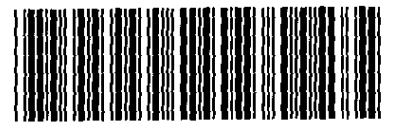


**Breakthrough
Engineering**
for a better
world.

TUESDAY



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A09

30/08/2022

#280

COMPANIES HOUSE

CONSOLIDATED PARENT COMPANY
ACCOUNTS FOR TRUFLO INVESTMENTS
LIMITED 04430927



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 challenges. We help some of the world's leading industrial companies operate their processes safely, sustainably, and more productively.

We work as one big team but operate through three divisions – IMI Precision Engineering, IMI Critical Engineering and IMI Hydronic Engineering – and employ approximately 10,000 people in over 50 countries around the world.

→ Find out more
www.imiplc.com

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.

Local COVID-19 protocols were always strictly adhered to during the photoshoots that took place throughout 2021, hence why some people and locations can be seen using masks, and others not. IMI remains fully committed to ensuring the safety of its people and all visitors to its sites.

Front cover image



IMI Precision Engineering –
Farmington, USA

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Our values



A mindset where the customer is at the heart of everything we do.



Leveraging IMI's diversity in every sense, whether this is the diversity of talent, knowledge and experience that we have with our people, or the diversity of technologies, processes and end markets across our businesses.



Playing to win

A growth mindset that is innovative and open to learning.



Integrity

Being true to who we are and doing the right thing at all times.

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



More information
Turn to page 52

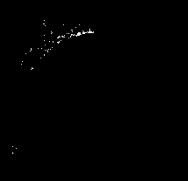
Group overview

Revenue by geography



Europe 45%
Asia 28%
Americas 22%
Other 5%

Revenue by division



Life Sciences 45%
Healthcare 37%
Other 18%

Gender mix across the Group**

	Female	Female %	Male	Male %
Board	3	38%	5	62%
Executive	3	43%	4	57%
Direct reports to Executive	8	18%	36	82%
Leadership group	19	14%	119	86%
All employees	3,269	29%	7,964	71%

** Based on full-time employees

2021 highlights

Adjusted revenue¹

^ 2% **£1,866m**

Statutory revenue

^ 2% **£1,866m**

Adjusted profit before tax¹

^ 12% **£307m**

Statutory profit before tax

^ 14% **£245m**

Adjusted operating margin¹

^ 140bps **17.0%**

Statutory operating margin

^ 100bps **13.4%**

Adjusted basic EPS¹

^ 15% **92.0p**

Statutory basic EPS

^ 17% **73.5p**

- » Good progress towards sustainable, profitable growth and Group adjusted operating margins of 18% - 20%
- » 7% organic sales growth, 18% organic adjusted operating profit growth
- » Increased organic revenues, adjusted profits and margins in all three divisions
- » Statutory operating profit increased 10%
- » Statutory profit before tax increased 14%
- » Growth Hub and Sprint Teams delivered £23m orders, with momentum building
- » Adaptas acquisition completed in attractive Life Sciences market
- » ESG agenda gaining pace
- » Accelerated benefits and complexity reduction from restructuring supports margin improvement

¹ Please refer to Note 3 for definitions of the Group's Alternative Performance Measures. Please note there were no adjustments to revenue in the year.

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 58

Key brands

Norgren, Bimba, Buschjost, FAS, Herion, Kloeckner, Adaptas

Revenue

^ 3% £836m

Adjusted operating profit*

^ 8% £149m

Statutory operating profit

^ 18% £100m

Number of employees

53% 5,400

Revenue by geography

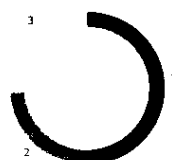
- 1 Europe 45%
- 2 Americas 37%
- 3 Asia Pacific 18%
- Middle East & Africa 0%



2021 revenue by market

- Industrial Automation £413m
- Precision Fluid OEM £210m
- Transportation £213m

- 1 Industrial Automation 49%
- 2 Precision Fluid OEM 25%
- 3 Transportation 26%



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 60

Key brands

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

Revenue

^ 2% £691m

Adjusted operating profit*

^ 4% £125m

Statutory operating profit

^ 35% £111m

Number of employees

29% 2,900

Revenue by geography

- 1 Europe 25%
- 2 Americas 28%
- 3 Asia Pacific 35%
- 4 Middle East & Africa 12%



2021 revenue by market

- Refining & Petrochemical £213m
- Fossil Power £210m
- Oil & Gas £122m
- Nuclear £60m
- Marine £33m
- Pharmaceutical £12m

- 1 Refining & Petrochemical 31%
- 2 Fossil Power 30%
- 3 Oil & Gas 18%
- 4 Nuclear 8%
- 5 Marine 5%
- 6 Pharmaceutical 2%
- 7 Other 6%



IMI Hydronic Engineering

IMI Hydronic Engineering is a leading global supplier of products and solutions for HVAC systems. We deliver optimal and energy efficient heating and cooling solutions to the residential and commercial building sector.



Operational review:
Turn to page 62

Key brands

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

Revenue

^ 11% £339m

Adjusted operating profit*

^ 22% £68m

Statutory operating profit

^ 27% £64m

Number of employees

18% 1,800

Revenue by geography

- 1 Europe 88%
- 2 Americas 8%
- 3 Asia Pacific 4%
- Middle East & Africa 0%

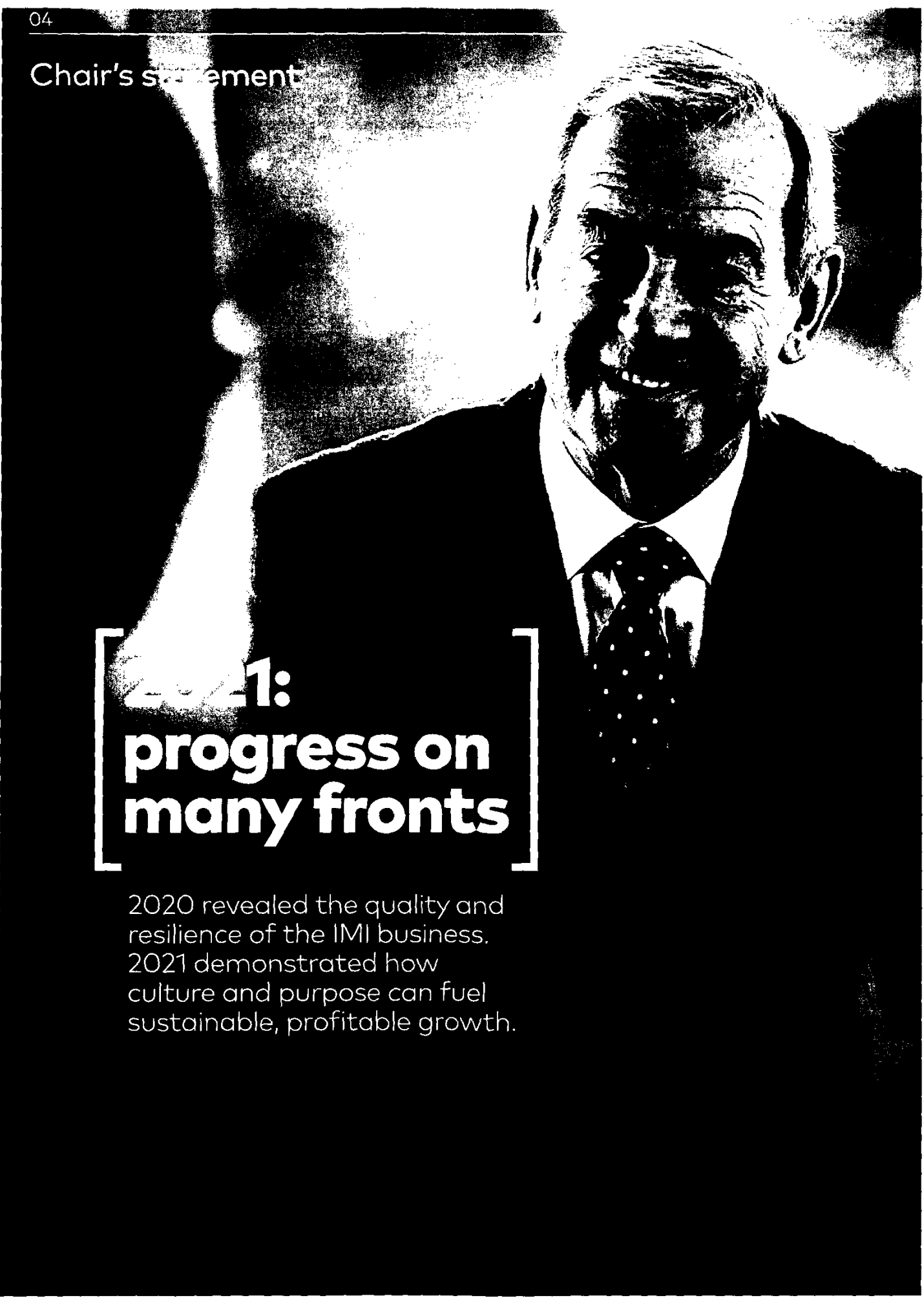


2021 revenue by market

- Balancing & Control £159m
- Thermostatic Control £106m
- Pressurisation & Water Quality £61m

- 1 Balancing & Control 47%
- 2 Thermostatic Control 31%
- 3 Pressurisation & Water Quality 18%
- 4 Other 4%





Chair's statement

2021: progress on many fronts

2020 revealed the quality and resilience of the IMI business. 2021 demonstrated how culture and purpose can fuel sustainable, profitable growth.

Culture, values and purpose

One key objective of IMI's strategy is to ensure that everyone in the organisation is included and actively participates as we pursue our unifying purpose:

[Breakthrough Engineering for a better world]. So, it was encouraging when the One Big Voice survey of employee attitudes reflected high levels of engagement in the business. For more information on this, please see page 44.

In 2021, IMI introduced a brand new internal communications platform that connects with all our employees. The knowledge-sharing, collaboration and values-affirming actions that have already been apparent through its rapid and widespread adoption will support further improvement in engagement.

Coronavirus, and other challenges

The global economic recovery from Coronavirus has brought new challenges. Supply chain pressures have been apparent across industry, and cost inflation has reached levels not seen in decades. But the impact of each has been largely mitigated by IMI through astute procurement and close relationships with customers. We remain vigilant to the continued threat from Coronavirus, maintaining our protective protocols across the globe.

Environmental, Social & Governance (ESG)

In 2020, we set out our ambitions for ESG and how we are approaching a subject that is of great importance to us all. In this Annual Report, we show how we have taken this forward, with more detail on our objectives. For example, halving our total CO₂ intensity by 2030 and continuing to be a more inclusive and diverse employer. As we plan how we will meet our ambitions, we have spent time this year engaging with our stakeholders to gauge their priorities. We have considered the sustainability of our product portfolio. And we have evaluated the risks and opportunities posed by climate change to see how we can drive most effectively towards delivering a better world

Strategy

During the year, the company hosted two Capital Markets Events, designed to inform analysts and investors of our capabilities across the Group – with a particular focus on what drives our confidence in our ability to deliver sustainable, profitable growth. As well as describing the importance of our business model and Growth Hub, the events highlighted the shift in culture, which has already started to deliver results.

M&A

In December, IMI acquired Adaptas Solutions ('Adaptas') – a US specialist engineering business manufacturing components and solutions for mass spectrometry instruments. Adaptas provides an attractive adjacency to our existing Life Sciences business. I'm delighted to add my welcome to the team, as we look forward to an exciting future together. Additional commentary on the transaction is in the Chief Executive's review on page 12 of this Annual Report – or on the IMI plc website, imiplc.com.

Creating value – for all

As with all organisations, our stakeholders fall into many groups, each of them with different expectations for our business – whether they be employees, investors, communities, customers or suppliers. Throughout this report, you will read about how we address these different groups, and advance our strategy with all stakeholders considered. For more information about our stakeholders and our Section 172(1) statement, please go to pages 56 and 97 respectively.

The Board

During the year, Carl-Peter Forster retired from the Board after nine years of service and significant contribution for which my colleagues and I are greatly appreciative. We were delighted to welcome Dr Ajai Puri to the Board in March. Dr Puri brings extensive experience in the food manufacturing industry to IMI.

