii. reliance on previous assessments on whether leases are onerous;
- iv. the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- v. the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

No practical expedient has been applied in relation to short term leases and low value assets and is not expected to be used in subsequent periods.

(l) Dividends on shares presented within shareholder's funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately 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.

(m) Equity and equity related compensation benefits

The Company participates in an SAYE savings related share option scheme, a Share Incentive Plan (SIP), a Performance Share Plan (PSP), a Share Matching Plan (SMP), a Share Option Plan (SOP) and an IMI incentive plan (IIP). For options granted on or after 7 November 2002, 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 Company 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.

(n) Derivatives

The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. Such derivative financial instruments are initially recognised at cost and are subsequently fair valued at each balance sheet date.

The criteria for forward currency contracts are:

- a) the instrument must be related to a firm foreign currency commitment;
- b) it must involve the same currency as the hedged item; and
- c) it must reduce the risk of foreign currency exchange movements on the Company's operations.

(o) Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the financial cost in respect of the reporting period and reduced by the repayments made in the period. Finance costs of debt are allocated over the debt at a constant rate on the carrying amount.

(p) Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review and Principal risks and uncertainties sections of the Strategic Report.

The financial statements have been prepared on a going concern basis. The directors have prepared forecasts including cash flow forecasts which are for a period in excess of 12 months from the date of approval of these financial statements. These demonstrate that the Company has sufficient headroom within its facilities to meet its liabilities as they fall due.

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2. Accounting policies (continued)

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company's financial forecasts, taking into consideration the current environment, show that the Company is expected to remain profitable and generate positive cash flows in the form of dividends from its subsidiaries and group service charges from all three IMI divisions, giving the Company the ability to continue to operate for the foreseeable future. Furthermore, the parent entity, IMI Group Limited, has confirmed they will continue to provide financial support to the Company for a period of not less than 12 months from the date of approval of these financial statements. As with any Company placing reliance on its parent for financial support, the directors acknowledge that there can be no absolute certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects. The main impact is on the financial performance and operations of the Company's investments and the Group's divisional companies rather than the Company itself, which could lead to a reduction in the income received in the form of dividends and group service charges in the going concern period. However, financial support is available from the parent if it is required and based on the latest forecasts this is not expected to be called upon. Furthermore, specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for employees. Whilst it is difficult to predict the full extent of the impact of COVID-19, the directors note that events such as announcements or the enactment of new measures to contain the virus are considered to be non-adjusting events subsequent to the 2019 results reported. Therefore, there have been no adjustments made in these financial statements in respect of such developments.

Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

3. Profit on ordinary activities before taxation

Operating profit/(loss) is stated after charging / (crediting):

	2019	2018
	£m	£m
Depreciation of Property, Plant and Equipment	0.5	0.5
Amortisation of intangible fixed assets	1.3	1.0
(Profit)/loss on disposal of fixed assets	(1.5)	0.1
Amounts written off investments	4.8	-
IFRS 16 lease depreciation	0.6	-

4. Auditor's remuneration

During the year the Company paid £21,000 (2018: £20,000) to its auditors in respect of the audit of the Company's financial statements.

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5. Staff costs and directors' remuneration

(a) Staff Costs	2019	2018
	£m	£m
Wages and salaries	15.1	16.7
Share-based payments	3.9	5.2
Social security costs	2.4	2.2
Other pension costs (note 19)	0.5	0.4
	21.9	24.5

The share-based payments charge for the year represents a gross charge of £ 7,191,000 partially offset by a credit from lapses of £3,286,000.

The average monthly number of employees, whose costs were borne by the Company during the year was made up as follows:

	2019	2018
	No.	No.
Administration	128	128
	128	128

(b) Directors' remuneration

The directors' remuneration were as follows:

	2019	2018
	£m	£m
Directors' remuneration	2.9	3.2
Number of directors accruing benefits under:		
Defined benefit schemes	2	1
Number of directors who received shares in respect of qualifying services	5	5
Number of directors who exercised share options	3	1

In respect of the highest paid director:	2019	2018
	£m	£m
Aggregate remuneration	1.1	1.1

The highest paid director did not exercise share options during the year and received shares under the group's long term incentive scheme. Included within the aggregate remuneration of the highest paid director is £90,000 of employer pension contributions.

