

Breakthrough Engineering for a better world

THURSDAY



A9CBDIBV

A05

27/08/2020

#122

COMPANIES HOUSE

IMI

We are a specialist engineering company that designs, manufactures and services highly engineered products that control the precise movement of fluids. We aim to deliver great solutions that tackle the most demanding engineering challenges. We help some of the world's leading industrial companies operate their processes safely, cleanly, efficiently and cost effectively. We operate through three divisions – IMI Precision Engineering, IMI Critical Engineering and IMI Hydronic Engineering – and employ around 11,000 people in over 50 countries around the world.



Our business has many strengths. First and foremost, we employ great people. We are renowned for delivering world-class engineering expertise and support, and our operational platform and processes are amongst the very best.



Roy Twite
Chief Executive



COVER
IMI Precision Engineering
Brno, Czech Republic

Our purpose

Our purpose is our reason for being. It's what motivates us all and makes us proud to work for IMI.

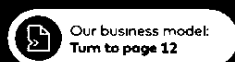
Breakthrough Engineering
for a better world.

Our vision

Our vision explains more about how we want to achieve our purpose.

IMI will create tremendous value by solving key industry problems in attractive markets and working with the best.

We deliver our sustainable, customer-focused solutions ever mindful of our responsibilities to our employees, our suppliers, our wider communities, and the environment. And we constantly reference and reinforce IMI's core values throughout our business.



Our business model:
Turn to page 12

Introduction

Group overview
Chairman's statement

02
04

Strategic Report

Chief Executive's review
Business model
Strategic review
Environmental, Social & Governance
Our stakeholders
Eco-system
Operational review – IMI Precision
Operational review – IMI Critical
Operational review – IMI Hydronic
Financial review
Key Performance Indicators
How we manage risk

08
12
14
22
36
37
42
44
46
48
52
54

Corporate Governance

Board of Directors
Letter from the Chairman
Corporate Governance Report
Audit Committee Report
Nominations Committee Report
Annual Directors' Remuneration Report
Directors' Report
Directors' responsibilities

62
64
66
72
76
78
94
101

Financial Statements

Independent Auditor's report
Primary statements
Notes to the accounts

104
112
116



Group overview

We create tremendous value by solving key industry problems in attractive markets and working with the best.

Adjusted revenue by geography



EMEA 44%
APAC 29%
Americas 21%
Other 6%

Revenue by division



M&P 48%
A&S 35%
Other 17%

Gender mix across the Group*

	Female	Female%	Male	Male%
All employees	3,104	27%	8,335	73%
Managers	200	19%	866	81%
Senior managers	100	17%	499	83%
Board	3	38%	5	63%

* Includes executive directors and non-executives

2019 highlights

Adjusted revenue

✓ **£1,873m**
2%

Statutory revenue

✓ **£1,873m**
2%

Adjusted profit before tax

— **£251m**
Flat

Statutory profit before tax

✓ **£189m**
11%

Adjusted operating margin

^ **14.2%**
20bps

Adjusted operating cash flow

^ **£299m**
35%

Adjusted basic earnings per share

— **73.2p**
Flat

Statutory basic EPS

✓ **57.6p**
8%

- » Results ahead of market expectations
- » Profit improvement initiatives help 60bps second half margin improvement
- » Operating cash flow 35% higher than 2018
- » £27m rationalisation savings for 2019, ahead of expectations
- » Final dividend increased 1%, making a 1% increase for the full year
- » Structural re-organisation plans progressing well
- » Rationalisation charges for 2020 expected to be c.£45m; savings c.£25m
- » Commercial cultural shift driven by Growth Accelerator gaining traction
- » New customer-focused organisational structures bedding-down well

IMI Precision Engineering

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



Operational review:
Turn to page 42

Key brands

Norgren, Bimba, Buschjost, Herion, Kloeckner, Maxseal, Thompson Valves

Adjusted revenue

▼ 1% **£907m**

Adjusted operating profit

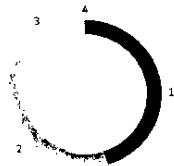
▼ 3% **£148m**

Number of employees

54% **5,800**

Revenue by geography

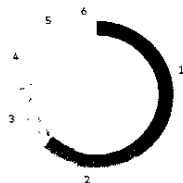
- 1 Europe 45%
- 2 Americas 38%
- 3 Asia Pacific 17%
- 4 Middle East & Africa 0%



Revenue by market

- Motion Control**
2019 revenue: £369m
- Commercial Vehicle**
2019 revenue: £194m
- Fluid Technologies**
2019 revenue: £140m
- Energy**
2019 revenue: £81m
- Life Sciences**
2019 revenue: £81m
- Rail**
2019 revenue: £42m

- 1 Motion Control 41%
- 2 Commercial Vehicle 21%
- 3 Fluid Technologies 15%
- 4 Energy 9%
- 5 Life Sciences 9%
- 6 Rail 5%



IMI Critical Engineering

IMI Critical Engineering's highly specialised valves and actuators help control the flow of steam, gas and liquids in some of the world's harshest environments. Our engineered solutions are designed to withstand extreme temperatures and pressures, as well as intensely abrasive or corrosive cyclical operations.



Operational review:
Turn to page 44

Key brands

IMI Bopp & Reuther, IMI CCI, IMI Fluid Kinetics, IMI InterAtiva, IMI NH, IMI Orton, IMI PBM, IMI Remosa, IMI STI, IMI Th Jansen, IMI Truflo Marine, IMI Truflo Rona, IMI Truflo Italy, IMI Z&J, IMI Zikesch

Adjusted revenue

▼ 5% **£651m**

Adjusted operating profit

▲ 2% **£90m**

Number of employees

30% **3,200**

Revenue by geography

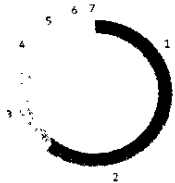
- 1 Europe 22%
- 2 Americas 25%
- 3 Asia Pacific 37%
- 4 Middle East & Africa 16%



Revenue by market

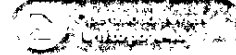
- Fossil Power**
2019 revenue: £206m
- Oil & Gas**
2019 revenue: £189m
- Petrochemical**
2019 revenue: £129m
- Nuclear**
2019 revenue: £51m
- Marine**
2019 revenue: £30m
- Pharmaceutical**
2019 revenue: £4m

- 1 Fossil Power 32%
- 2 Oil & Gas 29%
- 3 Petrochemical 20%
- 4 Nuclear 8%
- 5 Marine 5%
- 6 Other 5%
- 7 Pharmaceutical 1%



IMI Hydronic Engineering

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



Key brands

IMI Pneumatex, IMI TA, IMI Flow Design, IMI Heimeier, IMI Aero-Dynamiek

Adjusted revenue

▲ 2% **£315m**

Adjusted operating profit

▲ 9% **£57m**

Number of employees

16% **1,800**

Revenue by geography

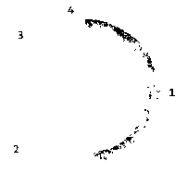
- 1 Europe 86%
- 2 Americas 8%
- 3 Asia Pacific 5%
- 4 Middle East & Africa 1%



Revenue by market

- Balancing & Control**
2019 revenue: £152m
- Thermostatic Control**
2019 revenue: £97m
- Pressurisation & Water Quality**
2019 revenue: £50m

- 1 Balancing & Control 48%
- 2 Thermostatic Control 31%
- 3 Pressurisation & Water Quality 16%
- 4 Other 5%



Chairman's statement

[2019 has been a year of significant change]



We appointed a new Chief Executive, adopted a new strategy and took further steps to ensure our culture is aligned with our ambition to deliver increasing value for all our stakeholders.

New Chief Executive

In May 2019 Roy Twite became Chief Executive of IMI plc. Roy, who joined IMI in 1988, is a strong and experienced leader who has been pivotal to the Group's continued success. He has extensive operational experience, deep knowledge of our core markets and outstanding leadership qualities.

Strategy

Much of the Board's time during the year was spent considering and debating the outputs from the strategic review undertaken during the year. In November 2019 the Board approved our new strategic plan that is being deployed during the next phase of the Group's development. This plan is focused on accelerating growth and increasing value for all our stakeholders. Further information about our strategy is provided on pages 12 to 21.

Aside from long-term strategy actions, I am pleased to say that the businesses have also made important early strides improving both commercial focus and immediate profitability. Our divisions

have shown considerable ingenuity in deploying some of their new initiatives - particularly when some of our end-markets have been weaker. The operational reviews that follow on pages 42 to 47 of this Report describe more about both our trading performance and those initiatives.

Culture and purpose

The culture of a business starts with the Board. IMI enjoys a long-held reputation for being an open and diverse business that operates ethically and fairly at all times mindful of its responsibilities to its stakeholders and society. This is the right thing to do. Good governance and responsible business also underpin long-term value creation.

During 2019, we have introduced a formal process to review our culture that will build upon the successful IMI Way campaign of recent years. Good governance and responsible business are not merely characteristics to check but are rather prerequisites to both sustainability and commercial success. Further information about this new process is set out on page 64.

We welcome the changes Roy has introduced to enhance our culture. In particular his focus on making IMI an even more diverse and inclusive meritocracy. Encouraging an innovative, growth and commercial mindset will have a positive impact on how we do business and support our strategic ambitions.

Value creation for all stakeholders

At all times we must operate in a responsible way. Further information about our sustainable approach is included on pages 22 to 35.

In our discussions and decision-making processes we always take into account our various stakeholders, all of whom contribute to the success of our business. During the year the Board reviewed how we engage with the Group's stakeholders. Further information about our stakeholders and this review process is set out on pages 36, 70 and 71.

The Board

Having served on the Board since 2012, Birgit Nørgaard steps down as a non-executive director and as Chair of the Remuneration Committee at the end of February 2020. On behalf of the Board, I would like to wish Birgit well for the future and express our thanks for her valuable contribution to IMI.

Following her retirement Carl-Peter Forster will succeed Birgit as Chair of the Remuneration Committee. At the same time, Thomas Thune Andersen will become the non-executive director responsible for employee engagement and for Environmental, Social and Governance matters. Thomas will also join the Audit Committee and will cease to be a member of the Remuneration Committee from 1 March 2020.

In January 2020, Caroline Dowling joined the Board as a non-executive director. Caroline brings considerable relevant skills and experience to our Board having enjoyed a long and successful career in the technology industry. Further information about Caroline, and the other members of our Board, is included on page 62 and 63.

Dividend

Reflecting the continued confidence in the Group's prospects, as well as our ambition to build dividend cover, the Board is recommending that the final dividend is increased by 1% to 26.2p (2018: 26.0p) making a total dividend for the year of 41.1p, an increase of 1% over last year's 40.6p.

Our people


IMI is proud to employ the best people. During times when business can face challenging markets, and when significant internal change is being made, their loyalty and efforts are especially appreciated. On behalf of the Board, I would like to thank all of them for their continuing dedication.

Lord Smith of Kelvin
Chairman



Lord Smith of Kelvin and the IMI plc Board visited facilities in Shanghai and Seoul in October 2019





How do you keep a laparoscope camera lens clean, whilst conducting procedures inside the human body?

Working in partnership with the customer, IMI Precision Engineering developed a unique pneumatic circuit that controls the pressure and delivery of measured 'puffs' of CO₂ and saline, that clean the camera lens whilst inside the body, making surgery safer and more accurate. The established expertise and close collaboration of IMI Precision engineers were instrumental in their and their customer's success.

Strategic Report

08

Chief Executive's review

12

Business model

14

Strategic review

22

Environmental, Social & Governance

36

Our stakeholders

37

Eco-system

42

Operational review

48

Financial review

52

Key Performance Indicators

54

How we manage risk

Chief Executive review



I'm delighted to report good results for 2019, given the anticipated market headwinds. We have also made a solid start in the pursuit of a new purpose: Breakthrough Engineering for a better world.

Results overview

2019 was a year of important change for the Group. I was appointed Chief Executive in May, measures to improve short-term profitability were initiated immediately thereafter, and a new strategy was launched in November. Updates on progress with the strategy appear in the relevant divisional reviews (see pages 42 to 47).

Trading environment

IMI Precision continues to deal with cyclical headwinds in Factory Automation and Commercial Vehicle markets, whilst other markets have continued to grow. IMI Critical operates in mixed markets. While some are experiencing good conditions, including LNG and Naval, others are undergoing structural change, like Fossil Power. And IMI Hydronic operates in markets whose prospects remain stable, supported by its significant exposure to environmental legislation, building refurbishment and improvement.

Accelerating Profitable

PBM acquisition

The acquisition of PBM was completed on 20 September 2019. Acquired for a cost of £69m, PBM is a manufacturer of high-quality industrial valves and flow control products and sells into the Pharmaceutical, Chemical and Food Processing industries. The business is already making an impact on the division. Integration is proceeding well and PBM offers exciting opportunities for IMI Critical to expand profitably into new, growth markets.

Environmental, Social & Governance (ESG)

A very substantial proportion of the products we make have a direct and positive impact on the world. All elements of ESG have formed an important part of our management ethos and strategy for many years. Diversity, health & safety, community support and well-established protocols for governance and risk management, all contribute to IMI's robust, sustainable and ethical business model. We also take

great care around our own impact on the environment. And we support the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in relation to the disclosure of information about the risks and opportunities presented by climate change.

More information about those various products and solutions - as well as on all of our ESG policies and practices - can be found on our website: www.implc.com and on pages 22 to 35.

Adjusted revenue

▼
Down 2% **£1,873m**

Adjusted profit before tax

—
Flat **£251m**

Investment case

- » Clear customer-focused strategy delivering Breakthrough Engineering with the best people, renowned expertise and strong brands
- » Increasingly exposed to attractive global markets, including through our Growth Accelerator programme
- » Robust social and governance policies, for a stronger, more responsible business
- » Differentiating environmental profile – particularly through our customer solutions targeting energy efficiency and safety
- » A clear business model committed to delivering sustainable value to all our stakeholders
- » Strong balance sheet offering strategic flexibility

Chief Executive Interview



In October 2019, the Board visited
IMI Critical Engineering
Paju, Republic of Korea

Strategic progress

In all cases, the divisions are progressing well with their strategies to improve both growth and profitability. In particular, the divisions have clear plans to reach their respective margin targets, as detailed in our IMS presentation in November. Those measures include complexity reduction, material cost savings, productivity gains and value-pricing, all of which have already had a positive impact on results across the Group.

Also fundamental to the Group achieving its strategic ambitions are the initiatives designed to effect a change in culture across the business, driving innovation, customer intimacy and greater commercial accountability throughout the organisation. Our Growth Accelerator programme is already having an impact, stimulating innovation and identifying early commercial opportunities.

Rationalisation charges for 2020 are expected to be c.£45m, with savings of c.£25m in the year (including some impact from prior year projects).

IMI Precision Engineering

The IMI Precision strategic initiatives continue to advance well, with the new customer-focussed business unit structure in place in both Europe and America. Much greater commercial accountability is being driven throughout the organisation, and the introduction of value-added new products is supporting the division's margin delivery. The integration of Bimba remains on-track, with significant benefits expected in 2020 from footprint consolidation.

The previously announced, multi-year £75m restructuring programme is on-track to deliver £35m of annualised benefit. Two factories have already been consolidated, with two more planned for the first half of the year. For 2020, the charge is expected to be c.£30m, with savings of £20m to be delivered in the year.

IMI Critical Engineering

IMI Critical's strategic re-alignment continues to progress well. The introduction of a simpler organisation structure, removing a layer of complexity and cost, is already delivering benefits. The PBM acquisition, which completed in September, is progressing well and provides the division with access into the faster growing Pharmaceutical and Food Processing markets. IMI Critical has also successfully secured its first orders generated through the Growth Accelerator programme which, although still early in the process, highlights the opportunities available as customer intimacy improves. The 20% to 30% of IMI Critical's lower margin business is still under review, with local leadership pursuing rapid improvement actions.

The division's restructuring activity in 2019 supported its performance and delivered in excess of the planned savings. In 2020, additional actions will be taken to further restructure our operations, leading to a charge of c.£10m, and providing savings of c.£5m in 2020.

Executive Committee



Roy Twite
Chief Executive



Daniel Shook
Finance Director



Massimo Grassi
Divisional Managing Director
IMI Precision Engineering



Jackie Hu
Divisional Managing Director
IMI Critical Engineering



Phil Clifton
Divisional Managing Director
IMI Hydronic Engineering



Geoff Tranfield
Group Human Resources
Director



John O'Shea
Group Legal Director
and Company Secretary

IMI Hydronic Engineering

IMI Hydronic continues to make good progress toward its published margin targets. As with the other divisions, considerable work has been done to improve customer focus in a business that already enjoys very strong brands and reputation.

The business recently announced plans to optimise its footprint and supply chain. The charge for these initiatives is expected to be c.£5m in 2020 which will generate annualised savings of c.£3m.

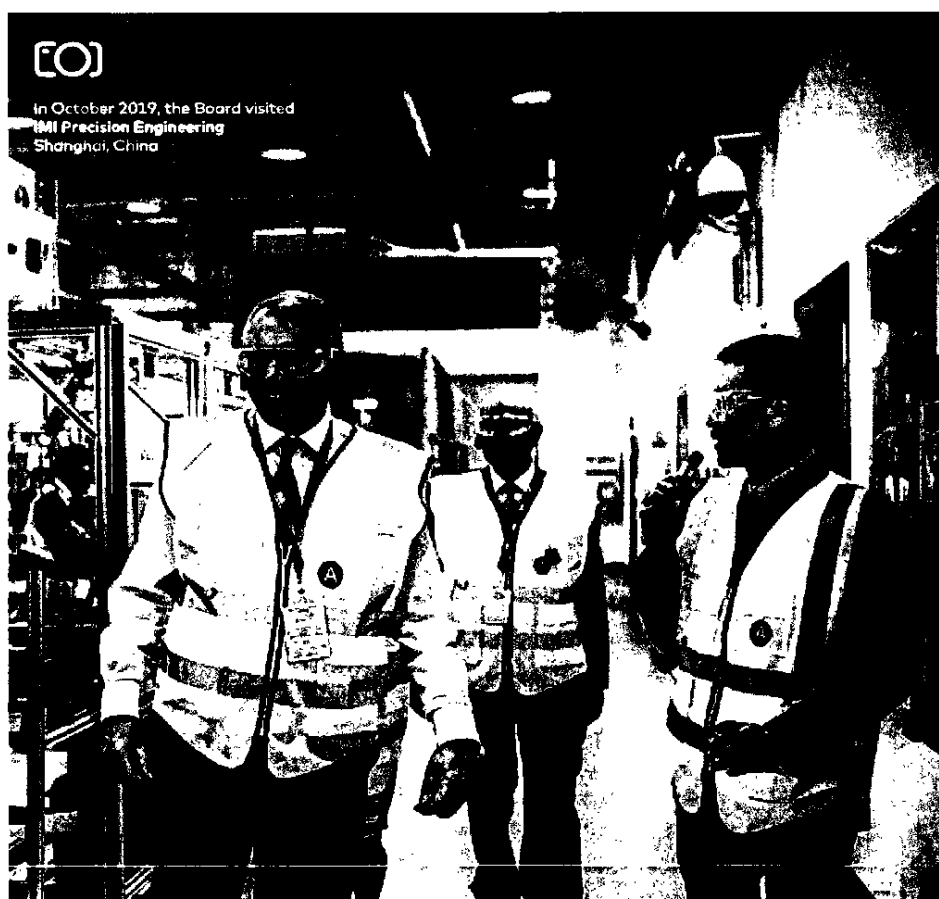
People

2019 has been a year of important change for IMI, as we take our first steps delivering our new purpose – Breakthrough Engineering for a better world. Having capable, diverse and engaged people is essential to our success and I would like to thank all of our employees for their commitment and efforts during the year.

Outlook

It is difficult to predict the ultimate impact the coronavirus will have on global supply chains and demand. Based on no worsening of the current situation, we expect first half organic revenues to be lower than the first half of 2019, given the end market weakness in the Factory Automation and Commercial Vehicle sectors. Our continuing business improvement initiatives are expected to enable us to maintain our margins in the first half of the year.

Roy Twite
Chief Executive



Business model

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

Inputs

Our key resources

Talented, committed people

Industry renowned fluid engineering expertise focused on solving industry problems

Long-term customer relationships

Technology and applications engineering IP

Premium brand portfolio and strong, differentiated market positions

Sales, marketing and distribution network focused on growth markets

Strong operational platform with continuous improvement culture

Financial strength

Our values

Integrity

We do the right thing and keep people safe as we do it.

Excellence

We aim to achieve industry best practice and to continuously learn and improve.

Strategic objectives

How we create value

To drive sustainable profitable growth we focus on:

1. Customer focus

 Turn to page 15

2. Growth acceleration

 Turn to page 17

3. Operational excellence

 Turn to page 18

4. Commercial excellence

 Turn to page 21

How we operate

Environmental,
Social & Governance

 Turn to page 22

KPIs

 Turn to page S2

Customer focus

We put customers at the centre of everything we do.

Innovation

We understand customers' changing needs and create new solutions.

Collaboration

We believe in working together to deliver better results.

Priorities

How we maximise value

Health & safety

Keeping people safe is our first priority

Employee engagement

An engaged, collaborative and diverse workforce

Customer satisfaction

Delight our customers by solving industry problems

Continuous business improvement

Focusing on key deliverables

Profitable growth

Growth Accelerator; New Product Development and M&A each play a key role

Sales effectiveness and operational excellence

Highly competitive businesses generating appropriate returns

Margin improvement

A key indicator of value delivery for customers and business health

Operating sustainably

Operating our business in a sustainable way for the long-term

Outputs

The value we create

Customers

We solve customer problems with cleaner, safer, more efficient solutions

Environment

Delivering solutions targetting energy efficiency, safety and reliability

Employees

A workforce that is proud and inspired to work for IMI

Shareholders

Long-term supportive shareholders, rewarded for their investment

Our business partners

Building close and mutually beneficial relationships with our suppliers

Community

Local teams supportive of their wider communities

Effective risk management



Turn to page 54

Robust corporate governance



Turn to page 66

Strategy



IMI Hydronic Engineering
Berlin, Germany

Customer focus

Putting customers at the centre of our organisation means customer requirements and our businesses are totally aligned to deliver exceptional value.



Our ambition is to get even closer to our customers. Our reporting structures have changed to reflect that ambition.

In IMI Precision, the business is now fully aligned with our key sector verticals. Each business segment enjoys control of all the functions that combine to deliver world-class solutions. Sales, marketing, new product development and operations – all in one co-ordinated unit.

In addition, a new, flatter regional structure has been introduced to increase customer intimacy. It also allows greater focus on growing the Aftermarket business.

IMI Precision is further improving its customer focus and strengthening its sales and commercial relationship functions.



[O]

IMI Critical Engineering
Paju, Republic of Korea

Growth acceleration

Creating a culture of market-led innovation forms a key part of accelerating sustainable growth. It allows us to more quickly develop new solutions and technologies that create tangible value for our customers and stakeholders.

Our IMI Growth Accelerator programme is designed to spread across the whole business. All three divisions have several sprint teams in operation, which are focused on identifying specific industry problems to be solved using IMI expertise. This will be a continuous process to build long-term capability.

Creating market-led growth is the principle objective. Actively encouraging and embedding a culture based on innovation, teamwork and customer engagement is another. When exploring new ideas and applying expertise imaginatively, teams are encouraged to learn quickly and fail fast. They will ultimately succeed earlier as a consequence.

We also aim to leverage solutions across industries, not just single customers. If we help one heavy truck manufacturer to reduce emissions, we will help many.

Our first sprint team has already received its first order and is in the process of building the solution.

Growth Accelerator Programme



Growth Accelerator order:
Turn to page 60

Operational excellence

Continuing to promote a culture of rapid, continuous improvement helps us boost competitiveness, enhance customer service and optimise our financial performance.



All of our operations have benefitted from the adoption of operational best practices, including Lean and Value-Engineering. We work hard to retain those gains.

First among the benefits is sustaining the safest and cleanest environment for our employees, our supply-chain partners, our customers and our communities. The standards to which we hold to are non-negotiable. Those standards are continuously challenged and raised.

The benefits of excellence are also commercial. Disciplined, continuous improvement delivers competitive operations, world-class supply partners for our customers. Simultaneously, structures have also been supported with specific training for our key managers. Not only will they enjoy greater accountability, they will be empowered to make faster, more effective decisions about their businesses and their profitability.



IMI Precision Engineering
Alpen, Germany



Shutterstock



IMI Precision Engineering
Brno, Czech Republic

Commercial excellence

Our differentiated product and service propositions in the most competitive markets delivers superior returns for shareholders and creates increasing value for customers.

Our business is constantly developing. To maximise the value for our shareholders and stakeholders, we are applying our resources to areas that offer the greatest opportunity. All three divisions are in attractive markets, but they also have opportunities and risks which are being targeted. Acquisitions can help us to realise the value BIM have shown.

An excellent customer experience comes from service as well as from products. Service adds customers value. Renowned customer and application engineering is exemplified by our Engineering Advantage teams in IMI Precision and Valve Doctors® in IMI Critical and by The Hydronic College in IMI Hydronic.

But we can do better. Bimba aims to quote for customised products within hours and deliver within days. IMI Precision is now working to achieve the same performance across its business.



Environmental, Social & Governance

Our sustainable approach

We operate our business in a responsible way. This approach enhances the strength and resilience of our business over the long-term.

We implement a number of policies and procedures to support our sustainable approach and we monitor our progress using a range of metrics. These metrics are regularly reviewed by the Board and our Executive Committee. In line with our purpose, we will continue to work to identify opportunities to enhance the sustainability of our operations and the value we create for our customers, people, shareholders and society.



Ray Fawcett
IMI Precision Engineering,
Alpen, Germany

We focus on the following priorities:



Operating ethically at all times

Turn to page 24



Living our values to build a culture of excellence and customer-led innovation

Turn to page 26



Attracting, developing and retaining the best people

Turn to page 29



Delivering for our customers and society

Turn to page 31



Running our business in a safe and sustainable way

Turn to page 32



Contributing to the communities where we operate

Turn to page 35



Operating ethically at all times

It is essential that we act with integrity and at all times run our business in an ethical way. Integrity is one of our core values and underpins everything we do. It is a cornerstone of our culture.

Our Code of Conduct ("Code") sets out the standards we expect our employees to adhere to. It covers a range of issues including anti-bribery and anti-corruption.

During the year we updated the Code primarily to simplify and make it a more relevant and effective guide for our employees.

Every employee receives a copy of the Code upon joining the Group and specific training about the Code is provided as part of our employee induction programme. On an annual basis we provide refresher Code training to our workforce and, throughout the year, updates on specific compliance issues to relevant employees.



IMI Critical Engineering
Rancho Santa Margarita, USA



IMI Critical Engineering
Rancho Santa Margarita

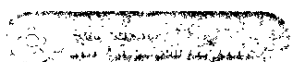
We also implement a number of policies and procedures including regular on-site legal and compliance reviews, which are designed to help instil the highest ethical standards and regulatory compliance. These policies and procedures are embedded in our risk assessment processes, further details of which are provided on page 54.

We encourage all employees to report any incident that is not in keeping with our values and behaviours and we operate a confidential independent hotline in 12 languages, which allows anonymous reporting. The Group's Ethics and Compliance Committee reviews hotline activity on a monthly basis and reports are investigated thoroughly and, where required, appropriate action is taken to resolve issues. During 2019, 21 cases were reported via the hotline which compared to 49 in 2018.

We conduct advanced due diligence on our business partners including our agents and distributors with whom we share our anti-corruption requirements and policies.

In addition, all our businesses carry out checks (including sanctions screening) to understand potential customers' activities and to identify risks that may be involved in supplying to them. We also conduct regular audits to make sure that child or forced labour is not used in our supply chain and that suppliers' workplaces are safe. If suppliers are unable to comply with our strict responsible business requirements we terminate our relationship with them.

We use a combination of general corporate responsibility policies and specific supply chain compliance actions to avoid any potential for modern slavery in our supply chain. Our full Modern Slavery Act statement including detail about the steps we take to ensure that slavery and human trafficking do not take place within our supply chain or any part of our business is available at the link below. The other policies referred to in this section, including our Anti-Bribery, Compliance and Whistleblowing policies, are also available to all employees.





Living our values to build a culture of excellence and customer-led innovation

In line with the development of our new strategy we have redefined our purpose. We have also updated our vision statement and expanded our values to include customer focus. Our people are key to our success and they played a vital role in the development of our new purpose, expanded values and vision statement. Relevant materials were shared with a number of focus groups across all our businesses and their views were taken into account. For more information on our values, please see pages 12 and 13.

Our purpose now explains in a tangible and succinct way the value we create for all our stakeholders and society. And our vision statement and values express our key objectives, including our customer centric focus, in a clear and simple way. These changes will have a positive impact. In particular they will help us establish and strengthen a culture of excellence and customer-led innovation. They also support our new operational approach which is focused on reducing complexity, becoming more agile and enhancing our ability to respond quickly to customer needs and market opportunities in our fast changing world.

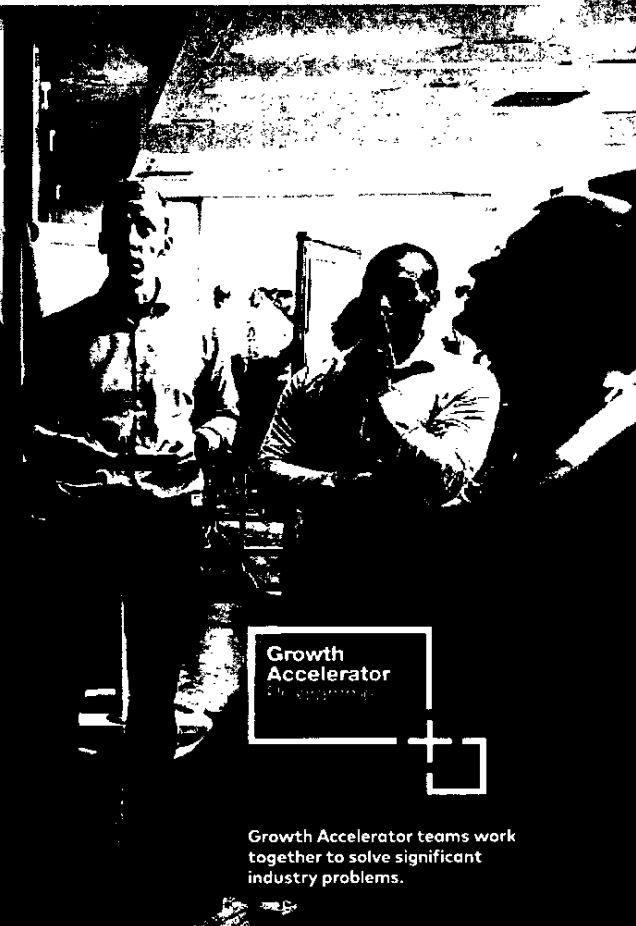
We launched our new purpose across the Group in August 2019 and during the balance of the year we have embedded it in everything we do. For example, our leadership and development programmes all include modules that focus on our purpose and the metrics we use to measure performance now reflect our values and purpose.



How do you create a culture of customer-led innovation?

Across each of our divisions we have established diverse multi-functional Growth Accelerator teams that are working together to generate innovative solutions that solve significant industry problems. Based on industry knowledge and insight from customers, we identify solutions that will create real value. Within a short time-scale, the teams develop a proposition which is tested with customers to determine engineering and commercial effectiveness. Solutions that have been validated by customers and satisfy strict growth potential criteria are then pitched to divisional senior management for approval to develop further. First piloted in IMI Critical in August 2018, this Growth Accelerator process has gathered pace and momentum across the business. During 2019, 12 teams worked on customer propositions and had more than 1,500 customer interactions.

» *IMI Critical Engineering's Growth Accelerator team have successfully developed a new solution for a customer's problem, which will create real value for the customer and the business.*



Growth Accelerator teams work together to solve significant industry problems.



Human rights and equality

Our ambition is to create an inclusive organisation which operates as a diverse meritocracy within which everyone is treated fairly and with respect. We deploy policies and procedures which set out how people should be treated and how we should conduct our business.

» *IMI Critical Engineering's Diversity and Inclusion team have successfully developed a new solution for a customer's problem, which will create real value for the customer and the business.*

Diversity and inclusion

We believe it is essential that across all parts of our business we employ people from different backgrounds and cultures to mirror our global footprint and our diverse customer base. To ensure that our workplace is inclusive and that all employees and workers are treated fairly in an environment which is free from any form of discrimination, as highlighted above, we operate a Group-wide Diversity and Inclusion Policy ("D&I Policy"), covering all aspects of diversity. Its principles are embedded in all our human resource processes and procedures. We also implement a number of specific initiatives aimed at increasing diversity and inclusion across all parts of our business including:

- » Diversity awareness training programmes, including an e-learning module (translated into core languages) which employees can access via our global intranet.
- » Shortlists for internal and external vacancies must reflect our D&I Policy. This a mandatory requirement.
- » We monitor, set metrics, such as diverse recruits to the businesses, and measure our performance to ensure we make progress in this key area. Our internal management performance process sets each Divisional Managing Director objectives aimed at improving diversity in their division and our

Group-wide bi-annual talent review process tracks the diversity of our talent pipeline. Using data from this review process, we re-examine our development plans and make any required changes to ensure that we continue to focus on recruiting and developing the best talent regardless of gender, race, age or any other characteristic.

- » In September 2019 we established a number of cross-divisional teams to accelerate our key objectives and business priorities. One of these teams is mandated to drive our diversity agenda and in the coming year they will be leading a series of cross-divisional diversity and inclusion initiatives in line with our D&I Policy. Each of our divisions operate a range of diversity and inclusion initiatives across their operations. For example, across its US business IMI Precision has established a diversity council and, during the year, all divisions engaged in a range of activities in support of the International Women's Day campaign "Balance for Better".
- » See page 28 for further information about diversity initiatives at IMI Critical Engineering's IMI Truflo Marine business.

Environmental, Social & Governance

Our gender mix across the Group is shown in the table below. We support the Hampton-Alexander Review and the requirement that 33% of our senior managers should be women by 2021. As at year end 2019, although 17% of our senior management team were female, direct reports to the Executive Committee were 20% female, reflecting progress towards the Hampton-Alexander requirements. To support the achievement of the 33% target, in addition to continuing to drive the initiatives described above, using our bi-annual review process we have identified a pool of high-performing female talent who are participating in a mentoring and high potential development programme. In addition our divisions are mapping diverse talent across key geographies and developing a pipeline of external talent which we can draw on when recruiting. A number of recent appointments have been made as a result of this initiative.

We are a global business and to succeed we must properly serve our diverse customer base. Accordingly across all our geographies we focus on recruiting and developing local employees to ensure that our businesses are aligned with our customers and the communities in which we work.

Gender mix across the Group*

	Female	Female%	Male	Male%
All employees	3,104	27%	8,335	73%
Managers	200	19%	866	81%
Senior managers	100	17%	499	83%
Board	3	38%	5	63%

* Including agency and contractors

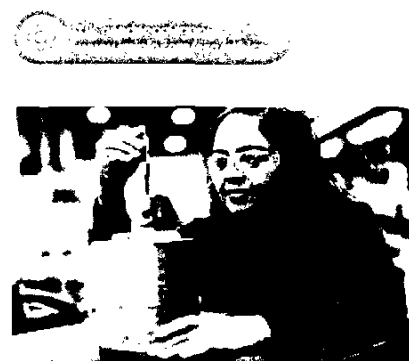
As a result we have a very small expatriate employee population.

As explained above our ambition is to create a culture of excellence and customer-led innovation. As diversity of thought is key to innovation we ensure that our Growth Accelerator teams are as diverse as possible. To date individual teams have included men and women, employees at different stages of their career, including graduates and long-serving employees, and representatives from all our key geographies and functions including both operational and support roles.

UK gender pay gap summary as at 5 April 2019*

	2019	2017
Mean Gap	34.5	36.5
Median Gap	22.4	25.1

* We are a global business employing around 11,000 people around the world. The above summary only covers our 1,111 UK employees and shows the comparator since the regulations were introduced in 2017. Further information about our UK gender pay gap, together with an explanation of these figures and the steps we are taking to narrow the gap is included on our website at the link below



Creating a diverse and inclusive working environment

We are active supporters of the WISE Campaign, a UK initiative focused on increasing the participation, contribution and success of women in science, technology, engineering and mathematics. Read more about the WISE campaign at www.wisecampaign.org.uk. During the year, in line with WISE's TEN steps campaign our IMI Critical Engineering IMI Truflo Marine business established a diversity and inclusion discussion forum to understand employees' opinions and identify areas for improvement. As a result of this forum IMI Truflo Marine has introduced a number of key initiatives including introducing training for managers to raise awareness of the importance of creating a diverse and inclusive working environment, introducing a mentoring scheme for female employees and exploring the benefits of different flexible working arrangements.



Attracting, developing and retaining the best people

Our people are key to our success. If we are to create value for our all stakeholders by solving key industry problems we must employ the best people. People who are curious, who listen, learn, innovate and execute effectively and who are ambitious not for themselves but for IMI, their teams and their customers.

Recruitment

We operate a robust process for selecting and integrating new employees and follow the principles embedded in our Recruitment Policy which aims to ensure our process is fair and transparent.

To support our new strategy and, in particular our customer centric approach and focus on innovation, our recruitment search process covers a broad base. We consider potential recruits from all sectors, including consumer facing businesses and sectors beyond our own engineering space that are leading the way in terms of innovation and value creation for all stakeholders.

Development and succession planning

We operate a wide and advanced range of training and development programmes specifically tailored to our business and reflective of external best practice. They enable our employees to enhance their skills and progress their careers and they support our ambition to develop our own talent and future leaders. In recent years we have made significant progress in achieving this ambition. In 2019 over 60% of senior vacancies were filled internally compared to 40% in 2018.

During the year our training and development programmes were updated to reflect our purpose, our vision statement and support our strategic initiatives. In particular our senior management programme now includes modules dedicated to specific growth initiatives and margin improvement and our management development programme is focused on delighting the customer and profitability.



Training and development in 2019

- » 530 employees participated in our most advanced leadership programmes
- » 21,000 hours dedicated to learning and development activities

How we develop industry renowned experts

In 2019 our industry renowned Valve Doctor® programme celebrated its 20th anniversary year. The programme, which connects IMI Critical Engineering's top technical experts to customers with demanding engineering challenges, also serves as a mentoring and development scheme which helps us attract and retain some of the very best engineering talent in the world. The programme takes on average seven years to complete and encompasses valve design, plant operation and system layout and control. Currently we have 80 Valve Doctors® working in partnership with our customers across the world deploying their deep application knowledge to solve process flow problems and optimise plant performance.

Our other divisions also have well established programmes which support the development of expertise in key areas. Within IMI Precision our Ignite programme focuses on developing effective sales techniques and, within IMI Hydronic Engineering, the division's Hydronic College provides world-leading training and knowledge sharing programmes.

In addition to our central training and development programmes, all employees participate in on-the-job training and where appropriate, personal mentoring. We also support our employees' participation in appropriate external programmes to supplement the development opportunities we provide in-house.

We run a robust performance management process which enables employees to discuss their personal development objectives and contribute their ideas and feedback. This mechanism also enables us to provide quality feedback which is essential if we are to drive performance improvement and help our people understand the contribution they are making to our success.

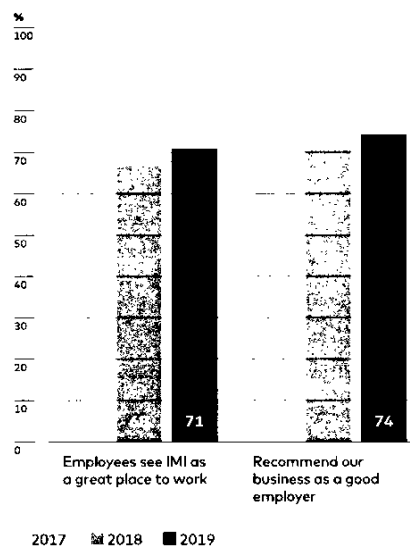
Bi-annually we undertake an extensive review of our management succession plans to ensure that we have strength and depth of leadership talent across the Group. As part of this review we assess the performance of our managers against a number of criteria including leadership skills, values and behaviours and their business' performance. Key output from this review is used to build individual development plans and inform our future planning which helps ensure that we continue to maintain a pipeline of high calibre talent across the Group.

Further information about the career opportunities we offer including interviews with some of our people is included at the link below.



Engagement

Given how important our people are to our success we must maintain an active dialogue with them. Some of the channels we use to facilitate this dialogue are described on page 31 and below, and include our annual employee survey which is undertaken during the course of our IMI Way Day. In 2019 over 84% of our workforce participated in this survey and once again the feedback was encouraging. Key questions, an example of which is shown below, are scored out of ten and show us at strong and improving levels. We use the data generated from this survey to continually improve our organisation. In particular if specific local issues are identified, we undertake further work to gather more detail and then implement appropriate measures to drive improvement.



However, output from the survey indicated that there are still some areas where we need to improve including helping our employees better understand our strategic and operational priorities. To address this feedback we have strengthened our Group Internal Communications function and have introduced regular Group and Divisional cascades of information. We are also refreshing our global intranet to ensure updates and information are most rapidly available digitally.

We also engage with our people on a regular basis throughout the year. Our European Communications Forum, which is made up of employee representatives from around ten European countries, meets regularly with senior management, including Birgit Nørgaard, the non-executive for employee engagement, 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. Our Divisional Managing Directors hold quarterly online town hall meetings, which cover recent results and current initiatives, and employees are invited to ask questions and provide feedback on their own concerns and share best practice ideas on all topics. Where required, we undertake quick and effective localised real-time pulse surveys to gather specific insights from employees and we use the findings to inform our plans for improvement.



Delivering for our customers and society

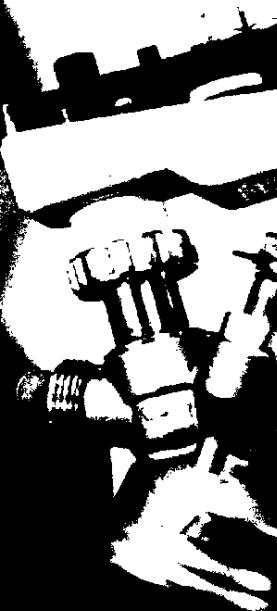
Our purpose is to deliver innovative Breakthrough Engineering for a better world. Our products help our customers operate their systems and processes safely, cleanly and cost effectively. They also help address some of the biggest global challenges facing the world today including climate change and resource scarcity. Throughout this report we have included specific examples of our innovative solutions which are helping our customers address these and other significant modern day challenges.



We publish our Group magazine, the IMI Eye bi-annually and via our Group-wide intranet we also share information about key developments and best practice quickly and effectively. A wide range of functional, regional and divisional conferences are also held annually to provide a further key mechanism for team and individual engagement.

How to reduce energy consumption

IMI Hydronic Engineering designed and installed the heating and cooling system for the National Centre for Infectious Diseases in Singapore. The system incorporates the division's TA Modulator valves which ensure the system is accurately balanced, maintains a comfortable indoor climate with stable and precise temperature control and a high level of energy efficiency.





Running our business in a safe and sustainable way

We recognise our responsibility to respect and care for the people and locations we impact.

Prioritising health and safety

Keeping our employees and any individual entering any of our sites safe is our number one priority. To achieve this ambition, we take a proactive approach and strive to continuously improve our performance. To demonstrate this, our Group functional head of health and safety is a direct report of the Chief Executive, who has Board responsibility for health and safety. The Executive Committee reviews health and safety matters every month and regular reports are made to the Board. The importance attached to health and safety by the leadership is reflected at site, regional and divisional level.

Health and safety monitoring and improvement is a core metric that is embedded at multiple levels across our entire reporting system. All parts of our business continuously assess their operations and at least once a year, we undertake a formal Group-wide health and safety audit at every major operation to monitor the progress against our formal improvement actions. We also conduct due diligence regarding health, safety and environment when establishing new operations or when acquiring businesses.

In line with our established policies and procedures we strive to ensure that accidents are avoided and that our operations are as safe as possible. All employees, as part of their induction, receive health and safety training

relevant to their role in line with **health, safety and environmental compliance** principles. Further on-site training in relation to hazard identification, risk assessment and action planning is provided to employees engaged in manufacturing operations. Following the success of the initial "Learning to See" training that was introduced in 2018, the programme continues to be delivered throughout the business in addition to ongoing refresher training.

We report and record every safety incident and fully investigate those cases requiring more than first aid. In addition, a full root cause analysis of every Lost Time Accident ("LTA") is presented to the relevant Divisional Managing Director. Following a formal review at divisional level, a remediation plan is agreed and implemented, and safety alerts are issued to share lessons learned and increase safety awareness across the Group.

During the year the total number of LTAs reduced to 15 compared to 18 in 2018, with no fatalities in either year. IMI Critical Engineering reported only two LTAs in the year which is a 60% reduction compared to the prior year.

The number of locations reporting LTAs reduced from 14 to 11 and three of the LTAs were to employees not at an IMI location.





Protecting the environment

We operate globally with manufacturing facilities in more than 20 countries. We are committed to operating these facilities in a sustainable way to minimise their impact on the environment by reducing energy and water use, pollution and waste. We monitor and report our environmental performance at the monthly Executive meetings with a view to delivering continuous improvement, including reducing our CO₂ emissions and CO₂e intensity year-on-year.



Energy efficiency

Given the nature of our production processes, our main focus is improving energy efficiency. Historically we have undertaken internal reviews of our energy consumption. However in 2019, in accordance with the European Union Energy Directive, we commissioned independent energy assessment surveys across our major European operations. The surveys were managed by a specialist environmental consultant and detailed findings and recommendations were reviewed by our Executive Committee. Recommendations will be evaluated on a site-by-site basis and for locations where actions will be implemented, progress will be regularly monitored with best practices being shared across the Group.

To underpin our commitment to reducing our environmental impact, several of our large manufacturing facilities are certified to the international standard for Energy Management ISO 50001. This management system provides a framework of requirements for organisations to:

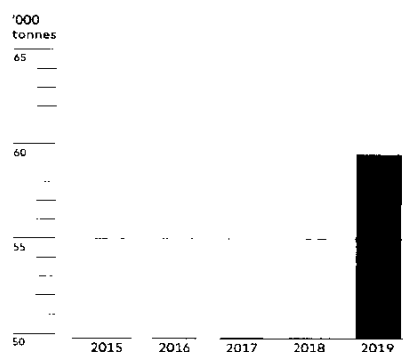
- » Develop a policy for more efficient use of energy
- » Fix targets and objectives to meet the policy
- » Use data to better understand and make decisions about energy use
- » Measure the results
- » Review how well the policy works, and
- » Continually improve energy management

Environmental, Social & Governance

CO₂ emissions

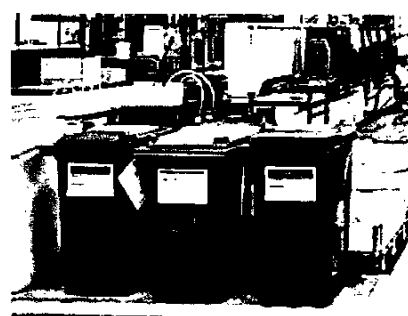
We support the Carbon Disclosure Project ("CDP") climate change initiative and submit annual CDP reports which cover our risk management approach to climate change and our emissions performance.

Since 2015, on a like for like basis, we have reduced our CO₂ emissions by over 5%. In line with our continuous improvement culture and investment in our operations, we are committed to further reducing our emissions in the future.



Waste

As outlined on page 18, operational excellence is one of our key strategic priorities. By running our business more efficiently we enhance our competitiveness, save costs and reduce waste and scrap levels.

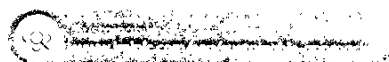


Other environmental initiatives

Across our Group a range of other initiatives are being implemented by our businesses to minimise their environmental impact. These initiatives include reducing the use of plastic, designing and utilising Apps to manage internal processes and limit paper consumption and purchasing consumables, such as protective gloves, that are manufactured using eco-friendly materials.

Our recently constructed IMI Precision site in India included technologies to reduce their environmental impact such as: energy efficient and motion controlled lighting, new paper packaging equipment to remove the use of plastics when shipping our products and the installation of a rainwater harvesting system to reduce the volume of mains water needed by the facility.

At our new IMI Critical Engineering facility in Japan, as in other IMI Critical facilities, a water reclamation system has been installed for the Hydrostatic testing operation. Following the testing process, the water is filtered, cleaned and returned to holding tanks for reuse in the testing processes. These systems minimise the requirement for additional water for each test.



How to reduce plastic use

At our IMI Precision Street, Fradley, UK actuators are now being packaged in mouldable cardboard tubes instead of bubble wrap. The tubes offer better protection for the actuators in transit and reduce the use of plastic.

How to reduce scrap

We updated the design of our STAD manual balancing valve, which delivers accurate systems balancing across a range of heating and cooling systems. The resulting more compact design has significantly reduced our scrap rate.

How we contribute to the communities where we operate

During the course of the 2019 IMI Way Day employees across the Group took part in a range of community activities including volunteering with the Salvation Army, visiting and donating items to a local orphanage, planting trees in a local park, volunteering at a children's respite centre and gardening at a large community project.



Contributing to the communities where we operate

We recognise our responsibility to the communities around the world in which we operate.

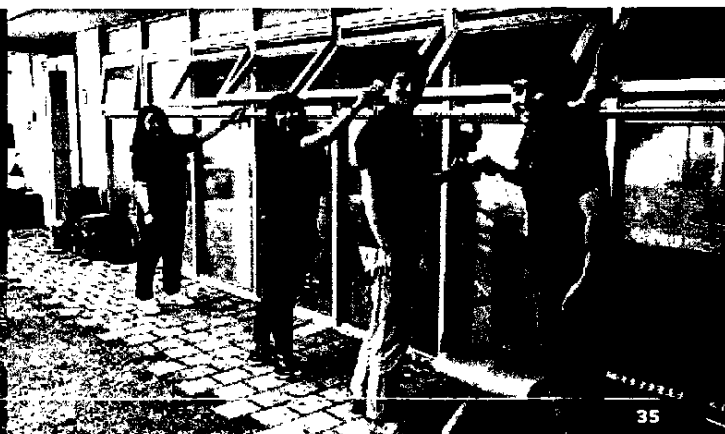
We recognise our responsibility to the communities around the world in which we operate. We support a range of local charities and contribute funding to organisations who provide emergency support in crisis situations. During our IMI Way Day employees spend time supporting a local community charity or project. This day is an annual event and, in addition to undertaking community activities, our employees

also participate in discussions about the IMI Way of doing business in line with our values and our Code.