I would like to thank all my colleagues on the Board for their commitment and counsel throughout the year.

Dividend and balance sheet

IMI enjoys strong cash-flows and maintains a healthy balance sheet – even after the recent acquisition. As economic conditions improved in early 2021, the Board decided to commence a share buyback scheme, totalling £200m in the full year. The buyback enabled us to maintain strong but efficient finances, without compromising our ability to invest for growth – as evidenced by our acquisition of Adaptas.

The Board is recommending a 2021 final dividend of 15.8p per share (2020: 15.0p per share). Payment will be made on 13 May 2022 to shareholders on the register at the close of business on 8 April 2022.

People

In what has been another testing year, IMI employees have remained dedicated to serving our customers while keeping our sites and communities safe. On behalf of the Board, I thank them all

Lord Smith of Kelvin
Chair

A better world

...for our customers.

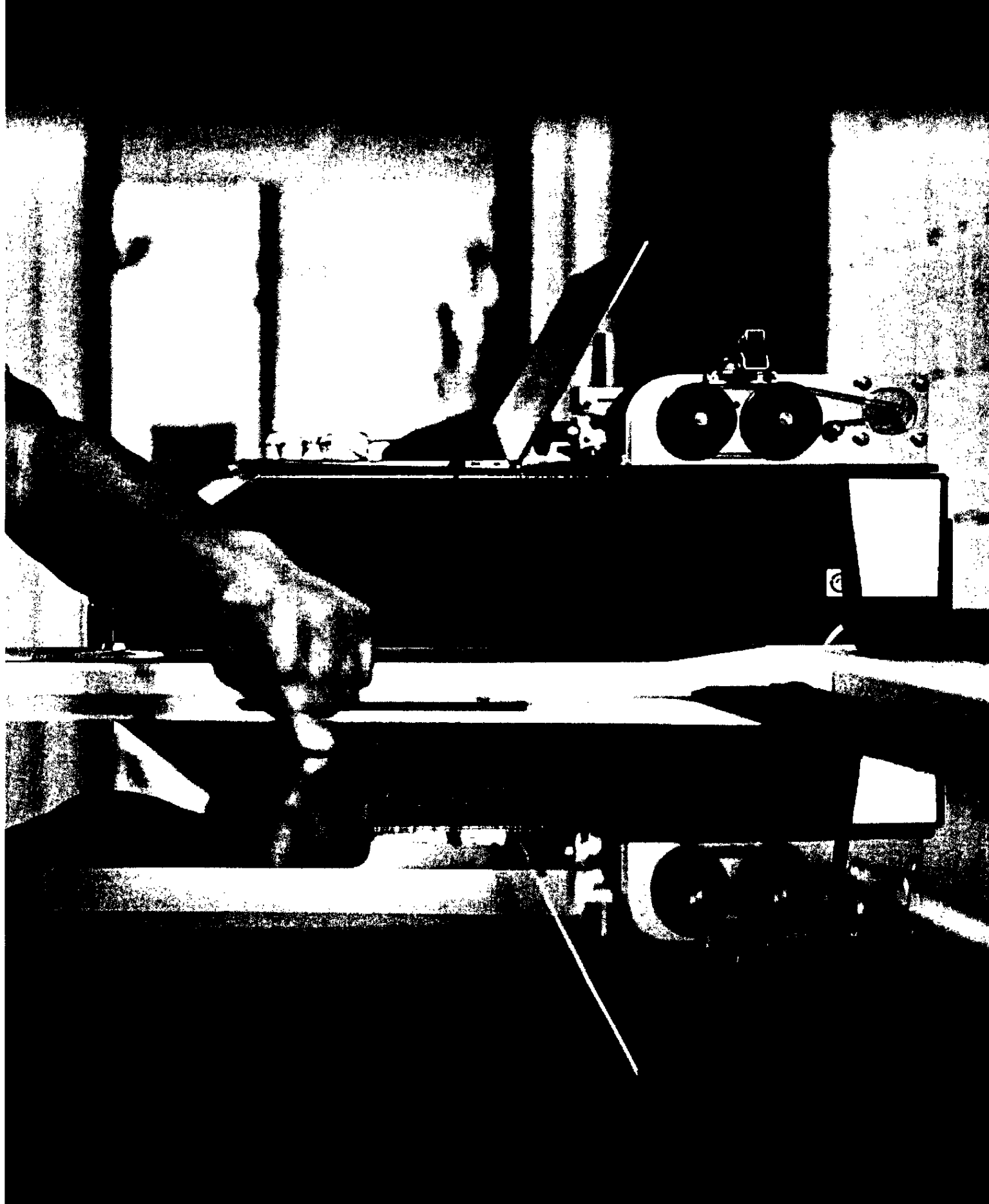
We build trusting and collaborative relationships with our customers to identify and implement innovative solutions for their biggest problems. Our deep engineering and applications expertise accelerate value creation and help our customers become safer, more sustainable and more productive. We are respected for the quality of what we do and the care with which we do it.



A better world

...for our people.

We build IMI to be a truly inclusive organisation, where all our employees can contribute and grow – connecting as 'one big team' to solve some of the world's largest industry and society problems. We all share a strong set of core values that guide how we think and act. We actively support the development of all our people and invest where we see the biggest opportunities to create a better world together.



A better world

...for our communities.

We focus our products, services and solutions so that our customers improve sustainability to support their ambitions for a better world. We seek to continuously optimise our operations to minimise our impact on the environment and the communities in which we operate. Our Growth Hub initiatives ensure we always invest and innovate to make a positive difference.



Chief Executive's Review



In 2021 we have made excellent progress with our accelerated growth strategy through increasing customer intimacy, market-led innovation and reducing complexity.

The Growth Hub and Sprint Teams continue to lead important cultural change, as well as increasing orders. We also completed the acquisition of Adaptas in the attractive Life Sciences market and concluded a £200m share buyback programme. In 2022, we expect further progress towards our ambition of sustainable profitable growth and Group margins of 18% to 20%.

Results overview

During 2021 IMI delivered a strong performance, benefitting from positive market conditions within key business segments including Industrial Automation, Commercial Vehicle and Construction. New products are playing an increasing role in the Group's growth, with our Growth Hub and Sprint Teams well embedded across the Group.

Like most industrials, IMI has experienced supply chain constraints for certain components as well as increased inflation, creating continuing pressure for the sector and IMI. This pressure continues to be well managed, minimising the impact on service levels to our customers and protecting our financial returns.

Strategic progress

IMI launched our purpose, [Breakthrough Engineering for a better world], in late 2019, and set out our strategy to accelerate business performance and drive sustainable, profitable growth by solving acute customer problems at pace. Our strong financial performance reflects the progress being made and the engagement created with our employees. The number of Growth Hub teams is increasing, and many initiatives are now delivering tangible results. The shift in culture necessary to deliver that Value Tomorrow ambition has been swift and effective.

The other key ambition of our business model – to deliver Value Today – has helped improve returns across the business through greater customer intimacy, operational efficiency, and complexity reduction, despite the pressures and market volatility of the pandemic.

With the acquisition of Adaptas, the Group has demonstrated IMI's commitment to using its balance sheet to good effect by moving our business further into the attractive Life Sciences market. The completion of the £200m share buyback was further confirmation of IMI's desire to maintain an efficient balance sheet.

Along with investments into our future growth, IMI continues to identify and execute on opportunities to drive more efficient operations. The following provides a summary of progress on our restructuring programmes:

£m	2021	2022*	Future years*
Restructuring charge (including impairment losses)			
IMI Precision Engineering	(36)	(29)	(35)
IMI Critical Engineering	(1)	(13)	-
IMI Hydronic Engineering	(3)	(1)	-
Total charge	(40)	(43)	(35)
Cash impact	(33)	(38)	(62)
Benefits			
IMI Precision Engineering	7	6	26
IMI Critical Engineering	15	4	-
IMI Hydronic Engineering	3	-	1
Total benefits	25	10	27

* Future looking forecast information

All divisions advanced their programmes which provided £25m of benefits in the year, exceeding the earlier reported target of £22m. The projects are expected to run until 2024. The Group will continue to seek out and execute projects to improve its competitive advantage.

Investment case

- » Clear customer-focused strategy delivering [Breakthrough Engineering for a better world]. Solving acute industry problems with market-leading expertise, strong brands and the best people
- » Increasing exposure to attractive global markets, supported by our Growth Hub programme and targeted M&A
- » Robust social and governance policies, for a stronger, more responsible and more inclusive organisation
- » Differentiated environmental profile – led by our customer solutions that enable energy efficiency, sustainability and safety
- » A clear business model committed to delivering sustainable value to all our stakeholders, through Value Today and Value Tomorrow strategies and the increasing use of digital capabilities
- » Strong balance sheet offering strategic flexibility alongside disciplined financial objectives



Find out more:
www.imiplc.com/investors/investment-case

Chief Executive's Review

Environmental, Social & Governance (ESG)

Our purpose, [**Breakthrough Engineering** for a better world], continues to drive our actions and create real energy across our organisation. Many of IMI's solutions enhance the safety, sustainability, and productivity of our customers' products and operations, and often contribute directly to the delivery of their carbon reduction targets. When considering investments, we ensure the impact on IMI's overall ESG ambitions is a prime consideration.

IMI sees a natural link between pursuing our ESG objectives with vigour and our wider ambitions for improved growth and profitability. Many of our best growth opportunities are supporting customers in developing solutions for a zero carbon future.

We continue to develop clear plans to reduce the environmental impact of our facilities and operations, and progressed actions in 2021 that will contribute to our goal of halving our CO₂ intensity by 2030. We are also committed to be net zero by 2040.

Our Inclusion and Diversity activities are helping us build a more dynamic and innovative organisation. We launched a Group-wide communications platform in May that enables all employees to share activity and collaborate across the Group. The platform is both accelerating business initiatives by identifying and leveraging previously untapped resource and expertise, as well as supporting IMI's core value of One Big Team.

Ensuring all our employees feel safe at work is central to our strategy and culture and we have a continued focus on identifying and reducing workplace hazards. In 2021, we also introduced the IMI HSE Excellence Framework – an enhanced management system that assesses our HSE standards against areas such as distributed workforce (field service), environment (air, water, waste), leadership engagement and risk assessment.

More information about our ESG credentials and initiatives, including our policies and practices, can be found on our website: www.imiplc.com.

Coronavirus update

The protection of our employees, our operations and our broader communities, wherever in the world they may be, remains an absolute priority. The Coronavirus response team continues to support employee welfare and help mitigate disruption in our supply chains. We continue to keep particularly close to our customers, to support them as they incur challenges brought on by the pandemic.

People

In 2021, the commitment, ingenuity and positive impact of our people across the Group has been clear to see. I'd like to offer my sincere congratulations to all of our employees for another great performance that we can all be proud of.

Outlook

Based on current market conditions we expect 2022 full year adjusted EPS to exceed 100p. This guidance includes the full year impact of the completed £200m share buyback on our average share position (2022 forecast: 259m average shares; 2021: 267m). Guidance assumes foreign exchange rates will create a headwind of 1% on sales and profits.

Roy Twite
Chief Executive

Executive Committee



Roy Twite
Chief Executive



Daniel Shook
Finance Director



Beth Ferreira
Divisional Managing Director
IMI Precision Engineering



Jackie Hu
Divisional Managing Director
IMI Critical Engineering



Phil Clifton
Divisional Managing Director
IMI Hydronic Engineering



Liz Rose
Group Human
Resources Director



Louise Waldek
Group General Counsel and
Company Secretary



A purpose driven strategy

Who we are – Our ambition

IMI's purpose, [**Breakthrough Engineering** for a better world], is at the heart of everything we do, it is why we exist. We are committed to achieving profitable growth on a sustainable long-term basis while creating a better world for everyone we engage with – our customers, our employees, the communities we serve and operate in, and our shareholders.

Our Values are an important part of who we are, as they provide a culture and collective mindset for our entire organisation. These Values – Customer intimacy, One big team, Playing to win, and Integrity – underpin all that we do, and ensure we maintain the foundations that have enabled IMI's success throughout its 150-year heritage.