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6. Interest receivable and similar income

	2019	2018
	£m	£m
Bank interest receivable	1.3	1.2
Interest receivable from group undertakings	46.1	46.8
	47.4	48.0

7. Interest payable

	2019	2018
	£m	£m
Interest payable on bank overdraft and other charges	1.4	0.9
Interest payable to group undertakings	30.6	23.4
	32.0	24.3

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8. Taxation

(a) Tax (credited)/charged in the income statement	2019 £m	2018 £m
<i>Current income tax:</i>		
UK Corporation tax	2.7	5.4
Adjustments in respect of prior years	(1.4)	(2.7)
Total current tax (credit)/charge	<u>1.3</u>	<u>2.7</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	0.3	0.8
Total deferred tax	<u>0.3</u>	<u>0.8</u>
Tax (income)/expense in the income statement	<u>1.6</u>	<u>3.5</u>

(b) Reconciliation of the total tax (credit)/charge

The tax (income)/expense in the income statement for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are reconciled below:

	2019 £m	2018 £m
Profit from continuing operations before taxation	<u>41.1</u>	<u>33.2</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19.00%)	7.8	6.3
Effects of:		
Dividend income not taxable	(6.9)	(1.3)
Non-taxable and non-deductible items	1.5	1.2
Double tax relief	0.6	0.1
Adjustments in respect of previous years	(1.4)	(2.7)
Effect of rate change	-	(0.1)
Total tax (income)/expense reported in the income statement	<u>1.6</u>	<u>3.5</u>

(c) Change in corporation tax rate

Changes to the rate of UK corporation tax were announced in the budget of 16 March 2016 to reduce the rate to 17% from 19% from 1 April 2020. This change was substantively enacted on 6 September 2016.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

IMI Kynoch Limited
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8. Taxation (Continued)

(d) Deferred taxes

The deferred tax included in the balance sheet is as follows:

	2019 £m	2018 £m
Timing difference arising on fixed assets	0.3	0.3
Tax on Employee benefits – Pension	(8.2)	(4.7)
Other timing differences	0.5	0.5
Deferred tax liability	<u>(7.4)</u>	<u>(3.9)</u>
Deferred tax (liability)/asset at start of year	(3.9)	0.7
Deferred tax charge in profit and loss account for year	(0.3)	(0.8)
Deferred tax charge in other comprehensive income for year	(3.2)	(3.8)
Deferred tax liability at end of year	<u>(7.4)</u>	<u>(3.9)</u>

9. Dividends paid and proposed

	2019 £000	2018 £000
Equity dividends on ordinary shares declared and paid during the year:		
Interim dividend	<u>30,000</u>	<u>100,000</u>
	<u>30,000</u>	<u>100,000</u>

10. Intangible assets

	Software £m
Cost	
At 1 January 2019	9.9
Additions	1.3
Disposals	-
At 31 December 2019	<u>11.2</u>
Amortisation	
At 1 January 2019	2.1
Amortisation during the year	1.3
Disposals	-
At 31 December 2019	<u>3.4</u>
Net book value at 31 December 2019	<u>7.8</u>
Net book value at 31 December 2018	<u>7.8</u>

Intangible assets amortisation is recorded in administrative expenses in the income statement.

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11. Tangible fixed assets

	Land & Buildings £m	Plant & Equipment £m	Total £m
Cost			
At 1 January 2019	6.5	1.6	8.1
Disposals	(3.3)	-	(3.3)
At 31 December 2019	<u>3.2</u>	<u>1.6</u>	<u>4.8</u>
Depreciation			
At 1 January 2019	1.5	1.4	2.9
Disposals	(1.3)	-	(1.3)
Charged in the year	0.4	0.1	0.5
At 31 December 2019	<u>0.6</u>	<u>1.5</u>	<u>2.1</u>
Net book value at 31 December 2019	<u>2.6</u>	<u>0.1</u>	<u>2.7</u>
Net book value at 31 December 2018	<u>5.0</u>	<u>0.2</u>	<u>5.2</u>

The net book value of land and buildings comprises:

	2019 £m	2018 £m
Freehold land and buildings	0.3	2.3
Long leasehold land and buildings	0.1	0.1
Leasehold improvements	2.2	2.6
	<u>2.6</u>	<u>5.0</u>

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12. Fixed asset investments

	Shares in group undertakings £m
Cost	
At 1 January 2019	686.8
Additions	6.7
At 31 December 2019	<u>693.5</u>
Provision for impairment	
At 1 January 2019	56.6
Amounts written off investments	4.8
At 31 December 2019	<u>61.4</u>
Net book value at 31 December 2019	<u>632.1</u>
Net book value at 31 December 2018	<u>630.2</u>

Interest in group undertakings

The principal country in which each undertaking operates is the country of incorporation. The Company's effective interest in the undertakings is shown below, and is held in each case by a subsidiary undertaking, except for those marked * in which case it is held directly by the Company. All undertakings' year ends are coterminous with the Company.

