Truflo Marine Limited

Directors' report and financial statements

Registered number 993167

For the year ended 31 December 2008

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Business review and principal activities

The company is a wholly owned subsidiary of IMI plc and operates as part of the group's Fluid Controls Division..

The company's principal activities are the design, manufacture and sale of control valves for Naval Marine applications. 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.

Review of 2008

Market place

Following cuts in the size of the UK Navy in 2005, further reviews have seen the early retirement and "mothballing" of several vessels. This has had a major impact on MRO work coming from refits and fleet support work.

New build projects face delays and cancellations due to budget restrictions and the question of "affordability", although we are in the middle of a substantial modernisation programme.

The MoD's Defence Industrial Strategy and Maritime Industrial Strategy are beginning to change the way that the navy's vessels are procured and maintained, and the customer is changing its procurement strategy by considering commercial off-the-shelf products against traditional naval standards.

Some European navies are suffering similar defence spending restrictions to the UK but overall there are plenty of opportunities for new build projects. NATO member countries have support obligations to fulfil and are purchasing equipment accordingly. In particular, there are strong submarine build programmes in Germany, France and Spain.

The two fastest growing navies are in India and China but with a great deal of equipment supply being in-country.

World-wide there is a growing requirement for more, smaller, coastal patrol ships and submarines to carry out security duties around the coasts of some growing economies. The vessels will most likely come from European design but countries like Korea and Russia are developing their own designs for export.

USA, being the largest market, still offers major prospects and must be approached through a local office by acquisition or joint venture.

Turnover fell by 35% to £9.7 million *(2007: £14.9 million)* as activity in the UK Naval Marine market continues to slow down as major projects, Astute Submarines and Type 45 Destroyers, begin to approach the end of their delivery programmes. Export turnover rose by 26% to £3.4 million *(2007: £2.7 million)* as requirements for new build in Spain continued to grow.

Efficiency and productivity initiatives have helped to more than offset the continuing escalation in Raw Material and Energy costs. The key focus for the future is to expand on and develop these initiatives to ensure any adverse movements in the total cost and overhead base remain inflation neutral.

The balance sheet on page 8 of the financial statements shows that the company's financial position at the year end is, in terms of net assets, above the prior year. Details of amounts owed by its parent company are shown in note 11 on page 15.

Directors' report *(continued)*

Product development

The majority of development activity continues to be based on the Spanish S80 submarine requirements.

The products required by Navantia are generally based on existing designs but packaged in more universal housings. There are around one hundred and fifty new arrangements to complete the supply programme. Eventually a sample of around ten items will be fully tested according to a prototype schedule of shock, vibration, cycle, pressure-pulse and fire resistance.

The prototype programme is being shared between a number of test houses and Truflo's own facilities with some enhancements having to be made to our test facilities to deal with pressure-pulse testing.

Completion of the Navantia test programme will add considerably to our validated portfolio of submarine valves.

Work continued to understand and optimise the performance of our ultra-high duty hydrogen and oxygen regulators for AIP systems. There is increasing potential to supply AIP control valves as more submarines are converted to this technology.

Key performance indicators

The IMI Group manages its operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the company. The development, performance and position of the Fluid Controls division of IMI plc, which includes the company is discussed in the group's annual report which does not form part of this report.

Principle risks and uncertainties

The main risks for Truflo are declining spend (due to Government budgets) on Naval Marine, in particular Fleet Support, and increased direct competition, in particular in the UK.

The decline in overall spend in the Naval Marine marketplace has led to us looking to introduce our products and services to new customers and market places. In the UK we are experiencing more direct competition, in particular with new build single source projects and our key strategy here is to continue to maintain customer relationships, as well as to focus on our strengths and performance on existing contracts.

Whilst the company's sales are principally in Sterling, the growth in the Export business has consequently seen a growth in sales in currencies other than Sterling, primarily Euros. There is an increasing exposure to the movement in the Euro to Sterling exchange rate. The group's treasury function takes out contracts to manage this risk at a group level.

The company currently has no parent company or third party debt and therefore has no interest rate exposure.

Group risks are managed at group level, rather than on an individual business unit level. For this reason, the company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of the company's business. The principal risks and uncertainties of the IMI Group, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Environment

IMI plc recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the group's activities. The company operates in accordance with group policies, which are described in the group's annual report which does not form part of this report.

Initiatives designed to minimise the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

Directors' report *(continued)*

Employees

Details of the number of employees and related costs can be found in note 5 to the financial statements on page 12.

The company does not discriminate on grounds of age, colour, disablement, marital status, race, religion, sex or sexual orientation. Employees are given the opportunity to develop and progress according to ability. The company recognises the need for regular consultation with employees to ensure effective communication on matters of policy and performance.

The company maintains health and safety policies and implements good working practices and procedures. These matters are monitored regularly and are reported periodically to the board.

Dividend

During the year, the company paid a dividend of £Nil *(2007: £Nil)*.