The support we provide to the local communities where we operate helps build trust and reinforces our team building and collaborative approach. It also helps us both recruit and retain people who share our values and purpose.

Non-financial information statement

Our statement, which sets out where information that relates to non-financial matters can be found in this Annual Report, is included on page 99.



Our Stakeholders



Fold out:
IMI Eco-system

Our ability to fulfil our purpose and generate sustainable value is dependent on a wide range of stakeholders. We run our business in a responsible way and proactively engage with and consider them when making decisions.



IMI Critical Engineering
Brno, Czech Republic

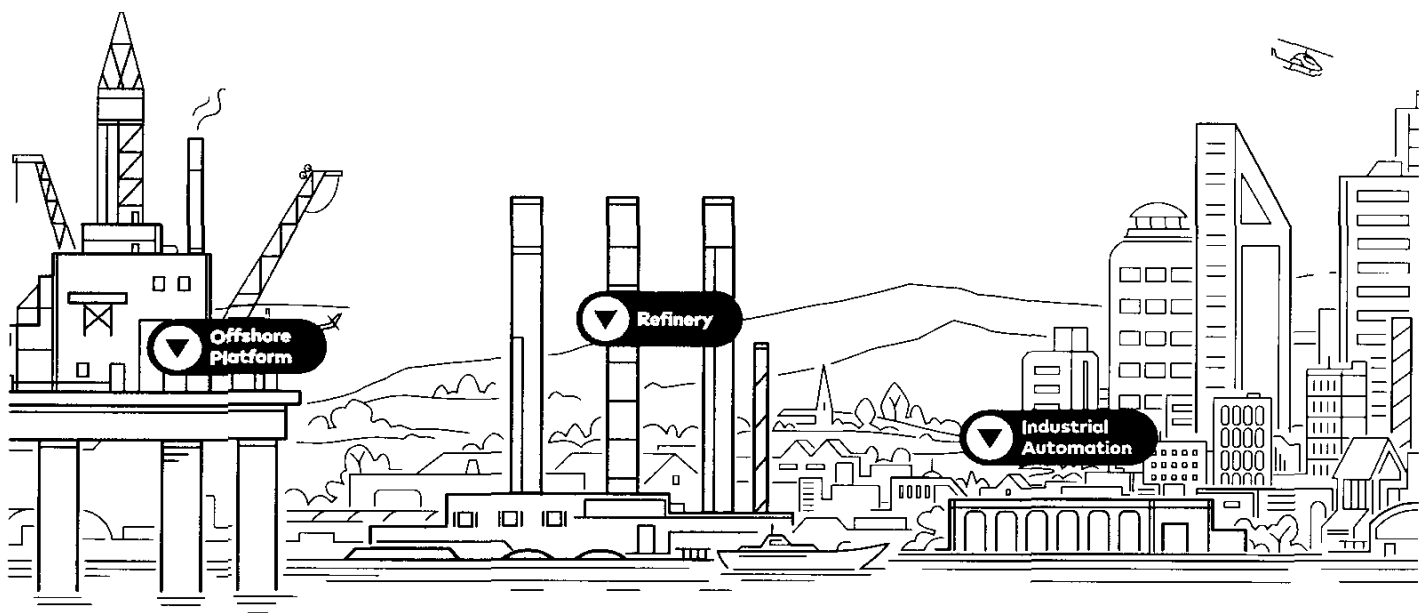
The table below shows our key stakeholder groups and summarises their key issues and how we engage with them. For information about how stakeholder interests are addressed by our business model, see pages 12 and 13.

Our statement pursuant to Section 172 of the Companies Act 2006, which references stakeholder consideration and other factors in Board decision-making appears on pages 70 and 71.

Our stakeholders	Their priorities	How we engage	Further information
Customers	Innovative solutions and value Excellent products and customer service Long-term relationship	Ongoing commercial dialogue and our Growth Accelerator programme Customer satisfaction and service data including "voice of the customer" feedback, on time delivery metrics and net promoter score Training and knowledge sharing programmes including our Hydronic College's world renowned training programme Active sales and marketing initiatives including participation at industry trade fairs and exhibitions	Our Growth Accelerator programme – see page 17 Industry renowned experts – see page 30
Employees	Positive culture and good work environment Reward Development opportunities	Annual Group-wide IMI Way Day Annual Group-wide employee survey Workforce engagement at Board and management levels Training and development programmes European Communications Forum involving employee representatives from ten European countries Management and functional conferences Town hall meetings Union representation and participation (where relevant) Group bi-annual magazine Intranet Independent confidential hotline Corporate website	IMI Way Day survey – see page 30 Workforce engagement programme – see pages 30 and 31 Training and development programmes – pages 29 and 30
Shareholders	Performance Strategy and execution Sustainable approach Capital allocation	Annual General Meeting Active Investor Relations programme Investor and analyst engagement Chair and senior independent director available to shareholders Investor communications and corporate website Remuneration related consultation	Investor Relations programme – see page 70 Remuneration related consultation – see page 81
Suppliers	Long-term partnerships Fair and timely payment/commercial terms Collaborative approach	Ongoing commercial dialogue Supplier audits Supplier summits	Modern slavery statement on our website www.imiplc.com/esg/ethics
Community	Limited impact from operations Positive social impact Employment opportunities Environmental impact on neighbourhood where we operate	Local community outreach activities Participation in and support of charitable initiatives Published environmental policy and metrics demonstrate a responsible approach	Community activities – see page 35
Governments	Employment Tax income Sustainable approach to business	Engagement in relation to specific issues on an ad hoc basis Good corporate citizen with on time tax filings and other submissions to regulators and governments	Tax policy on our website www.imiplc.com/esg/ethics

IMI Eco-system

Our products and expertise are used in a wide range of industries to help solve our customers' problems and allow them to operate safely, cleanly and efficiently. Breakthrough Engineering for a better world.



How can an offshore oil and gas platform avoid the need for dangerous and wasteful flaring?

By applying technologies to keep associated gas underground, including inflow control devices in oil wells and gas breakthrough control at the surface, IMI's use of high integrity pressure protection systems (HIPPS) avoids the need for flaring in case of over pressurisation. IMI CCI's extensive experience in installing and maintaining HIPPS is a reliable, cost effective solution which reduces customer's capital expenditure and never compromises on safety. That expertise and close customer collaboration ensures success for IMI.

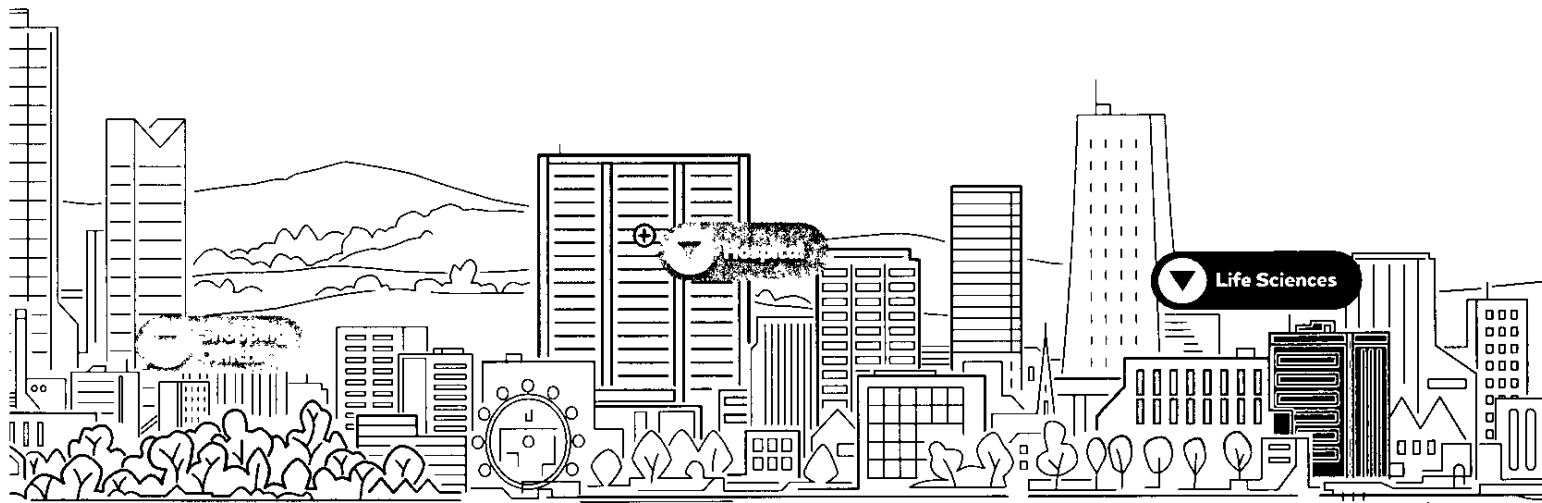
How can a refiner ensure reliability of application when it is constantly changing its feeds?

In a dynamic and rapidly changing economy, a refiner can be required to refine dozens of different feed stocks in a single year, each one requiring different process parameters, including flue gas rates. IMI Critical's Variable Orifice Valves allow an upgrade to a version that provides a precise flow control, regardless of the flue gas rate. Working closely with customers, IMI Critical used its leading technology and engineering expertise to deliver the solution.

How do you support a customer who's having a problem with a competitor's actuator?

A company in North America was having difficulty with a competitor's actuator where the compressed air system wasn't draining water effectively, leading to corrosion problems. Bimba was able to provide a replacement, with a stainless steel spring, in less than 4 weeks. Bimba's distribution partner also supported the customer with new and more flexible stocking arrangements that more closely matched the customer's usage.

[Our role in the world.]



How does a large shopping centre manage many tenants' heating demands, efficiently?

Kongahälla, is a new large shopping centre close to Gothenburg. To accommodate tenants moving in at different times and each tenant's specific temperature control requirements, IMI Hydronic created an adaptable heating and cooling system to accommodate tenants' changing needs, whilst optimising energy efficiency. Established expertise and close customer support helped to win this project.

How does a Swedish medical centre manage temperatures over a multi-building site?

To monitor and control temperatures for the Sodra Hospital in Sweden, which includes 35 buildings spread over 50 acres, engineers from IMI Hydronic developed a complex solution that reliably and accurately monitors and controls the indoor temperature across the entire hospital. The unique expertise of IMI Hydronic and close customer support ensured success for IMI.

How do you make a groundbreaking portable diagnostic instrument compact and reliable?

An instrument being developed by a customer that allows diagnosis of illnesses within hours, as opposed to days, is truly groundbreaking and potentially life-saving. IMI Precision worked alongside the customer to develop a minute manifold assembly that creates multiple reliable flow paths. Collaboration and quick turnaround of a prototype were key factors in IMI Precision's success.



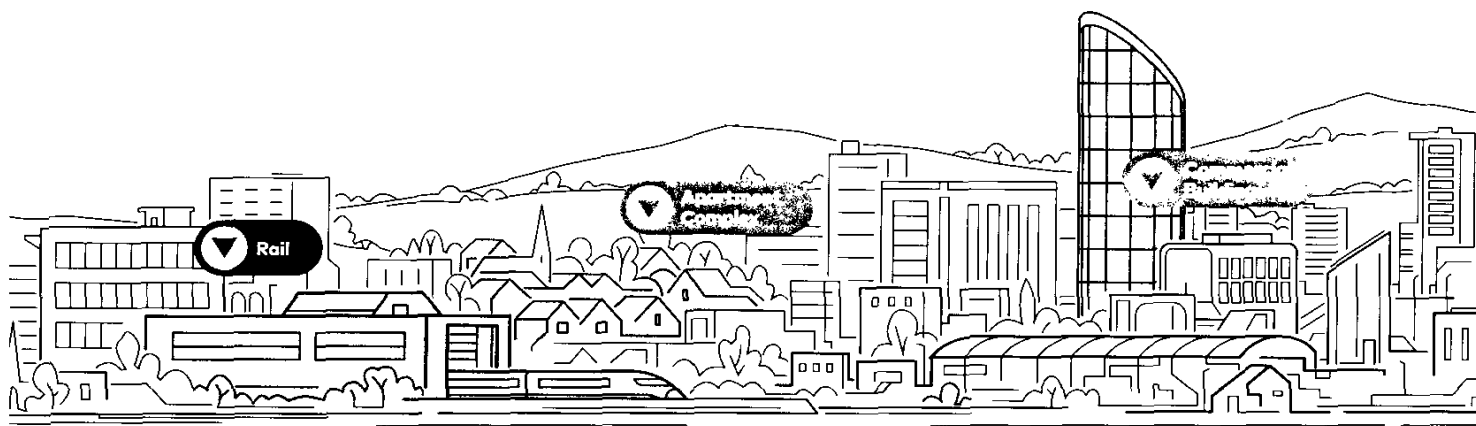
Our expertise ranges from emission controls in trucks to micro-components in life-saving diagnostic equipment. Everywhere, adding value.

Massimo Grassi
Divisional Managing Director
IMI Precision Engineering



In both established and targeted markets, customers rely on IMI to improve safety, increase efficiency and reliability and reduce waste.

Jackie Hu
Divisional Managing Director
IMI Critical Engineering



How do you guarantee a reliable and safe journey for 240 million passengers each year?

A metro service provider in Australia found that their air system was causing premature failure to critical components, voiding their warranty. Tackling this issue has seen IMI Precision work closely with the customer to develop an innovative compressed air dryer solution that enhances the operational efficiency and ongoing reliability of their fleet. This innovative technology and the ability to provide a bespoke solution for the customer played a key role in IMI Precision's success.

How can a large apartment complex reduce energy consumption and costs?

As part of the refurbishment of the De Viever Roermond apartment complex in the Netherlands, IMI Hydronic products were specified to change the heating system from a crude "on/off" system to one with a modulating function. As a result, the complex's annual energy consumption was greatly reduced. IMI's expert knowledge of the whole system and close collaboration with the customer delivered success for both.

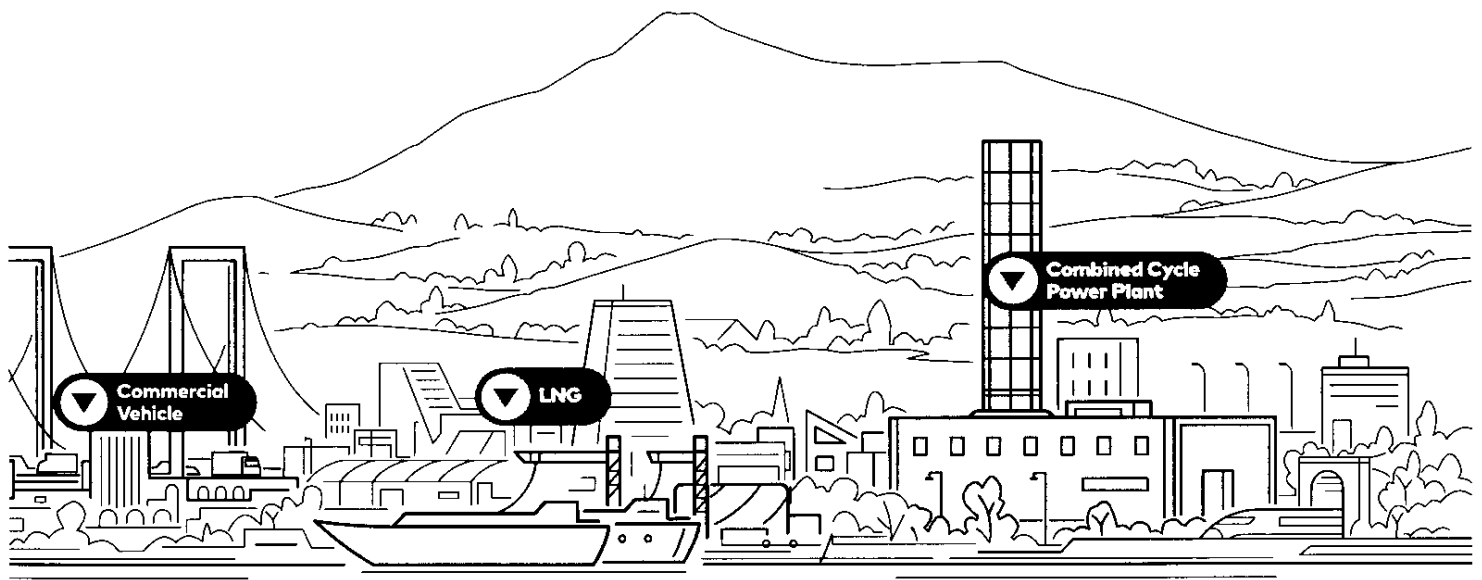
How does a large office development achieve gold level green building status?

Orhideea Towers is a large office development in Bucharest for which IMI Hydronic has developed tailored heating and cooling solutions that deliver enhanced energy efficiency and performance and contributed to the development achieving "green building" status and LEED Gold certification. Technical expertise and close customer support helped IMI to win.



We work closely with our customers to solve industry challenges, most particularly to reduce energy usage in buildings, whilst improving comfort.

Phil Clifton
Divisional Managing Director
IMI Hydronic Engineering



How do commercial vehicle operators comply with regulations and avoid costly maintenance or fines for ineffective lift-axles?

Federal and state regulations have strict lift-axle requirements for load carrying and weight limits on commercial vehicles. The IMI Intelligent Lift Axle Control Module eliminates load weight guesswork and offers automatic and consistent deployment and retraction of lift axles based on configurable load settings through an app. Close collaboration with key fleets and distributors – as well as established expertise – delivered a high quality solution.

How can a LNG plant operator be confident the compression valves are reliable and safe?

Under cryogenic temperatures and in the harshest of environments, traditional ball valves can be problematic, inefficient and unreliable. IMI has a perfect solution, where traditional ball valves are failing. The unique C-Rex cryogenic ball valve design offers friction free operation, and more cost-effective automation and maintenance. It is also fire-safe and suitable for hazardous operations. This also makes it a perfect candidate for long life service and high endurance processes. Our technical expertise and ability to engineer solutions to customers' specific problems help ensure that we win.

How does a Power Plant operator evaluate and resolve an unreliable and leaking control valve?

After contacting IMI Critical for advice, an IMI Critical Valve Doctor developed a re-configured solution, drawing from renowned technology but engineered specifically for the customer's application. The new IMI CCI Drag Valve was duly specified. IMI won the commitment of the customer through a combination of existing expertise and close customer support, to create a clean, efficient and safe solution.

IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies where precision, speed and reliability are essential to the processes in which they are involved.

Adjusted revenue

£907m

▼
Down
1%

Adjusted operating profit

£148m

▼
Down
3%

How does a manufacturing customer improve competitiveness by eliminating time consuming tool changes?

Customers for Norgren Automation Solutions' new 'Transforming Tooling' system will be able to optimise complex material handling applications significantly reduce recurring tooling costs and replace manual tool change with the instant tool changeover between applications the new system provides. The combination of a proven solution, originally deployed by IMI in Automotive manufacturing, with excellent application engineering ensured early success with this exciting opportunity.



IMI Precision Engineering
Alpen, Germany



Roberto Grassi
Managing Director

Key achievements

- » European and Americas customer-focused organisation structure successfully established
- » Immediate profit improvement actions limited the margin decline from revenue reduction
- » Structural reorganisation plans on track to streamline operations

2019 performance

2019 has been a year of mixed end markets for IMI Precision, but one where the business has nonetheless delivered a robust result.

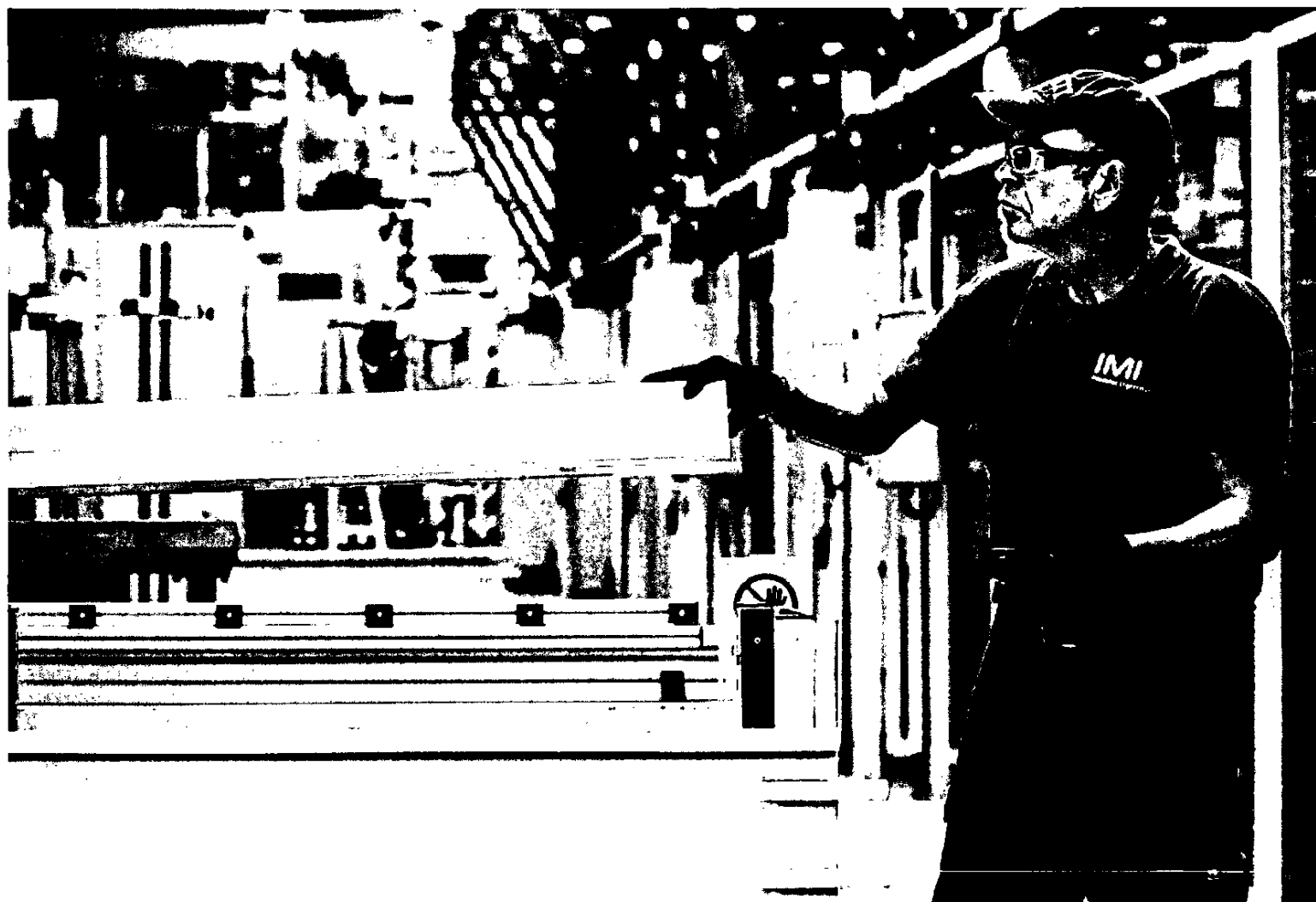
The division continued to be impacted by weakness in the early-cycle Industrial Automation markets as volumes declined throughout the year, with revenues of £509m being 6% lower than in 2018 on an organic basis. Both Europe and the Americas experienced decline, while Asia Pacific delivered modest growth. Commercial Vehicle revenues grew in the first half but ended the year 2% lower than 2018 on an organic basis at £194m. As expected, the business saw a progressively weakening order and sales pattern during the year, with Commercial Vehicle sales down 13% on an organic basis in the fourth quarter. The Life Sciences, Energy and Rail segments did, however, deliver growth in the year.

Continuing progress is being made with the integration of Bimba into IMI Precision's North American operations and we remain on-track to deliver our targeted returns.

Lower revenue led to the decline in profits for the year. The margin impact was minimised by the successful execution of material cost reductions, value-pricing and restructuring initiatives in the year.

Outlook

Reflecting the current market headwinds in Factory Automation and Commercial Vehicle segments, we currently expect organic sales and profits in the first half of 2020 to be c.7% to 10% lower than in the same period in 2019.



IMI Critical Engineering is a world-leading provider of flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently. Our products control the flow of steam, gas and liquids in harsh environments and are designed to withstand temperature and pressure extremes as well as intensely abrasive or corrosive cyclical operations.

Adjusted revenue

£651m

▼
Down
5%

Adjusted operating profit

£90m

^
Up
2%



EOI

Financial section
Market for IMI Critical
Engineering following the
acquisition of IMI PBM

Jackie Ho
Divisional Managing Director

Key achievements

- » Order intake growth includes LNG and Marine strength
- » Growth Accelerator programme delivers early wins
- » Good progress with profit improvement initiatives

2019 performance

Critical Engineering has made good progress in the year, whilst successfully balancing the improving conditions in a number of sectors with the expected, continuing structural decline in New Construction Power.

Order Input for the year increased by 5%, on an organic basis. New Construction orders were £333m, 10% higher when compared to 2018 on an organic basis. The business continues to capitalise on the current LNG investment wave, which has helped Oil & Gas orders to return to growth. Fossil Power New Construction orders fell by 25% on an organic basis as expected, although IMI Critical Engineering continues to win the more attractive projects within the segment. Growth in Marine was particularly strong in the year, which helped offset anticipated declines in Petrochemical and Water.

Aftermarket order input was £364m, 2% higher than in 2018 on an organic basis. Both Petrochemical and Nuclear segments performed well, while the Oil & Gas segment delivered modest growth. Power Aftermarket declined 8% on an organic basis, principally because the business could not offset the one-off parts orders which came with New

Construction bookings in the prior year. Upgrade Aftermarket orders were particularly strong in the year, delivering 9% organic growth. The closing order book for 2019 was £516m, 9% higher than the previous year, with the mix of orders slightly favouring New Construction.

Organic revenue at £651m was 6% lower than in the previous year – in-line with the opening 2019 order book and with our own, earlier guidance. When the three-month contribution of PBM and a £3m currency benefit are included, adjusted revenue was 5% lower.

Operating profit of £90m was 1% lower than 2018 on an organic basis. The successful execution of the division's reorganisation and profit improvement initiatives contributed to this outcome. The division's margins improved 90bps in the year, despite the fall in overall revenue.

Outlook

In the first half of the year we expect some organic sales growth, compared with the same period last year. Margins are also expected to improve, supported by the growth in revenue and further benefits from restructuring.

How does a pharmaceutical customer make its tanks drain effectively and cleanly?

One pharmaceutical manufacturer had problems with drain valves, reducing the efficiency and reliability of its clean process. IMI PBM recently developed a solution to this specific industry issue. Its draining performance is significantly better. More importantly, it is demonstrably 'clean'. Close collaboration with the customer, and the ability to deliver such a specialist solution quickly, ensured IMI PBM's success.

IMI Hydronic Engineering is a leading provider of technologies that delivers energy efficient water-based heating and cooling systems for the residential and commercial building sectors.

Adjusted revenue

£315m

Up
2%

Adjusted operating profit

£57m

Up
9%

How can a building engineer be confident that a heating and cooling system meets performance and low carbon emission targets?

The heating and cooling system in a building where there are many and varied demands for temperature control in different rooms, needs both excellent components and an effective control system. The unique Hydronic College team successfully developed and supported a solution that met both comfort and efficiency expectations for the Bocconi University campus in Milan, Italy. The renowned expertise of Hydronic College and close customer support from design to commissioning were key to IMI's success.

Phil Clifton
Divisional Managing Director

Key achievements

- » Solid growth in core German, Swiss and Nordic markets
- » Continued good progress towards 20% margins
- » Supply chain and manufacturing reorganisation to generate £3m annual savings

2019 performance

The majority of the markets in which IMI Hydronic Engineering operates continue to be stable. The division has made further, good progress executing its plans to improve profitability and re-invigorate its platform for sustainable, profitable growth.

Organic revenue was £315m, 3% higher than in 2018. Including the impact of foreign exchange, adjusted revenue was 2% higher. Core markets including Germany, Switzerland and the Nordic region delivered good growth in the year, offsetting some softness elsewhere.

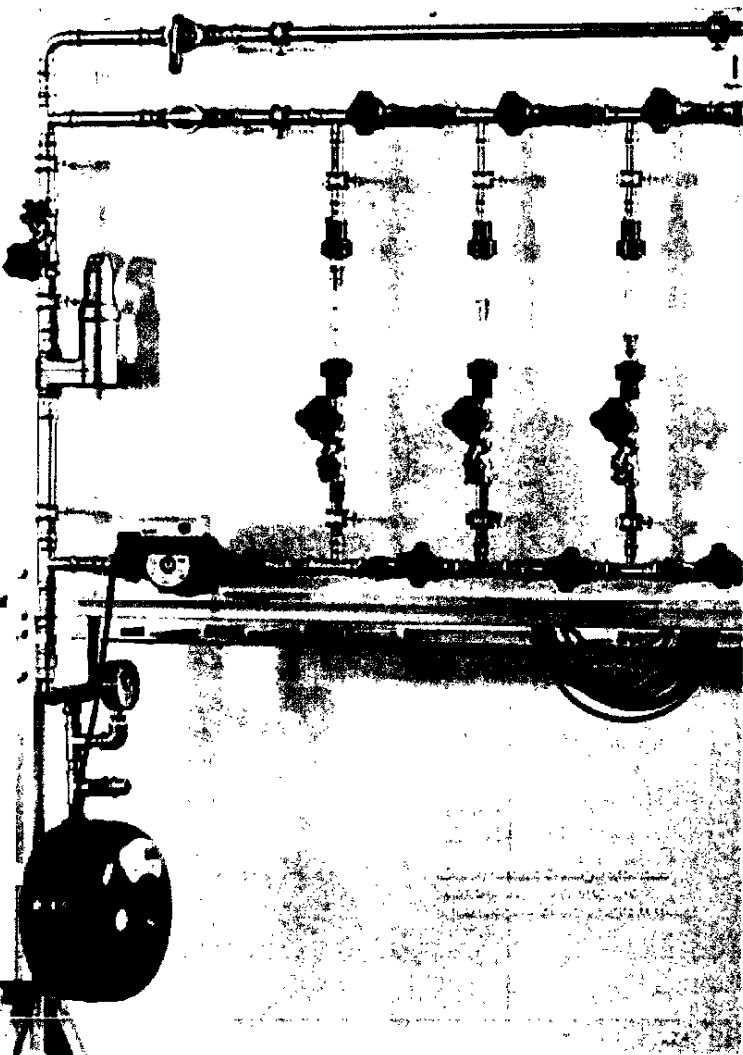
Within the business segments, sales for IMI TA Balancing & Control increased 1%, compared to 2018 on an organic basis. Europe delivered good growth, countering the impact of our exit from lower margin projects.

IMI Heimeier thermostatic control products also grew sales by 1% versus 2018 on an organic basis – again reflecting good growth in the core German market offset by the closure of our low margin Turkish business. There was also good progress for IMI Pneumatex water quality products in Switzerland, and successful cross-selling of the Pneumatex range across Europe, supporting 6% higher revenue than in 2018.

The continuing focus on improving profitability delivered an operating margin of 18.0%, 120bps higher than in 2018. Operating profits of £57m for the year were 5% higher than the prior year.

Outlook

Given prevailing market conditions, we expect first half organic revenue to show some growth when compared to the same period in 2019, with margin improvement delivered through further efficiency gains.



Financial results

IMI achieved a good financial result in 2019, with improved margins and cash generation despite the difficult trading environment.



Key highlights

Continuing operations:	Adjusted ¹				Statutory		
	2019 FY ⁵	2018 FY	Change	Organic ⁴	2019 FY	2018 FY	Change
Revenue	£1,873m	£1,907m	-2%	-3%	£1,873m	£1,907m	-2%
Operating profit ²	£266m	£266m	0%	-3%	£204m	£232m	-12%
Operating margin ³	14.2%	14.0%	+20bps				
Profit before tax	£251m	£251m	0%		£189m	£213m	-11%
Basic EPS ³	73.2p	73.2p	0%		57.6p	62.5p	-8%
Operating cash flow ⁴	£299m	£222m	+35%				
Dividend per share	41.1p	40.6p	+1%				
Net debt	£438m	£405m					

¹ Excluding the effect of adjusting items as reported in the income statement

² Operating profit and margin in 2018 excludes £0.8m non-adjusting restructuring costs.

³ Statutory amounts for Basic EPS include both continuing and discontinued operations

⁴ Operating cash flow, as described in Note 19 to the financial statements

⁵ Including IFRS 16 and notional rent accounting changes, see Note 4 for further details

⁶ After adjusting for exchange rates and excluding the impact of acquisitions and disposals and lease accounting changes (see Note 4).

Results summary 2019

To facilitate a more meaningful review of performance, certain alternative performance measures ('APMs') have been included within this Annual Report. These APMs are used by the Executive Committee to monitor and manage the performance of the Group. We consider that the presentation of adjusted results allows for improved insight to the trading performance of the Group. Movements in adjusted revenue and adjusted operating profit are given on an organic basis (see definition in Note 3) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. A table summarising the reconciliation of adjusted measures to statutory measures is included in Note 4.

The Group delivered a good financial result in the year, as both margins and cash flow improved despite the difficult trading conditions experienced in certain end markets. Revenue decreased by 2% to £1,873m (2018: £1,907m). After adjusting for the favourable exchange rate impact of £12m, the £8m contribution of IMI PBM in 2019 and £9m to represent a full year of Bimba sales in 2018 (as the business was acquired on

31 January 2018, see Note 23), organic revenue was 3% lower and reflects the challenging economic markets in IMI Critical and IMI Precision. Statutory revenue decreased by 2% to £1,873m (2018: £1,907m).

IMI Critical completed the acquisition of PBM in September 2019, providing the division access into the growing pharmaceutical and food processing markets. Given the acquisition timing, the impact on the Group's results for the year was minimal.

Adjusted operating profit of £266m (2018: £266m) was flat and after removing the impact of exchange rates, the acquisitions of PBM and Bimba, was lower by 3%. The adjusted operating margin was 14.2% (2018: 14.0%) as the Group was able to improve margins despite the market headwinds. Both IMI Critical and IMI Hydronic grew margins in the year, supported by cost and value-pricing initiatives. IMI Precision saw a small margin reduction due to revenue declines in its two largest market segments. Statutory operating profit was £204m (2018: £232m).

Adjusted net financing costs on net borrowings were £14.9m (2018: £12.9m) and includes in 2019 the impact of £2.3m interest cost following the adoption of the new IFRS 16 accounting standard on leases. Adjusted net financing costs were covered 24 times (2018: 25 times) by continuing adjusted earnings before interest, tax, depreciation, amortisation, impairment and adjusting items of £357m (2018: £320m) and included £32m of depreciation on our leased assets in 2019. The net pension financing expense under IAS 19 was £0.5m (2018: £1.4m expense).

Adjusted profit before taxation was £251m (2018: £251m), which is flat compared to 2018. Statutory profit before taxation declined 11% to £189m (2018: £213m) as the Group increased its restructuring activities to address current market realities and improve long-term competitiveness.

Adjusting items and discontinued operations

Adjusting Items	2019 £m	2018 £m
Reversal of net economic hedge contract losses	4	2
Restructuring costs	(52)	(12)
Gains on special pension events	9	7
Impairment losses	(2)	(2)
Acquired intangible amortisation and other acquisition items	(21)	(29)
Gain on disposal of subsidiaries	-	1
Gain on disposal of properties	-	3
Indirect taxes arising on reorganisation	-	(3)
Net financing income/(costs)	-	(5)
Tax in connection with the above adjusting items	17	9

Adjusting items that are excluded from profit before tax are listed below:

- » Changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlements, are included in the adjusted revenues and operating profit of the relevant business segment with the net gain at £4m (2018: £2m). The adjusting items at the operating level reverse this treatment. The net financing adjusting items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.
- » The restructuring costs of £52m (2018: £12m) are as a result of a number of significant restructuring projects across the Group. These include a cost and footprint rationalisation program within IMI Precision, £25m in Europe and £5m in the Americas, and cost reduction action within the Central team of £1m. In IMI Critical, adjusted restructuring costs related to a divisional reorganisation of £9m and restructure of the EMEA region of £9m. In addition, there were restructuring costs relating to the Corporate head office and IMI Hydronic of £3m.

» In 2019, gains on special pension events were £9m (2018: £7m). A gain in respect of an accounting adjustment for Swiss disability benefits was recognised for £5m. In addition, within Switzerland there was a gain of £3m in respect of a restructure of the pension benefits and curtailment and settlement gains of £1m.

» In 2019 the Group recorded an adjusting impairment charge of £2m associated with the restructuring programme ongoing in IMI Precision and IMI Critical. In 2018, an impairment of £2m was recognised against the goodwill associated with the IMI Hydronic services companies CGU (Cash Generating Unit) in the IMI Hydronic division.

» Acquired intangible amortisation is excluded from adjusted profits, to allow for better comparability of the performance across divisions. This allows users of the financial statements to gain a clearer understanding of the performance of the business, with the impact of amortisation identified separately in line with internal reporting to management. Acquired intangible amortisation reduced to £20m (2018: £25m). The decrease in 2019 reflects the amortisation of the intangible assets recognised on the acquisition of Bimba in 2018, including the full amortisation of the Bimba order book which contributed £4m to the charge. Also included is a release of the fair value uplift to inventory, recognised as part of the PBM acquisition accounting in accordance with IFRS 3 'Business Combinations', of £1m (2018: £4m relating to the Bimba acquisition).

» A net gain arose on the revaluation of financial instruments and derivatives under IFRS 9 of £0.4m (2018: £5m loss).

» There was a pre and post-tax gain of £3m (2018: nil) from discontinued operations in 2019 relating to the release of an indemnity provision for a historical discontinued operation. There was no cash impact of this.

Taxation

The adjusted effective tax rate for the Group remained at 21% (2018: 21%). The total adjusted tax charge for the year on continuing operations was £53m (2018: £53m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Tax Policy which is available on the Group's corporate website.

Earnings per share

The Board considers that a more meaningful indication of the performance of the Group is provided by adjusted earnings per share. Adjusted basic EPS was 73.2p, flat on last year. Statutory basic EPS decreased by 8% at 57.6p (2018: 62.5p) and statutory diluted EPS decreased by 8% at 57.6p (2018: 62.4p).

Financial review

Cash flow

Movement in net debt	2019 £m	2018 £m
Adjusted EBITDA* from continuing operations	357.3	320.1
Working capital movements	12.9	(50.3)
Capital and development expenditure	(65.8)	(58.4)
Provisions and employee benefit movements**	6.5	2.3
Principal elements of lease payments	(31.3)	-
Other	19.2	7.8
Adjusted operating cash flow***	298.8	221.5
Adjusting items****	(26.2)	(8.9)
Operating cash flow	272.6	212.6
Interest	(14.9)	(12.9)
Derivatives	16.1	(18.4)
Tax paid	(40.2)	(41.1)
Cash generation	233.6	140.2
Additional pension scheme funding	(7.0)	(10.1)
Free cash flow before corporate activity	226.6	130.1
Dividends paid to equity shareholders	(110.8)	(107.9)
Acquisition of subsidiaries	(69.0)	(122.6)
Net purchase of own shares	(3.4)	(5.3)
Net cash flow (excluding debt movements)	43.4	(105.7)
Reconciliation of net cash to movement in net borrowings		
Net (decrease)/increase in cash and cash equivalents excluding foreign exchange	(19.5)	(19.7)
Net repayment/(drawdown) of borrowings excluding foreign exchange and net debt disposed/acquired	62.9	(86.0)
Decrease/(increase) in net debt before acquisitions, disposals and foreign exchange	43.4	(105.7)
Net cash/(debt) acquired	10	(15.0)
Currency translation differences	12.7	(18.6)
Movement in lease creditors	(90.4)	-
Movement in net borrowings in the year	(33.3)	(139.3)
Net borrowings at the start of the year	(404.5)	(265.2)
Net borrowings at the end of the year	(437.8)	(404.5)

* Adjusted profit after tax (£198.1m) before interest (£15.4m), tax (£52.6m), depreciation (£76.2m) and amortisation (£15.0m)

** Movement in provisions and employee benefits as per the statement of cash flows (£29.2m) adjusted for the movement in the restructuring and discontinued operation provisions (£22.7m)

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

**** Cash impact of adjusting items.

Adjusted operating cash flow was £299m (2018: £222m). After the £26m cash outflow from adjusting items (2018: £9m outflow), the operating cash flow was £273m (2018: £213m). This represents a conversion rate of total Group adjusted operating profit against adjusted operating cash flow of 112% (2018: 83%).

Net working capital balances decreased £13m due to a reduction in receivables of £45m as a result of good cash collection across the Group. This was partially offset by a decrease in payables of £17m due to overall payment timing and an increase in inventory of £15m. The increase in 2018 of £50m was due to an increase in receivables of £8m, a decrease in payables of £47m offset by a decrease in inventory of £6m.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £66m (2018: £58m) which was equivalent to 1.1 times (2018: 1.1 times) depreciation and amortisation thereon. Research and development spend including capitalised intangible development costs of £6m (2018: £7m) totalled £49m (2018: £49m).

In 2019 the Group paid tax of £40m (2018: £41m) which was 76% (2018: 78%) of the adjusted tax charge for the year.

Dividends paid to shareholders totalled £111m (2018: £108m) and there was a cash outflow of £3m (2018: £5m outflow) for net share purchases to satisfy employee share options.

Balance sheet

Net debt at the year-end was £438m compared to £405m at the end of the previous year. The increase reflects the acquisition of PBM during the year of £69m and lease liabilities recognised of £90m, partly offset by strong cash generation. The net debt is composed of a cash balance of £88m (2018: £132m), a bank overdraft of £60m (2018: £83m), interest-bearing loans and borrowings of £376m (2018: £454m) and lease liabilities of £90m (2018: nil).

The year-end net debt to adjusted EBITDA ratio was 1.2 times (2018: 1.3 times) based on continuing adjusted EBITDA. At the end of 2019, loan notes totalled £358m (2018: £454m), with a weighted average maturity of 6.3 years (2018: 6.2 years) and other loans including bank overdrafts totalled £78m (2018: £83m). Total committed bank loan facilities available to the Group at the year-end were £300m (2018: £300m), of which £17m (2018: £nil) was drawn.

At 31 December 2019, the value of the Group's intangible assets was £619m (2018: £607m). The increase of £12m over the prior year was predominately due to the recognition of intangible assets following the PBM acquisition, offset by the amortisation and impairment charges for the year of £35m and a decrease arising from exchange movements of £27m.

The net book value of the Group's PPE at 31 December 2019 was £271m (2018: £284m). Capital expenditure on PPE amounted to £47m (2018: £38m), with the main capital expenditure focused on a new Japan facility in IMI Critical, which was funded from the sale of the existing older facility in 2018. Including capitalised intangible assets, total capital expenditure was £66m (2018: £58m) and was 1.1 times (2018: 1.1 times) the depreciation and amortisation charge (excluding acquired intangible amortisation and lease asset depreciation) for the year of £59m (2018: £55m).

The net deficit for defined benefit obligations at 31 December 2019 was £31m (2018: £52m deficit). The UK surplus was £48m (2018: £28m surplus) and constituted 76% (2018: 75%) of the total defined benefit liabilities and 88% (2018: 87%) of

the total defined benefit assets. The deficit in the overseas funds as at 31 December 2019 was £79m (2018: £80m deficit).

Return on capital employed ('ROCE')

The Group uses ROCE as an indication of IMI's ability to deploy capital effectively. The Group's definition is Adjusted Operating Profit after tax divided by Average Capital employed. Capital employed is defined as net assets adjusted to remove net debt, derivative assets/liabilities, defined benefit pension position (net of deferred tax) and to reverse historical impairments of goodwill and amortisation of acquired intangibles. ROCE was 11.4% in 2019 (2018: 12.8%) with the reduction partly due to the new IFRS 16 leasing accounting standard, which reduced the measure by 60bps. The figure was also impacted by the acquisition of PBM in September 2019.

Impact of IFRS 16

The Group adopted the modified retrospective approach regarding the new leasing accounting standard IFRS 16. Therefore, the Group has not restated comparative disclosures for the impact of IFRS 16, which came into effect from 1 January 2019. The impact of IFRS 16 is highlighted throughout as required, with further details included in Note 4 and Note 13.

Acquisitions

Acquisitions are an important part of our strategic growth plans. On 20 September 2019, the Group acquired 100% of the share capital, and associated voting rights, of PBM Inc. (PBM) for a cash consideration of £69.0m. PBM is a market leading manufacturer of ball valves and flow control solutions based in North America and provides IMI Critical with key access into the growing pharmaceutical and specialty chemical markets. The acquisition was funded from our existing banking facilities. PBM contributed sales of £7.5m and profits of £1.1m in 2019 to the Group's results.

In January 2018, the Group acquired 100% of the share capital, and associated voting rights, of Bimba Manufacturing Company (Bimba) and its subsidiaries for cash consideration of £138.4m. Bimba is a market leading manufacturer of pneumatic, hydraulic and electric motion solutions based in North America. Bimba is now well integrated into the Group and will provide a great strategic fit with our North American business.

Foreign exchange

The income statements of overseas operations are translated into sterling at average rates of exchange for the year, balance sheets are translated at year end rates. The most significant currencies are the euro and the US dollar – the relevant rates of exchange were:

Foreign Exchange	Average Rates		Balance Sheet Rates	
	2019	2018	2019	2018
Euro	1.14	1.13	1.18	1.11
US Dollar	1.28	1.33	1.32	1.28

The movement in average exchange rates between 2018 and 2019 resulted in our adjusted 2019 revenue being 1% higher and adjusted operating profit being 1% higher as the average US dollar rate was 4% stronger and the Euro rate was 1% weaker.

If the average exchange rates for January 2020 of US\$1.31 and €1.18 were projected for the full year and applied to our 2019 results, it is estimated that both adjusted revenue and profits (including corporate costs) would be 3% lower.

Treasury

IMI has a centralised Treasury function that provides treasury services to Group companies including funding liquidity, credit, foreign exchange, interest rate and base metal commodity management. The Group Treasury function effectively manages financial risks in compliance with Board-approved policies. An external audit of the Group Treasury function in 2019 confirmed the effectiveness of controls in the Group Treasury function. Further details of the Group's financial risk management are included in Note 18.

Brexit

The Group generates 5% of sales in the United Kingdom. Whilst not a significant percentage of the Group's revenue, the Group has taken steps to fully prepare for any potential impacts following the UK's withdrawal from the EU on 31 January 2020. We have fine-tuned our Brexit mitigation plan and continue to hold a Brexit contingency stock of £3m at the year end. Developments are being monitored and further mitigation actions may be taken as appropriate. Brexit is also considered within our principal risks, see page 56.

Capital allocation & dividend policy

The Board determines the appropriate capital structure for the Group, specifically, how much cash is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

The Board considers the Group's capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan.

The Board is mindful that equity capital cannot be easily flexed and raising new equity would normally be likely only in the context of an acquisition. Debt can be issued and repurchased more easily, but frequent changes lead to high transaction costs and debt holders are under no obligation to accept repurchase offers.

At 31 December 2019, IMI plc (the company) had distributable reserves of £303m (2018: £320m).

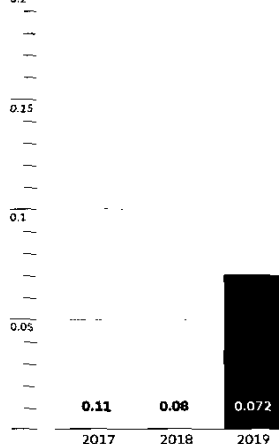
Daniel Shook
Finance Director

Key Performance Indicators

The Key Performance Indicators ('KPIs') set out below represent financial and non-financial measures which are integral to the delivery of our strategy and are used to track progress.

Lost Time Accidents

Per
100,000
hours



Why is this a KPI?

The health and safety of all who work at IMI is paramount. Ensuring a safe working environment is closely linked to our operational progress. It is also important for attracting and retaining the best talent.

Definition

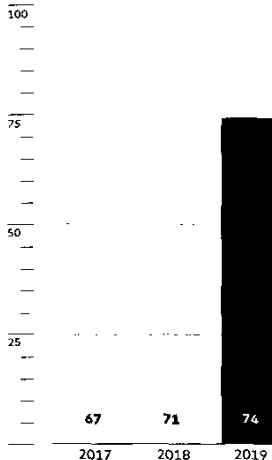
We measure our progress in this area by tracking our >1 day lost time accident frequency rate ('LTA rate') per 100,000 hours. This includes visitors and contractors.

Performance

In 2019 our LTA rate reduced to 15 with no fatalities, reflecting the Group's continued focus on identifying and reducing workplace hazards.

Employee Engagement

%



Why is this a KPI?

The engagement of our employees is key to retaining the existing skills and promoting and attracting employees who bring new ideas and capabilities.

Definition

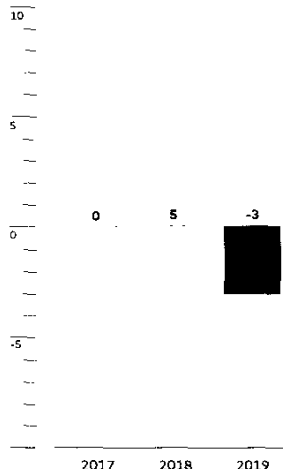
We carry out an annual employee survey as part of our 'IMI Way Day' and use the response to certain questions as the gauge of employee engagement. This score is in response to the percentage of employees who would recommend IMI as a good employer to family and friends.

Performance

Based on the feedback across the questionnaire this increased to 74% from the prior year of 71%.

Organic Sales Growth

%



Why is this a KPI?

Delivering consistent growth is an important part of building sustainable value for shareholders.

Definition

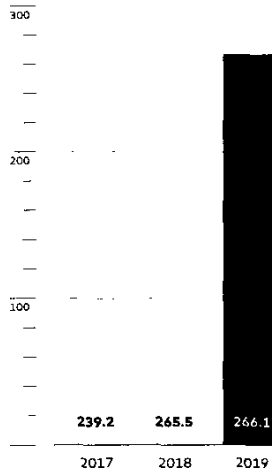
Organic sales is stated at constant exchange rates and excludes the incremental effect of acquisitions and disposals. For 2019 that means we are including 12 months of Bimba sales in 2018 and excluding PBM sales in 2019.

Performance

The decline since 2018 is mainly driven by the impact of Fossil Power New Construction slowdown in IMI Critical and the wider economic impact on the IMI Precision European Industrial Automation sector.

Adjusted Operating Profit

£m



Why is this a KPI?