Where we play – Our priorities

We focus on serving those markets that have sustainable growth characteristics, and where our proven engineering expertise can develop solutions for the most acute industry problems. This provides us with a platform for long-term profitable growth as we help our customers become safer, more sustainable, and more productive.

We target those fluid and motion control applications where our expertise is most valued. Within IMI Precision, this includes Industrial Automation, Transportation, Life Sciences and Process Industries. IMI Critical has an established leadership position in the most severe process applications within the Power and Oil & Gas industries, which continues to generate a significant aftermarket opportunity through parts, service, and upgrade solutions. Given the longer-term challenges in these markets, IMI Critical is increasingly developing and growing its presence in markets with greater growth potential, including Naval Marine, Pharmaceutical, and the fast-developing Hydrogen economy. Finally, IMI Hydronic has an established suite of products serving the hydronic heating and cooling markets, enabling customers around the world to improve energy efficiency and comfort in buildings.

Across all these chosen markets and applications, our products and services are increasingly incorporating digitally enhanced solutions. These solutions often increase operational intelligence so customers can drive further productivity, or they enhance IMI's connections with customers to improve service levels and allow faster innovations for their most pressing issues.

How we win – Our differentiators

The common thread which underpins IMI's success is its deep engineering knowledge and applications expertise, developed over decades of supporting our customers and end markets. This has built a brand and market reputation position that our peers cannot match. Our customers trust IMI to support their most difficult fluid and motion processes, which has increasingly led to developing full system solutions. This fully utilises our engineering expertise, builds even stronger connections with customers, and increases opportunities for future sales into the installed base.

We deliver '**Value Today**' by continuously improving how we serve our customers, nurturing fantastic relationships that enhance trust, and simplifying the way we organise and operate our business.

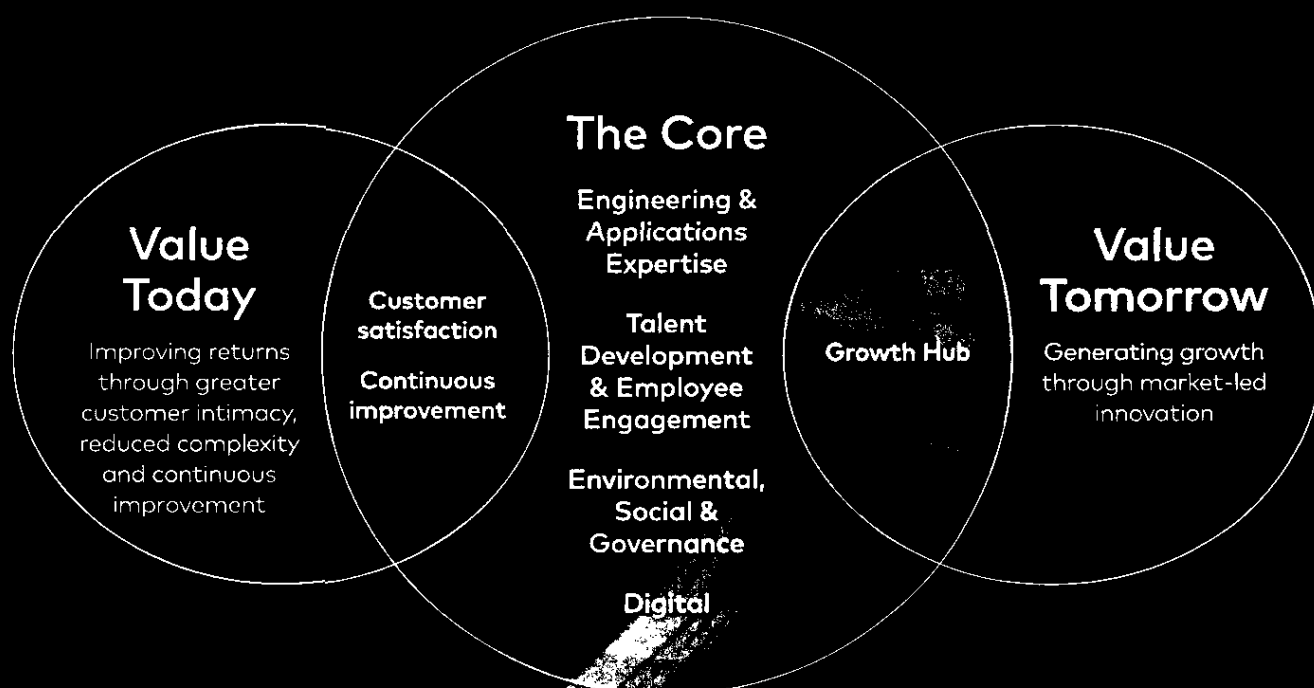
We create '**Value Tomorrow**' by focusing our energy towards the greatest challenges our customers and society will face, developing creative and innovative solutions at pace. This includes growing and investing in our digital capabilities.

While continuing to serve and grow our well-established markets, IMI will take our deep expertise into new markets, particularly into those industries and applications that are helping to deliver a better and more sustainable world. Areas like hydrogen production and distribution, personalised pharmaceuticals, and end of arm tooling automation are just some examples where our knowledge and expertise can accelerate an improved quality of life for us all. We fully believe this will enable IMI to deliver an even greater positive contribution to society, build a more sustainable and profitable business, and fulfill our purpose: [**Breakthrough Engineering** for a better world].

Our purpose

[Breakthrough Engineering for a better world]

Our business model



Our values

Customer

Playing to win

Integrity



More on our values:
Turn to page 52



[Value Today]

We deliver 'Value Today' by continuously improving how we serve our customers, nurturing great relationships that enhance trust, and by simplifying the way we organise and operate our business.

Value Today



Helping warehouses meet increasing demand

The need for more advanced warehouse automation has increased significantly since the pandemic due to labour shortages and additional complexity from increased online commerce. One global technology customer brought their challenge to us to improve the longevity of the robots provided to their customer's warehouse, to save cost and waste. The product sorting robots travel excessive distances at high speeds, often shifting considerable weight in both cold and ambient temperatures. The customer required a more durable and reliable system to handle the necessary speed and quick direction changes.

IMI Precision's design concept is based on a standard pneumatic actuation platform. We were able to meet the tough performance requirements as well as the customer's size constraints. Our product provides greater reliability and reduces the waste and inefficiency created by regularly replacing worn out components.

Supporting farmers in protecting the environment

The use of fertilisers is vital to productive farming, but too much or too little use can have consequences for crop yields and the environment.

Standard spraying systems deliver a constant stream of fertiliser which has to be manually controlled, creating inaccuracies and inefficiencies. Through advances in GPS controlled systems, a comprehensive map of the field can be created and fertilisation needs precisely calculated. Using our valve technology, an accurate control of fertiliser flow can be achieved at the exact points that require more or less treatment. This helps reduce overall usage, saving cost and protecting the environment from excess spraying, while reducing unnecessary fuel consumption and delivering higher crop yields.

Cleaner air through Commercial Vehicle customer intimacy

The next steps in legislation for stricter and broader pollutant controls (Euro 7/VII, US 2027) are creating a number of challenges for Commercial Vehicle manufacturers who must further optimise their engines to meet these targets. IMI Precision Engineering have worked with one of the largest truck builders to develop a valve block to provide precise control of the exhaust gas systems, a key to meeting these higher standards.

Through close customer intimacy built up over decades, we have supported the development of their engine control strategy. Our customised solution, created under our New Product Development Ignite and Foresight Programmes, integrates electronics and software into a new valve platform. After several successful sample deliveries, customer satisfaction is excellent, and we are now targeting a global rollout across other vehicle platforms.

Value To IMI Critical Engineering



Competitive upgrade success story

A competitor valve installed at a chemical plant was suffering internal leaking due to a build-up of deposits in the base unit. To solve the problem, and reduce the cost of continuous maintenance and component replacements, IMI Critical Engineering proposed using one of its specifically engineered ball valves.

IMI Critical's solution required less maintenance due to its cavity free design, delivering better operability and performance. The customer ultimately chose to replace the entire valve, rather than just the internal components, as our valve was clearly more suitable for this application. The customer was very happy with the much improved outcome and the technical expertise provided by the engineering team.

EroSolve Wet Steam & Metamorphic Trim

Clients in the energy industry have long suffered from expensive valve failures and operational problems from erosion caused by the corrosive nature of their processes. A specific customer, losing over £2m annually through this issue, had their problem solved by IMI Critical Engineering's EroSolve Metamorphic Trim, the world's first self-cleaning valve trim of its kind.

Additionally, IMI Critical Engineering's advanced EroSolve Wet Steam valve has demonstrated 21 months of leak-free service, having replaced a bypass valve that had leaks after just six months of installation.

Our specialist solutions succeeded in saving clients time and money by addressing their problem with innovative design, erosion resistant materials, and expert installation support and aftercare.

IMI Insyt

Industries all over the world need to analyse their unique operational set-up and make decisions about valve suitability and safety to avoid accidents, failures, and leaks. In response, IMI Critical Engineering launched IMI Insyt, our first Prescriptive Engineering Service that identifies potential mis-operation, design flaws, and inadequate maintenance to improve plant safety and performance.

Our new preventative analytical software evaluates plant operations from top to bottom, using the wealth of expertise from our highly qualified Valve Doctors®. They diagnose root causes of system problems, often preventing failures before they occur



Simplified footprint enhances customer service

By reducing operational complexity, IMI Hydronic Engineering has enhanced its customer responsiveness and market competitiveness.

Previously, the division had six manufacturing plants and three inventory hubs. Plant utilisation was below 60%, and distribution was complex due to processes that were not standardised. Today distribution is centralised at a single Polish facility and manufacturing has been reorganised into five facilities that focus on specific elements of our manufacturing processes.

As a result, plant utilisation and flexibility has increased, operational costs have reduced, and delivery times have shortened. Most importantly, customer experience and service levels have improved.

Sustainable customer-focused operations

To support our journey to zero carbon emissions and enhance customer service, IMI Hydronic Engineering is continuing to upgrade its Ljung-based Swedish manufacturing facility.

Recent enhancements at the plant include the installation of three new, energy-efficient die-casting machines with greater flexibility that enables faster product changeover. A dedicated Customer & Innovation Centre showcasing the division's technologies and full product range has also been established. In collaboration with R&D teams across IMI, this facility will work closely with customers to fully understand their needs and quickly develop solutions to key industry problems.

Effective collaboration enhances customer offering

By operating as 'one big team' and capitalising on the diversity of talent, knowledge and experience across our businesses, we are expanding our offering and creating new market opportunities.

IMI Hydronic Engineering and IMI Precision Engineering are working together to offer customers 'integrated solutions' using technologies from both divisions. For example, IMI Precision Engineering's market leading solenoid valves are now an integral component within IMI Hydronic Engineering's heating and cooling control and shut off technologies. This collaborative approach ensures we remain at the forefront of technical innovation and continue to solve acute industry problems, adding value for all our stakeholders.

[Value Tomorrow]

We create 'Value Tomorrow' by focusing our energy towards the greatest challenges our customers and society will face, developing creative and innovative solutions at pace. This includes growing and investing in our digital capabilities.



Value Tomorrow

Adaptix

How do we save time, money and space lost through the machining of multiple parts in the manufacturing process?

Traditional aluminium 'soft jaw' parts are an important element of the machining process. They provide quality and safety by holding objects securely during machining.

For workshops that machine many different part specifications every day, creating and installing new soft jaws for each new part adds cost and inefficient downtime. Making and managing soft jaws is time consuming, and other factors such as securing materials, non-productive machine time, and programming time, all add to the complexity. Machine shops also need lots of storage space to hold all their soft jaws for potential future use.