Directors

The directors who held office during the year were as follows:

RM Bowser
JR Perkins
CN Robinson

Supplier payment policy

The company agrees the terms and conditions under which transactions are conducted with each supplier. It is company policy that, provided the supplier has complied with all relevant terms and conditions, payment is made in accordance with the agreed terms.

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors for the year ended 31 December 2008 were KPMG Audit Plc.

By order of the board

RM Bowser
Director

Westwood Road
Birmingham
B6 7JF

30 June 2009

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

The directors are responsible for preparing the directors' report and the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Truflo Marine Limited

We have audited the financial statements of Truflo Marine Limited for the year ended 31 December 2008 which comprise the profit and loss account, balance sheet, reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Truflo Marine Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

30 June 2009

Profit and loss account

for the year ended 31 December 2008

	Note	**2008**	2007
		£000	£000
Turnover	*1,2*	**9,711**	14,916
Cost of sales		**(6,803)**	(10,572)
Gross profit		**2,908**	4,344
Selling and distribution costs		**(1,024)**	(1,047)
Administrative expenses		**(782)**	(864)
Other operating income/(expenses)		**62**	(35)
Operating profit		**1,164**	2,398
Interest receivable and similar income	*6*	**308**	166
Profit on ordinary activities before taxation	*3*	**1,472**	2,564
Tax on profit on ordinary activities	*7*	**(423)**	(751)
Profit for the financial year		**1,049**	1,813

All activity in both years derives from continuing operations.

Statement of total recognised gains and losses

There were no recognised gains or losses in either year other than the profit for the year.

Balance sheet
at 31 December 2008

	Note	2008 £000	£000	2007 £000	£000
Fixed assets					
Intangible assets	*8*		**140**		166
Tangible assets	*9*		**290**		338
			430		504
Current assets					
Stocks	*10*	**1,528**		702	
Debtors	*11*	**9,451**		7,008	
Cash at bank and in hand		**318**		1,221	
		11,297		8,931	
Creditors: amounts falling due within one year	*12*	**(4,661)**		(3,418)	
Net current assets			**6,636**		5,513
Total assets less current liabilities			**7,066**		6,017
Provisions for liabilities	*13*		**(130)**		(130)
Net assets			**6,936**		5,887
Capital and reserves					
Called up share capital	*14*		**500**		500
Share premium account	*15*		**62**		62
Profit and loss account	*15*		**6,374**		5,325
Equity shareholders' funds			**6,936**		5,887

These financial statements were approved by the board of directors on 30 June 2009 and were signed on its behalf by:

RM Bowser

RM Bowser
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2008

	2008 £000	2007 £000
Profit for the financial year	**1,049**	1,813
Net addition to shareholders' funds	**1,049**	1,813
Opening shareholders' funds	**5,887**	4,074
Closing shareholders' funds	**6,936**	5,887

Notes
(forming part of the financial statements)

1. 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:

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have been prepared on a going concern basis.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that IMI plc includes the company in its own published consolidated financial statements.

As the company is a wholly-owned subsidiary of IMI plc, the company has taken advantage of the exception contained in FRS 8 and has, therefore, not disclosed transactions or balances with entities which form part of the group.

The consolidated financial statements of IMI plc, within which the company is included, may be obtained from the address given in note 19.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets required) arising on business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life which does not exceed 20 years.

Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation, less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and machinery	-	3 to 10 years
Motor vehicles	-	4 years

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at that date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date.

Notes *(continued)*

1 Accounting policies *(continued)*

Pensions

The company participates in a group money purchase pension scheme. Contributions are charged to the profit and loss account in the year in which they are payable.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the sale of goods and services to customers during the year.

2 Turnover

Turnover is derived from the activity which is undertaken in Great Britain and is analysed by destination as follows:

	2008 £000	2007 £000
United Kingdom	**6,340**	12,196
Rest of Europe	**2,580**	1,606
North America	**699**	991
Pacific Rim	**30**	53
Rest of world	**62**	70
	9,711	14,916

3 Profit on ordinary activities before taxation

	2008 £000	2007 £000
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration for audit services	**17**	20
Depreciation and other amounts written off tangible fixed assets:		
Owned	**118**	157
Amortisation of intangible fixed assets	**26**	25
Rentals under operating leases:		
Land and buildings	**130**	130
Plant, machinery and vehicles	**99**	98

There were no non-audit fees paid to the auditors in the year *(2007: £Nil).*

Notes *(continued)*

4 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	**143**	162
Company contributions to money purchase pension schemes	**12**	13
	155	175

The company made contributions to money purchase pension schemes for one director *(2007: one).*

5 Staff numbers and costs

	Number of employees 2008	2007
Production	**50**	52
Administration	**9**	9
Selling and distribution	**20**	23
	79	84

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**2,287**	2,513
Social security costs	**232**	266
Other pension costs	**55**	66
	2,574	2,845

6 Interest receivable and similar income

	2008 £000	2007 £000
Other loans	**308**	166

Notes *(continued)*

7 Tax on profit on ordinary activities

Analysis of charge in year

	2008 £000	2007 £000
UK corporation tax		
Current tax on income for the year	416	760
Adjustments in respect of prior years	(4)	(45)
Total current tax	412	715
Deferred tax (see note 13)		
Origination/reversal of timing difference	11	36
Tax on profit on ordinary activities	423	751