Growing our profits will ultimately generate value for our shareholders and create more opportunity to invest further.

Definition

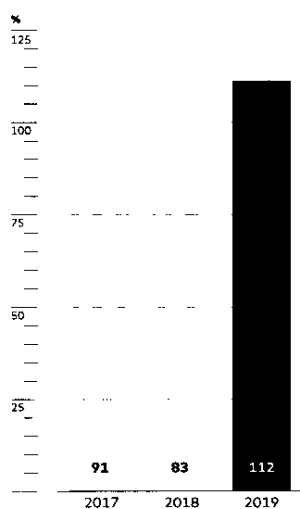
The Group's Operating Profit before the adjusting items described in Note 3, which ensures a consistent basis for comparison.

Performance

We have maintained the Adjusted Operating Profit from 2018, despite lower sales, through our self-help initiatives in response to the economic trading environment, which also means we have increased our Operating Margin by 20bps to 14.2%.

Adjusted Operating Profit is a target for the 2020 Annual Bonus. Return on Capital Employed and Adjusted Earnings per Share are performance targets for the 2020 IIP. See page 93 for further details.

Cash Conversion



Why is this a KPI?

Cash generation supports investment in our business and enables the Group to provide returns to shareholders through dividends. Strong cash generation also ensures a strong balance sheet, giving customers and suppliers confidence in the future of the Group.

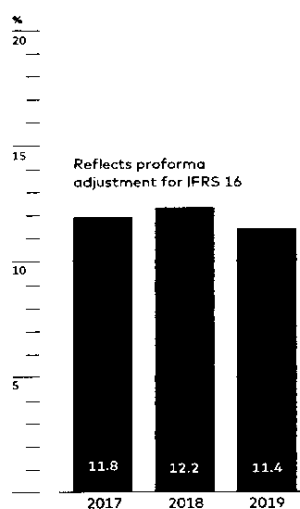
Definition

Cash Conversion is the Adjusted Operating Cash flow as a percentage of the Adjusted Operating Profit.

Performance

The increase from prior year reflects the increased focus on debtor recoveries during 2019.

Return on Capital Employed



Why is this a KPI?

The measure provides an indication of IMI's ability to deploy capital effectively.

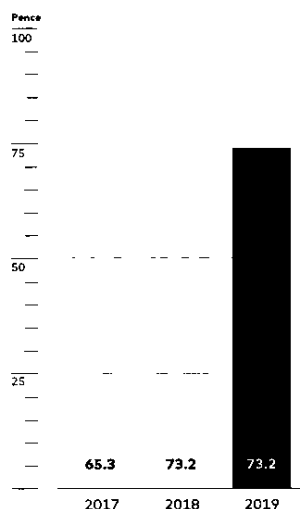
Definition

Adjusted Operating Profit after tax divided by Average Capital employed. Capital employed is defined as net assets adjusted to remove net debt, derivative assets/liabilities, defined benefit pension position (net of deferred tax) and to reverse historical impairments of goodwill and amortisation of acquired intangible assets.

Performance

The reduction from prior year reflects the similar profit level, an adverse impact of 0.6% from the new leases accounting standard and higher capital from the PBM acquisition.

Adjusted Earnings Per Share



Why is this a KPI?

Creating consistent long-term value for shareholders.

Definition


Adjusted Profit after tax divided by the weighted average number of basic ordinary shares.

Performance

Performance was flat year over year, despite the reduction in sales, due to our margin improvement initiatives.

Our KPIs have been designed to drive the Group towards meeting our strategic objectives outlined in our business model. See pages 12 and 13 for details.

 **Business model:**
Turn to page 12

 **Annual Directors' Remuneration Report:**
Turn to page 80

How we manage risk

Our risk management processes are embedded in all of our businesses and are designed to identify, evaluate and manage the risks which could impact our performance, our reputation or our ability to successfully execute our strategy.

Our risk management framework

The Board has overall responsibility for ensuring that we manage our risk exposure appropriately to achieve our strategic objectives and build sustainable shareholder value. This involves assessment of principal risks and emerging risks.

The Board determines our risk appetite and monitors and reviews the risk management processes we operate. The Board delegates responsibility for implementing and monitoring internal controls and other elements of risk management to the Chief Executive and the Executive Committee. The Board has also tasked its committees with responsibility for key areas of risk, as follows:

- » oversight of financial reporting, internal financial controls and assurance processes – the Audit Committee;
- » talent and succession risk – the Nominations Committee; and
- » remuneration and incentive structure risk – the Remuneration Committee.

Further information about the roles and responsibilities of the Board and each Committee is set out on pages 62 to 69.

Our principal risks

The Board assesses the Group's principal risks which are detailed on pages 56 to 59. Our analysis of the likelihood of each of these risks occurring and its potential impact is illustrated in the graphic below. The Board also review and discuss this analysis.

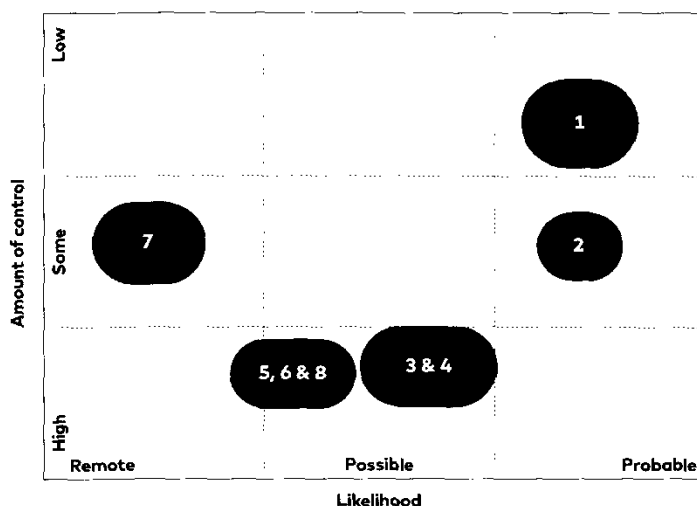
Our risk appetite

In determining the nature and level of risk we are prepared to accept to achieve our strategic objectives, the Board takes into account a number of factors including our strategic opportunities, the risks that could affect our business and our ability to mitigate their impact. During the year we updated our risk appetite ratings as follows:

Risk appetite rating	Definition
Very prudent	No/very low tolerance to risk, regardless of the cost of the required controls.
Prudent	A low risk approach via sufficient and proportional controls and mitigation, in the knowledge this will limit any potential reward.
Balanced	Applied in circumstances where there is a high chance of success, equal consideration is given to the achievement of strategic objectives and potential negative risk impact. Risk reduction not carried out in instances of disproportional cost.
Receptive	Elevated levels of risk accepted in the case of opportunities that offer improved returns.
Very receptive	High levels of risk accepted in the case of unproven or new projects that offer significant returns or growth potential.

Principal risk matrix

1. Global economic or political instability
2. Increasingly competitive markets
3. Failure to deliver major projects on time
4. Quality issues
5. Failure to integrate acquisitions
6. Unauthorised access to IT system
7. Failure to comply with legislation
8. New product development



Emerging risks

The Board also assesses the risks that could impact the Group which have not yet occurred but are at an early stage of becoming known and are expected to become more significant. We monitor and review emerging risks as part of our monthly operational and Executive Committee review processes. Consideration of emerging risks also forms part of our strategy review process.

Emerging risks that could be relevant to our business include new technological advances including the "Internet of Things" and in particular digital capabilities embedded in products that enable predictive maintenance and reduce unplanned downtime. These advances could impact our business model particularly if we are slow to respond to customer demand.

Climate change

Climate change is one of the global megatrends that is driving demand for our products and services. Increasingly customers are looking to us to provide fluid control engineering solutions that help them minimise their impact on the environment and operate their businesses efficiently and effectively. Examples of some of our innovative solutions are set out on pages 38 to 41 and 46. As explained on pages 32 to 34 we are committed to running our own operations in a responsible way to minimise our impact on the planet.

Climate change also creates potential risk for our business. For example extreme weather and natural hazards, which are becoming more common, could impact our day-to-day operations. We have contingency plans in place at each of our manufacturing plants and key commercial operations to mitigate the impact of our business being adversely affected

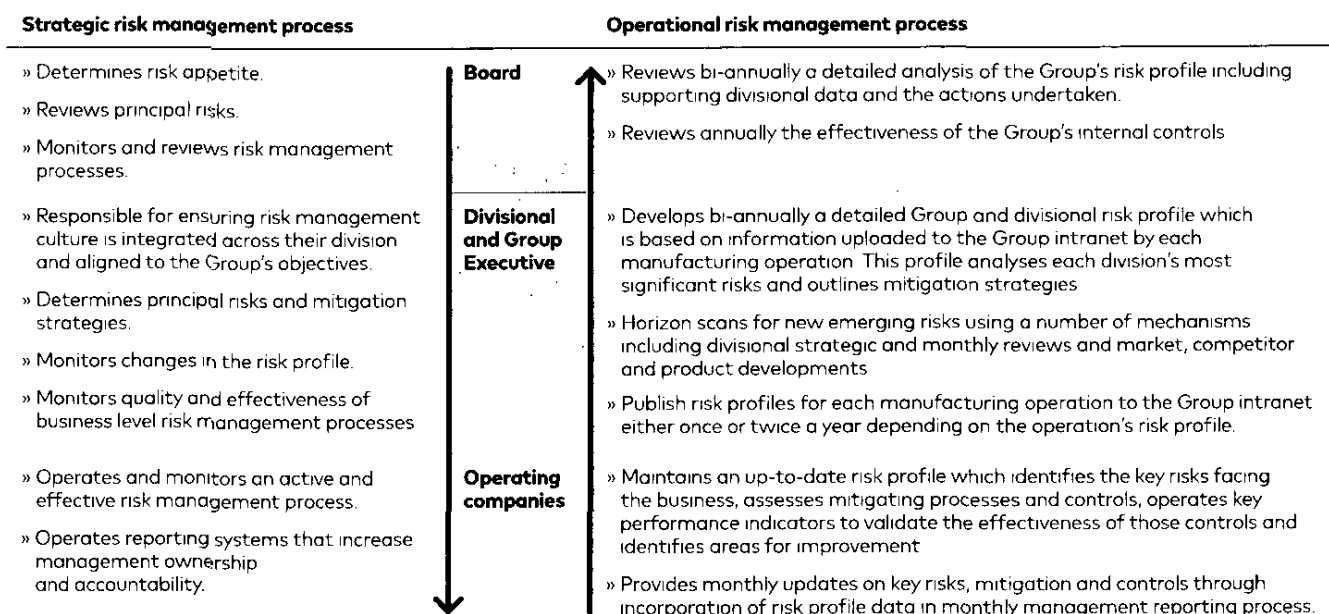
by climate events. Specifically in relation to our IT systems, we have disaster recovery plans and implement stringent back up procedures in all our businesses. We also maintain comprehensive property damage and business insurance interruption cover.

We support the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations in relation to the disclosure of information about the risks and opportunities presented by climate change. In the coming year we will enhance our governance and risk management processes to ensure that climate issues, and their impact on our business, are regularly assessed, considered and managed.

How we approach risk management

Across the Group we operate a "top-down, bottom-up approach" to risk management which is illustrated in the graphic below. This approach allows the Board and the Executive Committee to actively assess strategic risks and monitor the measures used to mitigate, transfer or avoid such risks. It also ensures that operational risks are identified and managed at multiple levels and that key risk information is communicated effectively across the Group.

Our risk management process is embedded in all our businesses and is a core element of our strategy review and monthly operational meetings. It provides guidance in relation to the identification, evaluation and management of risks, including emerging risks, which could impact our performance and our ability to implement our strategy.



Our principal risks

The principal risks facing the Group are shown in order of priority in the table below. This analysis covers how each risk could impact our strategy, our risk appetite to the particular risk, how our assessment has changed during 2019 and explains what we are doing to monitor and mitigate each risk area.

Risk, link to strategy and risk appetite	Change	Risk mitigation including specific 2019 actions
<p>1. Global economic or political uncertainty</p> <p>The Group operates in diverse global markets and demand for our products is dependent on economic and sector-specific environments. A downturn in the global or a regional economy, brought on by economic cycles, political instability, health or environmental emergencies, could impact end market demand and as a result negatively impact revenue and our ability to deliver our strategy and achieve market expectations</p> <p>Link to strategy</p> <p>Growth acceleration Commercial excellence</p> <p>Risk appetite</p> <p>Balanced</p>	<p> Increased</p> <p>IMI Critical continues to face highly competitive markets and a continued slow-down in the new construction fossil power sector. Whilst still in a strong position, IMI Precision has also seen a decline in markets, particularly industrial automation and predominately in its largest European market. IMI Hydronic has seen some growth opportunities but is operating in relatively flat markets.</p> <p>Health or climate emergencies can impact regional or global economic demand and disrupt supply and delivery chains.</p> <p>Although the UK formally exited the EU in January, uncertainty remains regarding the long-term economic arrangements.</p>	<p>Our divisions ensure their forecasting processes provide, whenever possible, early indications of reduced customer demand to allow proactive management of plant output.</p> <p>We have managed the economic instability during the year through restructuring programmes and footprint changes. IMI Precision is engaged in a significant cost restructuring programme. IMI Critical is continuing to right-size its business and reduce administrative and manufacturing overheads. The division has also introduced a flatter regional management structure which will enable it to be more efficient and agile.</p> <p>While IMI Hydronic's markets are less sensitive to global macro-economic factors, the division is continuing to challenge its cost structure and grow market share through commercial and technology partnerships and by focusing on faster growth adjacent markets (for example radiant heating and control/actuation).</p> <p>We maintain a balanced portfolio operating across a range of markets, sectors and geographies with no single dependency.</p> <p>We undertake enhanced stress testing and sensitivity analysis of business plans and regularly review key market and sector metrics.</p> <p>We have fine-tuned our Brexit mitigation and established, ahead of the event, Brexit contingency stock. Developments are being monitored and further mitigation actions may be taken as appropriate.</p>
<p>2. Competitive markets</p> <p>Increased competition in our core markets, from both existing and new competitors, including new entrants from markets in decline as a result of economic slowdown. This could create strong pricing pressures, potentially resulting in lost sales and reduced profits.</p> <p>Link to strategy</p> <p>Customer focus Growth acceleration Operational excellence Commercial excellence</p> <p>Risk appetite</p> <p>Receptive</p>	<p> Increased</p> <p>In 2019 we saw a sales downturn in the industrial markets (in particular Industrial Automation and Commercial Vehicle) and continued margin pressure in the Fossil Power sector.</p>	<p>We monitor competition risk via selected indicators during the monthly operational reviews undertaken by each of our businesses.</p> <p>Our Growth Accelerator programme (see page 17) aims to create significant customer-pull by solving industry problems through applications engineering</p> <p>Our Value Engineering activities in all of our divisions are helping us deliver more competitive products.</p> <p>We continue to develop our market leading applications engineering expertise and, in particular, our Valve Doctors in IMI Critical, our Hydronic College and Engineering Advantage teams in IMI Precision.</p>

Risk, link to strategy and risk appetite

3. Failure to deliver major transformational projects on time and on budget

The Group is continually evolving and taking opportunities in response to external conditions and market pressures. Our current strategy includes large restructuring programmes and complex IT system installations. Failure to deliver the expected objectives on time and on budget, could have an adverse revenue and profit impact on the Group.

Link to strategy

Customer focus
Growth acceleration
Operational excellence
Commercial excellence

Risk appetite

Prudent

4. Quality issues leading to product recall, warranty issues, injury, damage or disruption to customers' business

Developing innovative and technologically advanced products is at the heart of IMI. The quality and safety of our products and services is of the highest importance and failure to deliver the quality required could result in negative financial and reputational damage.

Link to strategy

Customer focus
Growth acceleration
Operational excellence
Commercial excellence

Risk appetite

Very prudent

Change

**Increased**

With the recent acquisition of PBM and the initiation of significant restructuring programmes, project execution risks have increased in 2019, particularly given the pressure that these projects impose on management capacity and resources.

**No change**

Inherent risk in this area has increased primarily due to the sale of more products with greater complexity across a larger geographic footprint. If unmanaged this could result in products being sold in territories without the necessary in-depth sales support and experience, which could lead to higher warranty claims.

However, year on year, the risk profile remains similar due to a continuing focus on product quality and detailed mapping of our engineering resources across our customers and geographies.

Risk mitigation including specific 2019 actions

We have deep and extensive restructuring and integration expertise.

We operate robust and proven processes to manage and monitor major projects, including setting clear and measurable milestones which are reviewed regularly by our Executive Committee and divisional management teams.

Divisional restructuring costs and the associated benefits are tracked against targets on a monthly basis.

Standardised documentation and core processes underpin all IT projects to support efficient ERP system roll out.

Across our operational platform we have well embedded Lean Assessment quality improvement programmes, Obeya reviews and Advanced Product Quality Planning processes. Our most critical projects include extensive testing of the finished product and customer sign-off.

IMI Hydronic is focusing on developing a smaller number of new products to ensure its product development and engineering resources are not overburdened.

Our principal risks

Risk, link to strategy and risk appetite	Change	Risk mitigation including specific 2019 actions
<p>5. Failure to integrate acquisitions successfully and deliver the required synergies</p> <p>Underperforming acquisitions deliver below expectation synergies and reduced profit. If material, this can significantly impact shareholder value</p> <p>Link to strategy</p> <p>Growth acceleration Operational excellence Commercial excellence</p> <p>Risk appetite</p> <p>Receptive</p>	<p> No change</p> <p>The acquisition of PBM (which gives us access to the Pharmaceutical and Food Processing markets) in the year was completed quickly and efficiently. PBM and divisional integration management teams are well resourced and the integration process is progressing well.</p> <p>The recent integration of Birmba (which is on track to deliver its acquisition case) and the phased roll out of divisional ERP systems demonstrates that we have effective integration experience and processes in place.</p>	<p>We have in-house M&A expertise and, as highlighted previously, operate a proven structured integration process.</p> <p>The Annual Strategic review process helps identify value enhancing acquisitions which would align with the Group's strategy. Once identified, a formalised acquisition approval, due diligence and integration process is followed. Upon completion, a detailed 100-day process is used to ensure adequate resources are in place, progress is on schedule and the identified synergies (both hard and soft) are being realised</p>
<p>6. Unauthorised access to our IT systems</p> <p>Unapproved access to our IT systems could result in loss of intellectual property, fraudulent activity, theft and business interruption.</p> <p>As the digital and security threat environment is quickly evolving we cannot guarantee that our actions are keeping pace with the constantly evolving threat environment.</p> <p>Link to strategy</p> <p>Operational excellence Commercial excellence</p> <p>Risk appetite</p> <p>Very prudent</p>	<p> No change</p> <p>During 2019, we continued to detect, block and remediate threats on an ongoing basis. These included malware, ransomware, attempted data theft, credential theft, phishing and external hacking attempts.</p> <p>The complexity and the frequency of the speculative attacks observed increased in 2019, although we have no evidence that we were specifically targeted.</p> <p>To counter the increase in threat activity in 2019 we have continued the significant investment in our detective and preventative IT measures by:</p> <ul style="list-style-type: none"> » further improving our Group-wide Security Operations Centre ("SOC") monitoring service, which operates 24 hours a day, » rolling out a wide programme of new IT security protocols across the Group's infrastructure, and » holding security compliance workshops and IT security awareness programmes. 	<p>We have a well-developed IT security strategy, which is reviewed monthly. We continue to implement improvements to our IT infrastructure to keep abreast of new threats.</p> <p>We continue to strengthen our security baseline through the enablement of automated global software updates and automatic lockdown capabilities. We have also strengthened our digital forensic capabilities and remediation processes in the event of a cyber security incident occurring.</p> <p>We regularly test our disaster recovery plans to ensure we have stringent system back up procedures in place</p>

Risk, link to strategy and risk appetite

Change

Risk mitigation including specific 2019 actions

7. Failure to comply with legislation or a breach of our own high standards of ethical behaviour**No change**

We have established a framework which demands the highest standards of ethics and regulatory compliance across all of our businesses. As we expand our operations to achieve growth, it is essential that we maintain these standards. A breach of legislative requirements in relation to tax, anti-bribery, fraud and competition law could result in financial and reputational damage. The markets in which IMI operates, particularly in IMI Critical, make the risk of regulatory breach an area of focus.

Link to strategy

Customer focus
Growth acceleration

Risk appetite

Very prudent

We continue to operate in similar markets as last year, with no significant changes in legislation.

Integrity is a cornerstone of our culture. It is one of our core values and underpins everything we do. Read more about our culture on pages 26 to 35.

Dedicated resources at both the Group and Divisional level ensure employees are provided with the necessary training, guidelines and standard operating policies to ensure that everybody is aware of the conduct expected from them, in particular in relation to the key risk areas of anti-bribery & corruption, anti-trust and economic & trade sanctions. During the year our Code of Conduct was updated (see page 24).

Each division assesses its own compliance risk and formulates an annual divisional compliance plan which is implemented by each Division's General Counsel, who report to the respective Divisional Managing Director. Due diligence on third parties, trade sanctions and customers are the subject of standard operating procedures and carried out by the divisions using Group-wide software. In 2019 around half of the entire workforce - some 5,635 employees - completed online training modules on third party risk via eLearning. In addition, detailed training is given to staff in more commercial roles who have significant autonomy to contract with customers and suppliers.

We operate a confidential independent hotline to report concerns (see page 25).

8. New Product Development

Failure to deliver market leading products, on time and on budget, could impact our ability to grow.

**No change**

While we continue to introduce new products, launches are planned to avoid new product concentration risk and timed to ensure relevant teams have the bandwidth to deliver effectively.

Link to strategy

Customer focus
Growth acceleration
Commercial excellence

Risk appetite

Receptive

Each division has a New Product Development strategy which is regularly reviewed, with divisional engineering teams reporting on the performance of our existing products and new market or competitor developments.

We implement a robust New Product Development Process which covers market analysis, design, prototyping, testing and costing.

We have established centres of design and technological excellence across our businesses.

Our Growth Accelerator programme, previously mentioned, is enhancing our innovation and development capabilities.

How does a Power Plant manager fix poorly performing competitor valves?

A Power Plant operator in North America was having problems with competitor valves in severe applications. He needed a solution that could be conceived and delivered within a normal outage cycle. IMI used its extensive expertise in critical valves and designed and built, by additive manufacturing, a solution fitted inside the competitor's valve body, thus reducing time cost of the upgrade. Listening to what the customer needed and applying best-in-class expertise delivered a successful outcome for both parties. This was the first order to success to come from IMI's exciting Growth Accelerator Programme.



Combining IMI Critical Engineering's expertise and the latest additive manufacturing technology is enabling the division to expand its Aftermarket offering

Corporate Governance

62

Board of Directors

64

Letter from the Chairman

66

Corporate Governance Report

72

Audit Committee Report

76

Nominations Committee Report

78

Annual Directors' Remuneration Report





94

Directors' Report

101

Statement of directors' responsibilities

Board of Directors

	Nationality	Committee membership	Date of appointment	Expertise	Key external appointments
 <p>Lord Smith of Kelvin Chairman (75)</p>	British	Nominations Committee – Chair	2015	<p>Significant UK and international board experience</p> <p>Extensive knowledge of both engineering and manufacturing</p> <p>Strong track record in private equity, mergers and acquisitions</p> <p>Specialist capability in finance</p>	<p>Non-executive Chairman of Scottish Enterprise</p> <p>Non-executive Chairman of the British Business Bank plc</p>
 <p>Roy Twite Chief Executive (52)</p>	British	Executive Committee	2019 as Chief Executive and 2007 as director	<p>Proven organisational and engineering expertise</p> <p>Management capability having run all of IMI's divisions</p> <p>Extensive knowledge of end-markets and customer base</p>	Non-executive director of Halma plc*
 <p>Daniel Shook Finance Director (52)</p>	American British	Executive Committee	2015	<p>Extensive financial management experience</p> <p>Extensive knowledge of complex process manufacturing across a range of industrial sectors</p> <p>Strong international perspective, having worked in a number of key geographies during his time with two leading global businesses</p>	Non-executive director of Ultra Electronics Holdings plc*
 <p>Thomas Thune Andersen Independent non-executive director (64)</p>	Danish	<p>Nominations Committee</p> <p>Remuneration Committee (until 29 February 2020)</p> <p>Audit Committee (from 1 March 2020)</p> <p>Non-executive director responsible for employee engagement and ESG matters (from 1 March 2020)</p>	2018	<p>Experienced international business leader in sectors including oil, energy, marine and critical infrastructure</p> <p>Broad experience as a non-executive director of various public companies</p>	<p>Chairman of Lloyds Register Group</p> <p>Chairman of Orsted A/S*</p> <p>Member of the Danish Committee for Good Corporate Governance</p> <p>Non-executive director of BW Group Ltd</p>

International
business
responsibility

Engineering

Public
company board






Finance

Regulatory
& legal

Mergers &
acquisitions

Environmental,
Health & Safety

Board experience

	Nationality	Committee membership	Date of appointment	Expertise	Key external appointments
 <p>Caroline Dowling Independent non-executive director (53)</p>	Irish	Nominations Committee Remuneration Committee	1 January 2020	Career in the technology industry Senior executive leadership of international operations	Non-executive director of DCC plc*
 <p>Carl-Peter Forster Senior independent non-executive director (65)</p>	German	Audit Committee Nominations Committee Remuneration Committee	2012	Experienced international business leader In-depth knowledge of the automotive sector Expert in operational excellence and Lean manufacturing Significant experience in technology management	Chairman of Chemring Group plc* Member of the PWC Advisory Board Chairman of the Shareholder Committee of HELLA GmbH & Co KGaA
 <p>Katie Jackson Independent non-executive director (46)</p>	British	Nominations Committee Remuneration Committee	2018	Senior executive experience in major oil companies and investment banking Specialist knowledge of the Oil & Gas sector and excellent corporate finance experience	Executive Vice President of Commercial and New Business Development at Royal Dutch Shell
 <p>Birgit Nørgaard Independent non-executive director (61) Retires from the Board on 29 Feb 2020</p>	Danish	Remuneration Committee – Chair Audit Committee Nominations Committee Non-executive director for employee engagement	2012	Experienced non-executive Held senior executive positions in engineering consultancy Wide ranging sectoral experience including energy, water, infrastructure and building industries Experience in strategy as well as finance and accounting	Non-executive director of DSV A/S* and NCC AB* Non-executive director of WSP Global Inc*
 <p>Isobel Sharp Independent non-executive director (64)</p>	British	Audit Committee – Chair Nominations Committee	2015	Considerable accounting, audit, governance and transactions experience including time as the Senior Technical Partner at Deloitte in London, President of the Institute of Chartered Accountants of Scotland and membership of the UK Accounting Standards Board and the Reporting Review Panel	Non-executive director and Audit Committee Chair of The Bankers Investment Trust PLC* Non-executive director and Audit Committee Chair of Winton Group Limited Honorary Professor at Edinburgh University Business School

* Listed company directorship.



Chairman's governance letter

Dear Shareholder

During the year we successfully transitioned to a new Chief Executive and developed a fresh strategy for the Group. At such times it is particularly important that the Board provides effective leadership and maintains the highest standards of corporate governance. In the Corporate Governance section of this Annual Report on pages 62 to 100, we describe our governance arrangements and the practical workings of the Board and its committees.

Leadership

I am now in my fifth year as Chairman and have enjoyed an interesting year in the Group's development. We welcomed Roy Twite to his new role as Chief Executive and oversaw the smooth transition from his predecessor, Mark Selway.

The Board is fully engaged, able to both support and challenge the executive team, and has the skills and experience to oversee governance, strategy and risk management. The quality of debate at meetings is excellent and we get valuable input from all of our non-executive directors. I know Roy well and as Chairman I value my close working relationship with him.

Strategic review

Once Roy assumed his new role in May 2019, the Board worked with him and his Executive team to formulate the future strategy for the Group which received final Board approval and was announced in November 2019.

Culture

The Board sets the tone at the top and during the year we conducted a review of the Group's purpose, values and culture alongside the strategy review. The Board has established clear leadership values and behaviours which are underpinned by our refreshed code of conduct and built into our leadership development programmes and performance assessment processes. Excellent leadership behaviours are requirements for career advancement in the Group.

The Board's review of culture looked at a range of indicators of culture including Group-wide employee survey data, customer satisfaction ratings and other stakeholder feedback. We also reviewed stakeholder engagement and found indicators of culture in the process.

During the year the Board adopted a new statement of purpose for the Group and reaffirmed the IMI values which were expanded to include "customer focus". For further information on customer focus, please refer to page 15 of this Report.

The Board will continue to oversee the Group's culture to ensure that it continues to develop in a way that is aligned with our purpose and strategy.

Stakeholder engagement

During the year the Board reviewed the Group's key stakeholders and the engagement mechanisms and processes we operate to engage with them. The Group's key stakeholders and engagement channels are summarised on page 41.

Board level engagement is conducted with shareholders (see page 70) and employees (see page 68) including through the non-executive director for employee engagement.

Management regularly updates the Board about the state of relations and engagement with customers and employees and there are active engagement and feedback processes in place which form part of the Board's regular review activity.

Governance highlights

- » Oversaw the transition to Roy Twite as the new Chief Executive with effect from 9 May 2019.
- » Worked with the new Chief Executive and his team to refine the Group's strategy and fully endorsed the strategy announced in November 2019 and set out in this Annual Report.
- » Succession plans for Birgit Nørgaard's retirement from the Board were put in place.
- » Following an extensive search process led by the Nominations Committee, Caroline Dowling was appointed to the Board as a non-executive director.
- » Approved and completed the acquisition of PBM for £69m.

Compliance with the 2018 UK Corporate Governance Code (the "Code")

I am pleased to report that we complied with all of the principles of the Code during the year and provide the following summary with cross-references to other sections of this Annual Report.

Independence

Over half of the Board comprises independent non-executive directors and the composition of all Board committees complies with the Code. Additionally, the Board considered me to be independent on my appointment as Chairman. More information about the Board members is provided on pages 62 and 63.

Senior independent director

Our senior independent director is Carl-Peter Forster and more information on his role appears in the IMI Corporate Governance Framework which can be found on our website.

Accountability and election

There is a clear separation of duties between the roles of Chairman and Chief Executive. All of the directors stand for re-election at each Annual General Meeting after their first election.

Evaluation

An internally facilitated evaluation was undertaken in 2019 in accordance with the requirements of the Code. Further details appear on page 67 of this Annual Report.

Attendance

All directors have attended an acceptable level of Board and committee meetings, details of which appear on page 66 for the Board and in each of the Committee Reports.

Committee chair experience

The Audit Committee chair has been in post since 2017 and meets the specific Code requirements with regard to recent and relevant financial experience.

The Remuneration Committee chair has been in post since 2017 and a member of the Committee since 2012. The successor as chair from 1 March 2020 has been a member of the Committee since 2012.

The Nominations Committee chair has been in post since 2015.

Governance Framework and Section 172 Statement

We have a detailed framework documenting the various roles of the Board members, the Board and its committees and the matters reserved to the Board. Further information appears on page 69 of this Annual Report and the IMI Governance Framework.

A statutory Section 172 Statement pursuant to the Companies Act 2006 appears on pages 70 and 71.

Audit tenure and independence

EY continued as the Group's external auditor in 2019 following an audit tender process. In line with statutory requirements, the Audit Committee led an audit tender process in 2018 which resulted in the decision to re-appoint EY as the external auditor.

EY is considered to be independent and receives £0.1m income from non-audit work for the Group as detailed on page 75.

Internal audit

Details of the internal audit function are provided on page 74.

Culture

During the year the Board has reviewed the Group's culture in parallel with its work to formulate with the new Chief Executive a fresh statement of IMI's purpose, vision and values. This was done alongside the development of the Group's new strategy. Further information with respect to culture is to be found on pages 24 to 35.

Executive remuneration

Our remuneration policy was approved by shareholders in 2018 and its operation in practice complies with the Code as demonstrated by the terms of appointment for the new Chief Executive which are detailed in the Remuneration Report on pages 78 to 93. The Remuneration Committee's remit extends to remuneration for the Chairman, Executive Directors and other members of the Executive Committee.

Engagement with the workforce and other key stakeholders

We have appointed a non-executive director for employee engagement and information about that role is provided on page 68 of this Annual Report. Other stakeholder engagement is summarised on page 41.

Diversity

Information about the diversity of the Board appears on pages 66 and 77. The Group's Diversity Policy and what the Group is doing to promote diversity in areas like management succession and development is reported on pages 27 to 30.

Yours faithfully

Lord Smith of Kelvin
Chairman

27 February 2020

Corporate Governance Report

Code compliance statement

The Board is committed to maintaining good governance and confirms that throughout the year-ending 31 December 2019 the Company has applied the principles contained in the Code and complied with its best practice provisions. Highlights of our compliance with the Code are given in the Chairman's governance letter on pages 64 and 65. Further details of how we have applied the Code appear below, in the Directors' Report and other cross-referenced sections of this Annual Report, all of which are incorporated by reference into this report. A description of the main features of the Company's internal control system and disclosures on other regulatory matters including statements on going concern and viability can be found in the Directors' Report on pages 94 to 100. A summary of our risk management systems and information about the risks and uncertainties that relate to our business is detailed on pages 54 to 59. Information on corporate responsibility can be found in the Environmental, Social and Governance section on pages 22 to 35.

Board composition

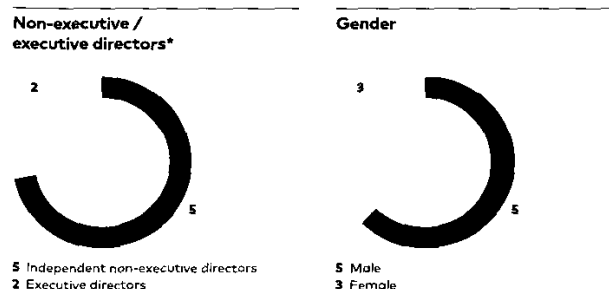
Eight directors served on the Board throughout 2019: the Chairman; the Chief Executive; four independent non-executive directors and the Finance Director. The former Chief Executive, Mark Selway, retired as a director on 31 July 2019. In addition, a new non-executive director was appointed with effect from 1 January 2020. Birgit Nørgaard will step down on 29 February 2020 and the Board will then comprise eight directors. All continuing directors will stand for re-election at each Annual General Meeting (or election if appointed since the previous Annual General Meeting).

Independence of non-executive directors

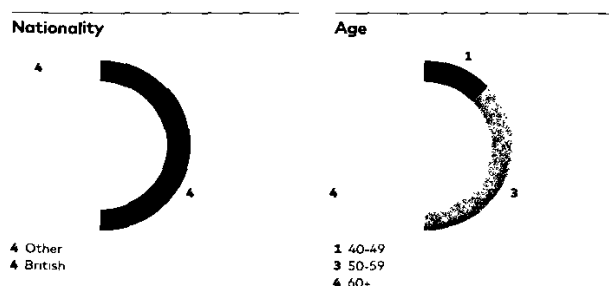
The Board considers that all of the non-executive directors are free from any business or other relationship which could materially interfere with the exercise of their independent judgement and all meet the criteria for independence under the Code. All of the non-executive directors are regarded by the Board as independent. The Chairman was also regarded as independent at the date of his appointment.

Board diversity

The non-executive directors are a diverse group from different backgrounds and nationalities and bring with them a wide range of skills and experience in commerce, finance and industry from around the world. Half the Board are non-British and there are five different nationalities on the Board. Three of the eight continuing directors are female. Our approach to diversity is set out in more detail on pages 27 and 28 and in the Nominations Committee Report on pages 76 and 77. The charts below represent the Board membership excluding Birgit Nørgaard who retires on 29 February 2020.

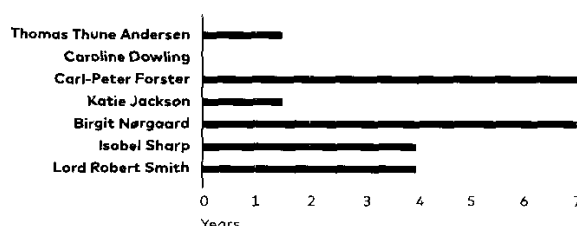


* Under the 2018 Code, the Chairman is excluded when considering the independent non-executive composition of the Board



Dates of appointment

Length of tenure at 31 December 2019



	Date of first appointment	Date of current letter of appointment
Thomas Thune Andersen	1 July 2018	25 February 2020
Caroline Dowling	1 January 2020	25 February 2020
Carl-Peter Forster	1 October 2012	25 February 2020
Katie Jackson	1 July 2018	25 February 2020
Birgit Nørgaard	6 November 2012	23 September 2019
Isobel Sharp	1 September 2015	25 February 2020
Lord Robert Smith	7 May 2015	25 February 2020

Share ownership for the Chairman and non-executive directors

The Chairman and non-executive directors are encouraged to hold some shares in IMI within a reasonable period after their appointment. As at 31 December 2019, the Chairman and serving non-executive directors all held IMI shares as set out in the table on page 90.

Meetings and use of Board time

The Board met on six occasions during the year including two results reporting meetings, a day dedicated to strategy discussions and regular review meetings at which updates are provided as appropriate covering health and safety, operational and financial matters, investor relations, risk and legal affairs. In addition, there were several days spent on Board site visits and attendance at other events. All Board meetings during the year included significant time dedicated to the strategy review process.

2019 Board cycle

In addition to the regular agenda items for operational matters, business performance and corporate affairs including investor relations, the following matters were dealt with at Board meetings in the year:

February

Approval of the preliminary results announcement and Annual Report
Approval of the final dividend recommendation
Approval of the Notice of Annual General Meeting
Review of the first monthly phased forecast for 2019
Strategy review process
Update training on governance and directors' duties

May

Review of trading and other updates
Review of the Q2 Forecast
Approval of the interim management statement
Preparation for the Annual General Meeting
Strategy review process
IT and cyber security update

July

Approval of the half year results announcement
Approval of the interim dividend
Review of the Q3 Forecast
Interim risk review
Strategy review process

September

Strategy review process
Growth Accelerator presentation
Five-year business plan review

October

Site visit to operations in China and the Republic of Korea
Approval of the Company's purpose, values and culture
Review of stakeholder engagement
Review of the Q4 Forecast
Review of current trading and outlook
Strategy review process
Approval of the interim management statement and strategy announcement

December

Budget for 2020
Annual risk review
Strategy review process
Board evaluation report
Annual compliance review

Board attendance

Director	Board meetings	% attended where eligible
Thomas Thune Andersen	6/6	100
Carl-Peter Forster	6/6	100
Katie Jackson	6/6	100
Birgit Nørgaard	6/6	100
Isobel Sharp	6/6	100
Lord Smith	6/6	100
Mark Selway ¹	2/3	66
Daniel Shook	6/6	100
Roy Twite	6/6	100

¹ Retired 31 July 2019

In 2020 to date the Board has met once with all members in attendance.

Board roles and reserved matters

A description of Board roles and reserved matters is included in the IMI Corporate Governance Framework and is summarised in the Directors' Report on pages 96 and 97.

Induction and continuing development programme

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

Business familiarisation is at the core of induction and continuing development for non-executive directors at IMI and is centred around gaining an understanding of the business and getting to know the wider management team. Caroline Dowling has had induction meetings with all of the members of the Executive Committee and the auditor. In addition, all new non-executive directors attend a corporate induction day for senior managers held at head office. There is also a committee induction process designed to brief new committee members on the relevant committee and the issues it faces.

Non-executive directors are expected to visit business units around the Group and to meet face-to-face with senior operating management and key corporate staff. Site visits are also a good opportunity to engage with a wider range of employees. There is regular contact between management and non-executive directors during site visits, formal meetings and other Company events.

During 2019 the non-executive directors made several individual site visits and the whole Board visited operations in China and the Republic of Korea. Feedback on Board and individual site visits is discussed with the Board.

Appropriate training and other continuing professional development is available to all non-executive directors and regular updates are given during the year where relevant to the business arising at Board and committee meetings. For example, appropriate best practice updates were provided to the Remuneration Committee and to the Board during 2019 including sessions on elements of the Code and Section 172 of the Companies Act 2006. Non-executive directors are encouraged to undertake appropriate external training and several did attend external training during the year.



October 2019 Board visit to China and the Republic of Korea

Board visits to operations

Site visits are an important, regular feature of the Board calendar. They provide an excellent opportunity for the Board to engage with a wide group of employees and they also facilitate the non-executive directors' understanding of the businesses.

IMI has a substantial presence in China which is home to business units across all three divisions. In October 2019, the Board visited IMI Precision Engineering's manufacturing facility in Shanghai, the division's largest business unit in China. The Board also visited IMI Critical Engineering's state-of-the-art manufacturing site in Paju, the Republic of Korea. During both site visits members of the Board had the opportunity to review the manufacturing process and meet local staff. In particular, graduate trainees on placement in China joined the Board for an informal lunch and senior managers from the businesses met the Board.

Board-led employee engagement

Birgit Nørgaard has been the non-executive director for employee engagement since 1 January 2019 and has reported to the Board in respect of employee views presented to her. In addition to engagement on site visits and at the annual management conference, Birgit attended the European Communications Forum at which representatives from the Group's European businesses were present. She also held an employee forum event in China for local employees. Overall the views expressed to Birgit were positive and constructive and the new role of employee engagement non-executive director will be further developed in 2020. Thomas Thune Andersen will assume the role from 1 March 2020 following Birgit's retirement from the Board. In addition, Thomas will at the same time become non-executive director for ESG matters.

Board evaluation

The Chairman arranged an internally facilitated evaluation process in 2019, which was carried out through a questionnaire process run by the Company Secretary and by the Chairman canvassing the views of directors individually in face to face meetings. While the overall outcome of the internal evaluation was highly positive, the Board reviewed the findings and agreed to the following improvement actions:

- » the Board to do selected deep dive reviews as part of its monitoring of culture; and
- » increased support for directors' knowledge and effectiveness through further targeted training and updates.

The evaluation actions from the prior year, as reported in the 2018 Annual Report, have been carried out resulting in particular in more Board meeting time being dedicated to the strategy process.

As senior independent director, Carl-Peter Forster conducted a review of the Chairman with the other non-executive directors and shared the results with the Chairman. During the year the Chairman also met with the non-executive directors individually for performance review and feedback sessions and as a group to review the performance of the Chief Executive. The Chairman passed on to the Chief Executive appropriate feedback from the review of his performance.

The Chairman is satisfied that the Board is fulfilling its responsibilities appropriately and that the Board and its committees are effective and that each director demonstrates a valuable contribution and is committed to their role.

An externally facilitated evaluation process in conjunction with Egon Zehnder is planned for 2020.

Standing committees of the Board

The standing committees of the Board are the Audit Committee, the Nominations Committee and the Remuneration Committee. Each of these committees operates under written terms of reference which clearly set out their respective delegated responsibilities and authorities. The full terms of reference of these committees are part of the IMI Corporate Governance Framework. The committees report to the Board on their work, normally through their respective chair, following each meeting.

Reports from each of these committees appear in this Annual Report as follows: Audit Committee on pages 72 to 75; Nominations Committee on pages 76 and 77 and Remuneration Committee on pages 78 to 93.

Audit Committee

Isobel Sharp
Chair



Membership

Thomas Thune Andersen
(from 1 March 2020)
Carl-Peter Forster
Birgit Nørgaard
(until 29 February 2020)

Main responsibilities

- » Oversight role in relation to financial statements
- » Reviewing significant areas of judgement and accounting policies
- » Reviewing the proposed statements on going concern and viability to appear in the Annual Report
- » Advising the Board on whether the draft Annual Report is fair, balanced and understandable
- » Monitoring announcements in respect of financial performance
- » Monitoring the effectiveness of internal financial controls
- » Reviewing financial risks including fraud risk
- » Oversight of internal audit and other key processes for monitoring internal financial control
- » Overseeing the external audit process, its objectivity, effectiveness and cost with responsibility for setting the audit fee
- » Making recommendations to the Board for the appointment of the auditor including oversight of any audit tender process

Nominations Committee

Lord Smith of Kelvin
Chair



Membership

Thomas Thune Andersen
Caroline Dowling
Carl-Peter Forster
Katie Jackson
Birgit Nørgaard
(until 29 February 2020)
Isobel Sharp

Main responsibilities

- » Board and committee composition
- » Oversight of succession plans for the Board and the Executive Committee
- » Search for and recommendation of candidates for appointment as non-executive directors, Chief Executive and other executive director positions
- » Diversity policy, promotion of diversity and monitoring of progress

Remuneration Committee

Birgit Nørgaard
Chair
(until 29 February 2020)



Membership

Thomas Thune Andersen
(until 29 February 2020)
Caroline Dowling
Carl-Peter Forster
(Chair from 1 March 2020)
Katie Jackson

Main responsibilities

- » Define and recommend the remuneration policy for the Chairman and members of the Executive Committee
- » Determine the individual remuneration packages for the Chairman and members of the Executive Committee within the policy approved by shareholders
- » Set annual and long-term incentive metrics and awards and determine the outcomes for the members of the Executive Committee
- » Report on remuneration matters and constructively engage with shareholders
- » Assess risk in respect of remuneration and incentive structures in particular

Corporate Governance Report

Executive Committee

The Executive Committee is chaired by the Chief Executive and the other members are shown on page 11. The Committee meets monthly and more often as may be required.

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

The Committee plays a key part in risk assessment and risk management and monitoring processes and receives regular reports on human resources, health and safety, internal audit, compliance, legal, investor relations and other corporate affairs.

Investor relations

The Board oversees shareholder engagement and maintains a balanced understanding of the issues and concerns of major shareholders. The Chief Executive and Finance Director have primary responsibility at Board level for investor relations and they, and the Head of Investor Relations, report to the Board on shareholder issues at every Board meeting during the year. Financial analysts' notes are circulated to the directors, and the Board receives regular investor feedback reports from the Company's brokers and public relations advisers as well as from management.

Dialogue is maintained with the principal shareholders and the executive directors meet regularly with institutional investors. Additional investor meetings were arranged in 2019 to ensure appropriate engagement between the new Chief Executive and major investors and he is committed to continuing meaningful engagement with institutional shareholders. During 2019 there were over 100 such meetings with institutional and other shareholders. The Chairman and the senior independent director also are available to shareholders as needed. The Chairman has actively engaged with several major shareholders at specifically arranged meetings.

The 2019 Annual General Meeting was presided over by the Chairman and attended by all of the serving directors. The Chairman and the other directors met shareholders informally afterwards. Each substantively separate issue was put to the Annual General Meeting as an individual motion. Notice of the Annual General Meeting was issued more than twenty working days in advance of the meeting and the level of votes lodged for and against each resolution, together with details of abstentions, are shown on the IMI website. The Board values the support of shareholders and the poll results for all resolutions proposed at the Annual General Meeting were well above 80% in favour in each case.

In addition to the Annual Report, the Company issues preliminary results and half year results announcements, as well as two interim management statements between results announcements. The IMI website includes recordings of results presentations made by senior management, recent annual and half year reports, interim management statements, other corporate announcements and links to the websites of the Group's businesses.

Stakeholder voice and Section 172 statement

A statement pursuant to Section 172 of the Companies Act 2006 is required content for the first time in this Annual Report. 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 Board decisions are made with the Group's long-term success in mind and, as can be seen from this Annual Report, the Board has regard to a broad range of matters including the voice of stakeholders. The oversight and monitoring activity of the Board includes maintaining an understanding of key stakeholders and being receptive to the voice of stakeholders. In particular, during the year the Board adopted a new strategy focused on accelerating growth through the execution of a plan which includes extensive operational change and a significant restructuring programme. In considering the strategy proposals the Board had regard to the relevant statutory factors, which were helpfully referenced in specific Board papers and in discussions. The strategy review looked at capital allocation including the desirability of maintaining a progressive dividend policy. After due and careful consideration of other options and relevant factors, the Board concluded that approving and implementing the new strategy is most likely to promote the success of IMI for the benefit of its shareholders as a whole.

Set out below is specific commentary in relation to each of the Section 172 factors:

a) the likely consequences of any decision in the long-term

The Board has adopted a five-year business planning period and sets strategy with a view to long-term success. As highlighted above a strategic review process was undertaken during the year with that in mind. Long-term considerations had a particular influence in assessing which are the most attractive markets for IMI to focus on and how to optimise the businesses' geographic footprint.

Our strategy drives our key investment decisions. For example, the acquisition of PBM Inc., in September 2019 reflects the strategy of expanding into attractive growth market segments and the Board's thinking around the longer-term trends. The acquisition case for PBM submitted to the Board included a specific section on Section 172 factors to inform the Board's decision-making process.

The Board also reviews whether any businesses ought to continue to be a focus for investment given longer-term strategic considerations.

b) the interests of the Company's employees

The Group depends on its employees for its success and invests considerable time and resources on employee engagement, training and development as summarised on pages 25 to 27. Investment decisions including rationalisation and relocation of activities are considered with due regard to the interests of employees. For example, the decision to invest in moving IMI CCI Japan to a new purpose-built facility offered various benefits including a more comfortable working environment for employees. Consultations with employees are conducted in relation to the significant site closures and headcount reductions which are underway as part of the active and proposed rationalisation projects. The Board approves and tracks the progress of these programmes with regular updates being provided at Board meetings.

Health and safety of our employees is of paramount importance and receives appropriate Board and management attention and investments. Reflecting this importance we measure and track our performance. See our key performance indicators on pages 52 and 53 for an update on our progress in this area.

Group pension scheme participants benefit from the Group's approach to pension provision and financial prudence in reducing the funding deficit in relation to defined benefit obligations. Further information on employee benefits and pensions is on pages 144 to 150.

c) the need to foster business relationships with suppliers, customers and others

Customer service and value are at the core of our business model and strategy. The Board monitors indicators of the customer experience and welcomes the increased emphasis on the customer which management is building. For example, the Board has received presentations and regular updates on our Growth Accelerator programme. Further information about this key strategic programme is included on page 17. Locating facilities nearer to customers in the most attractive growth markets is a key element in the Board's thinking about the footprint of the businesses, as reflected in the Strategic Report.

Our businesses work closely with partners including suppliers, distributors and agents who are closely managed from a commercial and compliance perspective. Further information can be found on page 25.

d) the impact of operations on the community and the environment

Our business units are positive contributors to their local communities as employers and through apprenticeships and employee training and community activities including the annual IMI Way Day, charitable activity and donations. The Group supports such community involvement, more detail on which can be found on page 35.