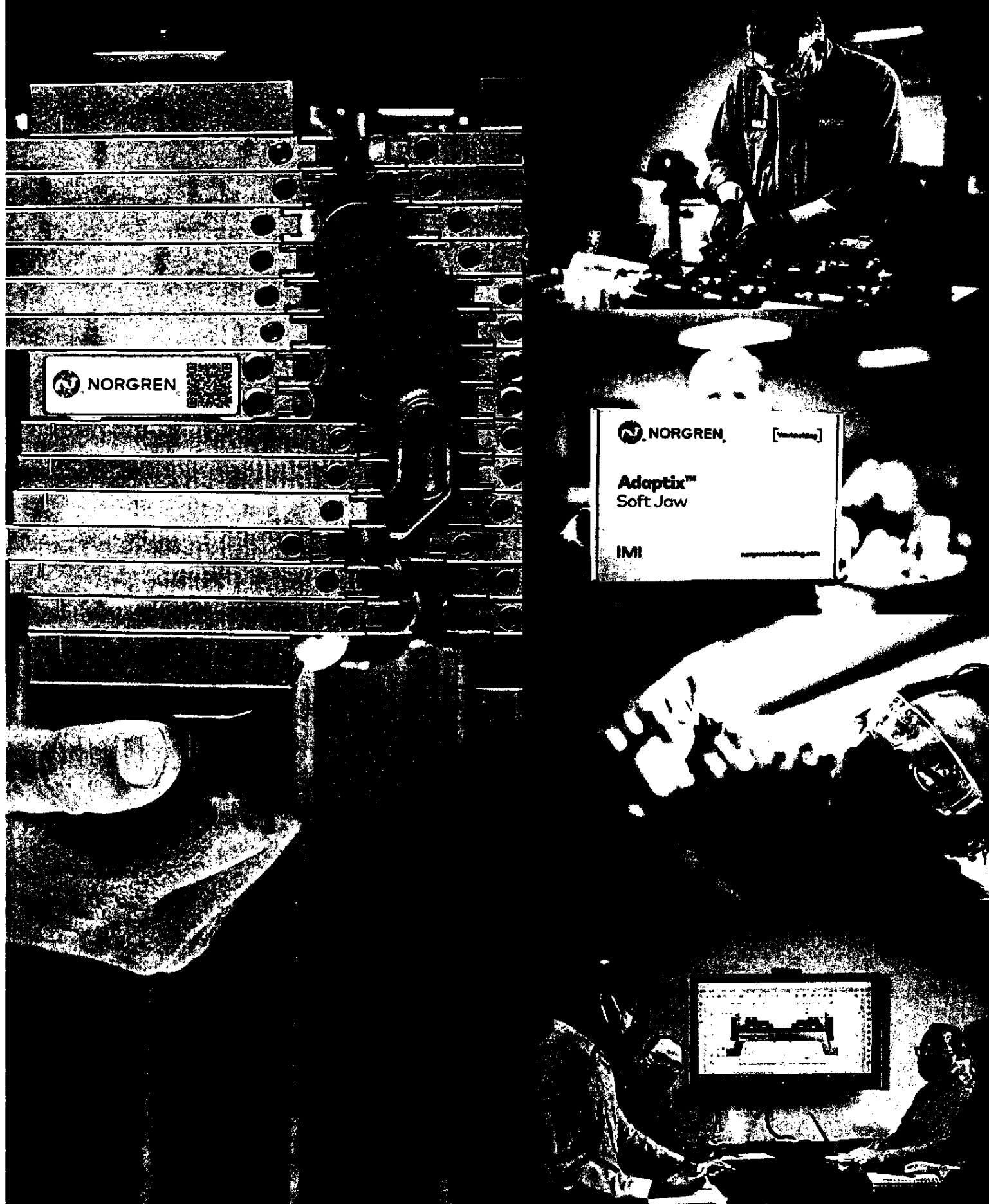
IMI Precision's revolutionary Adaptix universal soft jaw solves this key problem and delivers incredible and measurable benefits to our customers. Adaptix's pinch system is the first universal jaw that adjusts to virtually any part with pinpoint accuracy while providing the force needed to hold it safely and securely.

As part of this launch, IMI Precision Engineering is also deploying new digital sales techniques that are reaching more new customers and prospects through non-traditional channels, including social media and industry influencers.

» IMI Precision Engineering's Adaptix universal soft jaw saves time, cost and space for manufacturers machining parts.

» Adaptix will protect the environment by reducing metal scrap, energy and the need for raw materials.

» The new digital approach to sales and marketing makes the purchasing process simpler for customers and is also driving global awareness and excitement.



Value Tomorrow

Hydrogen

How does an established industrial gas provider identify and secure the essential expertise required for a new liquid hydrogen storage facility?

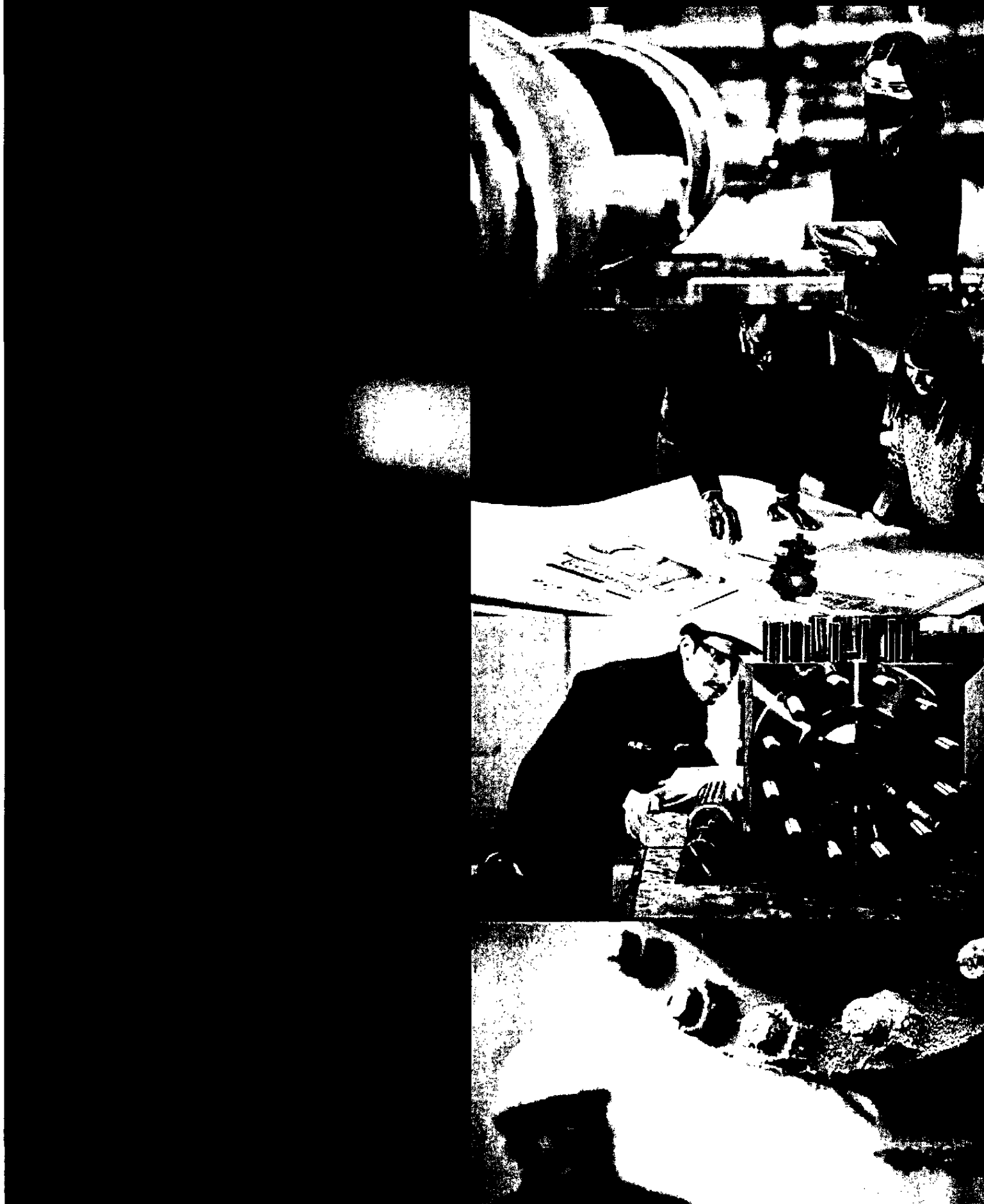
One of the world's largest provider's of industrial gases is building the first large-sized hydrogen liquefaction plant in China. The largest of its kind in Asia, the facility needed cryogenic valves that could handle liquid hydrogen temperatures of -253°C , which require highly specialist materials and sophisticated engineering expertise. The client was facing the challenge of finding a qualified and reliable vendor for the job.

IMI Critical Engineering had the solution, with the team proposing one of their specifically engineered cryogenic ball valves. IMI's technology had already been successfully deployed earlier into hydrogen propulsion systems for space travel. The solution met the strict certification required by the local regulatory body and importantly could perform within specifications during liquid helium cryogenic testing at -269°C .

The client was delighted with the solution and support, and subsequently placed orders of this product to support their growing venture into the hydrogen market. The IMI Critical Engineering team are excited to contribute to the development of a greener and cleaner energy landscape for the future.

» An important, and potentially large, new market segment supporting the global energy transition now underway, benefitting from proven know-how previously adopted into a very specialist, demanding application.

» As a key, enabling component within an important sector, the opportunities with other potential customers and other applications within this market are significant.



Value Tomorrow

Investing in the future of our business



Creating solutions through customer collaboration

Challenge

How does an established business like IMI Hydronic Engineering explore longer-term opportunities efficiently and effectively?

Solution

Customer collaboration, as always, is key. The Growth Hub is focused on driving faster, sustainable and profitable growth at IMI. As part of the Growth Hub structure, Foresight teams have been established across the Group to take a 'longer' view of potential market developments and opportunities, anticipating where IMI may add the greatest value for our stakeholders.

These Foresight teams are tasked with being open minded and ambitious as they thoroughly investigate emerging trends and identify where an evolving industry is most likely to face challenges that IMI can help resolve – and scale. This is a significant change compared with the past when much of the focus was more near-term. This new approach actively encourages free-thinking and

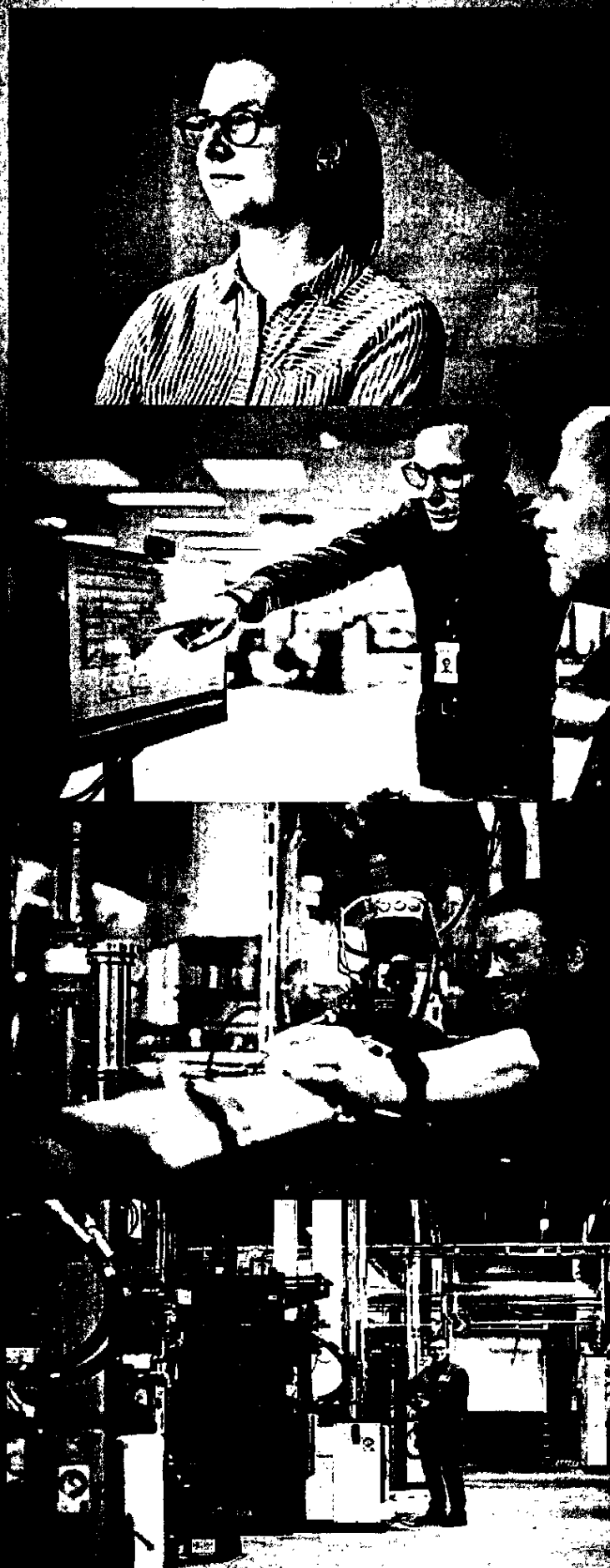
the embodiment of a growth mindset, recognising that the threats, opportunities – and disruptors – of today may well be unrecognisable in the future. Markets will certainly change and IMI's success will be determined by how well we support customers as their industries develop.