Name of company	Country of incorporation	Proportion of voting rights and shares held	Nature of business
Brookvale International Insurance Limited*	Bermuda	100%	Corporate
Commtech Limited	UK	100%	Corporate
Holford Estates Limited	UK	100%	Corporate
IMI Lakeside Ireland Limited*	Republic of Ireland	100%	Corporate
IMI Holdings LLC*	USA	100%	Corporate
IMI Lakeside One Limited*	UK	100%	Corporate
IMI Marston Limited*	UK	100%	Corporate
IMI Refiners Limited*	UK	100%	Corporate
IMI Vision Limited*	UK	100%	Corporate
Quanta Fluid Solutions Limited	UK	12%	Corporate
IMI Lakeside Five Limited*	UK	100%	Dormant
IMI Property Investments Limited*	UK	100%	Dormant
Liquick 211 Limited*	UK	100%	Dormant
Liquick 213 Limited*	UK	100%	Dormant

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12. Fixed asset investments (continued)

Name of company	Country of incorporation	Proportion of voting rights and shares held	Nature of business
CCI América do Sul Comércio de Equipamentos Industriais Ltda*	Brazil	1%	Fluid Controls
CCI Czech Republic sro*	Czech Republic	1%	Fluid Controls
CCI International Limited*	UK	100%	Fluid Controls
CCI Valve Technology GmbH*	Austria	100%	Fluid Controls
IMI Hydronic Engineering GesmbH*	Austria	100%	Fluid Controls
IMI Components Limited*	UK	100%	Fluid Controls
IMI Watson Smith Limited*	UK	100%	Fluid Controls
IMI Webber Limited*	UK	100%	Fluid Controls
InterAtiva Indústria, Comércio e Representações Ltda*	Brazil	99%	Fluid Controls
Norgren Co. Limited	Thailand	0.50%	Fluid Controls
Norgren European Logistics Co Limited*	UK	100%	Fluid Controls
Norgren GesmbH*	Austria	100%	Fluid Controls
Norgren Limited*	UK	100%	Fluid Controls
IMI Hydronic Engineering Limited*	UK	100%	Fluid Controls

*In the opinion of the directors, the aggregate value of the investments in undertakings at 31 December 2019 is not less than the aggregate carrying value stated in the balance sheet.

13. Leases

	2019 £m
Lease liability recognised as at 1 January	<u>6.6</u>
Of which are:	
Current lease liabilities	0.4
Non-current lease liabilities	<u>6.2</u>
	<u>6.6</u>

All right-of-use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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13. Leases (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	31 Dec 2018 (pre IFRS 16) £m	Impact of IFRS 16 £m	1 January 2019 (including IFRS 16) £m
Right of use assets	-	6.6	6.6
Total non-current assets	724.1	6.6	730.7
Lease liabilities	-	(0.4)	(0.4)
Total current liabilities	(1,408.1)	(0.4)	(1,408.5)
Lease liabilities	-	(6.2)	(6.2)
Total non-current liabilities	(597.1)	(6.2)	(603.3)
Net assets	461.1	-	461.1

The net impact on retained earnings on 1 January 2019 was £nil.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings £m	Plant and equipment £m	Total £m
As at 1 January 2019	6.5	0.1	6.6
Payment changes	0.1	-	0.1
Terminations	-	-	-
Depreciation expense	(0.6)	-	(0.6)
As at 31 December 2019	6.0	0.1	6.1

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Land and buildings £m	Plant and equipment £m	Total £m
As at 1 January	6.5	0.1	6.6
Payment changes	0.1	-	0.1
Terminations	-	-	-
Accretion of interest	0.2	-	0.2
Payments	(0.7)	-	(0.7)
As at 31 December	6.1	0.1	6.2
Current	0.5	-	0.5
Non-current	5.6	0.1	5.7

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13. Leases (continued)

The following are the amounts recognised in the income statement:

	2019
	£m
Depreciation expense of right-of-use assets	(0.6)
Interest expense on lease liabilities	(0.2)
Total amount recognised in profit or loss	(0.8)