The Board approves and monitors the Group policy on minimising our impact on the environment, which is outlined on pages 33 and 34 with examples of energy and waste initiatives. Our continued progress depends upon the Board driving such initiatives and channelling investment to projects with due regard for the environment. For example, our recent investments in new, state of the art facilities in Japan and India have improved the Group's environmental footprint as well as providing modern, safer working conditions for our employees.

e) the desirability of maintaining a reputation for high standards of business conduct

The Board is careful of the reputation of the Group and its decisions reflect this and the great importance attached to the Group's reputation by all key stakeholders. The Board demands high standards of conduct from all directors and Group employees and expects management to be mindful of how and with whom business is conducted. For example, the Group has declined to have dealings with third parties who display poor business conduct. Further information about how we ensure we operate ethically at all times and our purpose, values and culture, which were specifically reviewed by the Board in 2019 alongside the strategy, can be found on pages 24 to 26.

f) the need to act fairly between shareholders of the Company

The Board understands the importance of treating shareholders fairly. IMI has only one class of share in issue and all shareholders individually enjoy the same shareholder rights as the others. Further information on shareholder engagement is provided on page 70.

By order of the Board

John O'Shea

Group Legal Director and Company Secretary

27 February 2020



Audit Committee Report

Dear Shareholder

I present my third report as Chair of the Audit Committee. Our Committee's role is to monitor the integrity of the Group's financial reporting and financial statements, to review the effectiveness of internal financial controls, to monitor and review the effectiveness of internal audit, and to make recommendations to the Board on the appointment of our external auditor whose independence, objectivity and effectiveness is reviewed by us. The full terms of reference of the Committee can be found in the IMI Corporate Governance Framework on the Company's website and was revised with effect from 1 January 2019 to take account of the Code.

In addition to our regular cycle of challenge and oversight activity, we have reviewed the accounting treatment for the 2018 acquisition of Bimba, for which the assessment of the fair value of assets and liabilities acquired was finalised in February 2019. We also reviewed the September 2019 acquisition of PBM and the initial assessment of fair value is included in the 2019 financial statements. Other particular features this year have been considering the adoption of IFRS 16 on leases and reviewing the format changes in the annual report and financial statements. We have also reviewed the significant rationalisation spend and the provisions for rationalisation at the year end and satisfied ourselves that the treatment of those disclosed as adjusting items is appropriate.

Members of the Audit Committee

Birgit Nørgaard, Carl-Peter Forster and I were members of the Audit Committee throughout the year. Thomas Thune Andersen joins the Committee on 1 March 2020 following the retirement of Birgit Nørgaard. All of the Committee members are regarded by the Board as independent non-executive directors. I have chaired the Audit Committee since 1 October 2017 and became a member on 1 September 2015. I spent my early career in the accounting and audit profession and the Committee, and the Board, is satisfied that I have significant recent and relevant financial experience. I also currently chair the audit committee at The Bankers Investment Trust PLC and Winton Group Limited. In my role as Chair, I have significant interactions with key senior executives, attended the Group's Senior Finance Executives Conference held in June 2019, review in advance selected papers and agendas for meetings of the Committee and meet with our external auditor prior to Committee meetings.

The Board is also satisfied that the Committee members have experience at audit committee level and collectively the Committee has the financial and commercial and auditing skills, experience and objectivity to be an effective Audit Committee. During the year, Committee members received updates covering key developments for 2019 annual reports, changes in accounting and other key topics such as reviews of the audit market. Furthermore, Committee members attend as appropriate external training sessions to update our knowledge.

Birgit Nørgaard retires from the Committee at the end of February 2020. Birgit has provided incisive and challenging comments and we thank her for her work on the Committee. We look forward to welcoming Thomas Thune Andersen to the Committee on 1 March 2020. He has been a regular attendee at our meetings since he joined the Board in July 2018.

The Committee invites the following to join all or part of its meetings: the Chairman, the Chief Executive, the Finance Director, the Group Financial Controller, the Group Assurance Director and the external auditor, Ernst & Young LLP ('EY'). In addition, other non-executive directors are welcome to attend and often join the meetings.

The Committee holds at least part of several meetings each year alone with the external auditor and with the Group Assurance Director. The Committee has the power to call on any employee to attend. The Secretary to the Committee is the Company Secretary, who is also the Group Legal Director.

Main areas of activity

The Audit Committee met four times in 2019. For two meetings the focus was on the forthcoming results reporting and for the other two the focus was on planning and review matters. All meetings include a review of current accounting matters within the Group, including in particular a review of judgmental areas such as restructuring provisions, impairment reviews and contingencies.

The effectiveness of internal financial controls continues to be a key area for the Committee which has welcomed management's focused efforts to improve and strengthen the Group's internal financial control and assurance processes. The processes include Internal Control Declarations ("ICD") which are submitted biannually by each business unit and cover internal financial controls, IT, human resources and other key areas. The process is managed by Group Assurance, which follows up declarations with on-site visits to audit results and track appropriate improvement actions. Over recent years ICD scores have improved reflecting the strengthening of the internal financial control environment. The Committee therefore supported the proposal from the Chief Executive that for high achieving business units the ICD process should be completed once annually from 2020. This change is being monitored by Group Assurance and regular reports are made to the Committee. Further information on Internal and External Audit is given below.

The Committee continues to seek out with management constructive opportunities for improvement. A number of further control initiatives were implemented in 2019 including the Group-wide adoption of evidence binders for key financial and IT controls. A revised Group policy on inventory provisioning was implemented in 2019 to update, clarify and improve consistency in this important area. The IT investment and infrastructure programme is continuing and its implementation facilitates improvements in external audit efficiency as well as in internal controls.

Additionally, we reviewed the implementation in 2019 of the new accounting standard relating to leases (IFRS 16), the impact on the Group's balance sheet and the appropriateness of the disclosures in the financial statements.

An update on tax policy and compliance from the Head of Group Tax was received by the Committee. Treasury matters, including a positive external report on the effectiveness of internal controls in that area, were discussed with the Group Treasurer by the Committee.

The Committee monitors changes in senior finance roles and recognises continuity of financial reporting standards following team changes as a key requirement. It was pleased to see management achieve successful internal transitions to key leadership roles in finance during the year, as well as the changes made to strengthen the finance function at several operating companies.

The Committee reviewed and approved for submission to the Board the statements on going concern and viability, which are in the Directors' Report on pages 94 to 101.

The Committee advises the Board on the fair, balanced and understandable requirements for the Annual Report and half year results statement. The Committee has made positive reports to the Board against these criteria. The Committee's review included in particular the consideration of alternative performance measures and the classification and presentation of adjusting items in accordance with the Group accounting policy. The Committee received a detailed account of the restructuring costs disclosed as adjusting items and was satisfied that these were appropriately categorised given the nature, scale and purpose of the relevant projects. In respect of the Annual Report, the fair, balanced and understandable criteria are also a review area for the external auditor, in relation to which it did not report any exceptions. The statement of Directors' responsibilities on page 101 includes confirmation by the Board that it considers the Annual Report, taken as a whole, to be fair, balanced and understandable.

Oversight of financial reporting

The Committee acts in an oversight role in respect of the Annual Report and other announcements with financial content, all of which are prepared by management. The Committee received reports on the annual and half year financial statements from management and the external auditor.

The Committee reviewed and approved the revisions made to the format of our financial statements and the Annual Report generally and for the new accounting standard for leases, IFRS 16. The changes are described in more detail on pages 116 and 141 to 143.

Significant judgements related to the financial statements

In preparing the accounts, there are a number of areas requiring the exercise by management of judgement and estimation. These matters were the subject of appropriate detailed analysis and commentary in papers and reports to the Committee by management and the external auditor. The Committee reviewed the most significant accounting areas involving such judgements and estimates and these are described below.

Acquisition accounting for Bimba and PBM

There is a 12-month measurement period after the date of acquisition to finalise the accounting for an acquisition. Management exercises judgement on the types of intangible assets acquired and estimates are made of the fair value of all assets and liabilities. Provisional values in respect of Bimba were included in the 2018 interim financial statements and adopted at that year end subject to an adjustment of £1.9m reported in the 2018 financial statements and Audit Committee Report. As set out in Note 23 to the financial statements on page 166, provisional values in respect of PBM are reflected in the 2019 financial statements. The Committee reviewed the judgement made by management in this respect, including the assumptions used to value the acquired intangibles and confirmed they are appropriate. The external auditor provided confirmation that the judgements made, including the assumptions used to value the acquired customer relationships and the PBM brand, were considered to be appropriate.

Audit Committee Report

Impairment of goodwill and intangibles arising from acquisitions

The Committee considered the level of goodwill and intangible assets held on the Group's balance sheet in respect of a number of past acquisitions and whether, given the future prospects of these businesses, the carrying value in each case remained appropriate.

The year end balance sheet includes goodwill of £444.1m and intangible assets arising on acquisitions of £84.5m. The Committee reviewed the assumptions and calculations used by management in the assessment of any impairment of goodwill and intangible assets and agreed that no impairment of goodwill was required. Impairment was also a key audit matter for EY which reported its findings to the Committee. Note 11 to the financial statements on page 137 provides details regarding the Group's intangible assets and goodwill.

Revenue recognition

The Committee discussed the timing of revenue recognition on some of the Group's larger contracts. In addition, this is a key audit matter on which EY reported to the Committee.

Having reviewed management's process and EY's report, the Committee concluded that revenues were appropriately reflected in the financial statements. Note 2 to the financial statements on page 117 provides further information.

Inventory valuation

The year end balance sheet includes inventories of £280.8m after £35.4m of provisions. The Committee reviewed the judgements applied to standard costing valuations and provisions against excess and obsolete inventory and concurred with management's assessment. The restated Group methodology on inventory provisioning introduced in 2019 has further improved the clarity regarding the judgements and estimates made by management in this connection, although this has not materially impacted the provisions. This was a key audit matter for EY, in respect of which it reported to the Committee that inventory valuation across the Group is considered appropriate. Note 15 to the financial statements on page 151 provides details of inventory valuation.

Other judgement areas

The Committee reviewed the appropriateness of the accounting treatment in respect of pension scheme liabilities, including the actuarial assumptions used and the impact of one-off special pension events. The Committee also received a report reflecting appropriate expert input from the external auditor, which concurred with the accounting for pensions proposed by management. The Committee supported management's on-going efforts to de-risk the Group's pension obligations. Further details can be found in Note 14 on page 144.

In addition the Committee reviewed the appropriateness of restructuring costs disclosed as adjusting items, property sales and the adequacy of taxation provisions. Further details on these matters can be found in Notes 3 and 9 respectively, on pages 120 and 132.

Internal audit

The Committee received reports from and monitored the work of the Group's internal audit function, known as Group Assurance. Group Assurance reports through the Finance Director to the Chief Executive. Group Assurance also has a direct reporting line to the Committee. Group Assurance work is primarily directed towards financial control audits but also covers other selected areas including project planning and implementation for major business changes and internal control declarations. The principal projects reviewed in 2019 were major IT system implementations in each of the three divisions and a financial control improvement review at Bimba and a project margin review in part of IMI Critical.

During the year 41 internal audit reviews were completed with 34 of these supported by divisional finance managers. Centrally the Group Assurance team is led by experienced, senior internal audit professionals and across the Group there are over 100 staff trained to conduct internal financial control audits. Locations to be reviewed each year are selected on a risk assessed basis, discussed with the Audit Committee and take account of the external audit plan. In 2019, the plan included the audit of the Group treasury function which was executed with the support of third party treasury audit expertise. The completion of actions arising from internal audits and reviews is monitored by the Committee and the track record is excellent.

Group Assurance works closely with the divisions to implement monitoring and review processes to complement the internal and external audit coverage. The annual plan and resourcing for internal audit were approved by the Committee and take account of the enhanced monitoring and review activity within the divisions. The scope of internal audits covers certain operational and commercial risks in addition to financial controls. To achieve this experienced financial managers from the divisions work on combined audits covering financial, operational and commercial matters. Group Assurance has trained divisional finance managers in financial control auditing skills and provided a toolkit to enable them to carry out financial control audits at other sites in their division. Financial control evidence binders have been introduced across the Group to help improve internal controls and to make internal audits more efficient. The binders also support transition and continuity in the event of any changes in finance staff.

The Committee reviewed the effectiveness of Group Assurance with management and received input from the external auditor. The Committee supports the co-sourcing model with the Group Assurance Team and experienced financial managers from the divisions working together to enhance the effectiveness of assurance processes. An area for improvement which was identified is for Group Assurance to continue to develop its capability to carry out operational and commercial risk reviews. The improvement action for 2019 was to do more to share best practice and progress has been made, most notably with the creation of evidence binders including best practice examples for key controls and how the best sites operate.

External audit independence and performance review

The Committee approved the proposed external audit approach and its scope based on the size and level of risk of the entities concerned. The Group and EY take a risk based approach to audit and other assurance activity. The key audit matters identified by EY are set out in its report on pages 104 to 111 and were reviewed by the Committee in approving the audit scope and plan.

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

The policy on the use of the auditor for non-audit work takes account of developments in regulatory requirements and ethical guidelines for the audit profession. The policy requires approval by the Committee Chair for any non-audit engagement for which the estimated fees exceed £10,000. The Finance Director monitors any proposed non-audit engagements of EY and refers to the Chair for approval as appropriate. The policy does not allow work to be placed with the auditor if it could compromise auditor independence, such as functioning in the role of management or auditing its own work. Non-audit fees paid to the auditor were £0.1m (2018: £0.1m), which represents 3% of the audit fee and demonstrates the tight control which is maintained in this area. The most significant non-audit engagement during the year was in respect of the interim results review which is technically not statutory audit work and was approved by the Committee. The Committee considers the level and nature of non-audit work to be modest and not to compromise the independence of the external auditor. We are satisfied that EY is fully independent from the management and free of conflicts of interest.

Benchmarking of the audit fee was conducted in the context of the full audit tender process carried out in 2018 and the fee is considered by the Committee to be appropriate. Pursuant to the power granted at the 2019 Annual General Meeting, the Committee reviewed and approved the proposed audit fee payable to EY.

To maintain the objectivity of the audit process, the external audit partner responsible for the Group is rotated within the audit firm at least every five years and the current Senior Statutory Auditor, Simon O'Neill, was first appointed in respect of the 2018 audit.

We formally reviewed the effectiveness of the external audit process. As in other years, a questionnaire, sent to 30 business unit finance directors, and interviews with members of the Committee and selected executives were used to review the external auditor's performance. Based on the results of the questionnaire and feedback received, the Committee believes the external auditor's performance has been good and effective. To enhance further the external audit process,

certain improvement actions were identified and plans have been put in place by EY to address these. These included EY providing more insight into lessons learned and best practices at other audit clients and more feedback on the quality of the finance teams around the Group. The Committee has been pleased to see progress with the action areas identified after the 2018 audit: action to improve continuity of junior level staff on the audit and more rigorous structure in the audit process, especially in relation to audit deliverable requests and progress meetings.

In September 2019, the Financial Reporting Council's Audit Quality Review Team ("AQRT") completed a review of EY's audit of the Company's financial statements for the period ended 31 December 2018. The Committee considered the final inspection report, which did not raise any significant findings, and discussed the results with the lead audit partner. The Committee agreed with the overall assessment by the AQRT, which was consistent with its own positive view of the quality and effectiveness of the external audit in respect of 2018. The Committee also considered the FRC's audit quality report on the audit profession and noted the improved audit quality score achieved by EY as a firm.

Audit tendering

A formal audit tender process led by the Committee was completed in 2018 leading to the re-appointment of EY at the 2019 Annual General Meeting. The tender process complied with the Competition and Market Authority's Order. Current legislation will require a change of auditor by not later than 2029 and the Company retains the freedom to make a change earlier. The Committee considers it would be appropriate to conduct an external audit tender process commencing the year before any change of auditor is made and therefore not later than 2028 in any event.

Committee attendance and evaluation

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

The Committee reviewed its own performance and terms of reference and received positive feedback from the evaluation exercise carried out in relation to the Board and each of its standing committees. As a result of the evaluation in 2018, the meeting cycle for future years was adjusted to improve efficiency. The Committee reviewed how it had worked in 2019 and recommended no material changes for 2020.

The Committee approved this report on its work.

Yours faithfully

Isobel Sharp
Chair of the Audit Committee

27 February 2020



Nominations Committee Report

Dear Shareholder

I am pleased to make my report as Chair of the Nominations Committee. This report is intended to give an account of the Committee and its activity. The core responsibilities of the Committee are succession planning and appointments at Board level and oversight of appointments to the Executive Committee. The full terms of reference of the Committee can be found in the IMI Corporate Governance Framework on the Company's website.

Composition

Thomas Thune Andersen, Carl-Peter Forster, Katie Jackson, Birgit Nørgaard, Isobel Sharp and I were members of the Committee throughout the year. Caroline Dowling joined the Committee on 1 January 2020. For the purposes of the Code, all of the non-executive directors on the Committee are regarded as independent non-executive directors.

Attendance

Director	Nominations Committee meetings	% attended where eligible
Thomas Thune Andersen	4/4	100
Carl-Peter Forster	4/4	100
Katie Jackson	4/4	100
Birgit Nørgaard	4/4	100
Isobel Sharp	4/4	100
Lord Smith	4/4	100

Main areas of activity

Chief Executive succession

Following a rigorous selection process supported by Russell Reynolds, in February 2019 the Board agreed on the recommendation of the Committee to appoint Roy Twite as IMI's next Chief Executive with effect from 9 May 2019.

Following Roy's promotion, the Committee recommended the appointment of Jackie Hu as the new Divisional Managing Director for IMI's Critical Engineering division, which was confirmed by the Board and announced in March 2019.

Board changes and recommendations for election and re-election

In response to Birgit Nørgaard's decision to step down on 29 February 2020, the Committee engaged Russell Reynolds to undertake a full search process to find a new non-executive director. The Committee recommended the appointment of Caroline Dowling which was approved by the Board and the appointment was made with effect from 1 January 2020.

Following Birgit's retirement, Carl-Peter Forster will become Chair of the Remuneration Committee and Thomas Thune Andersen will become non-executive director for employee engagement and for ESG matters. Caroline Dowling has joined the Remuneration Committee and, from 1 March 2020, Thomas will join the Audit Committee and step down from the Remuneration Committee. These appointments were also recommended by the Committee and approved by the Board.

All of the directors standing are recommended for re-election or election at the Annual General Meeting following Board approval of the recommendations made by the Committee in this connection.

Succession planning

The Committee reviews Board composition and has formulated a structured, medium-term plan for Board succession.

During the year the Committee reviewed talent development and succession planning for the top 212 roles in the Group with the support of the Chief Executive and Group Human Resources Director. We were encouraged to see that significant progress continues to be made in terms of cultivating a stronger pipeline of high-calibre talent as demonstrated by the internal appointments of the new Chief Executive and new Divisional Managing Director for Critical Engineering. Further 2019 examples of senior internal promotions are the appointees to the Divisional Finance Director roles in IMI Precision and IMI Critical. Details of our leadership development and succession planning processes are set out in the Environmental, Social & Governance section on pages 29 and 30.

Review of time commitments and contributions

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

Diversity and inclusion

The Committee recognises the benefits a diverse pool of talent can bring to a boardroom and remains committed to increasing diversity across IMI. We will continue to review the composition of our management teams and the Board to ensure that we have the right mix of skills and experience while maintaining our effectiveness and execution capabilities. The Committee's terms of reference and activity reflect its responsibility under the Code for promoting broader diversity at Board and senior management level.

At Board level, half the directors are non-British and there are five nationalities. Three of the continuing non-executive directors are female, representing 37.5% of the Board, and there is a broad mix of backgrounds and experience as detailed on pages 62 and 63.

The Committee and management are supportive of the need to improve gender diverse representation at senior executive levels and are working hard to this end. Further information about the initiatives we are implementing to increase diversity and inclusion across the Group are detailed in the Environmental, Social & Governance section on pages 27 to 30.

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

The Committee approved this report on its work.

Yours faithfully

Lord Smith of Kelvin

Chair of the Nominations Committee

27 February 2020

Annual Statement from the Chair of the Committee

On behalf of the Board, I am pleased to present the Annual Directors' Remuneration Report for the year ended 31 December 2019. As previously announced, this will be my last as Chair of the Remuneration Committee before I stand down from the Board. Carl-Peter Forster, a member of the Committee since 2012, will take on the role of Chair.

Remuneration in 2019

Context

As I reported last year, Mark Selway stepped down as Chief Executive at the 2019 Annual General Meeting before retiring on 31 July 2019. Roy Twite, having served on the IMI Board as a director since 2007, most recently as Divisional Managing Director of IMI Critical Engineering, was appointed Chief Executive from the end of the 2019 Annual General Meeting. The remuneration arrangements relating to both Mark Selway's retirement and Roy Twite's appointment complied with our Directors' Remuneration Policy ("Policy") approved by shareholders at the Annual General Meeting in May 2018. The Committee was pleased to see that 97.3% of shareholders at the 2019 Annual General Meeting supported the Committee's implementation of the Policy. Full details of the remuneration arrangements for both Mark Selway and Roy Twite can be found on page 82.

Pay for performance

Notwithstanding the change in leadership and strategy, the Committee's focus in 2019 continued to be on maintaining a strong pay for performance relationship between the Policy and its implementation.

The Committee aims to ensure that executive pay reflect IMI's desired culture and key stakeholder interests through strong alignment between individual performance and business performance. A high proportion of our executive directors' remuneration is closely tied to business performance and the Committee sets targets having considered several factors including the strategic plan, annual budget, analysts' forecasts and economic conditions. Our objective is always to set stretching targets while at the same time ensuring that underlying performance takes into consideration external factors such as macro economic conditions.

Further information about the process we follow when setting targets and assessing performance is set out on page 84.

Key strategic and performance highlights in 2019 include:

- » Results were ahead of expectations given the mixed economic and market headwinds.
- » Group adjusted profit before tax remained flat at £250.7m while adjusted revenue decreased by 2% to £1,873m.
- » Cash conversion increased to 112% in 2019 and shareholders will receive a total dividend of 41.1p - an increase of 1% from last year subject to approval at the forthcoming Annual General Meeting.

Incentive outcomes

Annual incentives paid to executive directors in respect of performance in 2019 were based on achievement of stretching targets relating to Group adjusted profit before tax, organic revenue growth, cash conversion and strategic and personal objectives. The Committee determined annual incentive outcomes ranging between 41% and 44% of maximum for the executive directors, which fairly reflects business and individual performance.

The 2017 IMI Incentive Plan ("IIP") award which was subject to stretching Return on Capital Employed, Group adjusted profit before tax (PBT) growth and relative Total Shareholder Return (TSR) targets measured over three financial years will vest at 47.1% in March 2020.

As part of its determination of incentive outcomes, the Committee considered the impact of the IFRS 16 accounting change and the underlying performance of the business, external factors such as macro economic conditions and shareholder experience during the performance period. The Committee concluded that the above outcomes were a fair reflection of performance and did not consider it necessary to exercise its discretion to adjust the level of incentives payable according to the performance targets.

Full details on the targets set and performance against them can be found on page 85 in respect of the annual incentive and page 87 for the 2017 IIP award.

Chief Executive pay ratio

The Committee is pleased to present for the first time the Chief Executive pay ratio in accordance with the new reporting regulations which can be found on page 92.

Employee Engagement

As designated non-executive director with the responsibility for workforce engagement, I have during 2019 had the opportunity to engage with our employees on items including (but not limited to) business performance and company culture. Further details can be found on page 68. I know that the Board will continue to be well served in this regard by Thomas Thune Andersen who succeeds me in this role.

Remuneration in 2020

Policy implementation

Consistent with prior years, salary increases effective 1 January 2020 considered a range of factors including the increases for the wider workforce, the financial performance of the Group and prevailing economic conditions. For 2020 the Chief Executive received no base salary increase and the Finance Director received 2%, which is below the increase awarded to the wider employee workforce for 2020 of 2.8% but aligned to the general increase applied to UK employees. The base salary for the Chief Executive will remain at £720,000 in 2020 and for the Finance Director will be £457,650 effective from 1 January 2020.

The Chairman and non-executive director fees were also reviewed and increased by 2%, with effect from 1 January 2020.

Following the announcement of the new strategy in November 2019, the Committee reviewed the metrics that applied to the annual bonus and IIP awards and considered whether any changes were appropriate in accordance with the Policy. To ensure immediate alignment with the new strategy and to incentivise executives to realise the identified value creation opportunities across our businesses, the Committee has determined that the 2020 annual bonus will be contingent on a PBT growth metric alongside strategic and personal objectives for each executive director. The weighting of 80% to financial metrics and 20% to strategic and personal objectives will remain. The move to a single financial metric in PBT is a purposeful one to ensure that in 2020 focus is concentrated on accelerating profitable growth through short-term profitability initiatives, cost and operational initiatives and margin improvement. A new underpin will be introduced to allow for downward discretion if there is a material underperformance against budgeted free cash flow. The health and safety underpin will also be expanded to take into account any relevant environmental, social and governance (ESG) matters when determining remuneration outcomes. The Committee is also increasing the weighting on TSR targets for IIP awards to 1/3, Return on Capital Employed (ROCE) to 1/3 and introducing an adjusted Earnings Per Share (EPS) metric of equal 1/3 weighting. Note that ROCE will now be calculated in the same manner as defined in our KPIs on pages 52 and 53. This replaces prior year IIP metrics of 25% Return on Capital Employed, 25% Relative Total Shareholder Return and 50% Group adjusted profit before tax growth. Prior to confirming these changes to our incentive plan metrics to align to the new strategy, in early 2020 the Committee informed and engaged with our top ten investors.

The Committee believe these changes in metrics will ensure that executives are only rewarded if underlying earnings improve, there is an acceptable return on capital employed and shareholder returns outperform peers. The Committee will continue to regularly monitor the reported KPIs along with the underlying performance of the business when it determines incentive outcomes.

Full detail on the PBT growth targets set for the annual bonus will be disclosed in next year's Annual Directors' Remuneration Report. The TSR, EPS and ROCE targets attaching to the 2020 IIP award are disclosed on page 93.

The annual bonus and IIP award level for the Chief Executive in 2020 will remain unchanged, as will the IIP award level for the Finance Director. For 2020 the annual bonus opportunity for the Finance Director will increase from 125% to 150% of base salary, below the limit permitted by policy (200%). The Committee approved the increase in recognition of Daniel Shook's consistently strong performance since joining in 2015 and having taken into account movement amongst global industry peers in the five years since.

Policy review

The Committee intends to undertake a full review of current policy in 2020, before its expiration at the 2021 AGM when a new policy will be presented for shareholder approval. At the core of the review will be our new strategy, the remuneration related provisions of the Code and evolving investor views. The policy review will consider wider workforce remuneration and policies when making decisions on executive remuneration. The policy already includes a provision for both unvested and vested awards to extend post-employment. However, it is the Committee's intention that it will formally adopt a post-termination shareholding requirement as part of the new policy. The Committee will also consider investor sentiment regarding pension allowance for executive directors noting that the Chief Executive is already receiving the average global employee pension opportunity of 11% of base salary.

Finally, I would like to thank my fellow Committee members for their support during my tenure as Chair. I believe that under its new leadership IMI will continue to prosper and create value for all its stakeholders.

Yours faithfully

Birgit Nørgaard

Chair of the Remuneration Committee
on behalf of the Board

27 February 2020

Annual Directors' Remuneration Report

On behalf of the Board, the Remuneration Committee (the "Committee") presents the Annual Directors' Remuneration Report, which will be put to shareholders for an advisory (non-binding) vote at the Annual General Meeting to be held on 7 May 2020. The report includes details of the work of the Committee, the pay received during the year in accordance with our current directors' remuneration policy, approved by shareholders at the Annual General Meeting in May 2018. A copy of the approved Directors' Remuneration Policy is included in the 2017 Annual Report which can be found on the IMI website.

The Committee

Composition

The members of the Committee throughout the year were Birgit Nørgaard (Chair), Carl-Peter Forster, Thomas Thune Andersen and Katie Jackson. In accordance with the Code, all the non-executive directors are regarded by the Board as independent. As previously noted, Birgit Nørgaard will stand down from the Board on 29 February 2020 and Carl-Peter Forster will become chair of the Committee from 1 March 2020. Caroline Dowling, who joined the Board on 1 January 2020, will, from that date, also be a member of the Committee. Thomas Thune Andersen, who joined the Committee in July 2018, will stand down and will be joining the Audit Committee from 1 March 2020.

Responsibility

The Committee determines the remuneration policy and rewards for the executive directors and other members of the Executive Committee and the Chairman. The Committee also considers the levels of pay and benefits across the Group. A copy of the Committee's terms of reference, which has been updated to reflect the 2018 Code, is included in the IMI Corporate Governance Framework and available on our website.

Internal advisers to the Committee

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

External advisers to the Committee

Independent remuneration consultant, Willis Towers Watson, is formally appointed by the Committee and provided advice on executive remuneration to the Committee in 2019. The Committee noted that the firm are actuaries and administrators for IMI's UK Pension arrangements. The Committee is comfortable that these activities do not represent a conflict of interest and that objective and independent advice continues to be received by the Committee from the dedicated team servicing it at Willis Towers Watson.

The fees charged by Willis Towers Watson in respect of advice and services to the Committee totalled £93,000 in 2019. Willis Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK.

A summary of the Committee's activities during 2019

The Committee had three formal meetings during the year, attendance can be viewed in the table adjacent. The principal agenda items were as follows:

- » determining the remuneration arrangements relating to the retirement of Mark Selway as Chief Executive and the promotion of Roy Twite as his successor;
- » a review of total compensation packages of the members of the Executive Committee alongside a deep dive into the wider workforce remuneration and related policies;
- » approval of achievements and outcomes for 2018 under the incentive plans;
- » consideration of the fees for the Chairman;
- » setting the target levels for the 2019 incentive cycle;
- » approval of the 2019 share awards to members of the Executive Committee;
- » review of the performance metrics and targets for the 2020 incentive cycle following announcement of our new strategy in November 2019 and informing our top ten investors of the outcome of this review;
- » review of IMI's gender pay gap data for 2019 against the prior years' data;
- » review of IMI's pay ratio of the Chief Executive to UK employees and underlying calculation methodology;
- » further review of the UK corporate governance and regulatory environment and updated reporting regulations;
- » review of the performance of the independent remuneration consultants to the Committee;
- » review of risks as they relate to executive compensation;
- » review of the Committee's own performance, constitution and terms of reference;
- » decided to attach non-compete covenants to performance share awards under the LIP from 2020 including those for the Executive Committee;
- » review of executive director's service agreements; and
- » agreed themes for discussion and the coming policy review and agreed a timetable for the review of Directors' Remuneration Policy in 2020 in advance of its renewal at the 2021 AGM.

Attendance

Director	Remuneration Committee meetings	% attended where eligible
Birgit Nørgaard	3	100
Carl-Peter Forster	3	100
Thomas Thune Andersen	2	67
Katie Jackson	3	100

Annual General Meeting 2019 voting outcomes

The following table summarises the details of votes cast for and against the 2018 Annual Directors' Remuneration Report along with the number of votes withheld. The Committee will continue to consider the views of, and feedback from, shareholders when determining and reporting on remuneration arrangements.

Voting item	Votes for	Votes against	Votes withheld
Annual Directors' Remuneration Report	97.3%	2.7%	0.5%

Annual Directors' Remuneration Report

Executive single figure table (audited)

		Fixed pay (£000)		Annual variable pay (£000) ³	Long-term variable pay (£000)	Other items in the nature of remuneration (£000)			
Director		Base salary	Pension ²	Taxable benefits	Annual incentive bonus	IMI Incentive Plan ("IIP")	All-employee share plans	Dividend equivalent payments	Total (£000)
See page		Page 83	Page 83	Page 83	Pages 84 to 86	Page 87	Page 89		
Roy Twite ¹	2019	636	112	30	516	409	4	-	1,707
	2018	475	166	30	405	312	4	-	1,392
Daniel Shook	2019	449	90	41	248	277	4	-	1,109
	2018	439	88	40	409	211	3	-	1,190
Mark Selway ⁴	2019	617	144	49	389	706	4	1	1,910
	2018	822	247	67	1,232	673	4	2	3,047

Roy Twite served on the Board of Halma plc during the year and received fees of £58,125 in respect of this appointment which he retained

Daniel Shook served on the Board of Ultra Electronics Holdings plc from 1 September 2019 and received fees of £21,166.68 in respect of his appointment which he retained

¹ Amounts for 2019 reflect Roy Twite serving as Divisional Managing Director up to 9 May 2019 and Chief Executive thereafter

² From the date of his appointment as Chief Executive Roy Twite's company pension contributions were reduced from 35% to 11% of base salary which is consistent with the average global employee pension opportunity for employees

³ For Roy Twite, the 2019 annual bonus was pro-rated to reflect the increase in maximum opportunity on his appointment as Chief Executive

⁴ As disclosed in the 2018 Directors Remuneration Report, Mark Selway stepped down as Chief Executive at the 2019 AGM and retired from the Board on 31 July 2019. Base salary for 2019 includes payment in lieu of notice for two months. Vesting in respect of the 2019 annual bonus and 2017 IIP award which were both pro-rated to reflect time served by Mark Selway during the year

These figures have been calculated as follows:

Base salary and fees:	the actual salary receivable for the year including any payment in lieu of notice made	Share price assumptions:	for shares vesting in 2020, that related to performance in the three years to 31 December 2019, the average share price over the final three months of 2019 (1,075.75 pence) is used to estimate the value of shares on vesting. The value of the award shown in the table that is attributable to share price appreciation is nil
Pension:	the cash allowance paid in lieu of pension	All-employee share plans:	the value of free shares at award and dividends under the Employee Share Ownership Plan in the relevant financial year and the intrinsic value of Save as You Earn share options on the date of grant in the relevant financial year (applying a 10% discount as permitted under the Save as You Earn Share Plan)
Taxable benefits:	the gross value of all taxable benefits (or benefits that would be taxable for a person tax resident in the UK) received in the year	Dividend payments:	For the IIP an additional number of shares proportional to the dividends paid between the date of the award and the date of vesting are delivered on the vesting date (no further dividends are accrued after the vesting date). This applies to both the performance share awards and deferred bonus share awards under the IIP. Dividend equivalent payments arise from unexercised awards under the legacy Performance Share Plan
Annual incentive bonus:	the value of the annual incentive payable for performance in respect of the relevant financial year (up to half is automatically delivered in the form of deferred bonus share awards when the executive director does not meet their share ownership requirement) however the plan rules permit payments to be made wholly in cash		
IMI Incentive Plan ("IIP"):	the value on vesting of the nil cost options that were subject to performance conditions over the three-year period ending on 31 December in the relevant financial year (see share price assumptions adjacent)		

Executive remuneration received in respect of 2019

Base salary

Salary increases effective 1 January 2019 took into account a range of factors including the increases for the wider workforce, the financial performance of the Group and prevailing economic conditions. The average increase for employees in 2019 was 3.0%, compared to an average increase for executive directors of 1.2%. On appointment as Chief Executive the Committee set Roy Twite's salary at £720,000 which is 12% lower than his predecessor. Daniel Shook's salary was increased by 2.2% effective 1 January 2019 to £448,650. Mark Selway was not awarded a salary increase for 2019.

Pension

Effective from the date of his appointment as Chief Executive, Roy Twite received a cash allowance equivalent to 11% of base salary which is consistent with the average global employee pension opportunity for employees.

Daniel Shook received a cash allowance of 20% of salary and the Committee intends to review the appropriateness of this level as part of the policy review in 2020.

Pension benefits for past service

Roy Twite was previously an active member of the defined benefit IMI Pension Fund, the assets and liabilities under which were transferred to either the IMI 2014 Pensioner Fund or the IMI 2014 Deferred Fund ('the Fund') in 2014. He opted out with effect from 1 February 2007, before he became an executive director, and as a result he retains past pensionable service up to that date in the Fund.

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

- » the normal retirement age under the Fund is 62 and Roy Twite may retire from employment with IMI any time after age 60 without an actuarial reduction applied to his pension.
- » on death after retirement, a dependant's pension is provided equal to 50% of the member's pension.
- » should he die within the first five years of retirement, the dependant's pension is increased to 100% of the member's pension for the remainder of the five-year period.
- » pensions in payment more than any guaranteed minimum pension, are increased each year in line with price inflation up to a maximum of 5% in respect of pension built up before 1 January 2006, and 2.5% in respect of pension built up after 1 January 2006.

	Accrued pension in the Fund as at 31 December 2019 £000pa	Accrued pension in the Fund as at 31 December 2018 £000pa
Roy Twite	76	74

Benefits

During the year the executive directors received several benefits, which are summarised below.

	Roy Twite		Daniel Shook		Mark Selway	
	2019	2018	2019	2018	2019	2018
Non-cash benefits (£000)	11	13	27	26	16	22
Company car and fuel allowance (£000)	19	17	14	14	11	20
Allowances and reimbursement (£000)	-	-	-	-	22	25
Total	30	30	41	40	49	67

Note: Mark Selway received no benefits following his retirement

In addition to the above benefits and allowances that are included in the single figure table (refer to table on page 82), the executive directors are also beneficiaries of company policies that have no taxable value, including directors' and officers' insurance, death in service cover, travel insurance and personal accident cover.

Annual Directors' Remuneration Report

Annual incentive bonus

In setting targets and assessing performance the following process is adopted by the Committee:



As per the Policy, the Committee reviews and selects performance measures, targets and ranges annually, which take account of the economic conditions, strategy and the priorities of IMI at the time.

1. Set performance measures aligned with strategy and budget

The Committee reviewed and selected performance measures for 2019 that were fully aligned to the business strategy and the annual budget as approved by the Board in December 2018. The 2019 annual incentive bonus focused on several financial metrics and non-financial metrics and the financial metrics were consistent with the prior years. These included:

- » Group adjusted profit before tax (40%)
- » Organic revenue growth (20%)
- » Cash conversion (20%)
- » Strategic and personal objectives (20%)

There was also a health and safety underpin to allow bonuses to be paid only when minimum standards were achieved.

For 2020, see page 93 for information regarding the financial metrics to align to the new strategy that was announced in November 2019.

2. Set stretching performance targets

In setting stretching performance targets the Committee considered a range of influencing factors that included the strategic plan, the annual budget, analysts' forecasts, economic conditions, individuals' areas of responsibilities and the Committee's expectations over the relevant period.

The performance target range itself was established based on the annual budget and required significant outperformance for executive directors to achieve the maximum.

3. Assess performance

Results were ahead of expectations given the mixed economic and market headwinds:

- » Group adjusted profit before tax remained flat at £250.7m in 2019;

- » Group revenue decreased to £1,873m in 2019 from £1,907m in 2018, representing a 2% decrease;
- » Cash conversion was 112% in 2019, compared with 83% in 2018;
- » Adjusted Basic EPS remained at 73.2p;
- » The total dividend for the year increased by 1% compared to 2018.

4. Take account of wider circumstances

The Committee believes that the range of measures used to assess performance of the annual incentive bonus ensures that performance is assessed using a balanced approach, that is fully aligned with the business strategy. The Committee also considers the wider workforce remuneration and policies when making decisions on executive remuneration. Given the performance noted above and wider operational achievements, the Committee is comfortable that the 2019 annual incentive bonus outcomes represent a fair reward for performance delivered.

5. Discretion to override formulaic outcomes and to apply malus and clawback

Depending on the circumstances, the Committee may exercise judgement in assessing performance and determining the level of achievement. The Committee has full discretion to override formulaic outcomes and to reduce the amount of any annual bonus, to reduce the number of shares subject to any form of share award and/or to require a repayment to the Company in the event it is discovered that the Company has misstated its financial results, there has been an error or miscalculation in respect of an award, there has been gross misconduct or in any other circumstances as the Committee sees fit. Such other circumstances may include, but are not limited to, serious reputational damage or corporate failure. The broad discretion would allow the Committee to make a downward adjustment for ESG reasons.

The Committee has considered the position and determined that for 2019 it is not appropriate for any reason to exercise the discretion to override formulaic outcomes or recover amounts previously awarded.

EOI

IMI Critical Engineering
Paju, Republic of Korea

Summarised in the table below is the achievement against Group targets applicable for Daniel Shook and Mark Selway (pro-rated to retirement in July 2019) and from 9 May 2019, for Roy Twite.

Director	Measure	Maximum opportunity (% of bonus opportunity)	Performance Targets			Actual performance (£m) ⁴
			Threshold	Target	Maximum	
All Executive Directors	Group adjusted profit before tax ¹	40%	£235.9m	£262.1m	£288.3m	£244m
	Group organic revenue growth ²	20%	£1,845m	£1,915m	£1,984m	£1,842m
	Group cash conversion ³	20%	74%	87%	96%	107%
	Strategic and personal objectives	20%		See table on page 86		
		100%				

¹ Adjusted Group profit before tax, as set out in the Income Statement on page 112, adjusted for the impact of IFRS 16, foreign exchange and acquisitions

² Growth of organic revenue, as set out in Note 4 on page 123, adjusted for the impact of foreign exchange

³ This is calculated as management operating cash flow divided by management operating profit at the stated exchange rates used in the targets

⁴ Actual performance is stated at the exchange rates used in the targets

Strategic and personal objectives

As part of the strategic growth plan, the Committee sets each executive director several strategic and personal objectives each year. Upon Roy Twite's appointment to Chief Executive, his strategic and personal objectives were updated in line with expectations of the role and as summarised in the table below.

Performance against these objectives is assessed using a combination of quantitative and qualitative reference points to ensure a robust assessment process. Mid-way through the year the executive is reviewed against their progress towards achieving the strategic and personal objectives with a full review undertaken by the Committee at the end of the performance period. As well as performance against strategic and personal objectives, the Committee considers the wider performance of the Group.

Annual Directors' Remuneration Report

A summary of the strategic and personal objectives set for 2019 and the performance against them is provided in the table below.

Director	Strategic and personal objectives for 2019	Commentary	Weighting (% of maximum)	Performance achieved (% of maximum)
Roy Twite	<p>Strategic growth: review market segments for each division for long-term profitable growth; drive P&L accountability and focus the organisation on profitable growth and cash generation; continue to develop acquisition options and relationships; present the strategic plan to the Board, investors and employees, ensure the Group's values (including new customer focus value) are communicated and understood</p> <p>Strengthen organisation: Optimise divisional performance focusing on bookings, SG&A reduction, smart pricing in the aftermarket; material cost reduction and execution of the 2019 rationalisation projects. Actively sponsor and support the Group's diversity agenda. Drive HSE improvements across the business</p> <p>Deliver projects: Continue with customer led, new product development and introduction; develop plan to review and optimise manufacturing footprint. Continue to refine and build relationships with acquisition targets</p>	<p>Market segment review fully developed for the divisions and presented to investors as part of strategic review and significant progress made to leadership and management accountability to drive long-term growth. Incentive structure simplified and aligned with new strategy. Strategic plan and values successfully communicated to key stakeholders including the Board, investors and employees in November 2019</p> <p>Business improvement initiatives successfully delivered in the second half of the year resulting in improved margins and order book at the year end. Rationalisation projects delivered on time and Group and Divisions remain actively engaged with Diversity plans. Robust HSE improvement plans delivered with a reduction in lost-time accidents and hand injuries</p> <p>Introduction of growth accelerator programme creating a culture of market led innovation now embedded in strategy. Plan to review and optimise manufacturing footprint presented to the Board in late 2019. PBM successfully acquired in Q3 2019</p>	20%	17.6%
Daniel Shook	<p>Strengthen finance organisation: execute strong planning and robust transition arrangements for key internal succession movements for both finance and IT, continue to improve internal controls and support the process improvements and subsequent changes to internal audit, treasury and tax to achieve this</p> <p>Deliver projects: continue to strengthen IMI capabilities through enhanced IT improvement plans e.g. ERP, IT advancements, desktop collaboration standards; and the security enhancement programme. Support M&A integration projects and develop relationships</p>	<p>Key internal transitions successfully completed with minimal disruption and improved performance across finance, tax and IT. Internal controls continue to align to industry best practice and improvements made now resulting in efficiencies across the divisions. Consistently strong performance from tax and treasury functions.</p> <p>Successful delivery of IT projects including Security Enhancement Programme and IoT advancement, ensuring that divisions continue to effectively develop focused initiatives to advance IMI's IT agenda and manage associated risks. Full support provided for successful PBM acquisition and continuing well with post acquisition integration</p>	20%	17.8%
Mark Selway	<p>Organisation: Engage and support divisions with organisational design for optimal performance going forward. Continue to sponsor diversity plans throughout the divisions and develop and refine diversity roadmap. Fully transition Chief Executive responsibilities to Roy Twite including employee engagement activities, executive meetings, investor relationships, accountability and strategy</p> <p>Deliver projects: Establish internal control and improvement plans and monitoring of progress. Oversee successful handover for the new Divisional Managing Director for IMI Critical Engineering ensuring robust and seamless transition. Continue to reduce the Group's balance sheet exposure in regards pension liabilities. Review key global operating units and report findings and recommendations</p>	<p>Successful delivery of organisational plans and footprint analysis. Continual support to improve diversity plans and commitment to the WISE ten steps initiative. Commenced implementation of roadmap to achieve compliance with Hampton Alexander. Full transition of responsibilities completed on time and with all key stakeholders including investors</p> <p>Internal control and declaration process improvements established, strengthening the finance team rhythms. New Divisional Managing Director for IMI Critical Engineering successfully transitioned with no loss of business continuity. Successfully completed the planned pension liability management related exercises as per the agreed strategy. Robust review of key operating units reviewed with findings and recommendations made to the Executive in Q3 2019.</p>	20%	14.2%

Based on the performance described above, the annual incentive bonus outcomes for 2019 are set out below:

Director	2019 maximum bonus opportunity (% of salary)	2019 maximum bonus achieved (% of maximum) ²	Total bonus awarded (£000) ²	Total bonus awarded (% of salary) ²	Achievement of share ownership guidelines at 31 Dec 2019 ³	Bonus delivered in form of cash (£000)	Bonus delivered in form of share awards (£000) ³
Roy Twite	182% ¹	43%	516	81%	95%	354	162
Daniel Shook	125%	44%	248	55%	95%	186	62
Mark Selway	200%	41%	389	81%	-	389 ⁴	-

¹ Reflects the pro-rating of annual incentive opportunity for 2019 for Roy Twite

² Prior to his appointment as Chief Executive on 9 May 2019, the 2019 annual bonus for Roy Twite was to be determined partly on the basis of strategic and personal objectives and partly on the basis of financial performance of IMI Critical Engineering, of which Roy was previously Managing Director. In determining the bonus achieved for Roy, the Committee considered the profit, revenue and cash conversion performance of IMI Critical Engineering against the targets originally set and what his bonus outcome would have been had he remained in that role. The total bonus awarded to Roy reflects this determination by the Committee and Roy's contribution to the financial performance of both Group and IMI Critical Engineering during the year. Mark Selway's bonus was calculated as a percentage of his base salary until his retirement on 31 July 2019

³ Deferred bonus share awards are made where the executive director is yet to reach their share ownership guidance. Details of the share ownership guidelines can be found on page 88

⁴ Mark Selway's pro-rated 2019 annual bonus was paid in cash as he was not eligible for a deferred bonus share award.

Awards vesting under the IIP

In March 2017, performance share awards were made to the executive directors under the IIP. The vesting of the awards was subject to the achievement of three independent performance conditions as described below, measured over the three-years ending 31 December 2019. The 2017 IIP award will vest in March 2020 at 47.1% of maximum.

Director	Initial award	Value on date of award ¹ (£000)	Number of initial shares vesting	Additional dividend equivalent shares	Total shares vesting	Value of shares on vesting ² (£000)
Roy Twite	72,287	926	34,047	3,996	38,043	409
Daniel Shook	48,946	627	23,054	2,705	25,759	277
Mark Selway	156,323	2,002	58,714 ³	6,891	65,605	706

¹ The three-day average mid-market price on the date of award was 1,281.00 pence

² The price on vesting is unknown at this time and so the total number of shares vesting is valued at the average price over the last quarter of 2019 (1,075.75 pence)

³ Pro-rated for time served during the performance period (to 31 July 2019)

Return on capital employed (ROCE)

25% of the award was subject to the achievement of ROCE. This measure is defined as segmental operating profit as a percentage of the capital employed during the financial year ended 31 December 2019. Capital employed being Intangible Assets (excluding Acquired Intangibles and Goodwill), Property Plant and Equipment and Working Capital. This calculation excludes right-of-use assets recognised under IFRS 16 in 2019 for the first time. It compares the earnings of the Group with the Capital invested. ROCE was chosen as a measure as it represents how well the Group has used its investment made by shareholders and capital from creditors to generate a profit.

The portion of the share award that will vest related to ROCE depends on ROCE in the final year of the performance period. For ROCE of less than 40% no award under this element will vest. 25% of the award will vest for ROCE of 40%, rising on a straight-line basis to full vesting for ROCE of 50%. At the end of the performance period return on capital employed was 40.1% resulting in this element vesting at 6.4%.

Total Shareholder Return (TSR)

25% of the award was subject to the achievement of a relative TSR performance measure against a defined group of companies adjusted during the performance period to take account of merger and acquisition activity during the performance period in line with the Committee's established guidelines. TSR is defined as the movement in share price during the performance period, measured in local currency, with adjustment to take account of changes in capital structure and dividends, which are assumed to be reinvested in shares on the ex-dividend date. TSR was chosen as a measure as it is an external, relative benchmark for performance that aligns executives' rewards with the creation of shareholder value.

The portion of the award that will vest related to TSR depends on where IMI ranks in the comparator group. For a TSR rank that is below median, no award under this element will vest. 25% of the award will vest for median TSR, rising on a straight-line basis to full vesting for upper quartile TSR. At the end of the three-year performance period, the Group ranked 15th of the peer group. The resultant vesting outcome for this element of the award is nil.

Group adjusted profit before tax growth

50% of the award was subject to the achievement of the Group adjusted profit before tax growth measure. This measure is defined as the profit before tax before adjusting items as shown in the audited accounts of the Group, adjusted for any exceptional items, including significant acquisition and disposal and foreign exchange movements, at the Committee's discretion.

Adjusted profit before tax growth is a key measure for IMI as it gives an indication of the strength of the Group's financial performance and shows the amount available to reinvest into the business and pay a return to shareholders through dividends. For growth of less than 2.5% per annum, no award under this element will vest. 25% of the award will vest for growth of 2.5% per annum rising on a straight-line basis to full vesting for growth of 7.5% per annum.

Over the three-year performance period ending 31 December 2019 IMI delivered group profit before tax growth of 6.3%. The resultant vesting outcome for this element of the award is 40.7%.