To rapidly assess the technical and commercial feasibility of such solutions, one of IMI Hydronic Engineering's Foresight teams proposed the establishment of a customer-focused 'living lab' dedicated to championing market-led innovation, and out-of-the-box thinking.

Within this unique innovation centre, which is housed at the division's facility in Sweden, IMI Hydronic Engineering and its customers work together to better understand the toughest heating, ventilation and air conditioning (HVAC) challenges. Potential solutions are then rapidly brought to life using experimental concepts which are tested and further developed based on customer feedback.

Key benefits

- » The lab has dedicated R&D and machining specialists. To ensure the journey from concept to commercial product is accelerated.
- » The lab's location, within the facility's development and production operations gives customers full visibility of all stages of the process, including the division's modern and sustainable production.
- » The dedicated experimental space also provides opportunities to build and develop relationships across the broader innovation ecosystem, including universities, research institutes and other venture partners.





[Hydrogen.Ready]

The mission to significantly reduce carbon emissions globally, underpinned by regulatory pressures, is creating an exciting and fast-paced hydrogen economy. The race to scale hydrogen production, distribution, and application across many industries is well underway.

At IMI, we're already working with engineers, consultants, and R&D teams in some of the world's biggest companies to help solve the challenges of today to build the hydrogen economy of tomorrow. Our approach to solving customer problems, and our heritage of being a trusted partner for 150 years, means we are well placed to help navigate the complexity in the move towards a carbon emission free future.

Transformative solutions

Across our divisions and across every stage of the hydrogen value chain, we're developing the transformative solutions our customers need. Our Breakthrough Engineering means we can offer bespoke hydrogen ready solutions used in water electrolysis, hydrogen storage and pipeline transportation. Our proven expertise is already seeing our innovative components used in refuelling infrastructure and mobility use cases, including fuel cell technology for the Commercial Vehicle market. Our sustainable solutions are additionally ready to support the HVAC industry as it transitions to a low carbon future.

IMI in action

Hydrogen refuelling – high pressure solutions for hydrogen infrastructure

IMI Precision offers an extensive range of high-quality components and complete system solutions to tackle the biggest challenges currently facing hydrogen infrastructure development.

IMI Precision's hydrogen portfolio includes a complete range of fluid and process control components specifically designed with hydrogen in mind. Suitable for storage, compression and dispensing applications, our products are designed to provide leading performance and maximum safety for pressures up to 1050 bar. We help to reduce complexity, simplify assembly and improve safety in hydrogen stations.

Hydrogen fuel cells

Hydrogen is set to play an increasing role in helping the Commercial Vehicle industry address its environmental ambitions, particularly achieving net reductions in CO₂ emissions within heavy duty trucks and buses. The developments of hydrogen fuel cell technology and performance will offer a pathway to deliver zero emission vehicles successfully going forward.

We help increase efficiency, manage temperatures, and control the air supply to fuel cells for optimal performance.

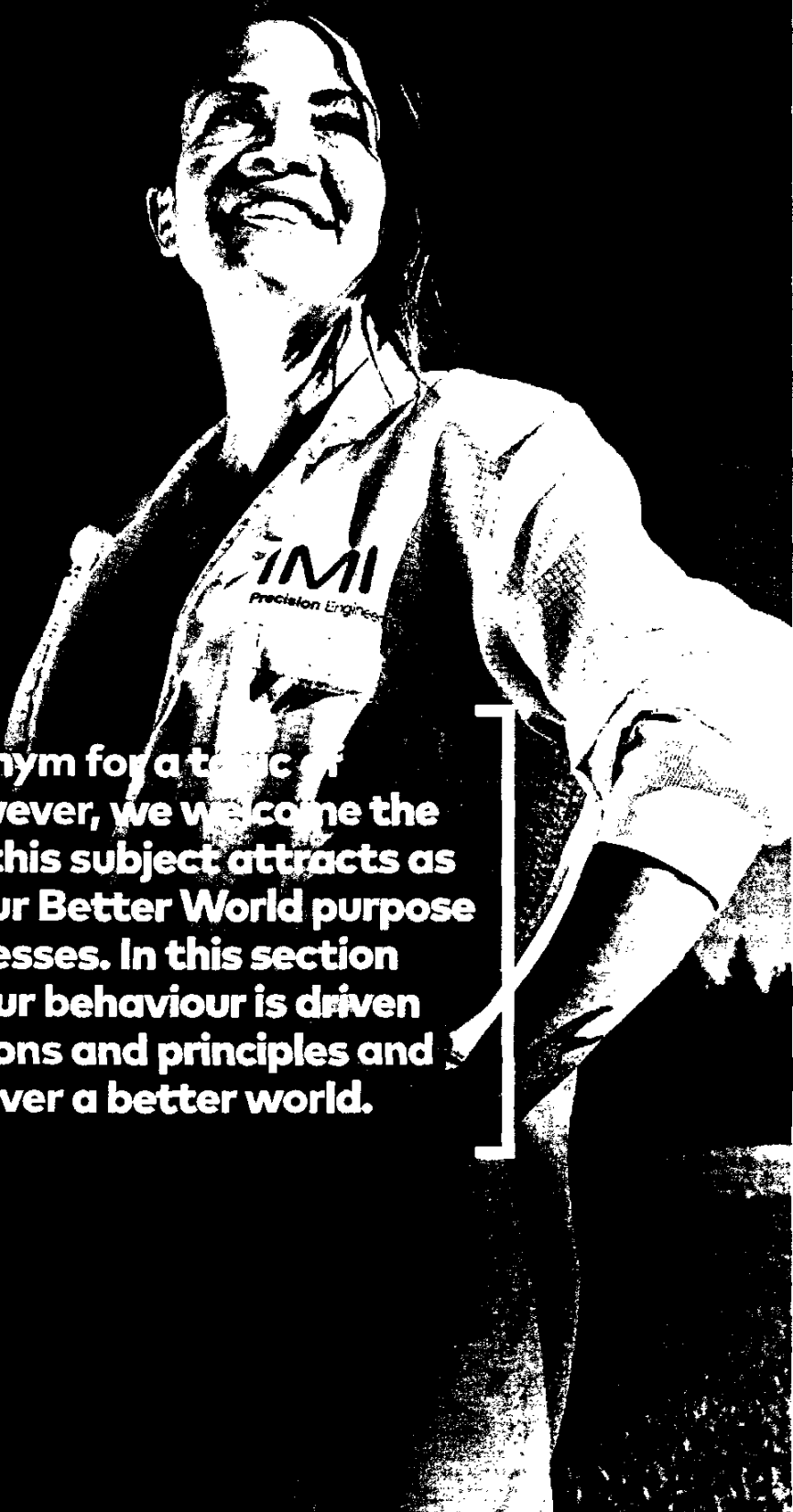
With over 35 years' experience partnering with global Commercial Vehicle and Rail manufacturers, IMI Precision has a long history of working closely with customers to develop solutions which solve their most acute problems. We provide Breakthrough Engineering solutions for transportation applications that deliver improved efficiency and safety.

Hydrogen production

IMI Critical Engineering's control and isolation valve solutions cover the entire process including hydrogen production, storage, transportation, and utilisation. We are committed to using our engineering heritage, technical expertise, spirit of innovation, and industry understanding to make a positive contribution to unearthing the carbon reduction solutions the world needs.

Our exploration in this field currently includes improving the efficiency of electrolysis and exploring carbon capture and utilisation. We are also investigating how to store and transport hydrogen effectively and safely with different carrier technologies.

Environmental, Social & Governance (ESG)

A woman with dark hair, wearing a white lab coat with the IMI Precision Engineering logo, is looking upwards and smiling. She is standing in front of a dark background with some green foliage visible on the right side.

ESG is a small acronym for a topic of such enormity. However, we welcome the increased scrutiny this subject attracts as it resonates with our Better World purpose across all our businesses. In this section we illustrate how our behaviour is driven by ESG considerations and principles and our ambition to deliver a better world.

→ Find out more:
www.imiplc.com/esg

Doing the right thing, the right way

Inherent in our purpose is creating a better world for our customers, our communities and society. It permeates all that we do. We are mindful of the impact of our operations and our products and we care about our people and our external relationships. This inspires us to strive for a future that is more sustainable, inclusive and responsible.

Better World team

The Better World team co-ordinates the Group's approach to ESG with particular focus on these areas: our carbon footprint, our products, our policies and governance and our people.



Environmental –
Our sustainable
approach



Social –
Our wider
responsibilities



Governance –
Our ethical
standards



Turn to page 40



Turn to page 43



Turn to page 52



Road to net zero

We recognise the importance of taking strong action to tackle climate change and have worked with the global environmental consultancy, Ricardo, through 2021 to understand more clearly our emissions profile and define a roadmap that is consistent with the level of decarbonisation required to keep global temperature increase to 1.5°C compared to pre-industrial temperatures.

Baseline

To set meaningful targets and focus on the most impactful decarbonisation measures, we conducted a thorough analysis of our emissions using the year 2019 as a baseline – the latest year of complete data with 'usual' business operations. We are first focusing on areas that we can directly influence (Scope 1 & 2 emissions).

Emissions in the value chain

We have estimated Scope 3 emissions using the industry standard GHG Protocol's Scope 3 Evaluator Tool. This exercise allowed us to identify major sources of Scope 3 emissions and understand their relative scale. In 2022, we will engage with suppliers and set a strategy for reduction of Scope 3 emissions.

Decarbonisation plans

We have undertaken a consultation exercise with sites to develop detailed site-specific decarbonisation plans that are realistic, achievable and implementable. These plans lay out a roadmap showing how decarbonisation targets will be met.

Our commitment...

To halve our total CO₂ intensity (based on Scope 1 & 2 emissions) by 2030 from a 2019 baseline

What do we mean by total CO₂ intensity?

Our total CO₂ intensity is our total equivalent CO₂ emissions (based on Scope 1 & 2) per 1,000 hours worked by our employees.

Scope 1, 2 and 3 explained

- » Scope 1 emissions include direct emissions from company-owned and controlled resources. This includes emissions from mobile combustion such as vehicles that we own which burn fuel and emissions from our industrial processes in manufacturing our products.
- » Scope 2 emissions are indirect emissions from the consumption of purchased electricity, steam, heat and cooling.
- » Scope 3 emissions are all indirect emissions not included in Scope 2 that occur in our value chain. For example, the emissions generated by our suppliers in producing the raw materials we purchase.

Reducing emissions

We have set a target of halving our total CO₂ intensity (based on Scope 1 & 2 emissions) by 2030 from a 2019 baseline (2019 emission intensity was 2.78 tCO₂e per 1,000 hours worked). This is in line with the level of ambition required by the Paris Agreement. In addition, our investment in developing sustainable products and solutions continues to align to our Better World strategy.

Measure progress

We will monitor progress regularly and report on progress annually, allowing the Group to take advantage of technological improvements and to adjust targets and mitigation measures accordingly.

Governance

We have established a clear structure of responsibilities and accountabilities to deliver our Better World strategy.

Our ambition...

To be net zero by 2040

What do we mean by net zero?

By 2040 we will have reduced all possible emissions across our operations and balanced remaining emissions to reach net zero.