14. Debtors

	2019	2018
	£m	£m
Amounts due from parent undertaking	1,119.0	1,002.8
Amounts due from group undertakings	557.3	731.5
Corporation tax	1.6	2.8
Other taxation	1.3	0.9
Prepayments and accrued income	2.1	3.0
	<u>1,681.3</u>	<u>1,741.0</u>
Amounts falling due after more than one year included above are:		
Amounts due from group undertakings	258.6	388.5
Amounts due from parent undertakings	1,119.0	1,002.8
	<u>1,377.6</u>	<u>1,391.3</u>

Amounts advanced to parent and group undertakings are at arm's length terms and bear interest at the relevant LIBOR plus an appropriate margin.

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15. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Bank overdrafts and borrowings	128.2	101.2
External creditors	0.1	1.5
Amounts owed to group undertakings	1,199.1	1,292.9
Other taxation	0.5	0.4
Social security	0.3	0.2
Other creditors	2.1	3.6
Accruals and deferred income	8.4	8.3
	<u>1,338.7</u>	<u>1,408.1</u>

Amounts owed to group undertakings are at arm's length terms and bear interest at the relevant LIBOR plus an appropriate margin.

16. Creditors: amounts falling due after more than one year

	2019 £m	2018 £m
Amounts owed to group undertakings	<u>600.5</u>	<u>593.2</u>

Amounts owed to group undertakings are at arm's length terms and bear interest at the relevant LIBOR plus an appropriate margin.

17. Share capital

	2019 Number	2018 Number	2019 £m	2018 £m
Authorised, allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>27,500,000</u>	<u>27,500,000</u>	<u>27.5</u>	<u>27.5</u>

18. Derivative financial instruments

The Company enters into forward foreign currency contracts to hedge currency exposure on firm future receipts and payments and currency assets and liabilities

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the exchange rates for GBP:USD and GBP:EUR. The fair value of these derivatives at 31 December 2019 is a £1.4m asset (2018: £0.8m asset) and the movement in fair value is recognised in the income statement.

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19. Retirement benefit scheme

The Company is a member of group-wide pension scheme (IMI 2014 Deferred Fund) providing benefits based on final pensionable pay. As a result of a contractual arrangement, the total net defined benefit obligation of this Fund is now borne by the Company and therefore in accordance with IAS19, net defined benefit costs are recognised in the Company's financial statements.

The pension scheme providing benefits on final pensionable pay was closed on 31 December 2010. Active members of the scheme at the date of closure have been invited to join the group's defined contribution scheme. The defined benefit pension scheme cover increases in accrued benefits arising from inflation and future pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interest of the schemes' beneficiaries. The latest full actuarial valuation for the group-wide defined benefit pension scheme was carried out on 31 March 2018 and was updated for IAS 19 purposes to the 2019 year end by a qualified independent actuary. At 31 December 2019 the schemes surplus was £98.6m (2018: £80.9m).

The Company made contributions of £0.7m (2018: £0.7m) to the group's defined contribution scheme. Of these total pension costs, £0.1m (2018: £0.1m) were ultimately borne by fellow group undertakings.

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):

	2019 £m	2018 £m
Fair value of scheme assets		
Quoted bonds	361.9	274.0
Private equities	113.2	111.6
Insurance policies	14.0	16.5
IMI Scottish Limited Partnership**	50.7	53.1
Hedge Funds	1.2	0.8
Property	2.0	3.2
Other*	55.1	67.2
Fair value of assets	598.1	526.4
Present value of the defined benefit obligations	(499.5)	(445.5)
Surplus recognised on the balance sheet	98.6	80.9

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

** Amendments were made to the terms of the Scottish Limited Partnership 2010 and the Scottish Limited Partnership 2017 was created during 2017. Following the change in terms, the partnership interest issued by the Scottish Limited Partnership 2010 to the pension scheme was derecognised in the IMI Plc group financial statements but continues to be recognised in these financial statements in accordance with the requirements of FRS 101. The combined interest in the Scottish Limited Partnership 2010 and 2017 has been valued at 31 December 2019 and results in a plan asset of £50.7m. A loss of £2.4m, reflecting the current year change in its fair value, has been recorded within other comprehensive income.

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19. Retirement benefit scheme (continued)

Amount recognised in the income statement

The following table shows the amount of pension costs recorded in the income statement. This includes costs for both the defined benefit and defined contribution schemes.