Deferred bonus share awards

In March 2017, deferred bonus share awards were also made under the IIP which vest in March 2020. These are the form of share award used for mandatory bonus deferral into shares of up to 50% of annual bonus payable where the executive director is yet to reach their share ownership guideline.

Annual Directors' Remuneration Report

Discretion to override formulaic outcomes and to apply malus and clawback

Depending on the circumstances, the Committee may exercise judgement in assessing performance and determining the level of achievement. The Committee has full discretion to override formulaic outcomes and to reduce the amount of any IIP award, to reduce the number of shares subject to any form of share award and/or to impose an obligation to make a payment to the Company in the event it is discovered that the Company has misstated its financial results for any reason, there has been an error or miscalculation in respect of an award, gross misconduct or in such other circumstances as the Committee sees fit. Such other circumstances may include, but are not limited to, serious reputational damage or corporate failure.

The Committee has considered the position and determined that for 2019 it is not appropriate for any reason to exercise the discretion to override the formulaic outcome of the 2017 IIP awards or recover amounts previously awarded.

Share ownership guidelines

It is a requirement of the Policy that executive directors are subject to guidelines which require them to build a shareholding in IMI worth at least 250% of salary for Roy Twite and 150% of salary for Daniel Shook. The Policy permits the Committee discretion to determine that up to 50% of any annual bonus earned is deferred into shares until the share ownership guideline is achieved together with 50% of any vested share awards. Each executive is then required to maintain this share ownership guideline (subject to allowances for share price fluctuations and changes in base salary thereafter). When assessing compliance with this guideline the Committee reviews both the level of beneficial share ownership and vested but unexercised share incentive awards on a post-tax basis. Prior to his appointment as Chief Executive Roy Twite had already exceeded the shareholding requirement of 200% that applied to his former role. On appointment as Chief Executive the shareholding requirement was increased to 250% and the Committee has determined that up to half of the annual bonus payable to Roy Twite and Daniel Shook as outlined on page 86 will be delivered in the form of deferred bonus share awards which must be held for a period of at least three years and until the share ownership guideline has been met.

Further, the Committee has determined that half of the performance share awards made to Roy Twite and Daniel Shook in March 2017, and due to vest in March 2020, should be retained (net of sales required to meet tax liabilities arising on vesting) until the share ownership requirement is met.

Mark Selway did not dispose of any shares in IMI plc while employed but was not required to retain shares he held in IMI plc after leaving the Company in line with the 2018 Directors' Remuneration Policy.

Share interests granted to executive directors during 2019 (audited)

Grants made under the IIP

Performance share award grants under the IIP were made on 18 March 2019 in the form of nil-cost options. Awards are due to vest on 18 March 2022, subject to performance in three core areas aligned to our longer-term strategic priorities: ROCE (25%), relative TSR (25%) and Group adjusted profit before tax (50%). After vesting a holding period of two years applies subject to the sale of shares as required to meet tax liabilities arising on vesting.

The performance targets, which consider the Group's approach to implementing accounting changes under IFRS 16, and vesting scale that apply to the 2019 IIP awards are as follows:

	ROCE	Relative TSR	Group adjusted profit before tax growth ¹	Level of vesting
Threshold	40%	Median	2.5%	25%
Maximum	50%	Upper quartile	7.5%	100%
Weighting	25%	25%	50%	-

¹ Annualised Compound Annual Growth Rate over 3 years

Further details of the above performance targets can be found in the awards vesting under the IIP section on page 87. The following performance share award grants were approved and made in 2019.

	IIP shares awarded	Value on date of award ¹ (£000)	Award as a percentage of salary ²
Roy Twite	120,758	1,214	250%
Daniel Shook	66,962	673	150%

¹ The three day average mid-market price on the date of award was 1,005.00 pence

² Based on Roy Twite's salary as Divisional Managing Director for IMI Critical Engineering

Mark Selway was not granted an IIP award in 2019.

The IIP is also used to grant deferred bonus awards exercisable after three years to satisfy bonuses delivered in the form of shares. Details of these additional IIP awards made in 2019 are shown in the table on page 90 under the 'without performance conditions' column. No performance conditions apply to these awards.

For share awards granted in 2019 the TSR group included 17 companies to ensure complete alignment with our peers and comparison to companies with similar products, customers and global spread. The 2019 peer group includes the following companies which is consistent with our 2018 peer group, and in line with the Committee's guidelines:

TSR comparator group companies

1 AirTAC	7 Ingersoll-Rand	13 SMC
2 Belimo	8 ITT	14 Smiths Group
3 Curtiss-Wright	9 Morgan Advanced Materials	15 Spectris
4 Eaton	10 Parker-Hannifin	16 SPX
5 Emerson Electric	11 Rockwell Automation	17 The Weir Group
6 Flowserve	12 Rotork	

All-employee share plans

Executive directors are eligible to participate in the all-employee share plans on the same terms as other eligible employees at IMI.

		All Employee Share Ownership Plan		IMI Sharesave Scheme		Dividends (£000)	Total value under the all-employee share plans (£000)
		Number of shares awarded	Value of free share award ¹ (£000)	Number of options awarded	Value of options (£000)		
Roy Twite	2019	359	4	-	-	-	4
	2018	336	4	-	-	-	4
Daniel Shook	2019	359	4	-	-	-	4
	2018	304	3	-	-	-	3
Mark Selway	2019	359	4	-	-	-	4
	2018	336	4	-	-	-	4

¹ In 2019 free shares were awarded at a share price of 1,000 64 pence (1,071.00 pence in 2018)

Payments to past directors (audited)

Other than those relating to the departure of Mark Selway as Chief Executive there were no payments to past directors during the year. Dividend equivalent payments for vested but unexercised nil-cost option awards will continue to be made to past directors under the terms of the original grant.

Payments for loss of office

Mark Selway stepped down as Chief Executive immediately following the Company's Annual General Meeting on 9 May 2019 and retired on 31 July 2019. The remuneration arrangements relating to his retirement as determined by the Committee were in full compliance with the Policy and are set out below.

Base salary

Mark Selway continued to receive his base salary of £822,000 payable in equal monthly instalments in arrears up to 31 July 2019. He also received a payment in lieu of notice in respect of the two months' notice period of £137,000.

Annual incentive bonus

Mark Selway was eligible for an annual incentive payment for 2019 subject to performance conditions and pro-rated to reflect the time served in 2019. Details of Mark Selway's bonus for 2019 are set out on page 86.

Awards vesting under the IIP

The Committee determined to treat Mark Selway a good leaver for reason of retirement and agreed that unvested performance share awards would continue until their normal vesting date, subject to pro-rating and achievement of the performance conditions attaching to them. Details of Mark Selway's awards vesting in respect of the IIP awards made in March 2017 are set out on page 87. The performance share awards made under the IIP in March 2018 will continue to the normal vesting date again subject to pro-rating and the achievement of applicable performance conditions. No performance share awards were made under the IIP to Mark Selway in 2019.

Unvested deferred bonus share awards made under the IIP vested on retirement and remain exercisable for 12 months from retirement.

All Employee Share Ownership and SAYE plan awards held by Mark Selway at retirement were released to him on 31 July 2019.

Annual Directors' Remuneration Report

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

The following table summarises the total fees and benefits paid to the Chairman and non-executive directors in respect of the financial years ending 31 December 2019 and 31 December 2018.

Director	2019 (£000)				2018 (£000)			
	Base fees	Additional fees	Taxable benefits ¹	Total	Base fees	Additional fees	Taxable benefits ¹	Total
Lord Smith of Kelvin	327	-	7	334	320	-	5	325
Carl-Peter Forster ²	66	11	10	87	64	11	8	83
Birgit Nørgaard ³	66	21	10	97	64	16	8	88
Isobel Sharp ⁴	66	16	2	84	64	16	5	85
Thomas Thune Andersen ⁵	66	-	8	74	32	-	5	37
Katie Jackson ⁵	66	-	4	70	32	-	1	33

¹ Taxable benefits includes travel and hotel expenses plus tax costs associated with Board meetings held at IMI HQ

² Includes fee for Senior Independent Director

³ Includes fee for being Chair of the Remuneration Committee and the non-executive director with responsibility for employee engagement

⁴ Includes fee for being Chairman of the Audit Committee

⁵ Pro-rata fee from date of appointment on 1 July 2018

Directors' shareholdings and share interests (audited)

The following table summarises the share interests of any director who served during the year as at 31 December 2019 or at the date of leaving the Board.

During the period 31 December 2019 to 27 February 2020 there were no changes in the interests of any current director from those shown save for purchases within the IMI All Employee Share Ownership Plan on 14 January 2020 of 10 shares each on behalf of Roy Twite and Daniel Shook at 1,183.00 pence per share, and 11 February 2020 of 12 shares on behalf of Roy Twite and 11 shares on behalf of Daniel Shook at 1,115.50 pence per share.

Director	Total interests	Beneficial interests	Scheme interests				All-employee share plans
			Nil-cost options				
			With performance conditions		Without performance conditions (deferred bonus share awards)		
			Unvested ¹	Vested but unexercised	Unvested	Vested but unexercised	
Roy Twite	445,702	140,082	297,416	-	-	-	8,204
Daniel Shook	272,891	27,323	187,410	-	56,351	-	1,807
Mark Selway ²	556,952	10,125	229,969	84,727	-	229,498	2,633
Lord Smith of Kelvin	14,300	14,300	-	-	-	-	-
Carl-Peter Forster	2,625	2,625	-	-	-	-	-
Birgit Nørgaard	2,625	2,625	-	-	-	-	-
Isobel Sharp	3,000	3,000	-	-	-	-	-
Thomas Thune Andersen	2,625	2,625	-	-	-	-	-
Katie Jackson	2,618	2,618	-	-	-	-	-

¹ Vesting dates of share awards are shown in Note 6, page 127

² Shareholding as at the date of stepping down from the Board on 31 July 2019

Relative importance of spend on pay

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

	2019 (£m)	2018 (£m)	Change
Dividends	110.8	107.9	2.7%
Total employment costs for Group (see Note 5 on page 126)	588.0	615.8	-4.5%

In 2019, the total dividend for the year of 41.1 pence represented an increase of 1.2% over last year's 40.6 pence.

Relative percentage change in remuneration for the Chief Executive

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

	Chief Executive ¹	Employees ²
Base salary	-12%	3%
Benefits	-55%	10%
Annual bonus	-58%	-47%

¹ The percentage change takes into account the appointment of a new Chief Executive in 2019

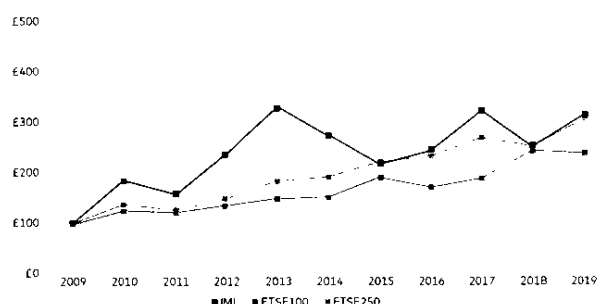
² All UK head office employees. This comparison excludes our international workforce which we believe would not provide a true comparison given differing local market factors

Historical performance and remuneration

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

The graph below compares IMI's TSR to the FTSE100 and FTSE250 over the last ten years. We compare performance to the FTSE100 as IMI has been included in the index in the past and it is a position where IMI aspires to be. TSR measures the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends (source: CapIQ), with data averaged over the final 30 days of each financial year. As the graph below illustrates, IMI's absolute and relative TSR performance has been strong over the last ten years.

Value of a hypothetical £100 investment



Annual Directors' Remuneration Report

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

Financial year-ended 31 December	2010 ¹	2011 ¹	2012 ¹	2013 ¹	2014 ²	2015 ²	2016 ²	2017 ²	2018 ²	2019 ³
Total remuneration (single figure, £000)	4,439	12,289	7,954	6,688	1,567	1,667	1,901 ³	2,773	3,047	1,707
Annual variable pay (% of maximum)	95%	85%	47%	62%	36%	40%	50%	95%	75%	43%
Long-term variable pay (% of maximum) - Share Matching Plan	97%	95%	100%	100%	-	-	-	-	-	-
Long-term variable pay (% of maximum) - Performance Share Plan	100%	100%	100%	82.6%	-	-	3.5%	-	-	-
Long-term variable pay (% of maximum) - IMI Incentive Plan	-	-	-	-	-	-	-	6.55%	29.2%	47.1%

¹ Represents remuneration for Martin Lamb, who was Chief Executive from before 2010 until 31 December 2013

² Represents remuneration for Mark Selway, who was appointed Chief Executive on 1 January 2014

³ Represents remuneration for Roy Twite, who was appointed Chief Executive on 9 May 2019.

Pay ratio reporting

This reporting year legislation has come into force which requires quoted companies with 250 or more employees to publish information on the pay ratio of the Group Chief Executive to UK employees. In line with the new regulatory requirements, the table below sets out the ratio at median, 25th and 75th percentile of the total remuneration received by the Group Chief Executive compared to the total remuneration received by our UK employees – as well as comparing to base salary only. Total remuneration reflects all remuneration received by an individual in respect of the relevant years, and includes salary, benefits, pension, and value received from incentive plans.

Financial year	Methodology	Total remuneration		
		P25 (Lower Quartile)	P50 (Median)	P75 (Upper Quartile)
2019	Option C	83.1	62.1	45.1

» The 2019 Chief Executive single figure is calculated considering the Chief Executive succession on 9 May 2019. The remuneration for Mark Selway is reported for the period from 1 January 2019 to 9 May 2019 and Roy Twite's remuneration from 9 May 2019 to 31 December 2019. The remuneration calculation includes base salary, fees, pension, taxable benefits, annual bonus and shares paid during this period.

» As is permitted by Option C of the regulations the Gender Pay Gap data for 2019 based on a snapshot in April 2019 was used to identify our three quartile employees, P25, P50 and P75. Having identified P25, P50 and P75, we chose to review the single figure data for an additional 10 employees at each of the quartiles for the full year ended on 31 December 2019. The remuneration calculation included base salary, allowances, pension, taxable benefits, annual bonus and shares. This method provides a like for like comparison with the Chief Executive's single figure total for the 2019 calendar year. Gathering data on more than 3 employees provides a better opportunity to capture all pay and benefits of employees to get a true median value at each of the three bandings.

» Our principles for pay setting and progression in our wider workforce are the same as for our executives – total reward being sufficiently competitive to attract and retain high-calibre individuals without over-paying and providing the opportunity for individual development and career progression to attract and retain great talent. The pay ratios reflect how remuneration arrangements differ as accountability increases for more senior roles within the organisation and the ratios reflect the weighting towards long-term value creation and alignment with shareholder interests for the Chief Executive.

» We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. All IMI employee's receive competitive pay and benefits and have the opportunity for annual pay increases and career progression and development opportunities.

The regulations require the total pay and benefits and the salary component of total pay and benefits to be set out as follows:

	Base salary (£)	Total pay and benefits (£)
Chief Executive remuneration	758,550	2,353,014
25th Percentile employee	25,000	28,415
50th Percentile employee	26,607	38,070
75th Percentile employee	48,552	51,812

Application of the Policy for 2020

Executive director fixed pay

Consistent with prior years, salary increases effective 1 January 2020 considered a range of factors including the increases for the wider workforce, the financial performance of the Group and prevailing economic conditions. For 2020 the Chief Executive received no base salary increase and the Finance Director received 2% which is below the increase awarded to employees for 2020 of 2.8% but aligned to the general increase applied to UK employees. The base salary for the Chief Executive will remain at £720,000 in 2020 and for the Finance Director will be £457,650 effective from 1 January 2020.

Other elements of fixed pay (benefits and allowances) will remain unchanged, although pension allowances are a fixed percentage of salary.

Incentive pay

Annual bonus

Following the strategy announcement made in November 2019 the Committee reviewed the appropriateness of continuing with the metrics that applied to the 2019 annual bonus to ensure alignment with the new strategy. The Committee determined that the 2020 annual bonus will be contingent on a Profit Before Tax growth target alongside strategic and personal objectives for each executive director. The weighting of 80% to financial metrics and 20% to strategic and personal objectives will remain unchanged. Free cash flow, if it should materially underperform against budget, will be added as an explicit reason for the Committee to apply downward discretion. The health and safety underpin will be expanded to take into account any relevant ESG matter when determining remuneration outcomes. Revenue will remain a critical key performance indicator for the business and the Committee will monitor performance of this area, as it will the underlying performance of the business, when determining bonus outcomes. Due to the commercially sensitive nature of the Group adjusted Profit Before Tax target and strategic and personal objectives, they will be disclosed retrospectively in next year's report along with performance against them.

The maximum bonus opportunity will remain at 200% of salary for Roy Twite. As noted earlier in the Annual Statement, the annual bonus opportunity for the Finance Director will

increase from 125% to 150% of base salary in recognition of Daniel Shook's consistently strong performance since joining in 2015 and having taken into account movement amongst global industry peers in the five years since. On-target bonus is set at 50% of maximum bonus opportunity.

Performance share awards under the IIP

At the same time as the review of annual bonus metrics, the Committee also reviewed those attaching to IIP awards. The Committee, also considering shareholder feedback, has decided to increase the weighting on TSR and ROCE to 1/3 and introduce an EPS metric of equal (1/3) weighting. This, the Committee believes, will ensure that executives are only rewarded if underlying earnings are increased over the performance period and shareholder returns outperform peers.

2020 awards will remain at 250% for Roy Twite and 150% for Daniel Shook and will be subject to a two-year post-vesting holding period, extending the total time horizon to five years from grant.

The performance targets that will apply to the 2020 IIP awards are as follows:

	Relative TSR	Adjusted EPS	ROCE	Level of vesting
Threshold	Median	3%	11.5%	25%
Maximum	Upper quartile	10%	14.5%	100%
Weighting	1/3	1/3	1/3	-

Service contracts

The unexpired terms of the non-executive directors' service contracts can be reviewed in the Board's Corporate Governance Report on page 66.

Fees for the Chairman and non-executive directors

The Chairman and non-executive directors' remuneration increased by 2%, with effect from 1 January 2020 and compares with a 2.8% increase across the wider workforce.

Birgit Nørgaard

Chair of the Remuneration Committee
for and on behalf of the Board

27 February 2020

Directors' Report

The directors present their report, together with the audited financial statements, for the year ended 31 December 2019.

Strategic Report

The Strategic Report is incorporated by reference and includes the content on pages 8 to 60.

Results and dividend

The Group consolidated income statement is shown on page 112. Adjusted operating profit amounted to £266.1m (2018: £265.5m), adjusted profit before taxation and discontinued operations amounted to £189.3m (2018: £212.9m).

The directors recommend a final dividend of 26.2p per share (2018: 26.0p per share) on the ordinary share capital payable, subject to shareholder approval at the Annual General Meeting to be held on 7 May 2020, on 15 May 2020 to shareholders on the register at the close of business on 3 April 2020. Together with the interim dividend of 14.9p per share paid on 13 September 2019, this final dividend will bring the total distribution for the year to 41.1p per share (2018: 40.6p per share).

Research and development

See Note 5 to the financial statements on page 126.

Shareholders' funds

Shareholders' funds increased from £666.2m at the end of 2018 to £709.9m at 31 December 2019.

Share capital

As at 31 December 2019, the Company's share capital comprised a single class of share capital which was divided into ordinary shares of 28 4/7p each. Details of the share capital of the Company are set out in Note 22 to the financial statements on page 165. The Company's ordinary shares are listed on the London Stock Exchange.

The Company has a Level 1 American Depositary Receipt ('ADR') programme for which Citibank, N.A. acts as depositary. See page 180 for further details.

As at 31 December 2019, 1,079,189 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.4% of the issued share capital (excluding treasury shares) at that time. The independent trustee of the trust has the same rights as any other shareholder other than as specifically restricted in the governing trust deed. The trust has agreed to waive any right to all dividend payments now and in the future. Participants in option schemes do not hold any voting rights on the shares until the date of exercise.

During 2019, 104,297 new ordinary shares were issued under employee share schemes: 104,297 under save as you earn plans and nil under executive share plans. Shares acquired through Company share schemes and plans rank equally with the shares in issue and have no special rights.

Pursuant to the Company's articles of association a tracing exercise was conducted which matched certain beneficiaries with shares held by shareholders who had been out of contact for over 12 years. A balance of 17,376 held in the names of other such out of contact shareholders were not matched with beneficiaries and were forfeited and sold with sale proceeds being retained by the Company.

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

Holders of ordinary shares are entitled to receive the Company's report and accounts, to attend, speak and vote at general meetings of the Company, and to appoint proxies to exercise their rights. Holders of ordinary shares may receive a dividend and on a liquidation, may share in the assets of the Company.

Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or propose resolutions at Annual General Meetings. Voting rights for ordinary shares held in treasury are suspended and the treasury shares carry no rights to receive dividends or other distributions of assets.

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

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

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

Treasury shares

The Company was granted authority at the Annual General Meeting held on 9 May 2019 to purchase up to 27,210,271 of its ordinary shares. This authority will expire at the conclusion of the next Annual General Meeting to be held on 7 May 2020, where shareholders will be asked to give a similar authority, details of which will be given in the Notice of Annual General Meeting.

As at 31 December 2019, 14,248,836 ordinary shares (nominal value £4,071,096) were held in treasury representing 5% of the issued share capital (excluding treasury shares) at that time. The maximum number of shares held in treasury during the year ended 31 December 2019 was 14,248,836.

Substantial shareholdings

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules is published on a regulatory information service at www.imiplc.com. As at 31 December 2019, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure Guidance and Transparency Rules, had been notified to the Company:

	% Held ¹
Artisan Partners Limited Partnership	10.37
Massachusetts Financial Services Company	9.89
Ameriprise Financial Inc	5.01
Standard Life Investments (Holdings) Limited	4.97
Legal & General Group plc	3.03

¹ As of the date in the notification to the Company

Subsequent to 31 December 2019 and up to the date of this Annual Report, no changes in the voting interests have been notified to the Company in accordance with the Disclosure Guidance and Transparency Rules save that Artisan Partners Limited Partnership notified the Company on 10 January 2020 that its voting interest was 9.90%. As far as the Company is aware, there are no persons with substantial holdings in the Company other than those noted above.

Statement on corporate governance

The required disclosures are contained in the Corporate Governance Report on pages 61 to 93 and are incorporated into this Directors' Report by reference.

Employee matters

Every effort is made to ensure that applications for employment from disabled employees are fully and fairly considered and that disabled employees have equal opportunity in training, succession planning and promotion. Further disclosures relating to employee diversity, employee engagement and related policies are set out on pages 27 to 31.

Details of employee share schemes are set out in Note 6 of the financial statements on pages 127 to 129.

Health, safety and the environment

It is Group policy to improve continuously safe and healthy working conditions and more details appear on page 32. It is Group policy to operate always in an environmentally responsible manner.

Our carbon reporting statistics demonstrate that our recent performance of CO₂e has continued to improve. On a like for like basis, we achieved our target to keep emissions at or below 2018 levels for 2019. We achieved a 2.5% reduction in emissions compared to 2018. Of the 2019 total, our direct (Scope 1) emissions of CO₂, essentially gas, diesel and fuel oil consumed amounted to 16,000 tonnes. Our indirect (Scope 2) emissions of CO₂, essentially the emissions generated on our behalf to provide our electricity, amounts to 41,500 tonnes.

In addition to gross tonnes of CO₂, we report CO₂e intensity relative to £million sales; our result for 2019 is 31.2 and is comparable to the 2018 performance.

Our CO₂e accounting methodology follows the DEFRA guidelines and includes all material emissions across IMI. See page 34 for further CO₂e and energy efficiency details.

Political donations

No political donations were made during the year.

Directors

The membership of the Board and biographical details of the directors are given on pages 62 and 63 and are incorporated into this report by reference.

The rules for the appointment and replacement of directors are set out in the Company's articles of association. Each new appointee to the Board is required to stand for election at the next Annual General Meeting following their appointment. In addition, the Company's articles of association require each director to stand for re-election every year.

Qualifying indemnity provisions and liability insurance

The Company maintains directors' and officers' liability insurance and all directors of the Company benefit from qualifying third party indemnity provisions which were in place during the financial year. At the date of this Annual Report there are such indemnity arrangements with each director in respect of the costs of defending civil, criminal and regulatory proceedings brought against them, as a director or employee, subject always to the limitations set by the Companies Act 2006.



The Group operates pension schemes in the UK which provide retirement and death benefits for employees and former employees of the Group. The corporate trustee of the pension schemes is IMI Pensions Trust Limited, a subsidiary of the Company. Qualifying pension scheme indemnity provisions, as defined in section 235 of the Companies Act 2006, were in force for the financial year ended 31 December 2019 and remain in force for the benefit of each of the directors of the corporate trustee of the pension schemes. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities incurred as a director or officer of the corporate trustee of the pension schemes.

The Group also has in place third party qualifying indemnity provisions, as defined in section 234 of the Companies Act 2006, in favour of certain employees who discharge responsibilities for various wholly-owned subsidiary companies and these indemnities are given on a similar basis to the above.

Role of the Board

The role of the Board is:

- » to promote the long-term success of the Company for the benefit of its members;
- » to understand the views of key stakeholders and review engagement mechanisms;
- » to set and monitor the Company's values, purpose and strategy and ensure that these and its culture are aligned;
- » to select and appoint the Executive Committee and ensure that the necessary resources are available to them;
- » to ensure that the Company's obligations to shareholders are understood and met;
- » to demonstrate ethical leadership and high standards of behaviour and to oversee governance, risk and the control environment; and
- » to ensure that the Board has the policies, processes, information, time and resources it needs to function effectively and efficiently.

The Board provides leadership, direction and governance for the Company and oversees business and management performance. The Board has adopted a corporate governance framework which defines Board roles and includes the list of matters reserved to it and written delegations of authority for its committees and the Executive Committee. Board reserved matters include strategy and key areas of policy, major operational and strategic risks, significant investment decisions and material changes in the organisation of the Group.

In the IMI Corporate Governance Framework (updated in 2019), the Board has clearly defined in writing those matters which are reserved to it and the respective delegated authorities of its committees and it has also set written limits of authority for the Chief Executive. The Group has a clear organisational structure and well-established reporting and control disciplines. Managers of operating units assume responsibility for and exercise a high degree of autonomy in running day-to-day trading activities. They do this within a framework of clear rules, policies and delegated authorities regarding business conduct, approval of proposals for investment and material changes in operations and are subject to regular senior management reviews of performance.

Division of responsibilities amongst directors

Chairman:

- » setting the Board agenda and shaping the culture in the boardroom;
- » chairing meetings and encouraging the active engagement of all Board members;
- » building a Board with a mix of people, skills, knowledge and experience and ensuring its effectiveness, including the quality of debate and decisions;
- » developing a productive working relationship with the Chief Executive;
- » seeking regular engagement with major shareholders; and
- » getting the right executive leadership and succession plans in place.

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

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

Chief Executive:

- » leadership of the Executive Committee;
- » developing business plans and strategy for consideration of the Board and implementing the same;
- » communicating to the people within the Company the expectations of the Board in relation to the Company's culture, values and behaviours, including ensuring the highest compliance and governance standards;
- » building an effective operational management team and developing the organisation structure; and
- » resourcing, talent development and succession plans.

Directors' powers

The powers of the directors are determined by UK legislation and the articles of association of the Company in force from time to time. The directors were authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares by resolutions of the Company passed at its Annual General Meeting held on 9 May 2019 by the passing of new resolutions. The current authorities will expire at the conclusion of the next Annual General Meeting to be held on 7 May 2020, at which new authorities will be sought.

Further details of authorities the Company is seeking for the allotment, issue and purchase of its ordinary shares will be set out in the separate Notice of Annual General Meeting.

Directors' interests

The interests of the persons (including the interests of any connected persons) who were directors at the end of the year, in the share capital of the Company, and their interests under share option and incentive schemes, are shown on page 90.

Management of conflicts of interest

The Company's articles of association include certain provisions relevant to the activity of the Board and its committees and can be viewed on the Company's website. These provisions include requirements for disclosure and approval by the Board of potential conflicts of interest. These procedures apply, inter alia, to external directorships and it is the Board's view that they operated effectively during 2019.

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

Change of control

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

In the event of a change of control of the Company, the Group's main funding agreements allow the lenders to renegotiate terms or give notice of repayment for all outstanding amounts under the relevant facilities.

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

Information to be disclosed under Listing Rules 9.8.4R

Listing Rule statement	Detail	Note reference of financial statements/page number
9.8.4R (1-2)(5-14)	Not applicable	-
9.8.4R (4)	Long-term incentive schemes	6 / page 127

Directors' Report

Internal control

The Board has responsibility for oversight of the Group's system of internal control and confirms that the system of internal control takes into account the Code and relevant best practice guidance including the Financial Reporting Council's September 2014 publication, 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

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

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

Control processes are dynamic and continuous improvements are made to adapt them to the changing risk profile of operations and to implement proportionate measures to address any identified weakness in the internal control system. More information in relation to risk is given on pages 54 to 59. The internal control declaration process is fully embedded and enables improvement in control. Action plans to improve controls as a result of these assessments are being tracked and reported to the Audit Committee.

Through the procedures outlined here, the Board has considered the effectiveness of all significant aspects of internal control for the year 2019 and up to the date of this Annual Report. The Board believes that the Group's system of internal control, which is designed to manage rather than eliminate risk, provides reasonable but not absolute assurance against material misstatement or loss.

Financial reporting processes

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

Compliance hotline

During 2019 the Board reviewed the operation of the independent compliance hotline for reporting concerns, reviewed the more significant reports received and considered how these are investigated and followed up. The Board believes that the hotline process and investigations are effective and that proportionate action is taken by management in response. In line with the Code, this responsibility was transferred to the Board from the Audit Committee at the start of 2019.

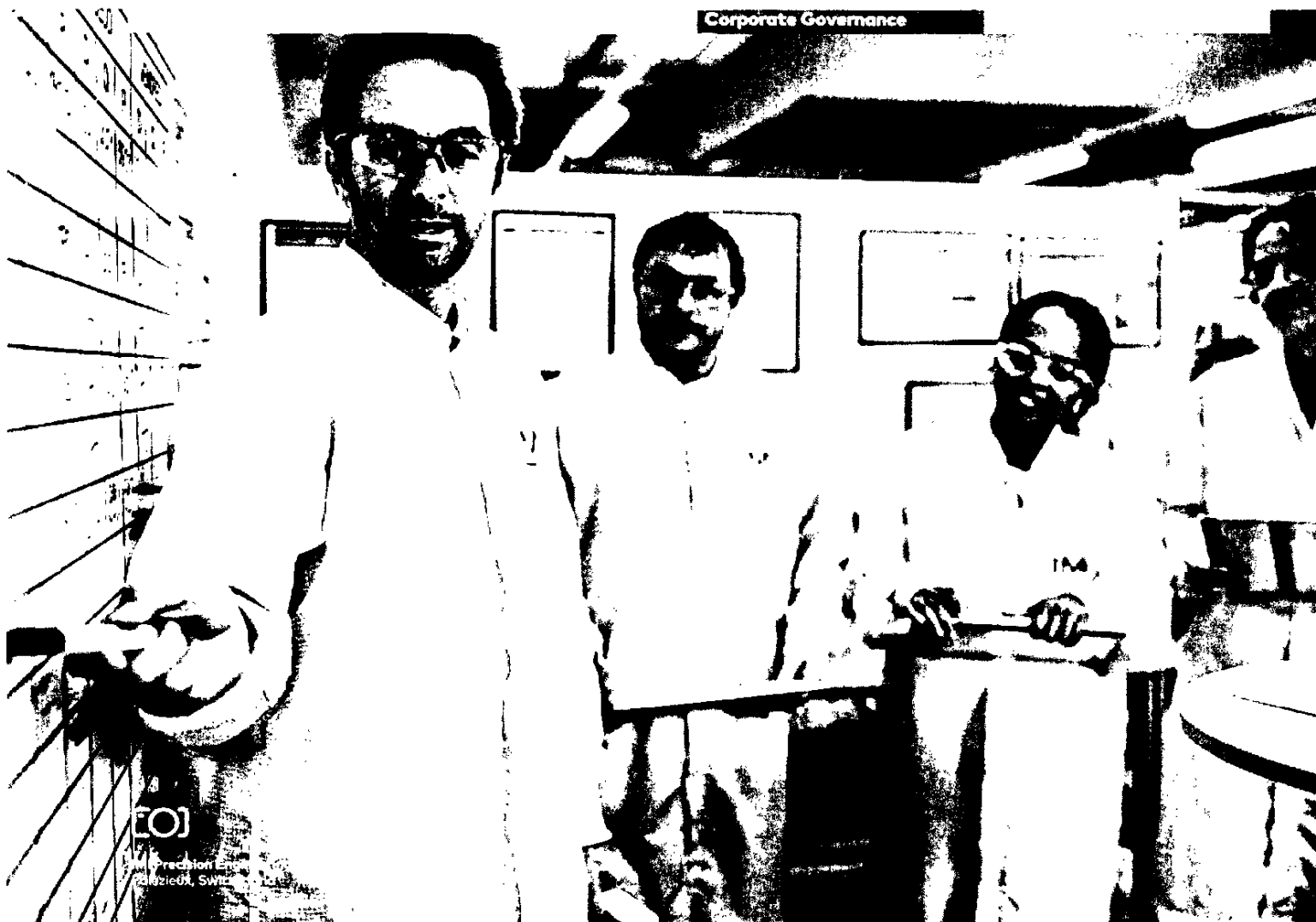
Viability statement

In accordance with the Code, the directors have assessed the viability of the Company over a relevant period, taking into account the Group's financial and trading position as summarised in this Annual Report, the principal risks and uncertainties set out on pages 54 to 59 and the five-year business plan reviewed by the Board in September 2019. Based on this assessment, and other matters considered and reviewed by the Board, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this Annual Report to 31 December 2024.

The directors have determined that the period to 31 December 2024 constitutes an appropriate period over which to make its assessment of viability. Whilst the directors have no reason to believe the Company will not be viable over a longer timing horizon, the five-year period to 31 December 2024 was chosen as it aligns with the Company's business and strategic planning timing horizon and is a sensible period for such an assessment. It is believed this period provides readers of the Annual Report with an appropriately long-term view with which to assess the Company's prospects although future outcomes cannot be predicted with certainty.

In making its assessment, the Board recognised the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A summary of these risks can be found on pages 54 to 59.

The five-year business plan was used to assess the headroom on the Company's facilities and to stress test ongoing covenant compliance under scenarios where its principal risks materialise. The analysis considered both 'running business' risks, such as reducing revenues and margins, as well as one-off 'event' risks such as product recalls. The Board also considered the Company's ability to raise capital in the future, as well as both the ongoing actions undertaken to prevent occurrence and the potential actions to mitigate the impact of any particular risk.



The directors also recognised a number of key features of the Company's operations. The Company's wide geographical and sector diversification, and the lack of a single major production site, help minimise the risk of serious business interruption. Furthermore, our business model is structured so that the Company is not overly reliant on a few large customers. Our largest customer constitutes only 2% of Group revenue and our top 20 customers account for just over 16% of Group revenue. In addition, our ability to flex our cost base reduces our exposure to sudden adverse economic conditions.

Going concern

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. Principal risks are detailed on pages 54 to 59. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, Note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Note 14 to the financial statements addresses the management of the funding risks of the Group's employee benefit obligations.

The Group has considerable financial resources together with long-standing relationships with a number of customers, suppliers and funding providers across different geographic areas and industries. The Group's forecasts and projections, taking account of potential and realistic changes in trading performance, indicate that the Group is able to operate within the level of facilities either in place on 31 December 2019, or renewed since, without the need to renew any further facilities before 1 March 2021. As a consequence, the directors believe that the Group is well-placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook. Such uncertainties as have been identified are not regarded as material uncertainties for the purpose of the going concern assessment.

After making due enquiry, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Non-financial information statement

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The table set out on page 100, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Directors' Report

Reporting requirement	Policies and standards which govern our approach	Additional information
Environmental matters	Environmental policy	page 33
Employees	Code of Conduct	page 24
	Hotline for reporting concerns	page 25
	Health and Safety policy	page 32
	Diversity and Inclusion policy	page 27
Human rights	Modern Slavery Act	page 25
Social matters	IMI Way Day	page 35
	Our purpose	page 01
	Contributing to communities	page 35
Anti-corruption and anti-bribery	Compliance policies including anti-bribery policy	page 25
Description of principal risks	-	pages 54 - 59
Description of the business model	-	pages 12 and 13
Stakeholder engagement	-	pages 37, 70 and 71
Outcome of non-financial policies and standards	Carbon emissions reporting	page 95
	Employee engagement survey results	page 30 and 52
	Gender diversity reporting	pages 27 and 28
	Health and safety reporting	page 32 and 52
Due diligence processes implemented in pursuance of promoting non-financial policies and standards	Customer satisfaction surveys	
	Carbon emissions reporting and monitoring	
	Scrap and waste reduction	
	Monitoring of expenses, hospitality and entertainment	
	Monitoring employee engagement surveys	
	All employees receive the Code of Conduct	
	Hotline reports reviewed by the Board	
	Health and safety reporting and monitoring	
	Modern slavery training and risk assessments	
	Compliance training	
	Compliance risk assessments and tailored programmes by division	
	Compliance implementation reviews and internal audits	
	Know your customer policy and due diligence reviews	
	Third party agent and distributors policy and due diligence reviews	
	Internal control declarations and compliance declarations	

Disclosure of information to the auditor

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

Annual General Meeting

The Annual General Meeting will be held at Crowne Plaza Hotel, Pendigo Way, Marston Green, Birmingham B40 1NT on 7 May 2020 at 10am. Notice of the Annual General Meeting will be published on the Company's website.

By order of the Board

John O'Shea
Company Secretary

27 February 2020

IMI is registered in England No. 714275

Statement of directors' responsibilities

Statement of directors' responsibilities in respect of the Annual Report and the financial statements.

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

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

- » select suitable accounting policies and then apply them consistently;
- » make judgements and estimates that are reasonable;
- » present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- » state that the Group financial statements have complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- » state for the parent company financial statements whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

Directors' responsibility statement under the Disclosure and Transparency Rules

Each of the directors, as at the date of this report, confirms that:

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

The directors are responsible for preparing the Annual Report in accordance with applicable laws and regulations. Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

John O'Shea
Company Secretary
27 February 2020



How do you help a leading technology research institute have a building that optimises energy use?

The Industrial Technology Research Institute, a leading research and development body that focuses on innovating a better future for society, wanted to improve the energy efficiency of its headquarters. Buildings represent a significant proportion of energy use - and therefore emissions - across our planet. IMI Hydronic Engineering sent engineers from our technical centre to evaluate their system and provide enhancements, both in configuration and products. The result was a 15% annual reduction in energy usage. Technical expertise, close customer support and excellent local IMI people, all helped IMI Hydronic support this customer.

Financial Statements

119	Independent Auditor's Report to the Members of IMI plc	151	15. Inventories
120	Consolidated income statement	152	16. Trade and other receivables
121	Consolidated statement of comprehensive income	154	17. Financial assets and liabilities
122	Consolidated statement of changes in equity	156	18. Financial risk management
123	Consolidated balance sheet	160	19. Net debt
124	Consolidated statement of cash flows	163	20. Provisions
125	1. Basis of preparation	164	21. Trade and other payables
126	2. Significant accounting policies	165	22. Share capital
126	3. Alternative Performance Measures ('APMs') & Adjusting Items	166	23. Acquisitions
122	4. Segmental information	167	24. Disposals
126	5. Operating costs	167	25. Contingent liabilities
127	6. Share-based payments	167	26. Related party transactions
130	7. Earnings per ordinary share	167	27. Subsequent Events
131	8. Net financing costs	167	28. Discontinued Operations
132	9. Taxation	168	Company balance sheet
136	10. Dividends	169	Company statement of changes in equity
137	11. Intangible assets	170	Company notes to the financial statements
140	12. Property, plant and equipment	173	Subsidiary undertakings
141	13. Leases	177	Geographic distribution of employees
144	14. Retirement benefits	178	Five year summary
		180	Shareholder and general information

Independent Auditor's Report to the Members of IMI plc

Opinion

In our opinion:

- IMI plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of IMI plc which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2019	Balance sheet as at 31 December 2019
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes C1 to C10 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Consolidated balance sheet as at 31 December 2019	
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 Group and parent 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 as applied to listed public interest entities, 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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 56 to 59 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 98 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 99 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 99 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> - Revenue recognition – Cut off in Critical Engineering and risk of management override - Inventory valuation - Carrying value of goodwill and acquired intangible assets
Audit scope	<ul style="list-style-type: none"> - We performed an audit of the complete financial information of 15 components (including the parent company) and audit procedures on specific balances for a further 23 components (including four corporate entities) - The components where we performed full or specific audit procedures accounted for 83% of Adjusted profit before tax, 80% of Revenue and 84% of Total assets
Materiality	- Overall Group materiality of £12.5m which represents 5% of adjusted profit before tax

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
<p>Revenue recognition (£1,873m, PY comparative £1,907m)</p> <p>Refer to the Audit Committee Report (page 72); Accounting policies (pages 117); and Note 4 of the Consolidated Financial Statements (page 122).</p> <p>There is a risk in the Critical Engineering division of inappropriate revenue recognition if deliveries are recorded within the wrong accounting period. The cyclical nature and value of deliveries results in significant shipments near the December period end and an associated cut off risk.</p> <p>There is a risk in all three divisions of inappropriate revenue being recognised if there is management override through manual topside journal entries.</p>	<p>Cut-off</p> <p>We performed the following audit procedures at 9 full and 8 specific scope Critical Engineering locations where revenue is in scope. Revenue at these locations represents 88% of the total Critical Engineering revenue balance of £651m.</p> <p>We performed walkthroughs of revenue at the 9 full and 8 specific scope locations and assessed the design effectiveness of key controls. For 15 components we tested the operating effectiveness of controls.</p> <p>We performed cut-off testing by tracing a sample of transactions around the period end to third party delivery note documentation and customer acceptance.</p> <p>We performed tests of detail for a sample of revenue transactions to confirm the transactions had been appropriately recorded in the income statement with reference to IFRS 15 and corroborated that control of the products had been transferred to the customer by:</p> <ul style="list-style-type: none"> • analysing the contract and terms of the sale to determine that the Group had fulfilled the requirements of the contract; • confirming revenue could be reliably measured by reference to underlying documentation; and • confirming collectability of the revenue was reasonably assured by agreeing to collection history. <p>For the 18 Critical Engineering components considered as not significant to the Group we performed specified procedures for a sample of transactions within these entities to test cut-off.</p> <p>Management override</p> <p>At 14 full and 19 specific scope locations we obtained support for unusual and/or material revenue journals. Revenue at these locations represents 63% of the total revenue balance. For the components we considered as not significant to the Group we analysed the monthly gross margin recorded and obtained and corroborated explanations for movements in margin that we considered unusual.</p> <p>Cut-off and management override</p> <p>For all locations we performed analytical procedures to compare revenue recognised with our expectations from past experience, management's forecasts and, where possible, external market data.</p>


RISK MOVEMENT




Key observations communicated to the Audit Committee:

Our audit procedures did not identify evidence of material misstatements in revenue recognition arising from the risk of cut-off in the Critical Engineering division or management override through manual topside journal entries in any of the three divisions.

Independent Auditor's Report to the Members of IMI plc

Risk	Our response to the risk
<p>Inventory valuation (£281m, PY comparative £273m)</p> <p>Refer to the Audit Committee Report (page 72); Accounting policies (pages 117 and 151); and Note 15 of the Consolidated Financial Statements (page 151).</p> <p>The valuation of inventory across the Group is dependent on establishing appropriate valuation processes. This includes the appropriate design and effective operations of controls. Management performs formulaic calculations for standard costing and excess and obsolete inventory provisions and then applies judgement to adjust these calculations. If these judgements are not appropriate then this increases the risk that inventory is incorrectly valued.</p>	<p>We performed the following audit procedures at 14 full and 15 specific scope locations where inventory is in scope. Inventory at these locations represents 74% of the total inventory balance.</p> <p>We performed walkthroughs of inventory at 14 full and 15 specific scope locations and assessed the design effectiveness of key controls. For 18 components we tested the operating effectiveness of controls. We performed tests of detail for a sample of inventory items to check the accumulation of cost within inventory and to confirm the valuation reflected the products' stage of completion. We also agreed our samples from the physical inventory counts which we attended to the inventory subledger and performed rollforward procedures to year end.</p> <p>We obtained evidence to support the standard costs used and performed procedures to assess whether only normal production variances had been capitalised in the year end inventory balance and material abnormal inefficiencies had been appropriately expensed. This included comparing actual production rates to budget.</p> <p>We obtained evidence to support inventory is held at the lower of cost and net realisable value by auditing the adequacy of excess and obsolete provisions held against inventory. This included comparing forecast product usage to customer orders, considering historical usage, historical accuracy of provisioning and understanding management's future plans to utilise the inventory.</p> <p>We performed clerical procedures on the formulaic calculations to evaluate the accuracy of the inventory provisioning. We performed procedures to validate the appropriateness of any management adjustments to the formulaic calculation.</p> <p>For the components we considered as not significant to the Group we:</p> <ul style="list-style-type: none"> • investigated any significant standard to actual cost variances posted to the income statement or recorded within inventory and obtained supporting evidence for the adjustments; and • analysed the management judgement applied to the excess and obsolete provision and obtained supporting evidence where this was significant.
<p>RISK MOVEMENT </p>	
<p>Key observations communicated to the Audit Committee:</p>	
<p>Inventory valuation across the Group is considered appropriate including the adequacy of the excess and obsolete provision. Our audit procedures confirmed variances between standard and actual costs and the overheads absorbed in the inventory valuation had been appropriately calculated and accounted for.</p>	

Risk	Our response to the risk
<p>Carrying value of goodwill and acquired intangible assets</p> <p>Refer to the Audit Committee Report (page 72); Accounting policies (pages 117, 137 and 138); and Note 11 of the Consolidated Financial Statements (page 137).</p> <p>As a consequence of the Group's growth strategy a significant value of goodwill and intangible assets has arisen from acquisitions.</p> <p>There is a risk that cash generating units ('CGUs') may not achieve the anticipated business performance to support the carrying value of these assets leading to an impairment charge that has not been recognised by management. Significant judgement is required in assessing the future cash flows of the CGUs, together with the rate at which they are discounted.</p> <p>RISK MOVEMENT </p>	<p>We examined management's methodology as detailed in Note 11 of the consolidated financial statements, the models for assessing the valuation of significant goodwill balances to understand the composition of management's future cash flow forecasts, and the process undertaken to prepare them. This included confirming the underlying cash flows were consistent with the Board approved budgets and assessing the identified CGUs for completeness. We also re-performed the calculations in the model to test the mathematical integrity.</p> <p>For all CGUs we calculated the degree to which the key assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring.</p> <p>In respect of the CGUs identified as having impairment indicators or lower levels of headroom we performed detailed testing with support from our valuation specialists to critically assess and corroborate the key inputs of the forecast cash flows including:</p> <ul style="list-style-type: none"> • assessing the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against an EY range derived from comparable organisations and market data; • considering the growth rates assumed by comparing them to economic and industry forecasts; • analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; and • assessing the sales multiple used to determine fair value less costs to sell and benchmarking it against market data. <p>We audited the disclosures in respect of goodwill and intangibles with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models.</p> <p>The audit procedures performed to address this risk have been performed by the Group audit team.</p>
Key observations communicated to the Audit Committee:	
Our year end audit procedures did not identify evidence of material misstatement regarding the carrying value of goodwill and acquired intangible assets in the Group.	

In the prior year, our auditor's report included key audit matters in relation to "Accounting for the acquisition of Bimba Manufacturing" and "Profit recognition".

Accounting for the acquisition of Bimba Manufacturing

In the absence of further acquisitions of the scale of Bimba Manufacturing in the current year, the risk with respect of "acquisition accounting" was not evaluated as a Key Audit Matter in the current year audit. All procedures with respect of the accounting for the acquisition of Bimba Manufacturing were completed during the prior year audit, with only one immaterial fair value adjustment being recognised in the current year.

Profit recognition

Following changes implemented over recent years by management of the Critical Division designed to change the type of contracts entered into, ensure appropriate pricing and tracking of costs to complete for contracts and identify and record loss making contracts as appropriate (as evidenced by no prior year audit findings nor heightened risk identified at the audit planning stage), we concluded that the likelihood of material misstatement had reduced and this area was no longer a Key Audit Matter.

Independent Auditor's Report to the Members of IMI plc

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the contribution to Group revenue and pre-tax income, risk profile (including country risk, risk determined to be associated based on the grading of internal audit findings, controls findings, historical knowledge and risk arising from change in the period including changes to IT systems and key management personnel), the number of significant accounts based on performance materiality and any other known factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 156 reporting components of the Group, we selected 38 components covering entities within Austria, Bermuda, Brazil, China, Czech Republic, Germany, India, Italy, Japan, South Korea, Poland, Singapore, Sweden, Switzerland, UK and USA, which represent the principal business units within the Group.

Of the 38 components selected, we performed an audit of the complete financial information of 15 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 23 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 83% (2018: 88%) of the Group's Adjusted profit before tax measure used to calculate materiality, 63% (2018: 61%) of the Group's Revenue and 84% (2018: 78%) of the Group's Total assets.

For the current year, the full scope components contributed 45% (2018: 36%) of the Group's Adjusted profit before tax measure used to calculate materiality, 45% (2018: 41%) of the Group's Revenue and 66% (2018: 63%) of the Group's Total assets. The specific scope components contributed 38% (2018: 52%) of the Group's Adjusted profit before tax measure used to calculate materiality, 18% (2018: 20%) of the Group's Revenue and 18% (2018: 15%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 118 components that together represent 17% of the Group's Adjusted profit before tax, none are individually greater than 4% of the Group's Adjusted profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations, foreign currency translation recalculations, and enquiries of management to respond to any potential risks of material misstatement to the Group financial statements.

The charts opposite illustrate the coverage obtained from the work performed by our audit teams.