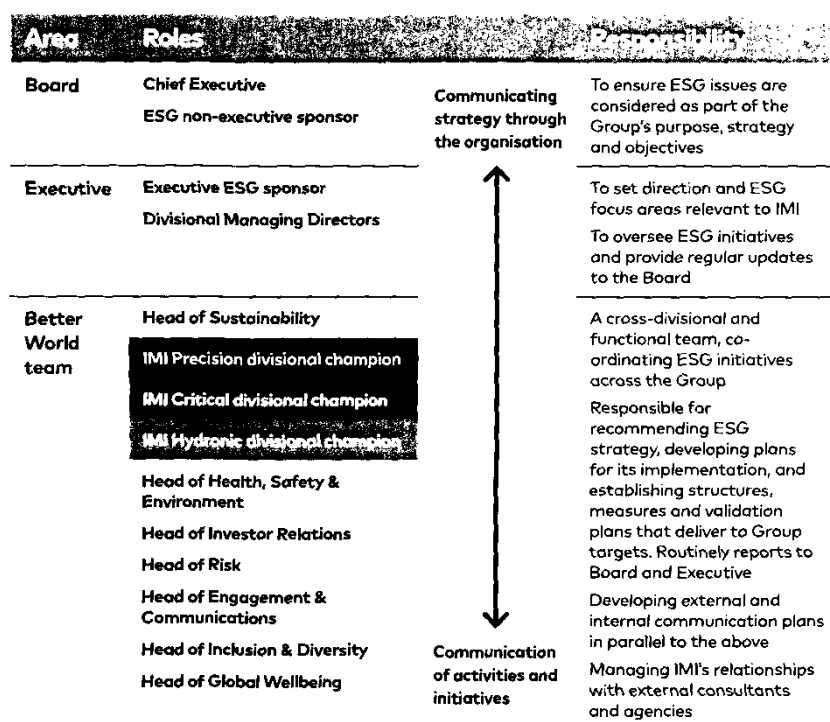
Our ESG journey and future ambitions

On pages 40 to 53 we describe what Environmental, Social & Governance means to IMI and how we approach key aspects of our ESG agenda. We are focused on doing business in the right and responsible way. We seek to minimise or eliminate any negative impact our businesses may have on our communities, our wider stakeholders, and on the environment. We help our customers solve problems to improve energy efficiency, reduce harmful emissions – and drive sustainability, **[Breakthrough Engineering for a better world]**.

Our ESG framework

During 2021, we reviewed and confirmed what matters to IMI, and where we believe we can have a positive impact. We also refreshed our approach to ESG, so that we may achieve our purpose, effectively.

- » Led by the **Chair** and the **Chief Executive**, there is Board level commitment to develop a strategy covering how we best deliver **[Breakthrough Engineering for a better world]** and how we report on our progress – for all our stakeholders.
- » **Thomas Thune Andersen** was appointed as the non-executive director responsible for ESG matters at IMI. As Chair of Ørsted, a company voted in Corporate Knights as the world's most sustainable, his experience is significant and relevant.
- » The **Board** set ESG priorities, the **Executive Committee** is fully engaged with ESG matters and **Louise Waldek, Group General Counsel & Company Secretary** acts as the **IMI Executive sponsor for the Better World team**.
- » Our **Head of Sustainability** leads the **Better World team** which is composed of senior representation from around the business, each with a different perspective and expertise in ESG issues.



How we approach ESG

Across the Group we operate both a 'top down and bottom up' approach to the ESG agenda, as illustrated above. This allows the Board and the Executive Committee to actively review and assess ESG strategy and activities. It also ensures that ESG progress and initiatives are managed at multiple levels and that key ESG information is communicated effectively across the Group.

ESG progress in 2021

To identify and prioritise sustainability issues across our value chain we carried out a formal materiality assessment of ESG factors based on the importance to our business and stakeholders. We will use the findings to help inform our Better World strategy and to determine which issues to target and report on going forward. To do this we implemented a four-step process:

- 1** Market analysis. Desk-based reviews, including megatrend analysis, peer reporting, standards and policy reviews. These helped us understand the key issues for now and the future.
- 2** Stakeholder engagement. Our process included internal and external views on our impact for now and the future. The engagement was used to rank issues in order of importance
 - » This comprehensive process involved feedback from institutional investors and a number of customers.
 - » We collected feedback from senior leaders across all three divisions as part of a Group-wide engagement process, utilising one-to-one and workshop formats.
- 3** Identifying and plotting 39 issue areas across multiple dimensions of importance to stakeholders and business success.
- 4** Prioritising and grouping the issue areas into an ESG framework.

Environment		
	Achievements since 2019	Targets
Our emissions (Scope 1 & 2)	Total CO ₂ intensity reduction of 17% from 2.78tCO ₂ e in 2019 to 2.30tCO ₂ e per 1,000 hours worked	To reduce emission intensity to 1.39tCO ₂ e per 1,000 hours worked (50% of 2019 baseline) by 2030
	Absolute CO ₂ e emissions reduction of 23% from 57,500t (in 2019) to 44,130t	To be net zero for Scope 1 & 2 emissions by 2040. A Scope 3 plan will be developed in 2022

Social		
	Achievements	Targets
Employee engagement	Employee engagement has increased to 80% from 73% in 2020 – employees see IMI as a great place to work	Employee engagement score to be >75%
Employee wellbeing	Establishing a global wellbeing framework	Development of this will continue throughout 2022
Diversity	38% female representation on IMI Board	To continue to meet or exceed the FTSE Women Leaders target of >33% female representation on our Board and Executive Committee
	43% female representation on Executive Committee	
	One non-white Board member	To continue to meet or exceed the Parker Review for at least one non-white Board member
	One non-white Executive Committee member	To continue to operate a diverse Executive Committee

Task Force on Climate-related Financial Disclosures

We welcome the introduction of the Task Force on Climate-related Financial Disclosures (TCFD) and are pleased to present our first report. We have carried out an analysis using the TCFD framework to ensure compliance with the requirements of LB 92.6R by including climate-related financial disclosures in line with the TCFD recommendations and recommended disclosures required within the framework. In particular:

Governance

- » The Board has ultimate responsibility for climate-related risks and opportunities and the oversight they have is described on pages 70-71.
- » To support the Board, a Climate Risk Group has been established during 2021 working alongside external consultants in assessing and managing climate-related risks and opportunities. Further details of the Climate Risk Group activities can be reviewed on page 72.

Strategy

- » We have identified the main climate-related risks and opportunities over the short, medium and long term on page 73.
- » The impact of these climate-related risks and opportunities on our areas of business and strategy are highlighted on pages 72 to 73.
- » Our strategy's resilience to different climate-related scenarios is illustrated on page 72 and includes:
 - » carrying out a scenarios analysis of the identified risks and opportunities aligned with the TCFD methodology and seeking to quantify risks and opportunities where possible. The analysis used internationally recognised external reference scenarios that were selected for their relevance to our operations. One is the EU ALBANK scenario that assumes implementation of Paris's decarbonisation policies and is consistent with a 1.5°C warming trajectory, and the other is the EU BSC scenario that assumes regulations will remain largely unchanged from today, and physical risks will intensify (2°C warming).

- » conducting a climate materiality assessment to identify climate risks related to physical and transition risks of: rising global temperatures, climate-related policy, emerging technologies and market changes; and
- » carrying out a deeper dive on the highest priority risks and opportunities to identify next steps and actions. The highest priority climate-related risks and opportunities for us have been identified.

Risk Management

- » Our robust process for identifying and assessing climate-related risks can be viewed on page 72.
- » Page 72 also describes our process for managing climate-related risks.
- » Our process for identifying, assessing and managing climate-related risks and how they are integrated into our overall risk management approach is explained on pages 70-71.

Metrics and targets

- » As described in the Environment table above and aligned with our Better World purpose and strategy, we have developed two climate-related metrics to assess risks and opportunities. These are:
 - our total CO₂ intensity (tonnes of CO₂e per 1,000 hours worked); and
 - absolute CO₂e emissions.
- » Page 42 explains and describes our Scope 1, Scope 2 and Scope 3 (for business travel only) and page 72 explains the related risks.
- » The tables above highlight the climate-related achievements in 2021 and future targets. Page 42 highlights our ongoing commitment to reducing CO₂ emissions, with an analysis of the methodologies used and calculations for the different scopes of Greenhouse Gas emissions. Page 73 highlights how impact and likelihood are the main metrics used to assess climate-related risks and opportunities.

To strengthen reporting and improve stakeholder communications, it is important to provide comparable and meaningful ESG data and information, aligned with internationally recognised standards and disclosures. As such, we are committed to developing a robust and transparent ESG reporting framework, building on our strong foundations. Early in 2021, we undertook a reporting gap analysis to understand what data is currently being captured and reported, and this will be mapped against what is deemed to be best-in-class. We conducted a peer review to inform how leading organisations from various sectors are reporting against ESG. We also conducted a review of the criteria within leading sustainability reporting standards.

Global Reporting Initiative (GRI)

To strengthen reporting and give a greater level of transparency, we have decided to utilise the GRI standard for future reporting. In the coming year we will develop a framework to capture the required data across the various ESG categories to align with the GRI standard. We will also continue to use the Carbon Disclosure Project (CDP) to report Greenhouse Gas (GHG) emissions as well as water security which we disclosed for the first time in 2021. As detailed on page 72, we have also undertaken climate scenario analysis to support our TCFD disclosure.

We will adopt the GRI standards. We fully appreciate the importance and data required to provide robust and transparent reporting, and will work towards developing a full 'in accordance' report. We will start, in 2022, to disclose material issues that are most important to our stakeholders as identified by the materiality assessment, described on page 37 of this Annual Report. We will continue to invest in systems and processes to help us with our reporting requirements in this key area.

Product Portfolio Assessment

With increasing focus on sustainability there is a need for organisations to fully understand and improve the environmental and social impacts of their products and broader services. We will continue to focus on the sustainability impact of our products to guide decisions concerning their development, whilst also working to increase our understanding of their sustainability impact. Working with Ricardo, we have started to assess our product portfolios evaluating sustainability at different stages of the product life cycle (materials and design, production and consumer use). The assessment will enable us to steer our portfolio towards an improved sustainability impact for our customers' markets and operations. It will also help capture risks and opportunities related to the products in our portfolio. The insight will help shape our offering and steer us towards a higher proportion of sustainable products and highlight products that are of future concern, either because of their raw material inputs or application and end of life costs.

Deeper insight: Life Cycle Assessment (LCA)

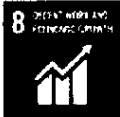

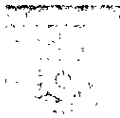








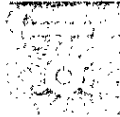









We have developed the assessment process to consider the full life cycle of the products, which enables innovations to be identified from cradle to grave. IMI Critical Engineering is utilising LCA methodology to understand and quantify the sustainability benefits of one of its key products – Retrofit3D.

RETROFIT

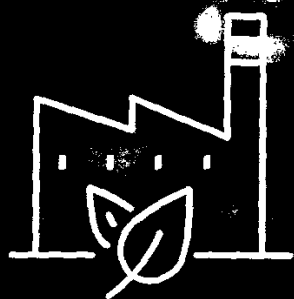


Delivering a better world

Our people are tasked with identifying and solving significant industry problems in attractive markets such that our businesses are best placed to deliver our purpose: **[Breakthrough Engineering for a better world]**. Together with continued investment in innovation and great customer service, these projects will contribute towards our sustainable, profitable growth objectives. A selection of these projects are presented below, along with their respective links to the United Nations Sustainable Development Goals (UN SDGs), with which they can most appropriately be compared.

	Selected focus areas	Applications	Link to UN SDGs			
IMI Precision	Automation	Warehouse and factory automation solutions improving worker safety and increasing energy efficiency				
	Transportation	Solutions that help Truck OEMs improve emissions and enable a shift to alternative powertrains				
	Life Sciences	Flow control components for life sciences devices improving healthcare for all				
	Hydrogen	Flow control solutions for hydrogen as an enabler of the transition to net zero				
IMI Critical	Oil & Gas	Solutions to reduce noise pollution and emissions, and hence increase the wellbeing of communities living close to industrial process plants, and reduce global emissions				
	Hydrogen	Flow control solutions which support the use of hydrogen as an alternative fuel for industrial applications				
	Carbon capture, utilisation and storage	Solutions to help reduce the carbon footprint in industrial applications				
IMI Hydronic	Climate within buildings	Solutions to improve the energy used in heating and cooling buildings in which we live and work				
	Building services	Solutions which help reduce the carbon footprint of buildings				

Environmental, Social & Governance



Environmental – Our sustainable approach

Progress in 2021:

- » Total CO₂ intensity reduction of 17% from 2.78 tCO₂e in 2019 to 2.30 tCO₂e.
- » Absolute CO₂e emissions reduction of 23% from 57,500t (in 2019) to 44,130t.