	2019	2018
	£m	£m
DC employer contributions	0.7	0.7
Pension expense - operating costs	0.7	0.7
Settlement/Curtailment	-	(4.2)
Past service Cost	-	0.4
Interest on DBO	11.8	20.4
Interest on Assets	(12.7)	(20.5)
Interest income - financing costs/special pension event	(0.9)	(3.9)
Total amount credited to the income statement	(0.2)	(3.2)

Amount recognised in other comprehensive income

The following table outlines the movements in pension assets and liabilities taken through other comprehensive income.

	2019	2018
	£m	£m
Change in discount rate	(72.8)	43.3
Change in inflation	19.3	(3.1)
Change in other assumptions	2.4	(6.8)
Actuarial experience	(1.1)	1.9
Asset experience	64.4	(23.1)
Change in fair value of pension asset associated with SLPs	(2.4)	(19.8)
Items that cannot be reclassified to profit or loss:	9.8	(7.6)

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19. Retirement benefit scheme (continued)

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:

	2019	2018
	%	%
Inflation- RPI	3.1	3.3
Inflation- CPI	2.1	2.3
Discount Rate	2.0	2.7
Expected salary increases	N/A	N/A
Rate of pension increases	3.1	3.3
	2019	2018
Life expectancy at age 65		
Current male pensioners	21.8	21.3
Current female pensioners	24.8	24.3
Future male pensioners	23.4	23.0
Future female pensioners	26.6	26.2

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 2018, and the assumptions used as at 31 December 2019 reflect the results of this review.

The table below illustrates how the Funds' net pension surplus would decrease (excluding the impact of inflation rate and interest rate hedging), as at 31 December 2019, in the event of the following reasonable changes in the key assumptions above.

Discount rate 0.1% pa lower	£11.0m
Inflation-linked pension increases 0.1% pa higher*	£9.0m
Increase of one year in life expectancy from age 65	£21.0m
10% fall in non-bond-like assets **	£44.4m

* 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.

In each case all other assumptions are unchanged.

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19. Retirement benefit scheme (continued)

Overall reconciliation of changes in the net surplus for defined benefit obligations

The following tables outline the movement in both the scheme assets and the present value of the defined benefit obligations:

Movements in fair value of scheme assets

	2019	2018
	£m	£m
Brought forward at the start of the year	526.4	991.0
Interest income on plan assets	12.7	20.5
Return on plan assets less than discount rate	64.4	(23.1)
Employer contributions	7.1	10.1
Change in fair value of pension asset associated with SLPs	(2.4)	(19.8)
Disbursements	(10.1)	(31.7)
Settlements*	-	(420.6)
Fair Value of Plan Assets as of the Period End Date	598.1	526.4

Movements in the present value of the defined benefit obligations

	2019	2018
	£m	£m
Brought forward at the start of the year	445.5	916.5
Interest cost on the DBO	11.8	20.4
Net actuarial loss/(gain) - experience	1.1	(1.9)
Net actuarial (gain)/loss - demographic assumptions	(2.4)	6.8
Net actuarial loss/(gain) - financial assumptions	53.6	(40.2)
Disbursements from plan assets	(10.1)	(31.7)
Past service cost	-	0.4
Settlements*	-	(424.8)
Defined Benefit Obligation as of the Period End Date	499.5	445.5

*The Trustee has, over recent valuations, continued to reduce asset volatility and sensitivity to UK interest rates, inflation and foreign currencies. In December 2018 £409m of liabilities covered by insurance policies were permanently transferred to the insurance companies through a formal buy-out transaction. This resulted in the pension asset and corresponding defined benefit obligation being removed from the balance sheet. These activities yielded gains of £2.8m, which were classified as adjusting items in 2018. Following completion of the buy-out transfers, no beneficiaries remain in the 2014 Pensioner Fund and the Fund was wound-up in 2019.

Contributions

The March 2019 Valuation was completed in December 2019 and the Funds' Actuary certified that no deficit funding contributions would be required over and above the projected investment returns and the scheduled payments, of £7.0m per annum, due from the Scottish Limited Partnerships until the earlier of full funding of the UK Deferred Fund or 2030.

IMI Kynoch Limited
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20. Share-based payments

The Company participates in the following IMI plc group 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.

Share Incentive Plan (SIP)

This SIP is open to the majority of the Group's UK employees, including the IMI plc executive directors. This scheme covers two separate opportunities for employees to share in IMI's success. Partnership shares – allow employees to sacrifice 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.