Group Adjusted profit before tax

45% (28%)
Full scope
components

38% (48%)
Specific scope
components

17% (24%)
Other procedures

Group Revenue

45% (38%)
Full scope
components

18% (20%)
Specific scope
components

20% (23%)
Other procedures

17% (19%)
Procedures on
marketing companies

Group Total assets

66% (57%)
Full scope
components

18% (17%)
Specific scope
components

16% (26%)
Other procedures

Changes from the prior year

The number of full scope entities has increased to 15 (2018: 14). This change reflects the unpredictability incorporated into our audit scoping and a change in the size and risk profile of certain entities.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Group audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 15 full scope components, audit procedures were performed on one of these (the Parent Company) directly by the Group audit team. For the 23 specific scope components, audit procedures were performed on four of these directly by the Group audit team. Where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or his delegate visit the majority of full and specific scope locations at least once every three years. During the current year's audit cycle, visits were undertaken by the Group audit team to the component teams in Germany, Singapore, South Korea, Sweden, UK and USA. These visits involved meeting with our local component team, where applicable, to discuss and direct their audit approach, reviewing and understanding the significant audit findings in response to the key audit matters including revenue recognition and inventory valuation, holding meetings with local management, undertaking factory tours and obtaining updates on local regulatory matters including tax, pensions and legal. The Group team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £12.7 million (2018: £12.6 million), which is 5% (2018: 5%) of Adjusted profit before tax. We believe that Adjusted profit before tax provides us with the most relevant performance measure to the stakeholders of the entity and therefore have determined materiality based on this number.

We determined materiality for the parent company to be £11.5 million (2018: £11.8 million), which is 2% (2018: 2%) of equity shareholders' funds.

During the course of our audit, we reassessed initial materiality and concluded that our planned materiality remained appropriate.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £9.5m (2018: £9.5m). We have set performance materiality at this percentage due to the level of uncorrected misstatements in recent years being low, the level of control effectiveness remaining high, there being no significant changes in circumstances of the business, and that there are no events outside of the normal course of business.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.72m to £2.15m (2018: £1.30m to £2.16m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2018: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 102, 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 Members of IMI plc

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 101**
the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 72 to 75**
the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee / the explanation as to why the Annual Report does not include a section describing the work of the Audit Committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 66**
the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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 the 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 Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 101, 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 Group and parent 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 Group or the parent 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code). In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety and employee matters.
- We understood how IMI plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, internal audit, divisional management and full and specific scope management; and focused testing, as referred to in the key audit matters section above.
- Component teams reported any non-compliance with laws and regulations through their audit deliverables based on the procedures detailed in the previous paragraph. Further, the Group team communicated any instances of non-compliance with laws and regulations to component teams through regular interactions with local EY teams. There were no significant instances of non-compliance with laws and regulations.

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.

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed as auditors by the shareholders and signed an engagement letter on 27 July 2017. We were appointed by the company at the AGM on 9 May 2019 to audit the financial statements for the year ended 31 December 2019. The period of total uninterrupted engagement including previous renewals and reappointments is 11 years, covering the years ending 31 December 2009 to 31 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

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.

For and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
27 February 2020

Simon O'Neill
Senior statutory auditor

Notes:

1. The maintenance and integrity of the IMI plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2019

IFRS 16 was adopted on 1 January 2019 without restating prior year figures. As a result, the primary statements are shown on an IFRS 16 basis for 2019 and on an IAS 17 basis for 2018. Note 13 provides a reconciliation of the two measures.

	Notes	2019			2018		
		Adjusted £m	Adjusting items £m	Statutory £m	Adjusted £m	Adjusting items £m	Statutory £m
Revenue	4	1,873		1,873	1,907		1,907
Cost of sales		(1,059)	(1)	(1,060)	(1,089)	(4)	(1,093)
Gross profit		814.4	(1.1)	813.3	817.6	(3.7)	813.9
Operating costs	5	(548.3)	(60.7)	(609.0)	(552.1)	(30.2)	(582.3)
Operating profit		266.1	(61.8)	204.3	265.5	(33.9)	231.6
Financial income	8	4.5	13.4	17.9	5.8	16.1	21.9
Financial expense	8	(19.4)	(13.0)	(32.4)	(18.7)	(20.5)	(39.2)
Net financial expense relating to defined benefit pension schemes	14	(0.5)		(0.5)	(1.4)		(1.4)
Net financial expense		(15.4)	0.4	(15.0)	(14.3)	(4.4)	(18.7)
Profit before tax		250.7	(61.4)	189.3	251.2	(38.3)	212.9
Taxation	9	(52.6)	16.6	(36.0)	(52.8)	9.3	(43.5)
Profit of continuing operations after tax		198.1	(44.8)	153.3	198.4	(29.0)	169.4
Profit from discontinued operations after tax	28		2.8	2.8			-
Total profit for the year		198.1	(42.0)	156.1	198.4	(29.0)	169.4
Earnings per share	7						
Basic - from profit for the year				57.6p			62.5p
Diluted - from profit for the year				57.6p			62.4p
Basic - from continuing operations				56.6p			62.5p
Diluted - from continuing operations				56.5p			62.4p

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019		2018	
	£m	£m	£m	£m
Profit for the year		156.1		169.4
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	2.6		1.9	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	(15.4)		(4.5)	
Fair value gain on available for sale assets			0.2	
Related tax effect on items that may subsequently be reclassified to profit and loss	6.0		(0.3)	
		(6.8)		(2.7)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement (loss)/gain on defined benefit plans	(0.1)		11.6	
Fair value loss on available for sale financial assets not held for trading	-		(9.8)	
Related taxation effect	0.1		(3.5)	
		-		(1.7)
Other comprehensive expense for the year, net of taxation		(6.8)		(4.4)
Total comprehensive income for the year, net of taxation		149.3		165.0

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Notes	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2018		81.8	12.7	174.4	1.0	29.8	307.7	607.4
Profit for the year							169.4	169.4
Other comprehensive income/(expense)					1.8	(4.5)	(1.7)	(4.4)
Total comprehensive income/(expense)					1.8	(4.5)	167.7	165.0
Issue of share capital	22	-	0.6					0.6
Dividends paid	10						(107.9)	(107.9)
Share-based payments (net of tax)	6						7.0	7.0
Shares acquired for: employee share scheme trust							(5.9)	(5.9)
As at 31 December 2018		81.8	13.3	174.4	2.8	25.3	368.6	666.2
Changes in equity in 2019								
Profit for the year							156.1	156.1
Other comprehensive income/(expense)					2.6	(9.4)	-	(6.8)
Total comprehensive income/(expense)					2.6	(9.4)	156.1	149.3
Issue of share capital	22	-	0.8					0.8
Dividends paid	10						(110.8)	(110.8)
Share-based payments (net of tax)	6						8.6	8.6
Shares acquired for: employee share scheme trust							(4.2)	(4.2)
As at 31 December 2019		81.8	14.1	174.4	5.4	15.9	418.3	709.9

Consolidated balance sheet

At 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Intangible assets	11	618.8	606.7
Property, plant and equipment	12	271.3	284.4
Right of use assets	13	90.1	-
Employee benefit assets	14	47.9	27.8
Deferred tax assets	9	22.2	17.0
Other receivables		2.3	3.2
Total non-current assets		1,052.6	939.1
Inventories	15	280.8	272.5
Trade and other receivables	16	389.7	450.3
Other current financial assets	17	6.2	1.0
Current tax		2.5	4.0
Investments	17	3.6	3.7
Cash and cash equivalents	19	88.2	132.2
Total current assets		771.0	863.7
Total assets		1,823.6	1,802.8
Liabilities			
Trade and other payables	21	(359.4)	(390.9)
Bank overdraft	19	(60.1)	(82.6)
Interest-bearing loans and borrowings	19	(17.6)	(78.8)
Lease liabilities	13	(25.6)	-
Provisions	20	(39.8)	(12.5)
Current tax		(57.7)	(62.5)
Other current financial liabilities	17	(1.9)	(4.0)
Total current liabilities		(562.1)	(631.3)
Interest-bearing loans and borrowings	19	(357.9)	(375.3)
Lease liabilities	13	(64.8)	-
Employee benefit obligations	14	(79.2)	(80.1)
Provisions	20	(13.0)	(14.6)
Deferred tax liabilities	9	(27.5)	(29.8)
Other payables	21	(9.2)	(5.5)
Total non-current liabilities		(551.6)	(505.3)
Total liabilities		(1,113.7)	(1,136.6)
Net assets		709.9	666.2
Share capital	22	81.8	81.8
Share premium		14.1	13.3
Other reserves		195.7	202.5
Retained earnings		418.3	368.6
Total equity		709.9	666.2

Approved by the Board of Directors on 27 February 2020 and signed on its behalf by:

Lord Smith of Kelvin
Chairman

Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Operating profit for the year from continuing operations		204.3	231.6
Operating profit for the year from discontinued operations		2.8	-
Adjustments for:			
Depreciation and amortisation	11, 12, 13	110.7	79.7
Impairment of property, plant and equipment and intangible assets	11, 12	1.5	3.2
Gain on disposal of subsidiaries		-	(0.6)
Other acquisition items	3	1.1	3.7
Gain on special pension events	14	(8.6)	(6.8)
Profit on sale of property, plant and equipment	12	(0.7)	(3.0)
Equity-settled share-based payment expense	6	8.8	8.2
(Increase)/decrease in inventories	15	(14.7)	5.5
Decrease/ (increase) in trade and other receivables	16	44.9	(8.4)
(Decrease)/increase in trade and other payables	21	(17.3)	(47.3)
Increase/(decrease) in provisions and employee benefits	14, 20	29.2	(7.6)
Cash generated from operations		362.0	258.2
Income taxes paid	9	(40.2)	(41.1)
Cash generated from operations after tax		321.8	217.1
Additional pension scheme funding	14	(7.0)	(10.1)
Net cash from operating activities		314.8	207.0
Cash flows from investing activities			
Interest received	8	4.5	5.8
Proceeds from sale of property, plant and equipment	12	7.7	12.8
Net sale of investments		-	0.1
Settlement of transactional derivatives	17	(3.5)	(1.3)
Settlement of currency derivatives hedging balance sheet	17	19.6	(17.1)
Acquisitions of subsidiaries net of cash	23	(68.0)	(137.6)
Acquisition of property, plant and equipment and non-acquired intangibles	11, 12	(65.8)	(58.4)
Net cash from investing activities		(105.5)	(195.7)
Cash flows from financing activities			
Interest paid	8	(19.4)	(18.7)
Shares acquired for employee share scheme trust	22	(4.2)	(5.9)
Proceeds from the issue of share capital for employee share schemes	22	0.8	0.6
Net (repayment)/drawdown of borrowings	19	(63.9)	100.9
Principal elements of lease payments	13	(31.3)	-
Dividends paid to equity shareholders	10	(110.8)	(107.9)
Net cash from financing activities		(228.8)	(31.0)
Net decrease in cash and cash equivalents	19	(19.5)	(19.7)
Cash and cash equivalents at the start of the year	19	49.6	67.6
Effect of exchange rate fluctuations on cash held		(2.0)	1.7
Cash and cash equivalents at the end of the year*		28.1	49.6

* Net of bank overdrafts of £60.1m (2018: £82.6m).

Notes to the consolidated financial statements

1. Basis of preparation

Introduction

IMI plc (the 'Company') is a company incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company financial statements present information about the company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law ('IFRSs'). The Company Financial Statements have been prepared in accordance with FRS 101 and these are presented on pages 168 to 172. The financial statements were approved by the Board of Directors on 27 February 2020.

Basis of accounting

The financial statements are presented in Pounds Sterling (which is the Company's functional currency), rounded to the nearest hundred thousand, except revenues and cost of sales, which are rounded to the nearest whole million. They are prepared on the historical cost basis except for derivative financial instruments; financial assets classified as fair value through profit and loss or other comprehensive income; assets and liabilities acquired through business combinations which are stated at fair value and retirement benefits. Non-current assets and liabilities held for sale are stated at the lower of their carrying amounts and their fair values less costs to sell.

The accounting policies described in the notes to the financial statements have been applied consistently throughout the Group for the purposes of these consolidated financial statements.

During 2019, management has reviewed and amended the format of the income statement from that used in the 2018 Annual Report and Accounts. Changes have been made to the presentation of the income statement which enhance the users understanding of the Group's financial performance by presenting gross margin information on the face of the income statement and removing the additional disclosure of non-adjusting restructuring costs. This is a change in presentation only and has no impact on the prior year operating profit and profit after tax.

New or amended EU Endorsed Accounting Standards adopted by the Group during 2019

Following the adoption of IFRS 16 'Leases', effective from 1 January 2019, the Group amended its accounting policies. The impact of the adoption of IFRS 16 'Leases' and the new accounting policies is set out in Note 13.

Noted below are the other amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2019, none of which has a material impact on the financial statements:

- IFRIC 23 'Uncertainty over Income Tax Treatments'
- IFRS 9 'Financial Instruments' - amendments to Prepayment Features with Negative Compensation
- IAS 28 'Long-term Interests in Associates and Joint Ventures' – minor amendments
- IAS 19 'Employee Benefits' – amendments

2. Significant accounting policies

Where appropriate the significant accounting policies are presented in the note to which it applies to aid the reader's understanding of their application. Set out below are the significant accounting policies which do not have a specific note.

A. Subsidiaries

The Group financial statements consolidate the financial statements of IMI plc and the entities it controls (its subsidiaries) for the year to 31 December 2019. The Group has no significant interests which are accounted for as associates or joint ventures.

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

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

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

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

B. Use of judgements and estimates

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

i. Key judgements

The key judgements are disclosed in Notes 3 and 13.

ii. Key estimates and assumptions

The key estimates and assumptions concerning the future and other sources of estimation uncertainty at the reporting date are described below. The Group bases its assumptions and estimates on information available when the consolidated financial statements are prepared. Market changes or circumstances arising beyond the control of the Group are reflected in the assumptions and estimates when they occur. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The key estimates are disclosed in Notes 11, 14, 15, 16, 20 and 23.

iii. Changes in judgements, estimates and assumptions

Management has reassessed the key judgements and estimates presented in the 2019 Annual Report and Accounts and concluded that, in the current year, the following change to the estimates and judgements applied in 2019 are required:

- Addition of a key judgement relating to the assessment of lease terms following the adoption of IFRS 16.

C. Revenue recognition

Revenue is recognised when obligations under the terms of a contract with our customer are satisfied. This generally occurs when the goods are transferred, or the services are provided, to our customer. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales and other taxes collected from customers are excluded from revenue. The nature of the equipment, valve and other contracts into which the Group enters means that:

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

As a result of the above, the significant majority of the Group's revenue is recognised on a sale of goods basis. Each of the divisional revenue streams set out in Note 4 can consist of the sale of goods, the provision of services or a combination of the two. The specific methods used to recognise the different forms of revenue earned by the Group are set out below:

i. Sales of Goods

Revenue from the sale of goods is recognised in the income statement net of returns, trade discounts and volume rebates when control has been transferred to our customer. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods. In Hydronic, the amount of consideration received and the revenue recognised varies in line with discounts and promotions offered to our customers and their customers.

The timing of the transfer of control to our customer varies depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 2010, are recognised as revenue when the Group has completed the primary duties required to transfer control as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside Incoterms 2010 are generally recognised on delivery to the customer. In limited instances, a customer may request that the Group retains physical possession of an asset for a period after control has been transferred to the customer. In these circumstances, the Group provides this storage as a service to the customer and therefore revenue is recognised prior to delivery of the asset.

2. Significant accounting policies (continued)

ii. Rendering of services

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

Where this is not the case, revenue from services rendered is recognised in proportion to the stage of completion of the service at the balance sheet date.

The stage of completion is assessed by reference to the contractual performance obligations with each separate customer and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured. Installation fees are similarly recognised by reference to the stage of completion on the installation unless they are incidental to the sale of the goods, in which case they are recognised when the goods are sold.

iii. Combined services and goods

When a transaction combines a supply of goods with the provision of a significant service, distinct performance obligations are identified and recognised in line with the applicable policy. If the service is essential to the functionality of the goods supplied then combined performance obligations, including the provision of goods and services, are identified at the lowest level and the transaction price is allocated to each performance obligation on an appropriate basis. Revenue from a service that is incidental to the supply of goods is recognised at the same time as the revenue from the supply of goods.

D. Foreign currencies

i. Foreign currency transactions

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

ii. Foreign operations

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

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

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

E. Financial instruments and fair value hedging

Financial instruments are initially recorded at fair value plus directly attributable transaction costs unless the instrument is a derivative not designated as a hedge (see below). Subsequent measurement depends on the designation of the instrument, which follows the categories in IFRS 9:

- Short-term borrowings and overdrafts are classified as financial liabilities at amortised cost.
- Derivatives, comprising interest rate swaps, foreign exchange contracts and options, metals futures contracts and any embedded derivatives, are classified as 'fair value through profit or loss' under IFRS 9, unless designated as hedges. Derivatives not designated as hedges are initially recognised at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, changes in fair value of such derivatives and gains or losses on their settlement are recognised in net financial income or expense.
- Long-term loans and other interest bearing borrowings are generally held at amortised cost using the effective interest rate method. Where the long-term loan is hedged, generally by an interest rate swap, and the hedge is regarded as effective, the carrying value of the long-term loan is adjusted for changes in fair value of the hedge.
- Trade receivables are stated at cost as reduced by appropriate impairment allowances for expected irrecoverable amounts.
- Trade payables are stated at cost.
- Financial assets and liabilities are recognised on the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.
- Available for sale financial assets are carried at fair value with gains and losses being recognised in equity, except for impairment losses which are recognised in the income statement.

F. Other hedging

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

Where a derivative financial instrument is used as an economic hedge of the foreign exchange or metals commodity price exposure of a recognised monetary asset or liability, financial commitment or forecast transaction, but does not meet the criteria to qualify for hedge accounting under IFRS 9 no hedge accounting is applied and any gain or loss resulting from changes in fair value of the hedging instrument is recognised in net financial income or expense.

Where such a derivative is a formally designated hedge of a forecast transaction for accounting purposes, movements in the value of the derivative are recognised directly in other comprehensive income to the extent the hedge is effective. The Company assesses the effectiveness of the hedge based on the expected fair value of the amount to be received and the movement in the fair value of the derivative designated as the hedge.

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

ii. Hedge of net investment in foreign operation

Where a foreign currency liability or derivative financial instrument is a formally designated hedge of a net investment in a foreign operation, foreign exchange differences arising on translation of the foreign currency liability or changes in the fair value of the financial instrument are recognised directly in equity via other comprehensive income to the extent the hedge is effective. The Group assesses the effectiveness of its net investment hedges based on fair value changes of its net assets, including relevant goodwill designated as foreign currency assets, and the fair value changes of both the debt designated as a hedge and the relevant financial instrument.

G. Investments not held for trading

Investments that are designated as being not held for trading are initially recognised at fair value. Subsequently the fair value of the investment is reassessed at each balance sheet date with movements in the fair value recognised in other comprehensive income.

H. Discontinued operations

When the Group has assets and liabilities that have been sold in the year or are likely to be sold rather than being held for continuing use, these assets and liabilities are included in current assets and liabilities and denoted 'held for sale' rather than in their usual categories. They are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on the initial classification of assets as held for sale are included in the Income Statement, even for assets measured at fair value, as are impairment losses on subsequent remeasurement and any reversal thereof. Once classified as held for sale, assets are no longer depreciated or amortised.

If they represent a significant enough proportion of the Group, they are also treated as discontinued operations. A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of, is held for sale or is a subsidiary acquired exclusively with a view to re-sale. This means that their trading performance, i.e. their revenues, costs and other items of income and expense, are no longer reported within the headline figures in the Income Statement and are instead reported in a separate line, net of tax, called 'discontinued operations'. These amounts no longer form part of continuing earnings per share. Comparative figures are restated to be shown on the same basis.

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

In 2019 there was a profit after tax of £2.8m (2018: £nil) from discontinued operations in 2019. See Note 28 for further details.

3. Alternative Performance Measures ('APMs') & adjusting items

Key judgement

Management has applied judgement in the selection of the Alternative Performance Measures ('APMs') used in the Annual Report and Accounts. The APMs presented are used in discussions with the investment analyst community and by the Board and management to monitor the trading performance of the Group. We consider that the presentation of APMs allows for improved insight to the trading performance of the Group. We consider that the term Adjusted, together with an adjusting items category, best reflects the trading performance of the Group.

The adjusting items in the income statement include restructuring costs, special pension events, gains/losses on disposals of subsidiaries, impairment losses, the reversal of gains/losses on economic hedges, gains on property disposals, acquisition costs, acquired intangible amortisation and other acquisition items.

Movements in adjusted revenue and adjusted operating profit are given on an organic basis (see definition below) so that performance is not distorted by acquisitions, disposals and movements in exchange rates.

The table below details the definition of each APM and a reference to where it can be reconciled to the equivalent statutory measure.

APM	Definition	Reconciliation to statutory measure
Adjusted revenue	These measures are as reported to management and do not include the impact of adjusting items described in this note.	See income statement on page 112.
Adjusted profit before tax		
Adjusted net interest cost		
Adjusted earnings per share		See Note 7.
Adjusted effective tax rate		See Note 9.
Adjusted EBITDA	This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation.	See Note 19.
Adjusted operating profit and margin	These measures are as reported to management and do not include the impact of adjusting items described in this note.	See income statement on page 112 and segmental reporting note in Note 4.
Organic growth	This measure removes the impact of adjusting items, acquisitions, disposals, movements in exchange rates and, in 2019 only, the impact of IFRS 16.	
Adjusted operating cash flow	This measure reflects cash generated from operations as shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment, the sale of investments less the repayment of principal amounts of lease payments excluding the cash impact of adjusting items.	See Note 19.
Operating cash flow	These measures are sub-totals in the reconciliation of adjusted EBITDA to Net Debt and are presented to assist the reader to understand the nature of the current year's cash flows.	See Note 19.
Free cash flow before corporate activity		

Impact of IFRS 16

The Group adopted IFRS 16 on 1 January 2019 and applied the modified retrospective approach (please see Note 13 for more details). For this reason, the Group's operating profit is not comparable against prior year for this reporting period only, memorandum results for 2019 excluding the impact of IFRS 16 have been included in Notes 4 and 13.

The adjusting items category in the income statement includes those items which are removed from statutory measures to provide insight as to the performance of the Group. Accordingly, adjusting items are included in a separate column on the face of the income statement. Outlined below are the adjusting items impacting the current results.

	Key	2019 £m	2018 £m
Recognised in arriving at operating profit from continuing operations			
Reversal of net economic hedge contract losses	a)	4.0	1.9
Restructuring costs	b)	(51.8)	(12.4)
Gains on special pension events	c)	8.6	6.8
Impairment losses	d)	(1.5)	(2.0)
Acquired intangible amortisation and other acquisition items	e)	(21.1)	(28.8)
Gain of disposal of subsidiaries	f)	-	0.6
Gain on disposal of properties	g)	-	3.2
Indirect taxes arising on reorganisation	h)	-	(3.2)
Recognised in net financial expense			
Financial income	a)	13.4	16.1
Financial expense	a)	(13.0)	(20.5)

a) Reversal of net economic hedge contract losses/gains - For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlement, are included in the adjusted revenues and operating profit of the relevant business segment. The adjusting items at the operating level reverse this treatment. The net financing adjusting items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.

b) Restructuring costs - The restructuring costs treated as adjusting items total £51.8m (2018: £12.4m) are as a result of a number of significant restructuring projects across the Group. This includes a restructuring of our European business totalling £24.4m in IMI Precision, £4.6m in the Americas and £1.2m in the divisional central team. In IMI Critical, adjusted restructuring costs related to a divisional reorganisation of £9.2m and restructure of the EMEA region of £9.5m. In IMI Hydronic, there were restructuring costs of £0.3m due to the finalisation of the Global Restructuring Programme initiated in 2018 and there were restructuring costs of £2.6m relating to the Corporate head office.

Adjusting restructuring costs in 2018 included £8.6m relating to the closure of one of our IMI Critical sites in Sweden and right sizing of operations, the Global Restructuring Programme within IMI Hydronic of £2.5m, the finalisation of restructuring projects related to the Swiss Controls & Nuclear business in IMI Critical of £0.7m and the European business in IMI Precision of £0.6m.

c) Gains on special pension events - During 2019, a gain in respect of an accounting adjustment for Swiss disability benefits was recognised for £4.7m. A gain was recognised in respect of a restructure of the pension benefits in Switzerland resulting in a gain of £2.8m. A curtailment gain of £0.8m was recognised in relation to a restructuring event in Switzerland. A settlement gain of £0.5m was recognised in respect of the buy-out of retirees in Switzerland. Professional fees of £0.2m have been recognised as adjusting associated with ongoing de-risking projects.

During 2018, de-risking activities relating to our defined benefit schemes continued including the conversion of certain pension benefits to being non-inflation linked, occurring in the UK which resulted in net gains of £1.4m. Regulatory changes and the completion of a buy-out in Switzerland resulted in gains totalling £3.0m. The completion of the transfer of £409m of liabilities covered by insurance policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £2.8m. An expense of £0.4m, arising from the equalisation of the UK defined benefit schemes, has been recognised following the ruling on the test case on Guaranteed Minimum Pensions.

d) Impairment losses - In 2019, £1.5m impairment losses were recorded as adjusting items relating to impairments of fixed assets associated with the restructuring projects discussed in (b) above.

In 2018 the Group recorded an adjusting impairment charge of £2.0m against the goodwill associated with the Hydronic service companies CGU. The carrying value of the goodwill was reassessed after a sales process for the CGU was cancelled.

e) Acquired intangible amortisation and other acquisition items - For segmental purposes, acquired intangible amortisation is excluded from adjusted profit, to allow for better comparability of the performance across divisions. This allows users of the financial statements to gain a clearer understanding of the performance of the business, with the impact of amortisation identified separately in line with internal reporting to management. Acquired intangible amortisation in 2019 totalled £19.5m (2018: £25.1m).

The decrease in 2019 reflects the one-off full amortisation of the Bimba order book which contributed £3.9m to the charge in 2018. An analysis by segment of acquired intangible amortisation is included in Note 4.

In 2019 the acquisition of PBM resulted in a fair value uplift to inventory of £1.1m recognised in accordance with IFRS 3 'Business Combinations' as an adjusting item to cost of sales and professional fees of £0.5m.

In 2018 the release of the fair value uplift to inventory, recognised as part of the Bimba acquisition accounting in accordance with IFRS 3 'Business Combinations', of £3.7m was recognised as an adjusting item to cost of sales.

f) Gain on disposal of subsidiaries - No subsidiaries have been disposed of in 2019. A gain of £0.6m was recognised in 2018 following the expiry of an indemnity provided on a historical disposal.

g) Gain on disposal of properties - No adjusting gains were realised on the sale of properties in 2019. A gain of £3.2m was recognised in 2018 following the disposal of the IMI Critical site in Seishin Japan. The proceeds of the sale will be used to construct a purpose built facility in Japan which will allow IMI Critical to better meet customer demand in this region.

h) Indirect taxes arising on reorganisation - Following a retrospective change to European tax law in 2018 on the transfer of assets a provision of £3.2m to reflect the probable exposure has been recognised. The provision is recognised as an adjusting item in operating profit as it relates to indirect taxes.

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

Adjusting items associated with discontinued operations are disclosed in Note 28.

4. Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. As described on page 3, each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

IMI Precision Engineering

IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies where precision, speed and reliability are essential to the processes in which they are involved.

IMI Critical Engineering

IMI Critical Engineering is a world-leading provider of flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently. Our products control the flow of steam, gas and liquids in harsh environments and are designed to withstand temperature and pressure extremes as well as intensely abrasive or corrosive cyclical operations.

IMI Hydronic Engineering

IMI Hydronic Engineering is a leading provider of technologies that deliver operational and energy efficient water-based heating and cooling systems for the residential and commercial building sectors.

Performance is measured by the Executive Committee based on adjusted operating profit and organic revenue growth which are defined in Note 3. These two measures represent the two short-term key performance indicators for the Group.

Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Adjusted operating profits are therefore charged/credited with the impact of these contracts. In accordance with IFRS 9, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

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

	Revenue		Operating profit		Operating margin	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 %	2018 %
Continuing operations						
IMI Precision Engineering	907	916	148.0	153.2	16.3%	16.7%
IMI Critical Engineering	651	682	90.1	88.3	13.8%	12.9%
IMI Hydronic Engineering	315	309	56.7	52.0	18.0%	16.8%
Corporate costs*			(28.7)	(28.0)		
Total adjusted revenue/operating profit and margin	1,873	1,907	266.1	265.5	14.2%	13.9%
Reversal of net economic hedge contract losses			4.0	1.9		
Restructuring costs			(51.8)	(12.4)		
Gains on special pension events			8.6	6.8		
Acquired intangible amortisation and other acquisition items			(21.1)	(28.8)		
Gain on disposal of subsidiaries			-	0.6		
Gain on disposal of properties			-	3.2		
Impairment losses			(1.5)	(2.0)		
Indirect taxes on reorganisation			-	(3.2)		
Statutory revenue/operating profit	1,873	1,907	204.3	231.6		
Net financial expense			(15.0)	(18.7)		
Statutory profit before tax from continuing operations			189.3	212.9		

* Non-adjusting restructuring costs of £0.8m for the year ended 31 December 2018 which were previously disclosed separately in 2018 are now included in Corporate costs.

The following table illustrates how revenue and operating profit have been impacted by movements in foreign exchange, the impact of IFRS 16, acquisitions and disposals.

	Year ended 31 December 2018				Year ended 31 December 2019					
	As adjusted	Exchange	Acquisitions	Organic	As adjusted	Acquisitions	IFRS 16	Organic	Adjusted growth (%)	Organic growth (%)
Adjusted revenue										
IMI Precision Engineering	916	11	9	936	907	-	-	907	-1%	-3%
IMI Critical Engineering	682	3	-	685	651	(8)	-	643	-5%	-6%
IMI Hydronic Engineering	309	(2)	-	307	315	-	-	315	2%	3%
Total	1,907	12	9	1,928	1,873	(8)	-	1,865	-2%	-3%
Adjusted operating profit										
IMI Precision Engineering	153.2	2.2	0.3	155.7	148.0	-	(2.0)	146.0	-3%	-6%
IMI Critical Engineering	88.3	0.8	-	89.1	90.1	(1.1)	(1.1)	87.9	2%	-1%
IMI Hydronic Engineering	52.0	0.8	-	52.8	56.7	-	(1.0)	55.7	9%	5%
Corporate costs**	(27.2)	-	-	(27.2)	(28.7)	-	2.3	(26.4)		
Total	266.3	3.8	0.3	270.4	266.1	(1.1)	(1.8)	263.2	0%	-3%
Adjusted operating profit margin (%)	14.0%			14.0%	14.2%			14.1%		

**Corporate costs for 2018 excludes £0.8m non-adjusting restructuring costs.

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

	Assets		Liabilities	
	2019 £m	2018 £m	2019 £m	2018 £m
IMI Precision Engineering	667.0	669.7	165.8	135.8
IMI Critical Engineering	771.4	723.7	241.1	186.6
IMI Hydronic Engineering	206.8	215.8	69.9	66.8
Total segmental assets/liabilities (including lease liabilities)	1,645.2	1,609.2	476.8	389.2
Corporate items	14.0	11.4	36.9	43.3
Employee benefits	47.9	27.8	79.2	80.1
Investments	3.6	3.7	2.1	-
Net debt items (excluding lease liabilities)	88.2	132.2	435.6	536.7
Net taxation and others	24.7	18.5	85.2	87.3
Total assets and liabilities in Group balance sheet	1,823.6	1,802.8	1,113.7	1,136.6

Impact of IFRS 16 on segment disclosures

Segment assets and segment liabilities for 2019 all increased as a result of the change in accounting policy. The 2018 IMI Precision Engineering, IMI Critical Engineering and IMI Hydronic Engineering segments have been restated below to include the impact from this change as at 1 January 2019.

	Segment Assets			Segment Liabilities		
	Pre IFRS 16 (31 Dec 2018) £m	Impact of IFRS 16 £m	Post IFRS 16 (1 Jan 2019) £m	Pre IFRS 16 (31 Dec 2018) £m	Impact of IFRS 16 £m	Post IFRS 16 (1 Jan 2019) £m
IMI Precision Engineering	669.7	42.4	712.1	135.8	42.6	178.4
IMI Critical Engineering	723.7	38.7	762.4	186.6	38.4	225.0
IMI Hydronic Engineering	215.8	12.8	228.6	66.8	12.8	79.6
Other	193.6	6.5	200.1	747.4	6.6	754.0
Total	1,802.8	100.4	1,903.2	1,136.6	100.4	1,237.0

4. Segmental information (continued)

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

	Adjusting restructuring costs*		Capital expenditure		Amortisation**		Depreciation ***	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
IMI Precision Engineering	30.2	0.7	27.5	28.6	11.0	16.4	35.5	20.6
IMI Critical Engineering	18.7	9.2	27.3	18.5	17.4	16.7	24.7	13.5
IMI Hydronic Engineering	0.3	2.5	10.9	11.2	5.8	3.3	14.8	8.2
	49.2	12.4	65.7	58.3	34.2	36.4	75.0	42.3
Corporate costs	2.6	-	0.1	0.2	0.3	0.5	1.2	0.5
Total	51.8	12.4	65.8	58.5	34.5	36.9	76.2	42.8

* In 2018, £0.8m of restructuring costs were included within adjusted operating profit that are not included in the table above.

** The amortisation figures above includes the amortisation of acquired intangibles. £7.5m (2018: £13.2m) is included in respect of IMI Precision, £12.0m (2018: £11.9m) is included in respect of IMI Critical and £nil (2018: £nil) is included in respect of IMI Hydronic.

*** The depreciation figures above include the impact of IFRS 16 in 2019 of £31.8m, 2018 has not been restated as described in Note 13. £0.7m is included in respect of Corporate, £13.2m is included in respect of IMI Precision, £11.6m is included in respect of IMI Critical and £6.3m is included in respect of IMI Hydronic.

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

	2019 Revenue £m	2018 Revenue* £m
UK	90	90
Germany	234	288
Rest of Europe	494	519
Total Europe	818	897
USA	440	427
Rest of Americas	98	88
Total Americas	538	515
China	158	109
Rest of Asia Pacific	246	248
Total Asia Pacific	404	357
Middle East & Africa	113	138
Total statutory revenue	1,873	1,907

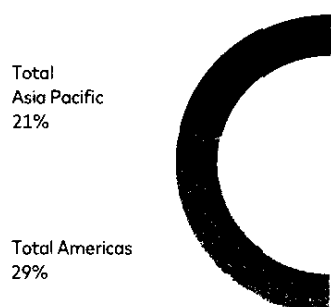
* 2018 has been restated following a change in the classification of geographical destinations.

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

	2019 Revenue £m	2018 Revenue £m
UK	84.1	76.6
Germany	234.2	251.1
Rest of Europe	265.1	219.7
USA	309.3	263.5
Asia Pacific	51.7	60.4
Rest of World	35.8	19.8
Total	980.2	891.1

Right of use assets are included in 2019 of £90.1m (2018: nil).

Adjusted revenue by destination (2019)



Adjusted revenue by destination (2018)



The Group's revenue streams are disaggregated in the table below. For details of the performance obligations relating to these revenue streams please refer to Note 2C.

Sector	2019 Revenue £m	2018 Revenue £m
Industrial Automation*	509	525
Commercial Vehicle	194	196
Energy	81	77
Life Sciences	81	77
Rail	42	41
IMI Precision Engineering	907	916
New Construction	277	361
Aftermarket	374	321
IMI Critical Engineering	651	682
TA	152	151
Heimeier	97	98
Pneumatex**	50	47
Other	16	13
IMI Hydronic Engineering	315	309
Total revenue	1,873	1,907

* 2019 Industrial Automation sales disaggregate as Factory Automation of £369m and Process Fluid Control of £140m.

** The Pneumatex service sales of £5m (2018: £4m) have been reclassified from Other to Pneumatex.

5. Operating costs

Operating costs by function

The following table is included to show how much of the operating costs disclosed in the Income Statement relate to selling and distribution costs and administrative expenses.

	2019 £m	2018 £m
Selling and distribution costs	(253.5)	(242.2)
Administrative expenses	(294.8)	(309.9)
	(548.3)	(552.1)

Employee information

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

	2019	2018
IMI Precision	5,979	5,933
IMI Critical	3,217	3,274
IMI Hydronic	1,770	1,790
Corporate	108	109
Total Group	11,074	11,106

The decrease in 2019 is due to the results of restructuring, offset by the acquisition of PBM.

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

	2019 £m	2018 £m
Wages and salaries	499.5	519.4
Share-based payments	8.8	8.2
Social security costs	82.8	87.7
Pension costs*	(3.1)	0.5
Total	588.0	615.8

* Pension costs include the £8.6m gain (2018: £6.8m gain) on special pension events which are disclosed as adjusting items, see Note 3.

The aggregate gains made by directors on the exercise of share options was £3.7m (2018: £0.1m). The remuneration, as defined in the Companies Act 2006 Schedule 5, for the executive directors' comprises fixed and annual variable pay as set out in the table on page 82 of the Remuneration Report. For details of the non-executive directors' remuneration please refer to page 90 of the Remuneration Report.

Research and development expenditure

The continuing cost of research and development expenditure charged directly to the income statement was £42.9m (2018: £41.2m), included within this is amortisation of capitalised intangible development costs which amounted to £2.6m (2018: £3.5m) and across the Group a further £5.7m (2018: £7.1m) was capitalised in the year.

Exchange on operating activities net of hedging arrangements

The transactional foreign exchange gains in the Group were £1.8m (2018: gains of £2.2m).

Audit fees

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

The Group's policy on such assignments is set out in the Audit Committee Report on page 75. Fees earned by EY and its associates during the year are set out below:

	2019 £m	2018 £m
Fees earned by the Company's auditor for the audit of the Company's annual accounts	0.2	0.2
The audit of the Company's subsidiaries, pursuant to legislation	2.8	2.6
Other assurance services	0.1	0.1
Total	3.1	2.9

6. Share-based payments

The Group operates a number of equity and equity-related compensation benefits to reward its employees. The estimated cost of awarding these share options is charged to the income statement over the period that the Group benefits from the employees' services. This cost is then added back to retained earnings, to reflect that there is no overall impact on the Group's balance sheet until the shares are issued to the employees when the options are exercised.

The individual share option schemes, the number of options outstanding under each of them, the estimated cost of these options recognised in the income statement and the assumptions used in arriving at this estimated cost are described below.

Accounting policy

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 Monte Carlo and Black-Scholes option-pricing models.

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

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

Outstanding share options

At 31 December 2019, options to purchase ordinary shares had been granted to, but not yet exercised by, participants of IMI share option schemes as follows:

	Date of grant	Number of shares	Price	Dates from which exercisable
IMI Sharesave Scheme	06.05.14	4,929	1384.02p	01.08.17 or 01.08.19
	05.06.15	16,274	1075.32p	01.08.18 or 01.08.20
	29.04.16	56,159	845.10p	01.08.19 or 01.08.21
	21.04.17	30,103	1106.00p	01.08.20 or 01.08.22
	04.04.18	68,500	1012.68p	01.08.21 or 01.08.23
	04.04.19	182,633	884.16p	01.08.22 or 01.08.24
		358,598		
Global Employee Share Purchase Plans	15.08.18	47,534	1049.31p	15.08.20
	16.08.19	33,269	902.72p	12.08.21
		80,803		
IMI Incentive Plan	07.05.15	2,969	-	07.05.17 or 07.05.18
	09.03.16	48,535	-	09.03.18 or 09.03.19
	09.03.17	634,129	-	09.03.19 or 09.03.20
	12.03.18	629,396	-	12.03.20 or 12.03.21
	18.03.19	736,335	-	18.03.21 or 18.03.22
		2,051,364		
IMI Share Option Plan	22.03.10	4,500	645.00p	22.03.13
	23.03.11	95,000	971.83p	23.03.14
	04.05.12	190,750	980.67p	04.05.15
	27.11.12	12,200	1007.33p	27.11.15
	12.03.13	228,150	1322.70p	12.03.16
	22.10.13	14,000	1518.33p	22.10.16
	11.03.14	264,050	1467.00p	11.03.17
		808,650		
Total		3,299,415		

6. Share-based payments (continued)

Schemes under which options are outstanding

The options in the table on page 127 relate to the following share-based payment schemes:

IMI Sharesave Scheme ('SAYE')

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase IMI shares. SAYE options may be exercised within six months of the date they first become exercisable.

Global Employee Share Purchase Plans ('GESPP')

These plans were introduced in 2011 for the US and Germany. The German and US GESPP's offer the opportunity to buy shares in IMI at a fixed price at a future date. The German GESPP mirrors the UK Sharesave Scheme, with a minimum/maximum savings limit per month and contract duration of three to five years. The US GESPP also operates in a similar way to the UK Sharesave Scheme, with a minimum/maximum savings limit per month, but the contract duration is for a fixed period of two years and different taxation conditions apply for the exercise period. No further awards are intended to be granted under the German GESPP.

IMI Share Option Plan ('SOP')

Share option awards were made from 2009 to selected senior managers and certain other employees under the SOP. These awards are not subject to performance conditions, but are subject to a three year vesting period. The purpose of the SOP is to give selected IMI employees (who are not executive directors of the Company) the opportunity to share in the benefits of share price growth and to increase their IMI shareholding.

Other share-based payment arrangements

The Group also operates the following employee share plans:

Share Incentive Plan ('SIP')

The SIP is open to the majority of the Group's UK employees, including the executive directors. This scheme covers two separate opportunities for employees to share in IMI's success as follows:

- Partnership shares – allow employees to invest up to the statutory maximum from pre-tax pay, which is used to buy IMI shares.
- Free shares – allows a grant of shares to employees each year, up to the statutory maximum.

Shares acquired or awarded under the SIP are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company.

The IMI Incentive Plan ('IIP')

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

Options granted during the year

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
SAYE			
2018	100	1013p	2021-2024
2019	200	884p	2022-2025
GESPP			
2018	54	1409p	2020
2019	33	903p	2021
IIP			
2018	835	-	2020-2021
2019	845	-	2021-2022

Movement in outstanding options in the year

	Options not granted at nil cost ¹			Options granted at nil cost ²	Total
	Number of options (thousand)	Range of option prices	Weighted average option price	Number of options (thousand)	Number of options (thousand)
Outstanding at 1 January 2018	1,718	441-1518p	1162p	2,802	4,520
Exercisable at 1 January 2018	1,340	441-1518p	1218p	118	1,458
Granted	153	1013-1049p	1026p	1,222	1,375
Exercised	164	441-1322p	989p	68	232
Lapsed	153	845-1467p	1208p	699	852
Outstanding at 31 December 2018	1,555	645-1518p	1162p	3,257	4,812
Exercisable at 31 December 2018	1,156	645-1518p	1229p	128	1,284
Granted	233	884-903p	887p	1,194	1,427
Exercised	189	645-1067p	815p	655	844
Lapsed	109	845-1384p	1022p	1,105	1,214
Outstanding at 31 December 2019	1,490	645-1518p	1173p	2,692	4,181
Exercisable at 31 December 2019	1,067	645-1518p	1264p	202	1,269

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

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

Share-based payment charge for the year

The total expense recognised for the year arising from share-based payments was £8.8m (2018: £8.2m) which comprises a charge of £13.8m (2018: £13.9m) for the year offset by a credit of £5.0m (2018: £5.7m) in respect of lapses.

£3.5m (2018: £4.7m) of the total charge and £3.4m (2018: £2.3m) of the total credit is in respect of options granted to directors.

Share-based payment valuation methodology

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted, based on Black-Scholes and Monte Carlo option pricing models. The assumptions used for grants in 2019 included a dividend yield of 3.7% (2018: 4.3%), expected share price volatility of 24% (2018: 26%), a weighted average expected life of 3.3 years (2018: 3.2 years) and a weighted average interest rate of 0.6% (2018: 0.8%). The expected volatility is wholly based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Other share-based payment disclosures

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 is 6.18 years (2018: 6.48 years) and the weighted average fair value of share options granted in the year at their grant date was £8.66 (2018: £10.11).

The weighted average share price at the date of exercise of share options exercised during the year was £9.98 (2018: £11.83).

7. Earnings per ordinary share

Earnings per share ("EPS") is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company).

Basic EPS measures are calculated as the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation.

Both of these measures are also presented on an adjusted basis, to assist the reader of the financial statements to get a better understanding of the performance of the Group. The note below demonstrates how this calculation has been performed.

	Key	2019 million	2018 million
Weighted average number of shares for the purpose of basic earnings per share	A	270.8	271.0
Dilutive effect of employee share options		0.4	0.3
Weighted average number of shares for the purpose of diluted earnings per share	B	271.2	271.3

	Key	£m	£m
Statutory profit for the year	C	156.1	169.4
Statutory profit from discontinued operations, net of tax		(2.8)	-
Continuing statutory profit for the year	D	153.3	169.4
Total adjusting items charges included in profit before tax		61.4	38.3
Total adjusting items credits included in taxation		(16.6)	(9.3)
Earnings for adjusted EPS	E	198.1	198.4

	Key	2019	2018
Statutory EPS measures			
Statutory basic EPS	C/A	57.6p	62.5p
Statutory diluted EPS	C/B	57.6p	62.4p
Statutory basic continuing EPS	D/A	56.6p	62.5p
Statutory diluted continuing EPS	D/B	56.5p	62.4p
Adjusted EPS measures			
Adjusted basic EPS	E/A	73.2p	73.2p
Adjusted diluted EPS	E/B	73.0p	73.1p

Discontinued earnings per share

Statutory basic discontinued earnings per share were 1.0p (2018: nil). Statutory diluted discontinued earnings per share were 1.0p (2018: nil).

Impact of IFRS 16 on earnings per share

Earnings per share decreased by 0.1p per share for the year ended 31 December 2019 as a result of the adoption of IFRS 16.

8. Net financing costs

Accounting policy

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

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

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

The finance income or expense on mark-to-market movements on interest and foreign exchange derivatives and other financing costs are excluded from adjusted earnings.

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

	2019			2018		
	Interest £m	Financial instruments £m	Total £m	Interest £m	Financial instruments £m	Total £m
Recognised in the income statement						
Interest income on bank deposits	4.5		4.5	5.8		5.8
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		7.5	7.5		13.9	13.9
- future year transactions		5.9	5.9		2.2	2.2
Financial income	4.5	13.4	17.9	5.8	16.1	21.9
Interest expense on interest-bearing loans and borrowings	(17.1)		(17.1)	(18.7)		(18.7)
Interest expense on lease arrangements	(2.3)		(2.3)	-		-
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		(9.3)	(9.3)		(15.9)	(15.9)
- future year transactions		(3.7)	(3.7)		(4.6)	(4.6)
Financial expense	(19.4)	(13.0)	(32.4)	(18.7)	(20.5)	(39.2)
Net financial income relating to defined benefit pension schemes	(0.5)		(0.5)	(1.4)		(1.4)
Net financial expense	(15.4)	0.4	(15.0)	(14.3)	(4.4)	(18.7)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in adjusted revenue and operating profit (see Note 4). For statutory purposes, these are shown within net financial income and expense above. Gains or losses for future year transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

	2019 £m	2018 £m
Recognised in other comprehensive income		
Change in fair value of effective portion of net investment hedges	2.6	1.9
Foreign currency translation differences	(15.4)	(4.5)
Change in fair value of other financial assets	-	0.2
Income tax on items recognised in other comprehensive income	6.0	(0.3)
Total items recognised in other comprehensive income (net of tax)	(6.8)	(2.7)
Recognised in:		
Hedging reserve	2.6	1.8
Translation reserve	(9.4)	(4.5)
	(6.8)	(2.7)

9. Taxation

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

Accounting policy

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

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

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

Tax governance, risk and strategy

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

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

Compliance: IMI seeks to manage its taxation obligations worldwide in compliance with all applicable tax laws and regulations, as well as fully in line with the Group's Code of Conduct. Accordingly, the tax contribution by the individual businesses is monitored and robust standard tax compliance processes operate together with appropriate financial controls to ensure that all tax returns are complete, accurate and filed on a timely basis with the tax authorities around the world and the declared taxes paid on time. UK legislation regarding third party tax evasion has also been incorporated in to the Group's prevention procedures, including employee training. Furthermore, the preparation and filing of the corporate income tax returns for IMI subsidiary companies worldwide have been largely outsourced to one tax advisory firm.

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

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

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

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

Risk: IMI engages external support to manage tax risks and achieve the strategic objectives outlined above. Tax risks are regularly assessed for all companies within the Group, promptly addressed and reported so that they may be appropriately provided and disclosed in the relevant accounts and tax returns. To the extent that identified tax risks are material they will be reported to the Executive Committee through the Group's process for strategic risk management as described at page 54.

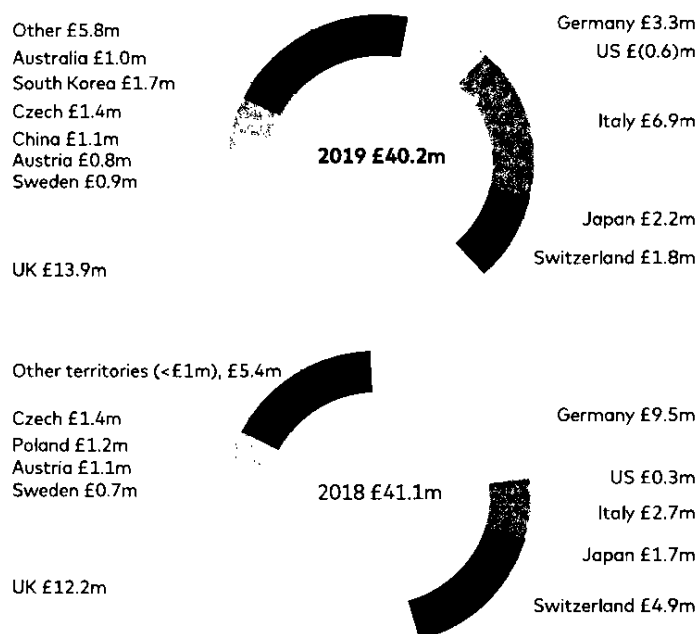
UK Corporation tax

The average weighted rate of corporation tax in the UK for the 2019 calendar year was 19.0% (2018: 19.0%). Changes to the rate of UK corporation tax were substantively enacted in 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The budget of 16 March 2016 then proposed to further reduce the rate to 17% from 1 April 2020. This additional change was substantively enacted on 6 September 2016. UK deferred tax assets and liabilities have therefore been calculated using a rate of 17% (2018: 17%).

Tax payments

During the year, the Group made payments of corporate income tax of £40.2m (2018: £41.1m), principally arising as follows:

Jurisdiction of companies making corporate income tax payments:



There is normally an element of volatility in the annual payments of corporate income taxes due to the timing of assessments, acquisition and disposals, adjusting items and payments on account in the many countries in which the Group operates. Changes in the jurisdictions in which profits are earned can have an impact on cash flow levels which may take time to be reflected in the tax cash flow.