Reducing our impact

A better world encompasses living and working in an environment that is clean, safe and sustainable. At IMI we are intent on reducing the impact on the environment of both our operations and the solutions we create for our customers.

This starts with minimising the impact on the environment across our manufacturing sites by reducing energy, water use, pollution, waste and single use plastics. We have set a goal of halving our total CO₂ intensity by 2030 (based upon 2019 Scope 1 & Scope 2 emissions). We monitor and report our environmental performance at monthly Executive Committee meetings, to ensure every site is advancing actions to deliver this reduction target.

In 2021, using the industry standard GHG Protocol's Scope 3 Evaluator Tool, we estimated our Scope 3 emissions. This exercise allowed us to identify major sources of Scope 3 emissions and understand their relative scale. In 2022, we will engage with suppliers and plan for how we will reduce our Scope 3 emissions.

Embracing the highest standards

We hold ourselves to the highest standards.

To underpin our commitment to reduce our environmental impact, 22 of our 50 (44%) manufacturing facilities are certified to ISO 14001 Environmental Management and three are certified to ISO 50001 Energy Management standards.

At a Group level we have an established cross-divisional environmental committee. All divisions now have a dedicated ESG lead or working group, and all of our manufacturing sites have a nominated environmental champion. This approach allows working groups to develop and share best practice easily across the organisation, and to collate the site and divisional project plans and monitor progress. Progress is reported to and monitored by the Better World Team which routinely reports to the Executive Committee and the Board.

In 2021, there were over 400 environmental initiatives undertaken across the Group. These range from quick wins such as 'switch off' campaigns to significant capital investments such as installing photovoltaic panels at our IMI Hydronic manufacturing facility in Germany.

Our new internal communication platform includes a designated 'Better World' group where all 10,000 employees can share their ideas for reducing our environmental impact. And we mark key calendar dates such as World Environment Day to raise awareness on what more can be done to accelerate our better world ambitions.

We have also developed an environmental checklist that will be included in our Health, Safety and Environmental excellence framework audits.

Creating our workplaces of the future

We are currently building two new facilities for our IMI Critical Engineering business – IMI Truflo Marine in the UK and IMI Remosa, in Sardinia – both of which embrace the latest environmental technologies and have been designed in accordance with the local sustainable codes of practise (for example BREEAM in the UK).

This includes the installation of photovoltaic cells, efficient heating and cooling systems, intelligent LED lighting systems, point of use energy metering linked to building management control systems, electric vehicle charging points, efficient compressed air systems and process water reclamation.

IMI Truflo Marine has also implemented an employee transport plan to encourage the use of the public transport network, car sharing and use of the cycling network with an aim to reduce the number of single occupancy car journeys.

Environmental, Social & Governance

Promises made, promises kept

Since 2016 we have reduced our CO₂ emissions in line with our continuous improvement culture and investment in our operations. We continue to keep our promise to halve total emissions by 2030.

We continue to support and disclose to the Carbon Disclosure Project (CDP) which outlines our risk management approach to climate change and our emissions performance. As part of the 2021 exercise along with climate change, we also undertook the water security disclosure. Our 2021 CDP score for climate change disclosure improved by 2 grading levels.

The adjacent table and supporting narrative summarise the Streamlined Energy and Carbon Reporting (SECR) disclosure in line with the requirements for a quoted company, as per The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. 2021 is our second year of disclosure and includes the prior year data as a comparison. Projects and resources that are contributing to our reduction in emissions are summarised on page 41.

Methodology

The stated greenhouse gas emissions estimates have been calculated to cover all material sources of emissions from the operations for which IMI plc is responsible. The methodology used was that of the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition, 2015). Responsibility for emissions sources was determined using the operational control approach. All emissions sources required under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 are included.

The scope of emissions covers the following sources:

- » Scope 1 – emissions from the use of natural gas, diesel, fuel oil, petrol and liquefied petroleum gas, and combined heat and power (CHP);
- » Scope 2 – emissions covers emission from the purchase of electricity; and
- » Scope 3 – emissions from business travel in employee-owned or company vehicles.

The UL 360 Sustainability Software GHG (Greenhouse Gas) emission tool was used to calculate and consolidate the Scope 1 and Scope 2 emissions adopting a location-based approach. The tool used the following conversion factors:

- » Scope 1 – UK Government's GHG Conversion Factors used for all sites

Location	Current reporting year 1 January 2021 - 31 December 2021		Previous reporting year 1 January 2020 - 31 December 2020	
	UK	Global	UK	Global
Scope 1 and Scope 2				
Emissions - tCO₂e				
Scope 1 - Natural Gas Usage	768	8,786		
Scope 1 - Diesel Usage	83	2,545		
Scope 1 - Fuel Oil Usage	0	743		
Scope 1 - Petrol Usage	0	553		
Scope 1 - Liquefied Petroleum Gas Usage	6	311		
Scope 1 - Combined Heat and Power Usage	0	20		
Scope 1 - Total	857	12,958	840	12,465
Scope 2 - Location-based	1,770	31,172	1,918	33,033
Total (Scopes 1, and 2)	2,627	44,130	2,758	45,498
Consumption - kWh				
Scope 1 - Total	4,548,860	64,917,809	4,423,632	61,951,252
Scope 2 - Total	8,339,185	106,856,592	8,227,092	103,870,105
Total (Scopes 1 and 2)	12,888,045	171,774,401	12,650,724	165,821,357
Hours Worked	1,862,769	19,176,514	1,938,683	18,811,012
Intensity ratio: tCO ₂ e (gross Scope 1 and 2) per 1,000 hours worked	1.41	2.30	1.42	2.42
Scopes 1, 2 and 3				
Emissions - tCO₂e				
Scope 3 - Car Travel	76	567	82	460
Total (Scopes 1, 2 and 3)	2,703	44,697	2,840	45,958
Consumption - kWh				
Scope 3 - Total	308,801	2,302,967	331,441	1,857,021
Total (Scopes 1, 2 and 3)	13,196,846	174,077,368	12,982,165	167,678,378
Intensity ratio: tCO ₂ e (gross Scope 1, 2 + 3) per 1,000 hours worked	1.45	2.33	1.46	2.44

» Scope 2 – UK Government's GHG Conversion Factors are used for UK sites and the International Energy Agency's conversion factors are used for non UK sites. For 2022, our ambition is to adopt a market-based approach to our reporting alongside the location-based approach.

Our currently reported Scope 3 emissions were calculated by converting mileage into emissions using the UK Government's GHG Conversion Factors for Company Reporting 2021.

We are working to deliver a strategy for identifying and reducing our Scope 3 emissions and this will be a key focus area for 2022.

Scope 3 emissions currently only reflect business travel in company cars or employee-owned vehicles.

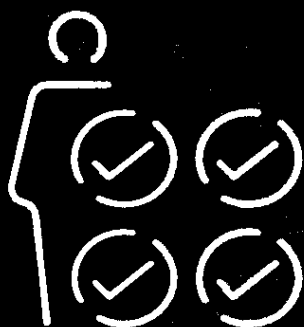
Our carbon reporting statistics demonstrate that our recent performance of tCO₂e has continued to improve particularly considering our offices opened up during 2021 following the prolonged closure of many sites during 2020. On a like for like basis, we continued our progress to keep emissions at or below 2019 levels for 2021.

Of the 2021 total:

- » our direct Scope 1 emissions of tCO₂e (essentially gas, diesel and fuel oil consumed) amounted to 12,958 tonnes; and
- » our indirect Scope 2 emissions of tCO₂e (essentially the emissions generated on our behalf to provide our electricity) amounted to 31,172 tonnes.

The total (Scope 1 and Scope 2) represents a 23% reduction compared to 2019.

We report the intensity metric of gross tCO₂e per 1,000 hours worked as a unit of comparison to reflect our operational performance compared to carbon output as we feel this provides a more reflective measure of factory volumes and as a result carbon intensity. Our 2021 intensity ratio based on Scope 1 & 2 emissions is 2.30 tCO₂e per 1,000 hours worked. This compares to our 2019 baseline of 2.78 tCO₂e per 1,000 hours worked. We are on track to achieve our target of 1.39 tCO₂e per 1,000 hours worked (50% of the 2019 baseline intensity) by 2030.



Social – Our wider responsibilities

Progress in 2021:

- » Employee engagement has increased to 80% from 73% – employees see IMI as a great place to work
- » 43% female representation on Executive Committee (increase by 14%)
- » Met the Parker Review for non-white representation on our Board three years early for FTSE250
- » Reduction in total recordable incidence frequency rate to 0.56



Environmental, Social & Governance



At our core is doing the right thing, the right way and being aware of the impact of our decisions and actions. It is the responsibility of us all and is how we will create a better world for our customers and our communities through our people, our products and our processes.

 IMI Hydronic Engineering – Ljung, Sweden



Our social achievements and targets
Turn to page 37



One big team

Employee engagement

We remain committed to engaging our people to create our future together. As 'one big team' we will fuel our growth ambitions and collaborate to power **[Breakthrough Engineering for a better world]**.

Measuring, and understanding, levels of engagement to identify what more we need to do to inspire our employees is central to our employee engagement approach. This year we launched our first anonymised employee survey – One Big Voice. This sought individual input from across our sites and teams. We also sourced input via a group worksheet through our IMI Way Day activity, as we have done historically.

71% of employees completed the individual One Big Voice survey and more than 9,000 written comments, ideas and suggestions were submitted. We also received nearly 1,000 completed group worksheets.

Our overall engagement score is measured through two questions:

"I see my business (IMI) as a great place to work" and "I would recommend my business (IMI) as a good employer to friends and family".

We are proud to share that against our engagement scores from last year, the IMI Way Day group worksheet survey demonstrated that employee engagement has increased to 80% from 73% in 2020.

The anonymised individual responses also indicate a strong engagement score of 73%. We are especially pleased with the levels of engagement across the business, given the challenging environment we have all faced in the last year.

IMI Way Day 2021

IMI Way Day continues to be a highlight in the IMI calendar – where all our people come together with their teams, virtually or in person to immerse in our purpose and strategy, share their thoughts and experiences to create a better working world at IMI and take the time to participate in community activities.

We know that it is a strong driver of engagement – people welcome the sentiment of the day and the opportunity to connect and collaborate.

Culture and mindset workstream

We know there is always more to do to create a working environment where our employees can thrive. This is particularly important in the current working world where we all continue to adapt to the impact of a global pandemic. There is no manual for us to learn from so it is even more important that we listen and respond. We also know that by creating solutions that are 'home grown' we can have a bigger impact.

During 2021, we established a 'culture and mindset' working group with colleagues from across the organisation to identify

where we could be better, and to 'test and learn' ideas. Through qualitative research we identified core themes to focus on. These include supporting employees through change, valuing each other and advancing inclusion. The Executive Committee endorsed these findings and recommendations and IMI is now introducing initiatives that can be flexed across geographies and cultures. These range from introducing 'meeting blackouts' and 'shift swaps' to hosting a 'diversity wheel' that encourages greater connections and collaboration. We look forward to continuing to listen to our employees, and customising solutions to demonstrate the value we place on protecting and nurturing a culture where all our people can thrive.

Insights from our One Big Voice survey

- » 90% feel free to try new things and share ideas
- » 85% believe their role uses their skills well and feel trusted to put their knowledge, skills and experience into action
- » 87% felt supported to work safely and effectively during the pandemic
- » 77% know how to access wellbeing support and benefits

Global wellbeing programme

Supporting our people to be their best is more important than ever. We know that levels of anxiety have been heightened during this pandemic and tuning in to our mental health and wellbeing is important for us all. IMI has committed to having a broad programme of initiatives in place so that people can access what is right for them wherever they are, and at whatever stage they are in their life.

Over the past year we have focused on educating our employees to be alert to the triggers of mental health issues such as stress and burnout, and supporting them to grow their levels of resilience so that we all feel better able to cope with life's challenges. We have also created an extended 'virtual wellbeing' offering that people can access wherever they are.