Factors affecting the tax charge for the current year

The current tax charge for the year is lower *(2007: lower)* than the standard rate of corporation tax in the UK of 28.5% *(2007: 30%)*. The differences are explained below:

	2008 £000	2007 £000
Current tax reconciliation		
Profit on ordinary activities before tax	1,472	2,564
Current tax at 28.5% *(2007: 30%)*	420	769
Effects of:		
Expenses not deductible for tax purposes	7	12
Capital allowances for period in excess of depreciation	(11)	(32)
Effect of rate change	-	11
Adjustments to tax charge in respect of previous years	(4)	(45)
Total current tax charge (see above)	412	715

Factors that may affect future tax charges

The UK corporation tax rate changed from 30% to 28% with effect from 1 April 2008.

Notes *(continued)*

8 Intangible fixed assets

	Goodwill £000
Cost	
At beginning and end of year	755
Amortisation	
At beginning of year	589
Provided during the year	26
At end of year	615
Net book value	
At 31 December 2008	**140**
At 31 December 2007	166

Goodwill relates to purchased goodwill on the acquisition of Orseal Limited and Maxseal Limited in 1994 and 1995 respectively. Goodwill is being amortised over periods of up to 20 years.

9 Tangible fixed assets

	Plant, machinery, equipment and vehicles £000
Cost	
At beginning of year	2,839
Additions	70
Disposals	(30)
At end of year	2,879
Amortisation	
At beginning of year	2,501
Charge for year	118
Disposals	(30)
At end of year	2,589
Net book value	
At 31 December 2008	**290**
At 31 December 2007	338

Notes *(continued)*

10 Stocks

	2008 £000	2007 £000
Raw materials and consumables	712	116
Work in progress	363	535
Finished goods	453	51
	1,528	702

11 Debtors

	2008 £000	2007 £000
Trade debtors	4,214	3,636
Due from group undertakings	4,680	3,132
Other debtors	425	97
Deferred tax asset (see note 13)	132	143
	9,451	7,008

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Payments received on account	693	-
Trade creditors	2,179	1,703
Due to group undertakings	535	284
Corporation tax	465	687
Taxation and social security	68	325
Accruals and deferred income	622	310
Other creditors	99	109
	4,661	3,418

Notes *(continued)*

13 Provisions for liabilities

	Dilapidations	Warranty and other provisions	Deferred tax
	£000	£000	£000
At beginning of year	100	30	(143)
Charge to the profit and loss for the year	-	-	11
At end of year	**100**	**30**	**(132)**

Warranty provisions relate to warranties provided as part of product sales in respect of which liabilities exist for the following year.

Dilapidations provisions relate to leased properties held by the company. The timing of these is uncertain.

Deferred taxation

The elements of deferred taxation are as follows and the deferred tax asset has been included in debtors (note 11).

	2008	2007
	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	(87)	(98)
Other timing differences	(45)	(45)
	(132)	(143)

14 Called up share capital

	2008	2007
	£000	£000
Authorised, allotted, called up and fully paid:		
500,000 ordinary shares of £1 each	500	500

15 Share premium and reserves

	Share premium account	Profit and loss account
	£000	£000
At beginning of year	62	5,325
Profit for the financial year	-	1,049
At end of year	**62**	**6,374**

Notes *(continued)*

16 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2008	2007
	£000	£000
Contracted	-	-

(b) Annual commitments under non-cancellable operating leases are as follows:

	2008 Land and buildings	**Other**	2007 Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	-	6	-	12
Within two to five years	-	101	-	90
Over five years	130	-	130	-
	130	107	130	102

17 Pensions

The company participates in a group money purchase scheme. The assets of the scheme are held separately from those of the group in independently administered funds. The pension costs represent the contributions payable by the company to the scheme and amounted to £55,000 *(2007: £66,000)*. All contributions payable were paid during the year.

The Company is also a member of a larger group pension scheme which has separate defined contribution and closed defined benefit sections, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The Company is unable to identify its share of the underlying scheme assets and liabilities on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amounts charged to the profit and loss account represent the contributions payable to the scheme in respect of the accounting period.

18 Contingent liabilities

Performance bonds amounting to £14,000 *(2007: £14,000)* have been issued on behalf of the company.

The company has overdraft facilities which form part of a composite accounting arrangement with those of certain other subsidiaries of IMI plc. Accordingly, the company in concert with those other group companies has entered into arrangements whereby each has offered a limited guarantee in respect of the 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 2008 amounted to £318,000 *(2007: £1,221,000)*.

19 Ultimate parent company and parent undertaking of larger group of which the company is a member

The directors consider that IMI plc, is the ultimate holding company.

The company is a subsidiary of IMI plc, which is incorporated in Great Britain and registered in England and Wales. The largest group in which the results of the company are consolidated is that of which IMI plc is the parent company. Copies of the financial statements of IMI plc may be obtained from IMI plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham B37 7XZ.