The level of payments made during 2019 decreased slightly compared to 2018. The Group continued to recover tax debtors in Germany, Switzerland and the US. Other territorial movements in payments largely reflect shifts in trading.

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

Recognised in the income statement

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

	2019 £m	2018 £m
Current tax charge		
Current year charge	41.4	46.1
Adjustments in respect of prior years	0.4	(4.3)
	41.8	41.8
Deferred taxation		
Origination and reversal of temporary differences	(5.8)	1.7
Total income tax charge	36.0	43.5

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

	2019 £m	2018 £m
Current tax charge		
Continuing operations	41.8	41.8
Deferred tax (credit)/charge		
Continuing operations	(5.8)	1.7
Total income tax charge		
Continuing operations	36.0	43.5

9. Taxation (continued)

Reconciliation of effective tax rate

As IMI's head office and parent company is domiciled in the UK, the Group references its effective tax rate to the UK corporation tax rate, despite only a small portion of the Group's business being in the UK. Therefore, the following tax reconciliation applies the UK corporation tax rate for the year to profit before tax, both before and after adjusting items. The resulting tax charge is reconciled to the actual tax charge for the Group, by taking account of specific tax adjustments as follows:

Section	2019			2018		
	Adjusted £m	Adjusting items £m	Statutory £m	Adjusted £m	Adjusting items £m	Statutory £m
Profit before tax from continuing operations	250.7	(61.4)	189.3	251.2	(38.3)	212.9
Profit before tax from discontinued operations	-	2.8	2.8	-	-	-
Profit before tax	250.7	(58.6)	192.1	251.2	(38.3)	212.9
<i>Income tax using the Company's domestic rate of tax of 19.00% (2018: 19.00%)</i>	<i>47.6</i>	<i>(11.1)</i>	<i>36.5</i>	47.7	(7.3)	40.4
Effects of:						
Non-deductible items	0.7	0.2	0.9	0.7	0.7	1.4
Non taxable impairment / loss on disposal of businesses / discontinued operations	-	(0.5)	(0.5)	-	0.3	0.3
Utilisation of losses on which no deferred tax had been recognised	(0.5)	-	(0.5)	(0.4)	-	(0.4)
Current year losses for which no deferred tax asset has been recognised	0.2	-	0.2	3.0	-	3.0
Recognition of deferred tax asset on previously unprovided timing differences	(1.8)	-	(1.8)	-	-	-
Differing tax rates	6.1	(5.2)	0.9	5.2	(3.0)	2.2
Under/(Over) provided in prior years	0.3	-	0.3	(3.4)	-	(3.4)
Total tax in income statement	52.6	(16.6)	36.0	52.8	(9.3)	43.5
Income tax expense reported in the consolidated income statement	52.6	(16.6)	36.0	52.8	(9.3)	43.5
Effective rate of tax - continuing operations:	21.0%		19.0%	21.0%		20.4%
Income tax attributable to discontinued operations						
Effective rate of tax - discontinued operations:						
Total tax in income statement	52.6	(16.6)	36.0	52.8	(9.3)	43.5
Effective rate of tax - total Group:	21.0%			21.0%		

Recognised outside of the income statement

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

	2019 £m	2018 £m
Deferred tax:		
On equity-settled transactions	-	0.1
On re-measurement gains and on defined benefit plans	(0.1)	3.5
On change in value of effective net investment hedge derivatives	(2.0)	-
	(2.1)	3.6
Current tax:		
On change in value of effective net investment hedge derivatives	(4.0)	0.3
On equity-settled transactions	0.2	1.1
	(5.9)	5.0
Of which the following amounts are charged/(credited):		
to the statement of comprehensive income	(6.1)	3.8
to the statement of changes in equity	0.2	1.2
	(5.9)	5.0

Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Non-current assets	5.2	0.9	(36.6)	(34.8)	(31.4)	(33.9)
Inventories	3.6	3.9	(2.2)	(2.8)	1.4	1.1
On revaluation of derivatives	0.4	0.2	(1.0)	(3.1)	(0.6)	(2.9)
Employee benefits and provisions	36.0	30.3	(12.4)	(8.6)	23.6	21.7
Other tax assets	1.7	1.2	-	-	1.7	1.2
	46.9	36.5	(52.2)	(49.3)	(5.3)	(12.8)
Offsetting within tax jurisdictions	(24.7)	(19.5)	24.7	19.5	-	-
Total deferred tax assets and liabilities	22.2	17.0	(27.5)	(29.8)	(5.3)	(12.8)

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

	Balance at 1 Jan 19 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Balance at 31 Dec 19 £m
Non-current assets	(33.9)	1.5	-	1.0	(31.4)
Inventories	1.1	0.3	-	-	1.4
On revaluation of derivatives	(2.9)	0.3	2.0	-	(0.6)
Employee benefits and provisions	21.7	2.5	0.1	(0.7)	23.6
Other tax assets	1.2	1.2	-	(0.7)	1.7
Net deferred tax liability	(12.8)	5.8	2.1	(0.4)	(5.3)

	Balance at 1 Jan 18 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Balance at 31 Dec 18 £m
Non-current assets	(33.0)	0.2	-	(1.1)	(33.9)
Inventories	0.7	0.6	-	(0.2)	1.1
On revaluation of derivatives	(3.1)	0.2	-	-	(2.9)
Employee benefits and provisions	26.6	(1.8)	(3.6)	0.5	21.7
Other tax assets	2.0	(0.9)	-	0.1	1.2
Net deferred tax liability	(6.8)	(1.7)	(3.6)	(0.7)	(12.8)

All exchange movements are taken through the translation reserve.

Unrecognised deferred tax assets and liabilities

Deferred tax assets of £48.4m (2018: £50.2m) have not been recognised in respect of tax losses of £62.2m (2018: £69.4m), interest of £37.3m (2018: £32.3m) and capital losses of £117.3m (2018: £118.0m). The majority of the tax losses have no expiry date. No deferred tax asset has been recognised for these temporary differences due to the uncertainty over their offset against future taxable profits and therefore their recoverability. In some instances, these balances are also yet to be accepted by the tax authorities and could be challenged in the event of an audit.

It is likely that the majority of unremitted earnings of overseas subsidiaries would qualify for the UK dividend exemption. However, £35.3m (2018: £36.2m) of those earnings may still result in a tax liability principally as a result of withholding taxes levied by the overseas jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £3.8m (2018: £2.9m) of which £3.3m (2018: £2.7m) has been provided on the basis that the Group expects to remit these amounts.

10. Dividends

Accounting policy

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

Dividends

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2019 £m	2018 £m
Current year final dividend - 26.2p per qualifying ordinary share (2018: 26.0p)	71.0	70.4

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

	2019 £m	2018 £m
Prior year final dividend paid - 26.0p per qualifying ordinary share (2017 final year dividend: 25.2p)	70.4	68.3
Current year interim dividend paid - 14.9p per qualifying ordinary share (2018: 14.6p)	40.4	39.6
	110.8	107.9

Dividend policy and share buybacks

As part of the capital management process, the Group ensures that adequate reserves are available in IMI plc in order to meet proposed shareholder dividends, the purchase of shares for employee share scheme incentives and any on-market share buyback programme.

Whilst the Group does not have a formal dividend policy or payout ratio, the Group's aim is to continue with progressive dividends, which typically increase at a steady rate for both the interim and final dividend payments, with an aim that the dividend should, through the cycle, be covered by at least two times adjusted earnings. In the event that the Board cannot identify sufficient investment opportunities through capital expenditure, organic growth initiatives and acquisitions, the return of funds to shareholders through share buybacks or special dividends will be considered. It should be noted that a number of shares are regularly bought in the market by an employee benefit trust in order to hedge the exposure under certain management incentive plans. Details of these purchases are shown in Note 22 to the financial statements.

11. Intangible assets

Accounting policy

Intangible assets are disclosed as acquired intangible assets and non-acquired intangible assets. Amortisation of acquired intangible assets is treated as an adjusting item as described in Note 3 of these accounting policies, because of its inherent volatility.

i. Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred over the net identifiable amounts of the assets acquired and the liabilities assumed for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The value of the goodwill can arise from a number of sources, but in relation to our more recent acquisitions, it has been represented by post-acquisition synergies and the skills and knowledge of the workforce.

ii. Research and Development

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

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

iii. Software development costs

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

iv. Customer relationships and other acquired intangible assets

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

v. Amortisation of intangible assets other than goodwill

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

- Capitalised development costs are the life of the intangible asset (usually a maximum of 15 years)
- Software development costs are the life of the intangible asset (up to 10 years)
- Customer relationships are the life of the intangible asset (up to 10 years)
- Other intangible assets (including order books, brands and software) are the life of the intangible asset (up to 10 years)

The Group splits its intangible assets between those arising on acquisitions and those which do not, because the amortisation of acquired intangibles is recognised as an adjusting item in the income statement.

11. Intangible assets (continued)

Analysis of intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Total acquired intangibles £m	Other non- acquired intangibles £m	Non-acquired intangibles under construction £m	Total £m
Cost							
As at 1 January 2018	420.4	195.4	99.9	715.7	111.4	25.1	852.2
Exchange adjustments	16.0	7.0	4.6	27.6	2.6	(0.1)	30.1
Acquisitions	39.1	34.2	20.0	93.3	3.4	-	96.7
Additions	-	-	-	-	6.7	13.7	20.4
Transfers from assets in the course of construction	-	-	-	-	21.4	(21.4)	-
Disposals	-	-	(2.2)	(2.2)	(1.9)	-	(4.1)
As at 31 December 2018	475.5	236.6	122.3	834.4	143.6	17.3	995.3
Exchange adjustments	(20.9)	(12.0)	(5.8)	(38.7)	(8.1)	(0.3)	(47.1)
Acquisitions (see Note 23)	25.8	15.7	13.3	54.8	-	-	54.8
Additions	-	-	-	-	7.6	11.2	18.8
Transfers from assets in the course of construction	-	-	-	-	12.6	(12.6)	-
Disposals	-	-	-	-	(0.8)	-	(0.8)
As at 31 December 2019	480.4	240.3	129.8	850.5	154.9	15.6	1,021.0
Amortisation							
As at 1 January 2018	36.1	161.0	89.9	287.0	56.2	-	343.2
Exchange adjustments	0.2	3.3	2.8	6.3	3.0	-	9.3
Disposals	-	-	(2.2)	(2.2)	(1.8)	-	(4.0)
Impairment	2.0	-	-	2.0	1.2	-	3.2
Amortisation for year	-	16.2	8.9	25.1	11.8	-	36.9
As at 31 December 2018	38.3	180.5	99.4	318.2	70.4	-	388.6
Exchange adjustments	(2.0)	(9.3)	(4.5)	(15.8)	(4.6)	-	(20.4)
Disposals	-	-	-	-	(0.5)	-	(0.5)
Amortisation for year	-	15.2	4.3	19.5	15.0	-	34.5
As at 31 December 2019	36.3	186.4	99.2	321.9	80.3	-	402.2
Net book value at 31 December 2018	437.2	56.1	22.9	516.2	73.2	17.3	606.7
Net book value at 31 December 2019	444.1	53.9	30.6	528.6	74.6	15.6	618.8

Goodwill impairment testing

Accounting policy

For the purpose of impairment testing goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of 'CGUs'). The composition of CGUs reflects both the way in which cash inflows are generated and the internal reporting structure. Where our businesses operate closely with each other we will continue to review whether they should be treated as a single CGU. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and shall not be larger than an operating segment before aggregation.

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

Impairment – The carrying values of the Group's non-financial assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether impairment indicators exist.

If indicators exist, the recoverable amount of the asset or all assets within its CGU is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its CGU unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, an individual assessment is made of the estimated future cash flows generated for each CGU derived from the Group's long-term forecasts for the next five years. These are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management believe that this approach, including the use of the indefinite cash flow projection, is appropriate based upon both historical experience and because it is one of the bases management utilise to evaluate the fair value of investment opportunities. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash generating unit to which the asset belongs.

Reversals of impairment

Impairments of goodwill or available for sale financial assets are non-reversible. In respect of other assets, an impairment loss is reversed if at the balance sheet date there are indications that the loss has decreased or no longer exists following a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Key estimate

The value in use is based on a discounted cash flow model. The principal key estimate reflects the assumptions in these calculations are the long-term growth rates and the discount rate applied to forecast cash flows in addition to the achievement of the forecasts themselves. The assessments performed were materially insensitive to changes in the underlying growth and discount rate assumptions which were not significantly revised in the current year. Further information on the assumptions adopted for material cash generating units and the assets affected is included below.

The Group has 19 (2018: 20) cash generating units to which goodwill is allocated.

The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. Value in use is determined using cash flow projections from financial budgets, forecasts and plans approved by the Board covering a five-year period and include a terminal value multiple. The projected cash flows reflect the latest expectation of demand for products and services.

The key assumptions in these calculations are the long-term growth rates and the discount rates applied to forecast cash flows in addition to the achievement of the forecasts themselves. Long-term growth rates are based on long-term economic forecasts for growth in the manufacturing sector in the geographical regions in which the cash generating unit operates. Pre-tax discount rates specific to each cash generating unit are calculated by adjusting the Group post-tax weighted average cost of capital ('WACC') of 7.0% (2018: 7%) for the tax rate relevant to the jurisdiction before adding risk premia for the size of the unit, the characteristics of the segment in which it resides, and the geographical regions from which the cash flows are derived.

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

	2019 %	2018 %
Pre-tax discount rate	8.3 – 11.0	8.9 – 14.8
Long-term growth rate	0.7 – 2.0	0.8 – 3.1

For the purpose of assessing the significance of CGUs, the Group uses a threshold of 20% of the total goodwill balance. Goodwill of £90.2m (2018: £93.2m) associated with the Control Valves CGU in IMI Critical is considered to be significant. The recoverable amount of the CGU is determined from a value in use calculation. The key assumptions for the value in use valuation are the discount rate, growth rate and operating cashflows. These estimates are determined using the methodology discussed above. The discount rate applied for Control Valves is 9.4% (2018: 9.5%) and a growth rate of 2.0% (2018: 2.1%) is applied into perpetuity.

The Directors do not consider that any reasonably possible changes to the key assumptions would cause the carrying amount to exceed the recoverable amount of the CGU.

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

In 2018 the Group recorded an adjusting impairment charge of the carrying value of £2m against the goodwill associated with the Hydronic service companies CGU. The carrying value of the goodwill was reassessed after a sales process for the CGU was cancelled.

The aggregate amount of goodwill arising from acquisitions prior to 1 January 2004 which had been deducted from the profit and loss reserves and incorporated into the IFRS transitional balance sheet as at 1 January 2004, amounted to £364m. The cumulative impairment recognised in relation to goodwill is £41m (2018: £41m).

12. Property, plant and equipment

This note details the physical assets used by the Group to generate revenues and profits, in addition to those disclosed in Note 13. These assets include manufacturing, distribution and office sites, and equipment used in the manufacture of the Group's products. The cost of these assets represents the amount initially paid for them.

Accounting policy

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

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see Note 11).

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

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

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

Assets in the course of construction comprise assets which are not currently ready to be brought in to use. Assets under construction are not depreciated.

If there has been a technological change or decline in business performance the directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value, a one-off impairment charge is made against profit.

	Land & buildings £m	Plant & equipment £m	Assets in the course of construction £m	Total £m
Cost				
As at 1 January 2018	184.9	632.5	21.1	838.5
Exchange adjustments	14.4	34.7	(1.7)	47.4
Acquisitions	7.4	11.0	0.4	18.8
Additions	0.7	16.3	21.1	38.1
Transfers from assets in the course of construction	1.6	20.0	(21.6)	-
Disposals	(15.0)	(27.0)	(0.1)	(42.1)
As at 31 December 2018	194.0	687.5	19.2	900.7
Exchange adjustments	(9.8)	(31.5)	(1.2)	(42.5)
Acquisitions (see Note 23)	2.0	2.1	1.1	5.2
Additions	6.6	18.2	22.2	47.0
Transfers from assets in the course of construction	5.9	15.5	(21.4)	-
Disposals	(18.8)	(23.0)	(0.3)	(42.1)
As at 31 December 2019	179.9	668.8	19.6	868.3
Depreciation				
As at 1 January 2018	96.2	471.9	-	568.1
Exchange adjustments	12.9	24.8	-	37.7
Disposals	(6.2)	(26.1)	-	(32.3)
Depreciation	2.9	39.9	-	42.8
As at 31 December 2018	105.8	510.5	-	616.3
Exchange adjustments	(5.3)	(24.6)	-	(29.9)
Disposals	(13.9)	(21.4)	-	(35.3)
Impairment charge	-	1.5	-	1.5
Depreciation	3.8	40.6	-	44.4
As at 31 December 2019	90.4	506.6	-	597.0
NBV at 31 December 2018	88.2	177.0	19.2	284.4
NBV at 31 December 2019	89.5	162.2	19.6	271.3

An impairment charge of £1.5m relating to continuing operations occurred during the year (2018: £nil). The recoverable amount of these assets has been determined using their fair value less costs to sell, estimated by both internal and external valuation specialists.

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date relating to the continuing business amounted to £12.3m (2018: £4.3m).

13. Leases

Accounting policy

The Group leases various properties, plant, equipment and cars. Rental contracts are negotiated individually and have a range of initial terms and may have extension options. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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 by the Group. 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 payment that are based on an index or a rate;
- iii. amounts expected to be payable by the Group under residual value guarantees;
- iv. the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- v. payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the entity's incremental borrowing rate is used, being the rate that the entity 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 lease liability;
- ii. any lease payments made at or before the commencement date less any lease incentives received; and
- iii. restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options - Extension and termination options are included in a number of property and equipment leases across the Group. *These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.*

Key judgement

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). Potential future cash outflows of Enil have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of £7.8m.

On adoption of IFRS 16, with effect from 1 January 2019, the Group has adopted the accounting standard using the modified retrospective approach to transition and has accordingly not restated prior periods. The Group 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 Group's incremental borrowing rate as of 1 January 2019 which ranged from 0.72% to 6.06% which reflects the range of territories that leases are held in.

13. Leases (continued)

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. The reconciliation set out below demonstrates the movement from the operating lease commitments disclosed in the 2018 Annual Report and Accounts to the opening lease liability recognised on 1 January 2019.

	2019 £m
Operating lease commitments disclosed as at 31 December 2018	126.0
Discounted using the Group's incremental borrowing rate at the date of initial application	(9.6)
Add: finance lease liabilities recognised as at 31 December 2018	0.3
(Less): changes arising from review of critical lease terms	(18.1)
Add: adjustments as a result of a different treatment of extension and termination options	1.8
Lease liability recognised as at 1 January 2019	100.4
Of which are:	
Current lease liabilities	27.9
Non-current lease liabilities	72.5
	100.4

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.

Operating lease commitments disclosed as at 31 December 2018 were £126.0m. Operating lease commitments for Land and Buildings were £88.1m (of which £21.6m was due within one year, £54.2m was due within years two to five and £12.3m was due after five years) and for Others were £37.9m (of which £13.6m was due within one year, £24.3m was due within years two to five and nil was due after five years).

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	-	100.4	100.4
Total non-current assets	939.1	100.4	1,039.5
Lease liabilities	-	(27.9)	(27.9)
Total current liabilities	(631.3)	(27.9)	(659.2)
Lease liabilities	-	(72.5)	(72.5)
Total non-current liabilities	(505.3)	(72.5)	(577.8)
Net assets	666.2	-	666.2

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 & buildings £m	Plant & equipment £m	Total £m
As at 1 January 2019	83.2	17.2	100.4
Additions	8.0	7.2	15.2
Extensions	13.2	0.6	13.8
Payment changes	(1.8)	(0.4)	(2.2)
Terminations	(5.3)	(0.7)	(6.0)
Depreciation expense	(22.5)	(9.3)	(31.8)
Exchange	0.5	0.2	0.7
As at 31 December 2019	75.3	14.8	90.1

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

	Land & buildings £m	Plant & equipment £m	Total £m
As at 1 January 2019	83.2	17.2	100.4
Additions	8.0	7.2	15.2
Extensions	13.2	0.6	13.8
Payment changes	(1.8)	(0.4)	(2.2)
Terminations	(5.5)	(0.7)	(6.2)
Accretion of interest	2.0	0.3	2.3
Payments	(23.9)	(9.7)	(33.6)
Exchange	0.5	0.2	0.7
As at 31 December 2019	75.7	14.7	90.4
Current	18.7	6.9	25.6
Non-current	57.0	7.8	64.8

The following are the amounts recognised in the income statement:

	2019 £m
Depreciation expense of right-of-use assets	(31.8)
Interest expense on lease liabilities	(2.3)
Expense relating to short-term leases	-
Expense relating to leases of low-value assets	-
Total amount recognised in profit or loss	(34.1)

Practical expedients applied

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

- reliance on previous assessments on the identification of a lease (per IAS 17) for all existing contracts on the date of initial application;
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- 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.

Changes to accounting policies

Until 31 December 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, 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 by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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 the following lease payments:

- fixed payments less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees; and
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the Group 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 the following:

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

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Future cash outflows that the Group is potentially exposed to in relation to the measurement of lease liabilities which have not been reflected is Enil.

14. Retirement benefits

Accounting policy

i. Defined contribution ('DC') pension plans

Arrangements where the employer pays fixed contributions into an external fund on behalf of the employee (who is responsible for making the investment decision and therefore assumes the risks and rewards of fund performance).

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

ii. Defined benefit ('DB') pension plans

A defined benefit pension plan is a pension arrangement in which the employer promises a specified annual benefit on retirement that is pre-determined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. In some cases, this benefit is paid as a lump sum on leaving the Company or while in the service of the Company rather than as a pension. The Group underwrites one or more risks in meeting these obligations and therefore any net liability or surplus in these arrangements is shown on the Group balance sheet.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs. The discount rate is the yield at the balance sheet date on high quality corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a net asset to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling. Any deduction made by the tax authorities in the event of a refund of a surplus would be regarded by the Group as an income tax.

When the benefits of a plan are improved, the expense is recognised immediately in the income statement. Re-measurement gains and losses are recognised immediately in equity and disclosed in the statement of comprehensive income.

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

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

Key estimate

The present value of the Group's defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation, future salary increases, mortality rates and future pension increases. The assumptions used and analysis of their sensitivity is set out on subsequent pages. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

Summary information

Net pension deficit: £31.3m (2018: deficit of £52.3m)

The assets and liabilities of the defined benefit schemes are aggregated, recognised in the consolidated balance sheet and shown within non-current liabilities or in non-current assets if a scheme is in surplus and it is deemed recoverable.

Number of DB arrangements: 71 (2018: 67)

The number of defined benefit arrangements increased in the year due to the identification of four new plans.

The following table shows a summary of the geographical profile of the Group's defined benefit schemes:

	Quantity 2019	Quantity 2018	Assets £m	Liability £m	Net Surplus/ (deficit) £m
Australia	3	2		0.4	(0.4)
Austria	6	6		3.6	(3.6)
France	3	3	0.2	1.1	(0.9)
Germany	30	28	6.7	61.4	(54.7)
India	6	6		0.8	(0.8)
Italy	6	5		3.0	(3.0)
Mexico	6	6		0.5	(0.5)
Spain	2	2		-	-
Switzerland	5	5	69.3	78.8	(9.5)
UAE	1	1		0.9	(0.9)
US*	2	2		4.9	(4.9)
UK	1	1	547.4	499.5	47.9
	71	67	623.6	654.9	(31.3)

* The US deficit above excludes £2.6m of assets relating to unqualified plans classified as investments (see Note 17).

The Group provides pension benefits through a mixture of funded and unfunded DB and DC arrangements, although its strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible to minimise the liability of the Group. Assessments of the obligations of the defined benefit plans are carried out by actuaries, based on the projected unit credit method. An historical split of the types of defined benefit schemes in operation is as follows:

Type of scheme	Qty No.	Assets £m	% of total assets %	Liability £m	% of total liabilities %
2019					
Final salary *	26	547.9	88%	550.9	84%
Cash balance **	11	69.3	11%	81.8	12%
Jubilee ***	15	-	0%	3.3	1%
Other	19	6.4	1%	18.9	3%
Total	71	623.6	100%	654.9	100%
Asset ceiling		-			
Revised assets		623.6			
2018					
Final salary *	25	473.5	87%	494.9	83%
Cash balance **	10	64.3	12%	80.4	14%
Jubilee ***	14	-	0%	3.2	0%
Other	18	6.9	1%	18.3	3%
Total	67	544.7	100%	596.8	100%
Asset ceiling		(0.2)			
Revised assets		544.5			

* **Final salary scheme:** The pension available to a member in a final salary arrangement will be a proportion of the member's salary at or around their retirement date. This proportion will be determined by the member's length of pensionable service, their accrual rate and any particular circumstances under which the member retires (for example early ill-health retirement).

** **Cash balance:** A cash balance scheme is a form of defined benefit pension under which the member has the right to a defined lump sum on retirement rather than a defined amount of pension receivable. For example a cash balance plan may have minimum or guaranteed rates of return on pension contributions. The amount of pension to which that lump sum may be converted is determined by the annuity rates prevailing at the time of conversion.

*** **Jubilee:** Jubilee plans provide for cash award payments which are based on completed lengths of service. These payments are often made on cessation of service with the Company, subject to a minimum period of service.

14. Retirement benefits (continued)

Asset profile of schemes

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

	2019 £m	2018 £m
Quoted equities	25.1	21.0
Quoted bonds	385.9	299.2
Total quoted assets	411.0	320.2
Private equities	113.2	113.9
Insurance policies*	20.8	17.9
Hedge funds	1.2	0.8
Property	17.8	17.8
Other**	59.6	74.1
Total unquoted assets	212.6	224.5
Fair value of assets	623.6	544.7
Restriction due to asset ceiling		(0.2)
DBOs for funded schemes	(589.9)	(532.8)
DBOs for unfunded schemes	(65.0)	(64.0)
Net surplus/(deficit) for DBOs	(31.3)	(52.3)
Schemes in net pension deficit	(79.2)	(80.1)
Schemes in net pension surplus	47.9	27.8

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

** 'Other' assets primarily consists of cash, currency swaps and UK commercial real estate debt.

The overseas assets of £76.3m (2018: £71.2m) comprise equities of £25.1m (2018: £23.3m), bonds of £24.0m (2018: £25.2m), insurance of £6.9m (2018: £1.4m), property of £15.8m (2018: £14.6m) and other assets of £4.5m (2018: £6.7m).

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

Unfunded: Plans that are not funded are those that are not backed by segregated assets. These include some pension plans but also a number of other long-term arrangements for the benefit of our employees, with benefits payable while they are employed by the Group but more than 12 months after the related service is rendered. Actuarial gains and losses on other long-term arrangements are recognised in the income statement in the period in which they arise.

Average duration by geography

The following table shows the weighted average number of years (or duration) over which pension benefits are expected to be paid:

Location	2019	2018
UK	22.0	21.5
Switzerland	17.4	17.4
US	6.5	6.5
Eurozone	15.5	15.5

The UK and overseas pension funds

The UK Funds

The United Kingdom constitutes 76% (2018: 75%) of total defined benefit liabilities and 88% (2018: 87%) of total defined benefit assets. Historically the IMI Pension Fund offered final salary benefits to UK employees until it closed to new entrants in 2005 and to future accrual on 31 December 2010. In December 2014 winding-up procedures commenced and those members who were not eligible or did not take up the offer of a single cash lump sum transferred to one of two new Funds (IMI 2014 Pensioner Fund or the IMI 2014 Deferred Fund - 'the UK Funds'). Ongoing pension benefits in the UK are provided via the Trustee's defined contribution plan - The IMI Retirement Savings Plan. All UK pension assets are run on behalf of the Trustee by the Board of the IMI Common Investment Fund.

The Trustee has determined an investment objective to achieve, over time, a position of self-sufficiency, defined using a discount rate of gilts + 0.25%.

Asset allocation

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 DBO 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 has been wound-up in 2019.

Liability management

The Trustee has continued to undertake, where practicable, liability management programmes. During 2018, de-risking activities continued including the conversion of certain pension benefits to be non-inflation linked, in the UK, which resulted in net gains of £1.4m which were classified as adjusting items. An expense of £0.4m, arising from the equalisation of the UK defined benefit schemes, was also recognised in 2018 following the ruling on the test case on Guaranteed Minimum Pensions.

Contributions

The March 2018 Valuation was completed in December 2018 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.

Overseas pension funds

During 2019, a gain in respect of an accounting adjustment for Swiss disability benefits was recognised for £4.7m. A gain was recognised in respect of a restructure of the pension benefits in Switzerland resulting in a gain of £2.8m. A curtailment gain of £0.8m was recognised in relation to a restructuring event in Switzerland. A settlement gain of £0.5m was recognised in respect of the buy-out of retirees in Switzerland. These events led to the special pension events which are classified as adjusting items (See Note 3).

Specific effect on financial statements

The corresponding entries for increases and decreases in the net pension deficit reported in the balance sheet are reflected as follows. Other movements includes foreign exchange:

- i. **Cash flow statement:** When the Group makes cash contributions to fund the deficit they are reflected in the cash flow statement and reduce the net deficit/increase the net surplus.
- ii. **Income statement:** Movements in the overall net pension deficit are recognised in the income statement when they relate to changes in the overall pension promise, due to either an additional period of service (known as 'current service cost'), changes to pension terms in the scheme rules (known as 'past service cost'), or closure of all or part of a scheme (known as settlements and curtailments). The interest charge/income on the net deficit/surplus position is also recognised in the income statement.
- iii. **Other comprehensive income (OCI):** Movements in the overall net pension deficit are recognised through OCI when they relate to changes in actuarial assumptions or the difference ('experience gain or loss') between previous assumptions and actual results.

The table below reconciles the movement in the UK and overseas net defined benefit surplus/(obligation) between 1 January 2019 and 31 December 2019.

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) at 1 January 2019	27.8	(80.1)	(52.3)
Movement recognised in:			
Income statement	0.9	2.5	3.4
OCI	12.2	(12.3)	(0.1)
Cash flow statement	7.0	6.8	13.8
Other movements		3.9	3.9
Net defined benefit surplus/(obligation) at 31 December 2019	47.9	(79.2)	(31.3)

Cash flow impacts

	2019			2018		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Amounts from employees	-	2.1	2.1	-	2.1	2.1
Amounts from employers	7.0	2.4	9.4	10.1	2.3	12.4
Benefits and settlements paid directly by the Group	-	4.4	4.4	-	4.1	4.1
Total	7.0	8.9	15.9	10.1	8.5	18.6

The expected contributions to the DB arrangements in 2020 are £2.4m of normal employer contributions and £1.9m of normal employee contributions, both in relation to overseas pension funds. Additional contributions of £7.0m will be made in the UK in 2020.

Other comprehensive income

Movements in pension assets and liabilities that arise during the year from changes in actuarial assumptions, or because actual experience is different from the actuarial assumptions, are recognised in equity via other comprehensive income. These movements are analysed below:

	2019				2018			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Change in discount rate	(72.8)	(12.4)		(85.2)	43.3	2.3	-	45.6
Change in inflation	19.3	(3.5)		15.8	(3.1)	(0.5)	-	(3.6)
Change in other assumptions	2.4	0.7		3.1	(6.8)	1.4	-	(5.4)
Actuarial experience	(1.1)	(4.3)		(5.4)	1.9	0.2	-	2.1
Asset experience	64.4	7.0		71.4	(23.1)	(4.0)	-	(27.1)
Actuarial gains/(losses) in the year	12.2	(12.5)	-	(0.3)	12.2	(0.6)	-	11.6
Change in the asset ceiling		0.2		0.2	-	-	-	-
Exchange gains/(losses)		3.5	0.4	3.9	-	(1.9)	(0.2)	(2.1)
Gains/(losses) recognised through equity	12.2	(8.8)	0.4	3.8	12.2	(2.5)	(0.2)	9.5

14. Retirement benefits (continued)

IMI takes advice from actuaries regarding the appropriateness of the assumptions used to determine the present value of the defined benefit obligations. These assumptions include the discount rate applied to the assets and liabilities, the life expectancy of the members, their expected salary and pension increases and inflation. The assumptions used for this purpose in these financial statements are summarised below:

	Weighted Averages					
	31 Dec 2019		31 Dec 2018		31 Dec 2017	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.1	n/a	3.3	n/a	3.3	n/a
Inflation - CPI	2.1	1.4	2.3	1.4	2.3	1.3
Discount rate	2.0	0.7	2.7	1.5	2.4	1.3
Expected salary increases	n/a	n/a	n/a	1.8	n/a	1.4
Rate of pension increases	3.1	0.6	3.3	0.6	3.3	0.5

	2019 Years	2018 Years	2017 Years
Life expectancy at age 65 (UK Funds only)			
Current male pensioners	21.8	21.3	20.9
Current female pensioners	24.8	24.3	23.6
Future male pensioners	23.4	23.0	22.6
Future female pensioners	26.6	26.2	25.5

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 UK 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.

UK	
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 Partnerships.

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

Non-UK	
Discount rate 0.1% pa lower	£2.7m
Salary increases 0.1% higher	£0.4m
Increase of one year in life expectancy at age 65	£4.0m

In each case all other assumptions are unchanged.

Income statement

In accordance with IAS 19, pension costs recorded through the income statement primarily represent the increase in the DBO based on employee service during the year and the interest on the net liability or surplus for DBOs in respect of employee service in previous years. The table below shows the total cost reported in the income statement in respect of pension obligations and therefore also includes the cost of the defined contribution schemes.

	2019				2018				
		Overseas post	Overseas non-post	Total		Overseas post	Overseas non-post	Total	
	UK £m	employment £m	employment £m		UK £m	employment £m	employment £m		
Current service cost	-	4.1	1.4	5.5	-	4.3	0.8	5.1	
Past service cost/(credit)	-	(7.5)	-	(7.5)	0.4	(1.0)	-	(0.6)	
Settlement/curtailment gain	-	(1.4)	-	(1.4)	(4.2)	(2.0)	-	(6.2)	
Recognition of (losses)/gains	-	-	(0.5)	(0.5)	-	-	0.8	0.8	
Pension (income)/expense - operating costs	-	(4.8)	0.9	(3.9)	(3.8)	1.3	1.6	(0.9)	
Interest on DBO	11.8	1.7	0.2	13.7	20.4	1.9	0.2	22.5	
Interest on assets	(12.7)	(0.5)		(13.2)	(20.5)	(0.6)	-	(21.1)	
Interest (income)/expense - financing costs	(0.9)	1.2	0.2	0.5	(0.1)	1.3	0.2	1.4	

14. Retirement benefits (continued)

Overall reconciliation of changes in the net surplus/(liability) for DBOs

	2019				2018			
	DBO £m	Assets £m	Asset ceiling £m	Net DB asset/ (liability) £m	DBO £m	Assets £m	Asset ceiling £m	Net DB asset/ (liability) £m
Brought forward at start of year	(596.8)	544.7	(0.2)	(52.3)	(1,079.8)	1,002.1	(0.2)	(77.9)
Income statement (charges)/credits								
Current service cost	(5.5)			(5.5)	(5.1)	-	-	(5.1)
Past service cost - plan amendments	7.5			7.5	0.6	-	-	0.6
Past service cost - curtailment	0.8			0.8	-	-	-	-
Settlement	2.1	(1.5)		0.6	436.9	(430.7)	-	6.2
Net interest (cost)/income on net DB (liability)/asset	(13.7)	13.2		(0.5)	(22.5)	21.1	-	(1.4)
Immediate recognition of gains/(losses) -								
Other long-term benefits	0.5			0.5	(0.8)	-	-	(0.8)
Total charged to income statement	(8.3)	11.7	-	3.4	409.1	(409.6)	-	(0.5)
Remeasurements recognised in other comprehensive income								
Actuarial gain due to actuarial experience	(5.3)	-	-	(5.3)	2.2	-	-	2.2
Actuarial (loss)/gain due to financial assumption changes	(69.5)	-	-	(69.5)	44.1	-	-	44.1
Actuarial gain/(loss) due to demographic assumption changes	3.1	-	-	3.1	(7.5)	-	-	(7.5)
Return on plan* assets less than discount rate	-	71.4	-	71.4	-	(27.1)	-	(27.1)
Change in effect of asset ceiling	-	-	0.2	0.2	-	-	-	-
Total remeasurements recognised in other comprehensive income	(71.7)	71.4	0.2	(0.1)	38.8	(27.1)	-	11.7
Cash flows in the year								
Employer contributions	-	9.4	-	9.4	-	12.4	-	12.4
Employee contributions	(2.1)	2.1	-	-	(2.1)	2.1	-	-
Benefits and settlements paid directly by the company	4.4	-	-	4.4	4.1	-	-	4.1
Benefits paid from plan assets	14.4	(14.4)	-	-	38.4	(38.4)	-	-
Net cash inflow/outflow	16.7	(2.9)	-	13.8	40.4	(23.9)	-	16.5
Other movements								
Changes in exchange rates	5.2	(1.3)	-	3.9	(5.3)	3.2	-	(2.1)
Total other movements	5.2	(1.3)	-	3.9	(5.3)	3.2	-	(2.1)
Carried forward at end of year	(654.9)	623.6	-	(31.3)	(596.8)	544.7	(0.2)	(52.3)

*Net of management costs.

15. Inventories

Accounting policy

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

Key estimate

The Group sells a wide range of highly technical products and whilst they are designed and engineered to a high degree of precision and to customer specifications, there is a risk of products requiring modification, which can lead to excess or obsolete inventory.

Management makes estimates based on:

- historical sales trends and management's view of future sales forecasts; and
- forecast costs to complete

The degree of dependence on future events makes the estimate inherently subjective. The amount of the inventory provision recognised is disclosed below.

Inventories

	2019 £m	2018 £m
Raw materials and consumables	95.6	101.6
Work in progress	111.2	104.6
Finished goods	74.0	66.3
	280.8	272.5
Inventories are stated after:		
Allowance for impairment	35.4	33.3

In 2019, the cost of inventories recognised as an expense (being segmental cost of sales) amounted to £1,058.8m (2018: £1,089.4m). The Group's inventory increased by £7m following the acquisition of PBM and there were trading movements of £15m partly offset by foreign exchange of £14m.

In 2019, the write-down of inventories to net realisable value amounted to £11.9m (2018: £6.9m). The reversal of write-downs amounted to £2.3m (2018: £3.5m). Write-downs and reversals in both years relate to on-going assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

16. Trade and other receivables

Accounting policy

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

Key estimate

The Group sells a wide range of highly technical products and whilst they are designed and engineered to a high degree of precision and to customer specifications, there is a risk of products requiring modification, which can lead to collection risk regarding receivables. Management makes estimates based on the identification of customers and territories for which there is a current heightened collection risk or where historical issues have arisen.

The degree of dependence on future events makes the estimate inherently subjective.

Trade and other receivables

	2019 £m	2018 £m
Current		
Trade receivables	325.5	370.2
Other receivables	44.6	58.1
Prepayments and accrued income	19.6	22.0
	389.7	450.3
Receivables are stated after:		
Allowance for impairment	13.7	13.2

The Group's trade and other receivables decreased by £61m during the year due to foreign exchange movements of £20m and trading movements of £45m partially offset by £4m for the acquisition of PBM.

Exposure to credit risk in respect of trade receivables

	Carrying amount	
	2019 £m	2018 £m
UK	14.7	16.2
Germany	20.8	26.1
Rest of Europe	85.5	109.5
USA	62.6	66.0
Asia Pacific	78.5	84.9
Rest of World	63.4	67.5
	325.5	370.2

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents held by the Group's banks and other financial assets. At the end of 2019 these totalled £421.5m (2018: £503.4m).

Managing credit risk arising from customers

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. Our largest single customer accounted for 2% of our 2019 revenues (2018: 2%).

Geographically there is no unusual concentration of credit risk. The Group's contract approval procedure ensures that large contracts are signed off at executive director level at which time the risk profile of the contract, including potential credit and foreign exchange risks, is reviewed. Credit risk is minimised through due diligence on potential customers, appropriate credit limits, cash flow management and the use of documentary credits where appropriate.

	Carrying amount	
	2019 £m	2018 £m
IMI Precision	118.9	135.8
IMI Critical	165.1	188.5
IMI Hydronic	41.5	45.9
	325.5	370.2

Impairment provisions for trade receivables

The ageing of trade receivables at the reporting date was:

	2019		2018	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	265.0	(0.1)	299.9	(0.1)
Past due 1-30 days	30.4	(0.5)	36.0	(0.5)
Past due 31-90 days	16.9	(0.8)	22.7	(0.9)
Past due over 90 days	26.9	(12.3)	24.8	(11.7)
Total	339.2	(13.7)	383.4	(13.2)

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

	2019 £m	2018 £m
Net balance at 1 January	13.2	12.5
Acquisitions	-	0.1
Utilised during the year	(1.8)	(1.7)
Charged to the income statement	3.6	2.6
Released	(0.8)	(0.3)
Exchange	(0.5)	-
Net balance at 31 December	13.7	13.2

The net impairment charge recognised of £2.8m (2018: charge of £2.3m) relates to the movement in the Group's assessment of the risk of non-recovery from a range of customers across all of its businesses.

Managing credit risk arising from counterparties

A group of relationship banks provides the bulk of the banking services, with pre-approved credit limits set for each institution. Financial derivatives are entered into with these core banks and the credit exposure to these instruments is included when considering the credit exposure to the counterparties. At the end of 2019 credit exposure including cash deposited did not exceed £13.8m with any single institution (2018: £18.9m).

Exposure to credit risk in respect of financial assets

The maximum exposure to credit risk for financial assets is represented by their carrying value and is analysed below:

	Carrying amount	
	2019 £m	2018 £m
Cash and cash equivalents	88.2	132.2
Investments	3.6	3.7
	91.8	135.9

17. Financial assets and liabilities

Financial instruments included in the financial statements are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. The Group generally calculates its own fair values using comparable observed market prices and a valuation model using the respective and relevant market data for the instrument being valued.

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2019 and 31 December 2018. Under IFRS 9, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes and transacts all derivatives with suitable investment grade counterparties. All transactions in derivative financial instruments are undertaken to manage the risks arising from the Group's business activities.

	Designated at fair value £m	Fair value Other derivatives at fair value £m	Financial assets at fair value* £m	At amortised cost £m	Total carrying value £m	Fair value if different £m
2019						
Cash and cash equivalents			88.2		88.2	
Bank overdrafts				(60.1)	(60.1)	
Borrowings due within one year				(17.6)	(17.6)	
Borrowings due after one year				(357.9)	(357.9)	(377.3)
Lease liabilities				(90.4)	(90.4)	
Trade and other payables **				(368.6)	(368.6)	
Trade receivables				325.5	325.5	
Investments			2.6	1.0	3.6	
Other current financial assets/(liabilities)						
Derivative assets ***	2.1	4.1			6.2	
Derivative liabilities ****		(1.9)			(1.9)	
Total	2.1	2.2	90.8	(568.1)	(473.0)	
2018						
Cash and cash equivalents			132.2		132.2	
Bank overdrafts				(82.6)	(82.6)	
Borrowings due within one year				(78.8)	(78.8)	(79.8)
Borrowings due after one year				(375.3)	(375.3)	(379.9)
Trade and other payables **				(396.4)	(396.4)	
Trade receivables				370.2	370.2	
Investments			2.9	0.8	3.7	
Other current financial assets/(liabilities)						
Derivative assets ***		1.0			1.0	
Derivative liabilities ****	(0.5)	(3.6)			(4.1)	
Total	(0.5)	(2.6)	135.1	(562.1)	(430.1)	

* This classification includes items for which the movement in fair value will be recognised in both profit and loss and other comprehensive income.

** Trade and other payables exclude corporation tax and other tax liabilities and include liabilities of £9.2m (2018: £5.5m) falling due after more than one year.

*** Includes £0.2m (2018: nil) falling due after more than one year.

**** Derivative liabilities include liabilities of £0.2m (2018: £0.4m) falling due after more than one year: £0.2m in 1-2 years and nil in 2-3 years (2018: £0.4m in 1-2 years and nil in 2-3 years). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The increase in value of net investment hedge derivatives in the year of £2.6m is shown in the consolidated statement of comprehensive income (net of tax).

There are no other financial liabilities included within payables disclosed above and leased liabilities are disclosed in Note 13.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	Quoted prices in active markets for identical assets and liabilities Level 1 £m	Significant other observable inputs Level 2 £m	Unobservable inputs Level 3 £m	Total £m
As at 31 December 2019				
Financial assets measured at fair value				
Equity instruments*	3.6		-	3.6
Cash and cash equivalents	88.2			88.2
Foreign currency forward contracts		6.2		6.2
	91.8	6.2	-	98.0
Financial liabilities measured at fair value				
Foreign currency forward contracts		(1.9)		(1.9)
	-	(1.9)	-	(1.9)
As at 31 December 2018				
Financial assets measured at fair value				
Equity instruments*	2.9		-	2.9
Cash and cash equivalents	132.2			132.2
Foreign currency forward contracts		1.0		1.0
	135.1	1.0	-	136.1
Financial liabilities measured at fair value				
Foreign currency forward contracts		(4.0)		(4.0)
	-	(4.0)	-	(4.0)

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

Valuation techniques for level 2 inputs

Derivative assets and liabilities of £6.2m and £1.9m respectively are valued by level 2 techniques. The valuations are derived from discounted contractual cash flows using observable, and directly relevant, market interest rates and foreign exchange rates from market data providers.

Valuation techniques for level 3 inputs

At 31 December 2019, the Group held one external investment at fair value using significant unobservable (level 3) inputs. The valuation is derived using the cash flows of the investment which indicate a fair value of nil.

Valuation methodology

Cash and cash equivalents, bank overdrafts, trade payables and trade receivables are carried at their book values as this approximates to their fair value due to the short-term nature of the instruments.

Long-term and short-term borrowings, apart from any which are subject to hedging arrangements, are carried at amortised cost as it is the intention that they will not be repaid prior to maturity, where this option exists. The fair values are evaluated by the Group based on parameters such as interest rates and relevant credit spreads.

Long-term borrowings which are subject to hedging arrangements are valued using appropriate discount rates to value the relevant hedged cash flows.

Derivative assets and liabilities, including foreign exchange forward contracts, interest rate swaps and metal hedges, are valued using comparable observed market prices and a valuation model using foreign exchange spot and forward rates, interest rate curves and forward rate curves for the underlying commodities.

18. Financial risk management

Overview

The Group's activities expose it to a variety of financial risks: interest rate, foreign exchange and base metal price movements in addition to funding and liquidity risks. The financial instruments used to manage these risks themselves introduce exposure to market risk and liquidity risk.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance Report on page 66 the Executive Committee monitors risk and internal controls and the Audit Committee monitors financial risk, while the other Board committees also play a part in contributing to the oversight of risk.

The Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the financial risks faced by the Group. The Group Assurance department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following sections discuss the management of specific financial risk factors in detail, including market risk, foreign exchange risk, interest rate risk, commodity risk and liquidity risk. The management of credit risk is disclosed in Note 16.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income and cash flows or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Under the management of the central Treasury function, the Group enters into derivatives in the ordinary course of business and also manages financial liabilities in order to mitigate market risks. All such transactions are carried out within the guidelines set by the Board and are undertaken only if they relate to underlying exposures.

Foreign exchange risk

The Group publishes consolidated accounts in sterling but conducts much of its global business in other currencies. As a result it is subject to the risks associated with foreign exchange movements affecting transaction costs ('transactional risk'), translation of foreign profits ('profit translation risk') and translation of the underlying net assets of foreign operations ('asset translation risk').

Management of transactional risk

The Group's wide geographical spread both in terms of cost base and customer locations helps to reduce the impact on profitability of swings in exchange rates as well as creating opportunities for central netting of exposures. It is the Group's policy to minimise risk to exchange rate movements affecting sales and purchases by economically hedging or netting currency exposures at the time of commitment, or when there is a high probability of future commitment, using currency instruments (primarily forward exchange contracts). A proportion of forecast exposures are hedged depending on the level of confidence and hedging is periodically adjusted following regular reviews. On this basis over 50% of the Group's annual exposures to transactional risk are likely to be hedged at any point in time and the Group's net transactional exposure to different currencies varies from time to time.

Management of profit translation risk

The Group is exposed to the translation of profits denominated in foreign currencies into the sterling-based income statement. The interest cost related to the currency liabilities hedging the asset base provides a partial hedge to this exposure. Short-term currency option contracts may be used to provide limited protection against sterling strength on an opportunistic basis. The translation of US dollar and euro-based profits represent the most significant translation exposures for the Group.

Management of asset translation risk

The Group hedges its net investments in its major overseas operations by way of external currency loans and forward currency contracts. The intention is to manage the Group's exposure to gains and losses in Group equity resulting from retranslation of currency net assets at balance sheet dates.

To the extent that an instrument used to hedge a net investment in a foreign operation is determined to be an effective hedge, the gain or loss arising is recognised directly in the translation reserves. Any ineffective portion is recognised immediately in the income statement.

Currency profile of assets and liabilities

	Cash*	Debt	Lease	Exchange	Assets	Other	Total	Total
	2019	2019	Liabilities	contracts	subject	net assets	net assets	net assets
	£m	£m	2019	2019	to interest	2019**	2019	2018
			£m	£m	rate risk	£m	£m	£m
					2019			
					£m			
Sterling	(4)	-	(15)	340	321	56	377	515
US dollar	1	(180)	(16)	-	(195)	397	202	59
Euro	11	(196)	(35)	(161)	(381)	477	96	86
Other	20	-	(24)	(179)	(183)	218	35	6
Total	28	(376)	(90)	-	(438)	1,148	710	666

* Cash is stated net of overdrafts.

** Other net assets includes leased assets; £14m sterling, £16m US dollar, £35m Euro and £25m other.

Exchange contracts and non-sterling debt are financial instruments used as currency hedges of overseas net assets.

Interest rate risk

The Group is exposed to a number of global interest rates through assets and liabilities denominated in jurisdictions to which these rates are applied, most notably US, Eurozone and UK rates. The Group is exposed to these because market movements in these rates will increase or decrease the interest charge recognised in the Group income statement.

Management of interest rate risk

The Group adopts a policy of maintaining a portion of its liabilities at fixed interest rates and reviewing the balance of the floating rate exposure to ensure that if interest rates rise globally the effect on the Group's income statement is manageable.

Interest rates are managed using fixed and floating rate debt and financial instruments including interest rate swaps. Floating rate liabilities comprise short-term debt which bears interest at short-term bank rates and the liability side of exchange contracts where the interest element is based primarily on three month inter-bank rates.