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.

Share Matching Plan (SMP)

IMI plc's Executive directors and selected senior managers' annual incentive payments are governed by the individual's achievement of a Share Ownership Guideline (SOG). The SOG is a requirement to hold a percentage of salary as IMI shares and, if achieved, any bonus is paid in cash. If the SOG is not achieved a proportion of any annual bonus will be mandatorily deferred for three years and delivered in IMI shares under the SMP. This mandated investment (if the SOG is not achieved) is matched from 75% up to a maximum of 200%. These matching shares can be earned if performance conditions over the three-year vesting period are met.

Qualifying employees may also elect to voluntarily defer all or part of the remainder of their bonus, and invest personal funds, up to a maximum of 100% of their annual bonus opportunity. Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the "gross equivalent" number of shares invested in the SMP) if performance conditions over the three year vesting period are met.

The performance measures for SMP matching awards differ depending upon the year in which the award was granted. No further awards can be granted under the SMP.

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 IMI plc) the opportunity to share in the benefits of share price growth and to increase their IMI shareholding.

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 is also 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.

IMI Kynoch Limited
Notes to the financial statements
for the year ended 31 December 2019

20. Share-based payments (continued)

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Analysis of options granted

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date		Number of options granted (thousand)	Normal exercisable date
IMI Sharesave Scheme				Performance Share Plan		
2012	28	890p	2015-2017	2012	219	2015
2013	19	1196p	2016-2018	2013	227	2016
2014	21	1384p	2017-2019	2014	163	2017
2015	66	1075p	2018-2020			
2016	76	845p	2019-2021	Share Matching Plan		
2017	17	1106p	2020-2022	2012	911	2015
2018	25	1013p	2021-2023	2013	444	2016
2019	66	884p	2022-2024	2014	264	2017
IMI Share Option Plan				IMI Incentive Plan		
2012	203	983p	2015	2015	537	2017-2018
2013	178	1323p	2016	2016	751	2018-2019
2014	108	1467p	2017	2017	576	2019-2020
				2018	796	2020-2021
				2019	429	2021-2022

The following table illustrates the number of share options exercised during the year:

	2019	2018
	Number of options (thousand)	Number of options (thousand)
Options not granted at nil cost	45	64
Options granted at nil cost	533	36

The following table illustrates the number and range of option prices of share options outstanding at the end of the year:

	2019		2018	
	Number of options (thousand)	Range of option prices	Number of options (thousand)	Range of option prices
Options not granted at nil cost	226	845p - 1467p	284	645p-1467p
Options granted at nil cost	1,836	-	2,130	-

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20. Share-based payments (continued)

The weighted average share price at the date of exercise for the options exercised during the year was £9.82 (2018: £11.60). The weighted average remaining contractual life of share options outstanding at 31 December 2019 is 7.1 years (2018: 7.5 years).

The total expenses recognised for the year arising from share-based payments are as follows:

	2019	2018
	£m	£m
Equity settled share-based payment expense recognised in income statement	<u>3.9</u>	<u>5.2</u>

21. Contingent liabilities

The Company has overdraft facilities which form part of a composite accounting arrangement between IMI plc and certain of its subsidiaries. Accordingly, the Company along with those other group companies has entered into arrangements whereby each has offered a limited guarantee in respect of others' overdraft borrowings from time to time. The Company's maximum liability is limited to the extent of its current account cash balances from time to time which at 31 December 2019 amounted to £nil (2018: £0.4m).

22. Related party transactions

The Company has taken advantage of the exemption available under IAS24 '*Related Party Disclosures*' not to disclose transactions between the Company and other wholly owned subsidiaries and group undertakings of IMI plc.

The only related party transactions that require disclosure are between the Company and Quanta Fluid Solutions Limited, which is the tenant of a building owned by Kynoch. Costs of £60,000 were invoiced to Quanta Fluid Solutions Limited during the year for rent, utilities and insurance (2018: £45,000). At 31 December 2019 a balance of £nil was receivable from this entity (2018: £nil).

23. Ultimate and immediate parent company

The immediate parent company is IMI Group Limited, incorporated in England and Wales. The ultimate parent company is IMI plc, incorporated in England and Wales.

The results of the Company are consolidated into the group accounts of IMI plc. The consolidated accounts of IMI plc are available to the public and may be obtained from:

The Company Secretary
IMI plc
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham B37 7XZ

Or at www.imiplc.com