All cash surpluses are invested for short periods and are treated as floating rate investments.

Non-interest bearing financial assets and liabilities including short-term trade receivables and payables have been excluded from the following analysis.

18. Financial risk management (continued)

Interest rate risk profile

The following table shows how much of our cash, interest-bearing liabilities and exchange contracts attract both fixed and floating rate interest charges, and how this is analysed between currencies:

	Debt and exchange contracts* 2019 £m	Cash and exchange contracts 2019 £m	Assets subject to interest rate risk* 2019 £m	Floating rate 2019 £m	Fixed rate 2019 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(15)	335	320	335	(15)		
US dollar	(196)	1	(195)	(16)	(179)	4.1	6.4
Euro	(392)	11	(381)	(150)	(231)	1.4	6.3
Other	(202)	20	(182)	(158)	(24)		
Total	(805)	367	(438)	11	(449)		

* Net of IFRS 16; £15m sterling, £16m US dollar, £35m Euro and £24m other.

	Debt and exchange contracts 2018 £m	Cash and exchange contracts 2018 £m	Assets subject to interest rate risk 2018 £m	Floating rate 2018 £m	Fixed rate 2018 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	526	526	526	-		
US dollar	(259)	-	(259)	(12)	(248)	5.2	5.2
Euro	(423)	(11)	(434)	(226)	(207)	1.4	7.3
Other	(258)	20	(238)	(238)	-		
Total	(940)	535	(405)	50	(455)		

Market risk sensitivity analysis on financial instruments

In estimating the sensitivity of the financial instruments all other variables are held constant to determine the impact on profit before tax and equity. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

The values shown in the table below are estimates of the impact on financial instruments only. Actual results in the future may differ materially from these estimates. As such this table should not be considered as a projection of likely future gains and losses in these financial instruments.

Financial derivatives sensitivity table

The outputs from the sensitivity analysis are estimates of the impact of market risk assuming that the specified changes occur only to the financial derivatives and do not reflect the opposite movement from the impact of the specific change on the underlying business that they are designed to hedge.

	1% decrease in interest rates £m	1% increase in interest rates £m	10% weakening in sterling £m	10% strengthening in sterling £m	10% decrease in base metal costs £m	10% increase in base metal costs £m
At 31 December 2019						
Impact on income statement: (loss)/gain	-	-	(5.4)	5.4	(0.4)	0.4
Impact on equity: (loss)/gain	-	-	(67.8)	67.8	-	-
At 31 December 2018						
Impact on income statement: (loss)/gain	-	-	(7.1)	7.1	(0.4)	0.4
Impact on equity: (loss)/gain	-	-	(92.5)	92.5	-	-

Commodity risk

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

The Group manages this exposure through a centralised process hedging copper, zinc and aluminium using a combination of financial contracts and local supply agreements designed to minimise the volatility of short-term margins.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have adequate resources to meet its liabilities when they fall due, with sufficient headroom to cope with abnormal market conditions. This position is reviewed on a quarterly basis.

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US loan note issues. The level of facilities is maintained such that facilities and term loans exceed the forecast peak gross debt of the Group over a rolling 12 month view by an appropriate amount taking into account market conditions and corporate activity, including acquisitions, organic growth plans and share buybacks. In addition, we undertake regular covenant compliance reviews to ensure that we remain fully within those covenant limits. At the end of 2019 the Group had undrawn committed facilities totalling £283m (2018: £300m) and was holding cash and cash equivalents of £88m (2018: £132m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

Capital management

Overview

Capital management concerns the decision as to how the Group's activities are financed and specifically, how much of the Group capital is provided by borrowings (or debt) and how much of it is financed with equity raised from the issue of share capital.

The Board's policy is to maintain a balance sheet with a broad capital base and the strength to sustain the future development of the business including acquisitions.

The capital base of the Group includes total equity and reserves and net debt. Employee benefit obligations net of deferred tax form part of the extended capital base. Management of this element of the capital base is discussed further in Note 14 of the financial statements. Undrawn committed funding facilities are maintained as described in Note 19 to provide additional capital for growth (including acquisitions and organic investments) and liquidity requirements as discussed above.

Capital base

	2019 £m	2018 £m
Total equity	710	666
Gross debt including overdrafts	526	537
Gross cash	(88)	(132)
Capital base	1,148	1,071
Employee benefits and deferred tax assets	70	45
Extended capital base	1,218	1,116
Undrawn funding facilities	283	300
Available capital base	1,501	1,416

Part of the capital base is held in currencies to broadly match the currency base of the assets being funded as described in the asset translation risk section.

Debt or equity

The balance between debt and equity in the capital base of the Group is considered regularly by the Board in light of market conditions, business forecasts, growth opportunities and the ratio of net debt to continuing adjusted EBITDA. Funding covenants currently limit net debt to a maximum of 3.0 times EBITDA. The net debt to EBITDA ratio at the end of 2019 was 1.2 times (2018: 1.3 times). Through the life of our five year plan, the Board would consider appropriate acquisitions that could take net debt up to 2.5 times EBITDA on acquisition, provided that a clear plan exists to reduce this ratio back to under 2.0 times. It is expected that at these levels our debt would continue to be perceived as investment grade. The potential benefits to equity shareholders of greater leverage are offset by higher risk and the cost and availability of funding. The Board will consider raising additional equity in the event that it is required to support the capital base of the Group.

Weighted average cost of capital

The Group currently uses a post-tax weighted average cost of capital ('WACC') of 7% (2018: 7%) as a benchmark for investment returns. This is reviewed regularly in the light of changes in market rates. The Board tracks the Group's return on invested capital and seeks to ensure that it consistently delivers returns in excess of the WACC.

19. Net debt

Net debt is the Group's key measure used to evaluate total outstanding debt, net of the current cash resources. Some of the Group's borrowings (and cash) are held in foreign currencies. Movements in foreign exchange rates affect the sterling value of the net debt. Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Movement in net debt

	2019 £m	2018 £m
Adjusted EBITDA* from continuing operations	357.3	320.1
Working capital movements	12.9	(50.3)
Capital and development expenditure	(65.8)	(58.4)
Provisions and employee benefit movements**	6.5	2.3
Principal elements of lease payments	(31.3)	-
Other	19.2	7.8
Adjusted operating cash flow ***	298.8	221.5
Adjusting items****	(26.2)	(8.9)
Operating cash flow	272.6	212.6
Interest	(14.9)	(12.9)
Derivatives	16.1	(18.4)
Tax paid	(40.2)	(41.1)
Cash generation	233.6	140.2
Additional pension scheme funding	(7.0)	(10.1)
Free cash flow before corporate activity	226.6	130.1
Dividends paid to equity shareholders	(110.8)	(107.9)
Acquisition of subsidiaries	(69.0)	(122.6)
Net purchase of own shares	(3.4)	(5.3)
Net cash flow (excluding debt movements)	43.4	(105.7)

* Adjusted profit after tax (£198.1m) before interest (£15.4m), tax (£52.6m), depreciation (£76.2m) and amortisation (£15.0m).

** Movement in provisions and employee benefits as per the statement of cash flows (£29.2m) adjusted for the movement in the restructuring and discontinued operation provisions (£22.7m).

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

**** Cash impact of adjusting items.

Reconciliation of net cash to movement in net borrowings

	2019 £m	2018 £m
Net decrease in cash and cash equivalents excluding foreign exchange	(19.5)	(19.7)
Net repayment/(drawdown) of borrowings excluding foreign exchange and net debt disposed/acquired	62.9	(86.0)
Decrease/(increase) in net debt before acquisitions, disposals and foreign exchange	43.4	(105.7)
Net cash/(debt) acquired	1.0	(15.0)
Currency translation differences	12.7	(18.6)
Movement in lease creditors	(90.4)	-
Movement in net borrowings in the year	(33.3)	(139.3)
Net borrowings at the start of the year	(404.5)	(265.2)
Net borrowings at the end of the year	(437.8)	(404.5)

Reconciliation of cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents in current assets	88.2	132.2
Bank overdraft in current liabilities	(60.1)	(82.6)
Cash and cash equivalents	28.1	49.6

Analysis of net debt

	Cash and cash equivalents £m	within one year £m	after more than one year £m	Borrowings and finance leases due Lease Creditors £m	Total net debt £m
At 1 January 2019	49.6	(78.8)	(375.3)	-	(404.5)
Opening lease liabilities per IFRS 16	-	-	-	(100.4)	(100.4)
Lease additions, extensions, terminations and payment changes	-	-	-	(20.6)	(20.6)
Lease payments and interest	-	-	-	31.3	31.3
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash disposed of/acquired	(40.1)	58.6	5.3	-	23.8
Cash acquired	1.0	-	-	-	1.0
Settlement of currency derivatives hedging balance sheet	19.6	-	-	-	19.6
Currency translation differences	(2.0)	2.6	12.1	(0.7)	12.0
At 31 December 2019	28.1	(17.6)	(357.9)	(90.4)	(437.8)

	Cash and cash equivalents £m	within one year £m	after more than one year £m	Borrowings and finance leases due Lease Creditors £m	Total net debt £m
At 1 January 2018	67.6	(113.8)	(219.0)	-	(265.2)
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash disposed of/acquired	(3.4)	36.6	(121.8)	-	(88.6)
Net debt acquired	0.8	-	(15.8)	-	(15.0)
Settlement of currency derivatives hedging balance sheet	(17.1)	-	-	-	(17.1)
Currency translation differences	1.7	(1.6)	(18.7)	-	(18.6)
At 31 December 2018	49.6	(78.8)	(375.3)	(90.4)	(404.5)

Undrawn committed facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 31 December in respect of which all conditions precedent had been met were as follows:

	2019 £m	2018 £m
Expiring within one year	75.0	50.0
Expiring between one and two years	57.6	125.0
Expiring after more than two years	150.0	125.0
	282.6	300.0

The weighted average life of these facilities is 1.6 years (2018: 1.8 years).

19. Net debt (continued)

Terms and debt repayment schedule

The terms and conditions of cash and cash equivalents and outstanding loans were as follows:

	Effective interest rate %	Carrying value £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	5 years and over £m
2019									
Cash and cash equivalents	Floating	88.2	88.2	88.2					
Revolving bank facilities	Floating	(17.6)	(17.6)	(17.6)					
US loan notes 2022	7.17%	(11.4)	(13.8)	(0.8)	(0.8)	(12.2)			
US loan notes 2025	1.39%	(127.1)	(136.7)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(127.7)
US loan notes 2026	3.86%	(94.7)	(118.1)	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)	(99.6)
US loan notes 2027	3.92%	(56.8)	(73.0)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(62.0)
US loan notes 2028	1.53%	(67.9)	(76.2)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(71.2)
Bank overdrafts	Floating	(60.1)	(60.1)	(60.1)					
Lease liabilities floating	Various	(90.4)	(90.4)	(35.3)	(13.7)	(10.9)	(7.9)	(6.1)	(16.5)
Total		(437.8)	(497.7)	(34.3)	(23.2)	(31.8)	(16.6)	(14.8)	(377.0)
2018									
Cash and cash equivalents	Floating	132.2	132.2	132.2					
US loan notes 2019	7.61%	(78.6)	(84.1)	(84.1)					
US loan notes 2022	7.17%	(11.7)	(15.1)	(0.8)	(0.8)	(0.8)	(12.6)		
US loan notes 2025	1.39%	(135.1)	(147.3)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(138.0)
US loan notes 2026	3.86%	(97.7)	(125.9)	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)	(107.1)
US loan notes 2027	3.92%	(58.6)	(78.1)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(66.6)
US loan notes 2028	1.53%	(72.1)	(82.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(77.0)
Finance leases	Various	(0.3)	(0.4)	(0.2)	(0.2)				
Bank overdrafts	Floating	(82.6)	(82.6)	(82.6)					
Total		(404.5)	(483.8)	(44.6)	(10.1)	(9.9)	(21.7)	(9.1)	(388.7)

Contractual cash flows include undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

Interest-bearing loans and borrowings

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term or are drawn from committed borrowing facilities that generally have floating interest rates. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 18.

	2019 £m	2018 £m
Current liabilities		
Unsecured loan notes and other loans	17.6	78.6
Lease liabilities	25.6	0.2
	43.2	78.8
Non-current liabilities		
Unsecured loan notes and other loans	357.9	375.2
Lease liabilities	64.8	0.1
	422.7	375.3

20. Provisions

Accounting policy

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

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

The recognition of a provision requires estimation. The principal estimates made in respect of the Group's provisions concern the timing and amount of payments required to:

- cover the costs of known restructuring projects;
- reimburse customers for potential product warranty claims;
- ensure that current and former manufacturing sites meet relevant environmental standards;
- reflect the estimated outcome of ongoing legal disputes; and
- provide against indemnities following the disposal of subsidiaries.

Analysis of the Group's provisions:

	Restructuring £m	Trade warranties £m	Environmental, legal & indemnity £m	Total £m
Current	4.3	5.0	3.2	12.5
Non-current	0.4	7.1	7.1	14.6
At 1 January 2019	4.7	12.1	10.3	27.1
Arising/(released) during the year	51.3	6.1	(3.3)	54.1
Utilised during the year	(25.6)	(1.5)	-	(27.1)
Exchange adjustment	(1.0)	(0.3)	-	(1.3)
At 31 December 2019	29.4	16.4	7.0	52.8
Current	29.2	10.2	0.4	39.8
Non-current	0.2	6.2	6.6	13.0
	29.4	16.4	7.0	52.8

The Group sells a wide range of highly technical products and whilst they are designed and engineered to a high degree of precision and to customer specifications, there is a risk of products requiring modification, which can lead to warranty claims. Trade warranties are given in the normal course of business and cover a range of periods, typically one to two years, with the expected amounts falling due in less than and greater than one year separately analysed above.

Key estimate

Management makes estimates based on past experience of warranty claims and the associated costs of similar claims. Amounts set aside represent the directors' best estimate regarding the amount of the settlements and the timing of resolution with customers. The degree of dependence on future events makes these estimates inherently subjective.

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects.

Environmental and legal provisions recognise the Group's obligation to remediate contaminated land at a number of current and former sites, together with current legal cases for which a settlement is considered probable. Because of the long-term nature of the liabilities, the timescales are uncertain and the provisions represent the directors' best estimates of these costs.

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

21. Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	182.3	198.4
Social security and other taxation	28.9	28.4
Other payables	6.2	8.2
Accruals and deferred income	142.0	155.9
	359.4	390.9
Non-current		
Other payables	9.2	5.5
	368.6	396.4

The Group's trade and other payables decreased by £28m due to an increase of £3m following the acquisition of PBM more than offset by foreign exchange movements of £14m and trading movements of £17m.

Included within accruals and deferred income are progress billings and advanced payments from customers of £62.6m (2018: £47.3m).

22. Share capital

The movement in the number of ordinary shares of 28 4/7p each issued by IMI plc is as follows:

Number and value of shares

	2019		2018	
	Ordinary Shares 28 4/7p per share		Ordinary Shares 28 4/7p per share	
	Number (m)	Value (£m)	Number (m)	Value (£m)
In issue at the start of the year	286.3	81.8	286.2	81.8
Issued to satisfy employee share schemes	0.1	-	0.1	-
In issue at the end of the year	286.4	81.8	286.3	81.8

All issued share capital at 31 December 2019 is fully paid and conveys the same rights.

Share movements in the year

Movements in shares due to share issues and purchases during the year were as follows:

	Number of ordinary shares of 28 4/7p each (million)			
	Employee Benefit Trust	Treasury	Other	Total
In issue at 31 December 2018	1.4	14.3	270.6	286.3
New issues to satisfy employee share scheme awards	-	-	0.1	0.1
Market purchases	0.5	-	(0.5)	-
Shares allocated under employee share schemes	(0.8)	-	0.8	-
At 31 December 2019	1.1	14.3	271.0	286.4

During the year 0.1m (2018: 0.1m) shares were issued under employee share schemes realising £0.8m (2018: £0.6m).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of 0.5m (2018: 0.6m) shares with an aggregate market value of £5.0m (2018: £7.0m) and a nominal value of £0.1m (2018: £0.2m). Associated transaction costs amounted to £nil (2018: £nil).

Share options exercised in 2019 were settled using the shares in the Group's Employee Benefit Trust. In 2019, 0.8m (2018: 0.2m) shares were issued for cash of £0.8m (2018: £1.0m).

Of the 15.4m (2018: 15.7m) shares held within retained earnings, 1.1m (2018: 1.4m) shares with an aggregate market value of £12.7m (2018: £10.4m) are held in trust to satisfy employee share scheme vesting.

23. Acquisitions

Key estimate

In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In particular, an estimate has been made of the forecast future sales under pre-existing commercial relationships which have been discounted at an appropriate discount rate to value the commercial relationships and brand intangibles.

On 20 September 2019 the Group acquired 100% of the share capital, and associated voting rights, of PBM Inc. (PBM) for cash consideration of £69.0m. PBM is a market leading manufacturer of ball valves and flow control solutions based in North America.

This acquisition has been accounted for as a business combination. The provisional fair value amounts recognised in respect of the identified assets acquired and liabilities assumed are set out in the table below:

	Fair value at 20 September 2019 £m
Intangible assets	29.0
Property, plant and equipment	5.2
Inventories	7.1
Trade and other receivables	3.8
Cash and cash equivalents	1.0
Trade and other payables	(2.9)
Total identified net assets at fair value	43.2
Goodwill arising on acquisition	25.8
Purchase consideration transferred	69.0

The goodwill recognised above includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, the skills and experience of the assembled workforce, the increase in scale, synergies and the future growth opportunities that the businesses provide to the Group's operations. The goodwill and all intangible assets recognised are amortisable for tax purposes. Acquisition costs of £0.5m were recognised in the income statement in 2019.

The adjusted revenue and adjusted operating profit included in the income statement for 2019 contributed by PBM were £7.5m and £1.1m respectively. If the acquisition had taken place on 1 January 2019 PBM would have contributed revenue and operating profit of £26.1m and £4.1m respectively.

Acquisitions in 2018

In January 2018, the Group acquired 100% of the share capital, and associated voting rights of Bimba Manufacturing Company (Bimba) and its subsidiaries for cash consideration of £138.4m. Bimba is a market leading manufacturer of pneumatic, hydraulic and electric motion solutions based in North America.

This acquisition has been accounted for as a business combination. The finalised fair value amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Fair value at 31 January 2018 £m
Intangible assets	57.6
Property, plant and equipment	18.8
Inventories	24.3
Trade and other receivables	9.3
Cash and cash equivalents	0.8
Trade and other payables	(10.1)
Provisions	(1.4)
Total identifiable net assets	99.3
Goodwill arising on acquisition	39.1
Total purchase consideration	138.4

The goodwill recognised above includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, the skills and experience of the assembled workforce, the increase in scale, synergies and the future growth opportunities that the businesses provide to the Group's operations. The goodwill and all intangible assets recognised are amortisable for tax purposes.

24. Disposals

There were no disposals of subsidiaries during 2019 or 2018.

25. Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision because significant subjectivity exists regarding its outcome.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £125m (2018: £132m).

26. Related party transactions

Related parties are solely the key management personnel. The Board is considered to be the key management personnel of the Group.

	2019 £m	2018 £m
Short-term employee benefits *	3.3	5.1
Share-based payments **	0.5	2.4
Total	3.8	7.5

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

** For details of the share-based payment charge for key management personnel, see Note 6.

There are no other related party transactions.

27. Subsequent events

Events that occur in the period between 31 December and the date of approval of the Annual Report can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December. If the event is an adjusting event, then an adjustment to the results is made. If a non-adjusting event after the year end is material, non-disclosure could influence decisions that readers of the financial statements make. Accordingly, for each material non-adjusting event after the reporting period we disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

There were no adjusting subsequent events after the balance sheet date of 31 December 2019.

28. Discontinued operations

Accounting policy

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

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

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

A gain of £2.8m, pre and post tax, was recognised in the current year relating to the release of an indemnity provision for a historical discontinued operation. There was no cash impact of this.

There was no profit or loss from discontinued operations in 2018.

Company balance sheet

at 31 December 2019

	Note	2019 £m	2018 £m
Fixed assets			
Investments	C5	173.2	173.2
Current assets			
Debtors	C6	398.8	418.1
Deferred tax assets	C7	2.7	2.2
Cash at bank and in hand		2.9	0.3
		404.4	420.6
Creditors: amounts falling due within one year			
Other creditors	C8	(4.0)	(4.3)
Net current assets		400.4	416.3
Total assets less current liabilities		573.6	589.5
Net assets		573.6	589.5
Capital and reserves			
Called up share capital	C9	81.8	81.8
Share premium account		14.1	13.3
Capital redemption reserve		174.4	174.4
Profit and loss account		303.3	320.0
Equity shareholders' funds		573.6	589.5

Approved by the Board of Directors on 27 February 2020 and signed on its behalf by:

Lord Smith of Kelvin

Chairman

Company statement of changes in equity

for the year ended 31 December 2019

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2018	81.8	12.7	174.4	189.4	458.3
Retained profit for the year				237.5	237.5
Dividends paid on ordinary shares				(107.9)	(107.9)
Shares issued in the year	-	0.6			0.6
Share-based payments				7.0	7.0
Shares acquired for: employee share scheme trust				(6.0)	(6.0)
At 31 December 2018	81.8	13.3	174.4	320.0	589.5
Retained profit for the year				89.5	89.5
Dividends paid on ordinary shares*				(110.8)	(110.8)
Shares issued in the year		0.8			0.8
Share-based payments				8.8	8.8
Shares acquired for*: employee share scheme trust				(4.2)	(4.2)
At 31 December 2019	81.8	14.1	174.4	303.3	573.6

* Details of treasury and employee trust share scheme movements are contained in Note 22 of the Group financial statements and details of dividends paid and proposed in the year are shown in Note C4.

All of the retained earnings held at both 31 December 2019 and 31 December 2018 are considered to be distributable reserves.

Company notes to the financial statements

C1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements, except where otherwise noted below:

Basis of accounting

The financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

The Company has not presented a separate profit and loss account as permitted by Section 408 of the Companies Act 2006.

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

- a) the requirements of paragraphs 45 (b) and 46-52 of IFRS 2 'Share-based Payment';
- b) the requirements of IFRS 7 'Financial Instruments';
- c) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a) (iv) of IAS 1;
- e) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS 1;
- f) the requirements of IAS 7 'Statement of Cash Flows';
- g) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- h) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'; and
- i) the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member. Related party transactions with the Company's key management personnel are disclosed in the Remuneration Report on pages 78 to 93 and in Note 26 on page 167 of the Group financial statements.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Foreign currencies

The Company's functional currency and presentation currency is sterling. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments

Investments in subsidiaries are accounted for at cost less any provision for impairment. The Company's cost of investments in subsidiary undertakings is stated at the aggregate of (a) the cash consideration and either (b) the nominal value of the shares issued as consideration when Section 612 of the Companies Act 2006 applies or (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

Taxation

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

Deferred tax is recognised in respect of all temporary differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by IAS 12 'Income Taxes'. Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Equity and equity-related compensation benefits

The Company operates a number of equity and equity-related compensation benefits as set out in Note 6 to the Group financial statements. The fair value of the employee services received in exchange for the grant of the options is recharged in full to the principal employing company and accordingly, there is no net charge recorded in the Company's financial statements. The recharged amount is recognised as a debtor falling due for payment within one year.

The total amount recharged over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Monte Carlo and Black-Scholes option-pricing model.

At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the amount recharged to subsidiary undertakings.

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

Treasury shares

The consideration paid by the Company on the acquisition of treasury shares is charged directly to retained earnings in the year of purchase. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to share premium. If treasury shares are subsequently cancelled the nominal value of the cancelled shares is transferred from share capital to the capital redemption reserve. No gain or loss is recognised on the purchase, sale or cancellation of treasury shares.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

C2. Remuneration of directors

The detailed information concerning directors' emoluments, shareholdings and options are shown in the audited section of the Remuneration Report on pages 78 to 93, Note 5 and Note 22 of the Group financial statements.

C3. Staff numbers and costs

The number of people employed by the Company, including directors, during the year was 19 (2018: 26) all of whom were employed in administrative roles. The costs associated with them were borne by a subsidiary undertaking.

The Company participates in the IMI UK Funds, which are defined benefit schemes in which the assets are held independently. The total net defined benefit costs of these Funds are borne by a subsidiary undertaking and therefore in accordance with IAS 19, no net defined benefit costs are recognised in the Company's financial statements. Note 14 to the Group financial statements provides further details regarding the defined benefit schemes.

C4. Dividends

The aggregate amount of dividends comprises:

	2019 £m	2018 £m
Prior year final dividend paid - 26.0p per qualifying ordinary share (2018: 25.2p)	70.4	68.3
Current year interim dividend paid - 14.9p per qualifying ordinary share (2018: 14.6p)	40.4	39.6
Aggregate amount of dividends paid in the financial year	110.8	107.9

Dividends paid in the year of £110.8m represent 40.9p per share (2018: 39.8p).

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2019 £m	2018 £m
Current year final dividend - 26.2p per qualifying ordinary share (2018: 26.0p)	71.0	70.4

Dividends proposed after the balance sheet date may differ from the final dividend paid. This is a result of the final number of qualifying shares entitled to dividends differing from those in issue at the balance sheet date.

C5. Fixed assets - investments

	Subsidiary undertakings	
	2019 £m	2018 £m
At 1 January 2019 and 31 December 2019 cost and net book value	173.2	173.2

Details of subsidiary undertakings as at 31 December 2019 are shown on pages 173 to 176.

C6. Debtors

	2019 £m	2018 £m
Falling due for payment after more than one year:		
Amounts owed by subsidiary undertakings	389.9	313.9
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	8.9	104.2
	398.8	418.1

C7. Deferred tax

	2019 £m	2018 £m
The deferred tax included in the balance sheet is as follows:		
Employee benefits and share-based payments	2.7	2.2
Deferred tax asset included in the balance sheet	2.7	2.2
Reconciliation of movement in deferred tax asset:		
At 1 January 2019	2.2	2.7
Deferred tax credit/(charge) in the profit and loss account	0.5	(0.4)
Deferred tax charge in equity	-	(0.1)
At 31 December 2019	2.7	2.2

Changes to the rate of UK corporation tax were substantively enacted in 2016 to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. The deferred tax balance has been calculated based on the rates applicable when the balances are expected to reverse, which is mainly 17% (2018: 17%).

Company notes to the financial statements

C8. Other creditors falling due within one year

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings	3.0	2.8
Other payables	1.0	1.5
	4.0	4.3

C9. Share capital

	2019 £m	2018 £m
Issued and fully paid		
286.4m (2018: 286.3m) ordinary shares of 28 4/7p each	81.8	81.8

C10. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £30.7m (2018: £42.7m).

There is a right of set-off with three of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Subsidiary undertakings

A full list of the Group's subsidiary undertakings and registered/principal offices as at 31 December 2019 is included below. Except where indicated, the share capital consists of ordinary shares only. The principal country in which each subsidiary operates and has its registered/principal office is the country of incorporation. IMI plc's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for IMI Group Limited, IMI Deutschland Verwaltungs GmbH and IMI Lakeside Australia Pty Ltd which are held directly by IMI plc.

The Group has an interest in a partnership, the IMI Scottish Limited Partnership, which is fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be and have not been filed at Companies House.

Charles Baynes Netherlands BV Netherlands, FCX Pension Trustees Limited, Holford Estates Limited, IMI CIF Trustee Limited, IMI Deutschland Limited, IMI Euro Finance Limited, IMI Fluid Controls (Finance) Limited, IMI Germany Limited, IMI Group Limited, IMI Kynoch Limited, IMI Marston Limited, IMI Overseas Investments Limited, IMI Pensions Trust Limited, IMI plc, IMI Precision Engineering Limited, IMI Property Investments Limited, IMI Refiners Limited, IMI Retirement Savings Trust Limited, IMI Sweden Finance Limited, IMI Vision Limited, Liquick 211 Limited, Truflo Group Limited, Truflo International Limited, Truflo Investments Limited	Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, West Midlands B37 7XZ, United Kingdom
IMI Critical Engineering Holding GmbH, IMI Deutschland II GmbH & Co KG, IMI Deutschland Verwaltungs GmbH, IMI Germany Holding B.V. & Co. KG, Norgren GmbH	Bruckstrasse 93, 46519 Alpen, Germany
IMI Americas, Inc. IMI Fluid Controls Holdings, Inc. Norgren, Inc.	5400 South Delaware Street, Littleton, CO 80120, United States
IMI Holding Italy S.R.L., Orton S.R.L., Truflo Rona S.R.L.	Via Stendhal, 65, 20144 Milano, Italy
Bimba Manufacturing Company, Bimba Properties, Inc.	25150 S. Governors Hwy, University Park, IL 60484, United States
Heimeier GmbH, IMI Hydronic Engineering Deutschland GmbH	Voellinghauser Weg 2, 59597 Erwitte, Germany
IMI Aero-Dynamiek BVBA, IMI Hydronic Engineering NV	Boomsesteenweg 28, B 2627 Schelle, Belgium
IMI Australia Pty Ltd, IMI Lakeside Australia Pty Ltd	33 South Corporate Avenue, Rowville VIC 3178, Australia
IMI Components Limited, Truflo Marine Limited	Westwood Road, Birmingham, B6 7JF, United Kingdom
IMI Finance SA, IMI Hydronic Engineering International SA	Route de Crassier 19, Lake Geneva Business Park, 1262 Eysins, Switzerland
IMI Hydronic Engineering A/S, Norgren A/S	Vesterlundvej 18, 2730 Herlev, Denmark
IMI Hydronic Engineering BV, IMI Netherlands Holdings BV	Röntgenweg 20, Alphen aan den Rijn, NL-2408 AB, Netherlands
IMI Scotland Limited, The IMI Scottish Limited Partnership	15 Atholl Crescent, Edinburgh EH3 8HA, United Kingdom

Subsidiary undertakings

Lakeside Finance Unlimited Company, Lakeside Treasury Unlimited Company	1 Stokes Place, St Stephens Green, Dublin 2, Ireland
Norgren Co Limited, Norgren Manufacturing Co Ltd	Building 3, No. 1885, Duhui Road, Minhang District, Shanghai, China
Valves Holding GmbH, Z & J Technologies GmbH	Bertramsweg 6, 52355 Düren, Germany
Acro Associates, Inc.	1990 Olivera Rd., Sta. A Concord, CA 94520, United States
AFA Controls LLC	CSC, Corporate Services Company, 251 Little Falls Drive, Wilmington, DE 19808, United States
Bopp & Reuther Valves GmbH	Carl-Reuther Str. 1, 68305 Mannheim, Germany
Brookvale International Insurance Limited	Clarendon House, Church Street, Hamilton, HM11, Bermuda
Buschjost GmbH	Detmolder Strasse 256, 32545 Bad Oeynhausen, Germany
CCI AG	Fabrikstrasse 10, 8370 Sirmach, Switzerland
CCI America do Sul Comercio de Equipamentos Industriais Ltda	Rua Itapeva, 286 cjs 95/96/97, Sao Paulo, 01332-000, Brazil
CCI Czech Republic s.r.o.	K Letišti 1804/3, Šlopanice, 62700, Czech Republic
CCI Flow Control (Shanghai) Co Ltd	Room 108, Unit 15, 159 Tian Zhou Road, Cao He Jing Development Zone, Shanghai, 200233, China
CCI International Limited	Unit A3 Brookside Business Park, Greengate, Middleton, Manchester, M24 1GS, United Kingdom
CCI Italy S.R.L.	Via Stendhal, 65, 20144 Milano, Italy
CCI Valve Technology AB	Industrigatan 1-3, Box 603, 661 29 Säffle, Sweden
CCI Valve Technology GmbH	Lemböckgasse 63/1, 1230 Wien, Austria
Control Component India Pvt Limited	Ground, 1st & 2nd Floor, Tower 4, SJR i park, Plot # 13 14&15, EPIP Zone Phase 1, Whitefield Road, Bangalore 560066, India
Control Components Inc	22591 Avenida Empresa, Rancho Santa Margarita CA 92688, United States
FAS Medic SA	Route de Bossonnens 2, 1607, Palézieux, Switzerland
Fluid Automation Systems GmbH	Stuttgarter Straße 120, 70736 Fellbach, Germany
Herion Systemtechnik GmbH	Untere Talstrasse 65, 71263 Weil der Stadt, Germany
IMI Aero-Dynamiek BV	Havenstraat 9, 3861 VS, Nijkerk, Netherlands
IMI Critical Engineering (APAC) Pte. Ltd	29 International Business Park, ACER Building, Tower A, #04-01, Singapore, 609923, Singapore
IMI Critical Engineering (Shanghai) Company Limited	B3-2, No. 303, Xinke Road, Qingpu District, Shanghai, 201707 China
IMI Critical Engineering Korea	14 Dangdong 2-ro, Munsan-eup, Paju-si, Gyeonggi-do, 10816, Republic of Korea
IMI Critical FZE	Office No. FZJOA1308, FZJOA1310, FZJOA1307A, Jebel Ali Free Zone, Dubai, United Arab Emirates
IMI Deutschland B.V.	Versterkerstraat 6, 1322 AP Almere, the Netherlands
IMI Energi & VVS Utveckling AB	Annedalsvägen 9, 22764, Lund, Sweden
IMI Engineering Sdn. Bhd.	K-7-5 & K-7-6, Solaris Kirara, Soho, Jalan Solaris Mont Kiara, 50480 Kuala Lumpur, Malaysia
IMI France SARL	52 Boulevard de Sébastopol, 75003 Paris, France
IMI Hidronik Muhendislik İklimlendirme Sistemleri Ltd Sti	Atasehir Bulvari Ata Carsi no. 50-59, Atasehir, Istanbul, Turkey
IMI Holdings LLC	101 Broadway Street West, Suite 204, Osseo, MN 55369, United States
IMI Hydronic Engineering AB	Annelund, SE-524 80, Ljung, Sweden
IMI Hydronic Engineering AS	Glynitveien 7, Ski, N-1400, Norway
IMI Hydronic Engineering China	Room 360, Xin Mao Building, No 2 Tai Zhong Nan Road, Pilot Free Trade Zone, Shanghai, 200131 China
IMI Hydronic Engineering France S.A.	13, rue de la Perdrix - Les Flamants 8, 93290 Tremblay-en-France, France
IMI Hydronic Engineering FZE	Office 1307-10 Jafza One, JAFZA (PO Box 262611), Dubai, United Arab Emirates
IMI Hydronic Engineering GesmbH	Industriestrasse 9, Objekt 5, 2353, Guntramsdorf, Austria
IMI Hydronic Engineering Inc	8908 Governors Row, Dallas, TX 75247, United States
IMI Hydronic Engineering Limited	Unit 3 Nimbus Park, Porz Avenue, Dunstable, Bedfordshire, LU5 5WZ, United Kingdom
IMI Hydronic Engineering Ltda	Av Fagundes Filho, 134 cj 43, S. Judas, Sao Paulo, 04304-010, Brazil
IMI Hydronic Engineering OY	Robert Huberin tie 7, Vantaa FI-01510, Finland

IMI Hydronic Engineering Pte Ltd	223 Mountbatten Road #03-01, Singapore 398008, Singapore
IMI Hydronic Engineering S.A.	9, rue des 3 Cantons, Windhof, L-8399, Luxembourg
IMI Hydronic Engineering (Spain) SAU	Complejo Europa Empresarial, C/Rozabella, 6, Las Rozas, 28290, Madrid, Spain
IMI Hydronic Engineering S.R.L.	Via dei Martinitt 3 cap, 20146, Milan, Italy
IMI Hydronic Engineering Switzerland AG	Mühlerainstrasse 26, 4414 Füllinsdorf, Switzerland
IMI Hydronic Engineering UAB	A.Juozapaviciaus 27-5, Kaunas, LT – 45258, Lithuania
IMI International Co Srl	Str. Aristide Pascal nr.36, Sector 3, Bucuresti, 031445, Romania
IMI International d.o.o.	Alpska cesta 37b, Lesce, 4248, Slovenia
IMI International d.o.o.	Slavonska avenija 17, Zagreb, 10040, Croatia
IMI International d.o.o. Beograd	Milutina Milankovica 1b, Novi Beograd, 11070, Serbia
IMI International Kft.	Kunigunda Útja 60, Budapest, HU-1037, Hungary
IMI International LLC	Leninskaya Sloboda Street 19 b2, 115280, Moscow, Russian Federation
IMI International s.r.o.	Central Trade Park D1, c.p.1573, Humpolec, 396 01, Czech Republic
IMI International Sp. z o.o.	Olewin 50 A, PL-32300, Olkusz, Poland
IMI Japan KK	7-3-6 Minatojima Minamimachi, Chuo-ku, Kobe, Hyogo 650-0047, Japan
IMI Norgren Herion PVT Limited	B-30A Sector 85, Noida, Uttar Pradesh 201305, India
IMI Norgren Limited	137a Slaney Close, Dublin Industrial Estate, Finglass Road, Dublin 11, Ireland
IMI Norgren SA (Sociedad Unipersonal)	Calle Colom, 391, 2 Edif. Tecno, 08223, Terrassa, Spain
IMI Saudi Industry LLC	Al-Nakhlah Tower, Kind Fahad Road, As Sahafah, PO Box 52681, Riyadh 11573, Saudi Arabia
IMI Webber Limited	City Business Park, Easton Road, Easton, Bristol, BS5 0SP, United Kingdom
Industrie Mecanique Pour Les Fluides SA	15 Avenue des Cures, 95580, Andilly, France
Intek Products, Inc.	230 Executive Drive, Suite 127, Cranberry Township, PA 16066, United States
Interativa Indústria Comércio e Representações Ltda	Avenida Garabed Gananian, 386 Bairro Aparecidinha, Sorocaba, São Paulo, 18.087-340, Brazil
Kynoch Sweden Holding AB	c/o IMI Hydronic Engineering AB, 52 480 Ljung, Sweden
Liquick 213 Limited	2 Cornwall Street, Birmingham, West Midlands, B3 2DL, United Kingdom
Mead Fluid Dynamics, Inc.	4114 North Knox Avenue, Chicago, IL 60641, United States
Newman Hattersley Limited	151 Superior Blvd, Mississauga ON L5T 2L1, Canada
Norgren AG	Fabrikstrasse 10, 8370 Sirmach, Switzerland
Norgren AS	Karihaugveien 89, Oslo, 1086, Norway
Norgren Automation Solutions LLC	2871 Bond Street, Rochester Hills, MI 48309, United States
Norgren BV	Versterkerstraat 6, 1322 AP Almere, Netherlands
Norgren Co Limited	120/34 M.12, Rachadhewa, Bangplee, Samutprakarn, 10540, Thailand
Norgren Finland OY	Robert Huberin Tie 7, 015 10 Vantaa, Finland
Norgren Ges.m.b.H	Industriezentrum NÖ Süd, Straße 2a, Objekt M39/1, A-2355, Wiener Neudorf, Austria
Norgren GT Development Corporation	425 "C" Street NW, Suite 100, Auburn, WA 98001, United States
Norgren Kloehn, Inc.	10000 Banburry Cross Drive, Las Vegas, NV 89144, United States
Norgren Limited	6/F Benson Tower, 74 Hung To Road, Kwun Tong, Kowloon, Hong Kong
Norgren Limited	15A Vestey Drive, Auckland, 1060, New Zealand
Norgren Limited	Blenheim Way, Fradley Park, Lichfield, Staffordshire, WS13 8SY, United Kingdom
Norgren Ltda	Av. Eng. Alberto de Zagottis, 696-B, Sao Paulo SP, 04675-085, Brazil
Norgren Manufacturing de Mexico S.A. de C.V.	Avenida de la Montaña # 120, Parque Industrial Querétaro, Santiago De Querétaro, Querétaro, CP 76220, México
Norgren S.A. de C.V.	Avenida de la Montaña # 120, Santa Rosa Jauregui, Santiago De Querétaro, Querétaro, CP 76220, México
Norgren NV	F Walravensstraat 84, B.1651 Lot, Belgium
Norgren Pte. Limited	16 Tuas Street, Singapore 638453, Singapore

Subsidiary undertakings

Norgren SAS	1, rue de Lamirault 77090 Collégien, France
Norgren Srl	Via trieste 16, Vimercate, 20871, Milan, Italy
Norgren Sweden AB	Box 14001, Ventilgatan 6, S-200 24 Malma, Sweden
Norgren Taiwan Co Limited	3F, No. 540 Sec. 1, Minsheng N. Rd., Guishan Dist., Taoyuan City, 333, Taiwan
PBM, Inc.	1070 Sandy Hill Road, Irwin, Westmoreland County, PA 15642, United States
Pneumadyne, Inc.	14425 23rd Ave North, Plymouth, MN 55447, United States
Remosa S.R.L.	Viale Pula 37, 09123 sede e stabilimento stradale, 03608, Cagliari, Sardinia, Italy
SAIC CCI Valve Co Ltd (44%)*	Block B, 123 Chongming Xiushan Road, Chongming County, Shanghai, 202150 China
Shanghai CCI Power Control Equipment Co Ltd	229C, 2F, No 11, Lane 465, Tengyue Road, Yangpu District, Shanghai 200090, China
STI S.R.L.	Via dei Caravaggi 15, 24040, Levate (BG), Italy
TA Regulator d.o.o.	Orliska Ulica13, Brezice, SI-8250, Slovenia
TH Jansen Armaturen GmbH	Otto-Kaiser Str. 6, 66386 Sankt Ingbert, Germany
THJ Holding GmbH	Planiger Str 34, 55543 Bad Kreuznach, Germany
Thompson Valves Limited	17 Balena Close, Creekmoor, Poole, Dorset, BH17 7EF, United Kingdom
Truflo Rona S.A.	3e avenue, 16, Parc Industriel des Hauts Sarts, 4040 Herstal, Belgium
Vaccon Company, Inc.	9 Industrial Park Road, Medway, MA 02053, United States
Z & J High Temperature Equipment (Shanghai) Co Ltd	819 Yinchun Road, Minhang District, Shanghai, 201109, China
Zimmermann & Jansen, Inc.	4525 Kennedy Commerce Drive, Houston, TX 77036, United States

* Treated as external investments

Subsidiary audit exemptions

IMI plc has issued guarantees over the liabilities over the following companies at 31 December 2019 under Section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act:

Company name	Company number	Company name	Company number
Holford Estates Limited	01181406	IMI Scotland Limited	SC378424
IMI Deutschland Limited	07843551	IMI Sweden Finance Limited	07272731
IMI Euro Finance Limited	07929408	IMI Vision Limited	04421176
IMI Fluid Controls (Finance) Limited	08528502	Truflo Group Limited	04430846
IMI Germany Limited	07843576	Truflo International Limited	00164822
IMI Marston Limited	00155987	Truflo Investments Limited	04430927
IMI Refiners Limited	00148305		

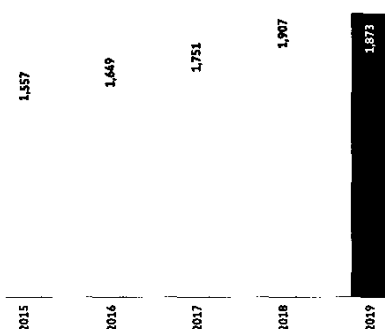
Geographic distribution of employees

The following table shows the geographic distribution of employees as at 31 December 2019 and is not required to be audited.

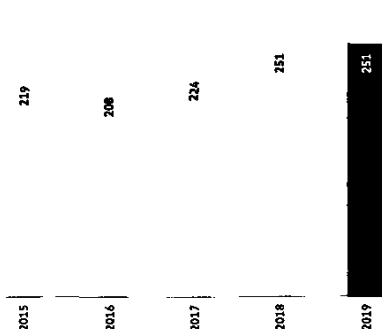
United Kingdom	1,205
Continental Europe	5,484
Americas	2,630
Asia Pacific	1,321
Rest of World	67
Total	10,707

Five year summary

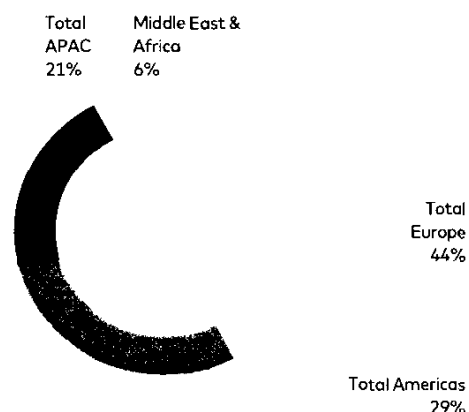
Adjusted revenue £m



Adjusted profit before tax* £m



Adjusted Group revenue by geography 2019



* On an adjusted basis.

Income statement

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
Statutory revenue	1,567	1,657	1,751	1,907	1,873
Adjusted revenue	1,557	1,649	1,751	1,907	1,873
Adjusted operating profit	236.9	224.2	239.2	265.5	266.1
Adjusted profit before tax	218.7	208.0	224.1	251.2	250.7
Special pension events	9.1	2.8	10.8	6.8	8.6
Restructuring costs	(27.1)	(18.8)	(34.6)	(12.4)	(51.8)
Acquired intangible amortisation and impairment	(32.2)	(25.5)	(17.5)	(27.1)	(21.0)
Other acquisition items	-	-	(2.0)	(3.7)	(1.6)
Gain/(loss) on disposal of subsidiaries	(8.4)	-	(2.3)	0.6	-
Financial instruments excluding economic hedge contract gains/losses	2.6	(1.2)	2.4	(2.5)	4.4
Profit before tax from continuing operations	162.7	165.3	180.9	212.9	189.3
Adjusted EBITDA	263	273	288	320	357

Group sales by destination

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
UK	90	75	79	90	90
Germany	219	240	260	288	234
Rest of Europe	472	494	519	519	494
Total Europe	781	809	858	897	818
Total Americas	390	403	405	515	538
Total Asia Pacific	326	334	355	357	404
Middle East and Africa	60	103	133	138	113
Adjusted Revenue	1,557	1,649	1,751	1,907	1,873
Reversal of net economic hedge contract losses/(gains)	10	8	-	-	-
Statutory Revenue	1,567	1,657	1,751	1,907	1,873

Earnings and dividends

	2015	2016	2017	2018	2019
Adjusted basic earnings per share	62.2p	59.8p	65.3p	73.2p	73.2p
Statutory basic earnings per share (continuing)	44.7p	48.3p	53.6p	62.5p	56.6p
Ordinary dividend per share	38.4p	38.7p	39.4p	40.6p	41.1p

Balance sheet

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
Segmental net assets (including lease liabilities)	926	1,041	1,027	1,220	1,168
Other net non-operating liabilities excluding borrowings (gross)	(100)	(175)	(155)	(149)	(111)
Net debt (excluding lease liabilities)	(237)	(283)	(265)	(405)	(347)
Net assets	589	583	607	666	710

Statistics

	2015	2016	2017	2018	2019
Adjusted operating profit as a percentage of revenue	15.4%	13.8%	13.8%	14.0%	14.2%
Adjusted operating profit as a percentage of segmental net assets	25.9%	21.9%	23.4%	21.8%	22.8%
Effective tax rate on adjusted profit before tax	22.0%	21.0%	21.0%	21.0%	21.0%
Net assets per share (excluding treasury and EBT shares)	217.3p	215.1p	224.0p	245.8p	262.2p
Net debt as a percentage of shareholders' funds	40.2%	48.5%	43.7%	60.7%	48.9%
Net debt: Adjusted EBITDA	0.9	1.0	0.9	1.3	1.2
Adjusted EBITDA: Interest	15	16	20	25	24

Shareholder and general information

Announcement of trading results

The trading results for the Group for the first half of 2020 will be announced on 24 July 2020. The trading results for the full year ending 31 December 2020 will be announced in February 2021.

Interim management statements will be issued in May and November 2020.

Dividend payments

Final: 15 May 2020

Interim: September 2020

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 2019 was 1,179.0p (2018: 944.0p). The market value of the Company's ordinary shares on 31 March 1982, as calculated for capital gains tax purposes, was 53.5p per share.

The Company's SEAI number is 51443.

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings, please contact the Company's Registrar, Equiniti (contact details appear to the right).

Please remember to tell Equiniti if you move house, change bank details or if there is any other change to your account information.

Managing your shares on-line

Shareholders can manage their holdings on-line by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- help us to reduce print, paper and postage costs and the associated environmental impact of these;
- cast your AGM vote electronically;
- receive an email alert when important shareholder documents are available on-line such as Annual Reports and Notices of General Meetings;
- access details of your individual shareholding quickly and securely;
- set up a dividend mandate on-line; and
- change your registered postal address or your dividend mandate details.

To find out more information about the services offered by Shareview and to register, please visit: www.shareview.co.uk.

Corporate website

The IMI plc website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares. As well as providing share price data and financial history, the site also provides background information about the Company.

Shareholders are also encouraged to sign up to receive news alerts by email in the Investors section of the website. These include all of the financial news releases from throughout the year that are not sent to shareholders by post. You can access the corporate website at: www.imiplc.com.

Annual General Meeting 2020

This year's AGM will be held at the Crowne Plaza NEC, Pendigo Way, Birmingham B40 1NT on Thursday 7 May 2020 at 10am. For further information, please refer to the Notice of Meeting which is on the corporate website.

Individual Savings Account (ISA)

IMI's ordinary shares can be held in an ISA. For information about the ISA operated by our Registrar, Equiniti, please call the Equiniti ISA helpline on 0345 300 0430. Lines are open from 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales).

Share dealing service

Managed by Equiniti, the Company's registrar, the IMI plc Share dealing service provides shareholders with a simple way of buying and selling IMI ordinary shares. Telephone: 0345 603 7037. Full written details can be obtained from Equiniti (contact details appear to the right).

Share fraud

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. Further information on how to spot share fraud or report a scam can be found on our corporate website.

American Depositary Receipts

IMI plc has an American Depositary Receipt ('ADR') programme that trades on the Over-The-Counter market in the USA, using the symbol IMIAY. ADR enquiries should be directed to Citibank Shareholder Services, PO Box 43077, Providence, RI 02940-3077, USA. Toll-free number in the USA is 1-877-CITI-ADR (877-248-4237) and from outside the USA is 1-781-575-4555. You can also email citibank@shareholders-online.com

Headquarters and registered office

Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham
B37 7XZ

Telephone: +44 121 717 3700

IMI plc is registered in England No.714275

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2916 or from overseas
+44 121 415 7047

Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales).

Stockbrokers

JPMorgan Cazenove
Bank of America

Auditor

Ernst & Young LLP

Cautionary statement

This Annual Report may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this Annual Report. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.