We also recently conducted a comprehensive wellbeing audit across our offices and sites to assess reported levels of employee wellbeing, and to understand the diversity of programmes and policies in place across the globe. The data is now being used to create a global framework, with the flexibility for all locations to prioritise and customise a plan that suits them.

Employee representation

We are committed to upholding strong relationships, and engaging regularly, with union bodies – these are represented across many of our sites. We also host an annual European Communications Forum (ECF). This took place virtually this year and was attended by employee representatives from all of our key European geographies. Securing representation and appointing a representative differs based on employment laws set in each country.

The annual ECF is an important opportunity to share an update on key business and people initiatives as well as respond to any questions or concerns. We also meet with the forum members every quarter to share updates and seek their thoughts and feedback on key topics arising in their geographies.

Thomas Thune Andersen is our Board director with designated responsibility for Employee Engagement. More information about his role and activities can be found on page 95 of the Corporate Governance Report.

Leadership engagement

We want all our leaders to embrace their engagement role – bringing to life our business ambitions and ensuring our people recognise their part in delivering our growth and unlocking our purpose.

We equip our leaders in their engagement role through regular connections and channels. These include our quarterly calls with our Chief Executive and leadership community and our annual conference. Although virtual this year, we still created an open and engaging event where leaders contributed to our strategic objectives. We took the theme of one of our core values – one big team – and collaborated as a leadership team to identify opportunities to accelerate growth and fuel our purpose. Looking ahead to our next conference, we are taking the same sentiment and immersing in another of our values – Playing to Win for a better world.

We also invest in supporting onward engagement and create channels and assets for our leaders to use with their own teams. We want all our people to connect their part to creating our future.




Environmental, Social & Governance



'One Big Team powered by Workplace'

Connecting and collaborating with colleagues from across our sites is how we engender strong levels of engagement. We continue to invest in tools and channels, including embracing digital, to open up conversations.

In May 2021, we launched our new internal communications platform that we refer to as, 'One Big Team powered by Workplace' (Workplace). The platform has truly transformed how we connect and bring in our employee voice. We are able to reach each other in real time to share news and updates, and seek input in to our strategy and performance. Most importantly, it is a great channel for celebrating our people and their contribution across all geographies and levels. And to encourage people to simply be who they want to be, through sharing their ideas and insights. It also allows our employees to connect and communicate in their local language.

 IMI Precision Engineering –
Bad Oeynhausen, Germany

An inclusive and diverse culture

Continuing to advance an inclusive and diverse culture where all our people can be who they want to be is central to our better world ambitions. We are a diverse business – we operate in over fifty countries, with many different end-markets, industry sectors, technologies and manufacturing processes. We want to continue to bring diversity of thought and experience to drive innovation and to find solutions for some of the world's most challenging problems.

We have a passionate and committed inclusion and diversity working group who support us in delivering a real impact. Results include the continued adoption of Women in Science and Engineering (WISE), and leveraging the community-building power of Workplace where employees can celebrate and engage with each other. Internal campaigns in 2021 that marked events such as International Womens' Day, International Women in Engineering Day, PRIDE Month, National Inclusion Week and International Day of People with Disabilities enabled IMI to broaden our scope beyond gender. At the core of all our campaigns is educating ourselves on what more we can do.

We have also created internal capability programmes to help managers tap into the drivers for advancing inclusion and diversity. Specific sessions on Inclusion and Diversity are now a part of our Leadership and Manager training programmes. We are also running specific topic training courses, such as unconscious bias within IMI Precision.



Inclusion and Diversity policy
www.imipic.com/esg/social

Other highlights from our One Big Voice survey

- » 88% of employees feel individual differences are respected
- » 87% feel treated fairly by colleagues and 86% by their managers
- » 79% feel a sense of belonging (being their authentic self)
- » 70% feel they have equal opportunities to develop and progress
- » 73% are confident to speak up to address concerns, and feel confident in the process
- » 69% consider we pro-actively cascade communications across all levels to highlight IMI's strategy and product updates

We know that transparency and fairness are vital steps towards harnessing the power of a diverse workforce. We therefore introduced certain protected characteristics in our employee engagement survey this year and we are currently collecting on a voluntary basis ethnicity data from our UK employees to enable ethnicity pay gap reporting for the first time in 2022 (at the same time we report on the gender pay gap). Our increased investment in communications is demonstrated by the launch of a new communications platform, which is transforming how we connect with employees.

FTSE Women Leaders review (previously Hampton-Alexander)

We also sign-up to the highest standards of governance. The FTSE Women Leaders Review is an independent, business-led framework supported by the Government, which sets recommendations for Britain's largest companies to improve the representation of Women on Boards and in Leadership positions. The FTSE Women Leaders Review builds on the excellent work of both the Hampton-Alexander and Davies Reviews over the last 10 years, with the 33% target for Women on Boards being achieved in the aggregate for the FTSE 350 at the end of 2020, and the Leadership just falling short of the target at 29%. We have just submitted IMI data for the 2021 report which should be published in February 2022. A new five-year review has been announced by the UK government with new leadership being appointed to steer the review and take forward new targets over the coming years.

Our Board is already strong – with 38% female membership against the Hampton Alexander target of 33% female representation and we have 43% female membership on the Executive Committee. As at 31 December 2021, 18% of direct reports to the Executive Committee are female.

UK Gender pay gap

We are committed to creating an inclusive and diverse working environment and fair treatment for all, including equal pay. Overall, our statistics remain similar to the sector in which we operate. In the UK we have around 1,300 employees working for 9 companies where there is a 72% male, 28% female gender distribution which is fairly typical in the engineering sector. However, we have seen a significant narrowing of the mean gap in 2021 as a result of senior level appointments.

	2021	2020
Mean gap	17.8%	25.1%
Median gap	17.4%	22.5%

Lord Parker report update

The Parker Review, commissioned in 2017, set the target for FTSE 100 boards to have at least one director from an ethnic minority background by 2021 – the so-called 'One by 2021' target with FTSE 250 to follow suit in 2024. IMI met the requirements of the Parker Review in 2021.

Inclusion & Diversity is a key part of our Growth Hub programme. When we put teams together, it is with cognitive diversity in mind, and we have seen the benefits of this approach.

We have also continued to have a strong focus on the diversity of our graduates with wide cultural diversity and 50:50 male: female split for the past few intake years.

We will continue to encourage an inclusive approach to resourcing, development, and succession planning to help drive greater diversity across the Group.

As at 31 Dec 2021	Female	Female %	Male	Male %
Board	3	38%	5	62%
Executive	3	43%	4	57%
Direct reports to Executive	8	18%	36	82%
Leadership group	19	14%	119	86%
All employees	3,269	29%	7,964	71%



Environmental, Social & Governance



Our people are the custodians of our future. We want all our people to bring the very best of them to identify and solve customer problems – creating a better world for industry and society.

Diverse teams are at the heart of this and we continue to bring more people from right across the business into our Growth Hub programme. Our teams include people from all levels and parts of the organisation who work together in an exciting and fast-paced environment to create solutions for customer problems. Our One Big Voice survey highlighted that 55% of employees feel they have an opportunity to be involved in growth initiatives (eg Foresight, New Product Development Ignite and Growth Hub teams).

We bring the tools, techniques and growth mindset from our Growth Hub programme in to our day to day. We know the skills can create more dynamic and efficient ways of working. For example, IMI Precision has applied the concepts to its recruitment practices. IMI Critical has run a number of hackathons to engage more people in idea generation and to test and learn against customer problems. It is also running a 'Voice of the Customer' initiative across all sites – highlighting how to ensure the customer is front and centre of our decision-making. And IMI Hydronic has introduced the concept of Growth Hub buddies to bring the tools and techniques into different situations. It also recently hosted 'failure sessions' to help people feel comfortable with the concept of 'failure is knowledge'. Our HR function also embraced our Growth Hub tools and methodologies to 're-imagine HR' and create a future-focused people agenda.

Safety first

Ensuring all our employees feel safe at work is central to our strategy and culture. We promote an ethos of safety first and set ourselves the highest standards for Health, Safety and Environment. It is integral to our IMI Way and embedded in our Code of Conduct.

We also take a proactive approach to review our performance and constantly identify areas for improvement. Our Group Head of Health, Safety and Environment reports directly to the Chief Executive who has ultimate responsibility for Health and Safety. The Executive Committee reviews Health and Safety performance every month and regular reports are presented to the Board.

One of the areas of focus in 2021 was managing machinery safety. We created a cross-divisional machinery safety group who developed and introduced a 'golden rules' campaign across our sites to ensure a consistent approach. The Group also analysed our fixed and handheld grinder activity, an area of safety risk, and resulted in the elimination of 329 grinders with the remainder being more closely controlled, and the introduction of a dedicated IHASCO grinder safety training. This training is available to all employees via our IMI Learn portal and results in a recognised IOSH certificate.



Accountability

We expect all our leaders to lead our Health and Safety agenda and to be accountable for its implementation – we want every employee and all visitors to our sites to understand our procedures and protocols.

The Coronavirus pandemic continued to impact how we managed Health and Safety throughout 2021. We spent time explaining 'personal accountability' to our employees using infographics illustrating compound risks of certain activities, whilst also encouraging 'hands, face, space' at home and in work. We also deployed innovative methods of virtual Gemba safety inspections, using a mix of technology and administrative tools, which included a 'validation' self-audit tool based on the COVID-19 protection

measures we deployed. During 2021 we have undertaken 103 hours of virtual Gemba across all three divisions, this is in addition to the already established safety Gemba tours undertaken each week by local site leadership.

14 of our 50 manufacturing sites have now transitioned and are accredited with ISO:45001, the international standard for Health & Safety Management and 3 still retain the former OHSAS:18001 standard.

In 2021, we also introduced the **IMI HSE Excellence Framework** – an enhanced management system that assesses our HSE standards against areas such as distributed workforce (field service), environment (air, water, waste), leadership engagement and risk assessment. To introduce the framework, we asked each manufacturing location to

undertake a self-audit using the standardised audit tool. As travel limitations eased between June and November, Group and Divisional HSE leaders could re-commence site visits, and completed on-site audits at 24% of our manufacturing locations. The remaining locations are scheduled for 2022. This will formulate the HSE Excellence benchmark across the whole Group.

We have also begun to underpin each element/sub-element of the framework with standardised processes and procedures.

Environmental, Social & Governance

Detailed training sessions are delivered for each procedure across the Group. We will continue to progress this throughout 2022 – ensuring all IMI locations have a clear and consistent understanding and to maintain a high expectation with regards to HSE excellence implementation and subject areas.

We continuously use our data to drive focused activities to improve our safety and environmental performance. As in 2020, in Q4 2021, we held a data analytics workshop with collaboration from Group and divisional operational / HSE leaders. This gives us the ability to use our data to objectively set goals and targets for the forthcoming year. These will include reductions in our lagging indicators but also leading indicators such as increasing hazard reporting, with a target of 90% closure of these reports within 30 days. As part of the analysis, we also evaluated our HSE team members globally and identified an opportunity to upskill certain team members. We have agreed that the minimum level of competence for all of our site-based lead HSE professionals will be the NEBOSH International Certificate for Health and Safety (or local equivalent certification). Those that require upskilling will work towards certification by the end of 2022.

In January 2021, we introduced a global incident reporting standard operating procedure (SOP) that includes a requirement for all hazards to be reported within 72 hours into our global digital platform. We have subsequently seen an increase of 90% of reported hazards from 12,495 in 2020 to 23,816 in 2021.

Aligned with the revised incident reporting SOP, we report and record every safety incident and fully investigate those cases classified as a recordable incident. A full root cause analysis is presented and reviewed with the relevant Divisional Managing Director and Group Head of Health, Safety & Environment. Following this formal review, a remediation plan is agreed, and countermeasures implemented. In line with our excellence framework, we have standardised our Safety alerts which are issued to share lessons learned and increase safety awareness across the Group.

To align with the Global Reporting Initiative (GRI), we now report Total Recordable Incident Frequency Rate (TRIFR) using the methodology based on 200,000 hours (equivalent to 100 full time workers over a one year timeframe).

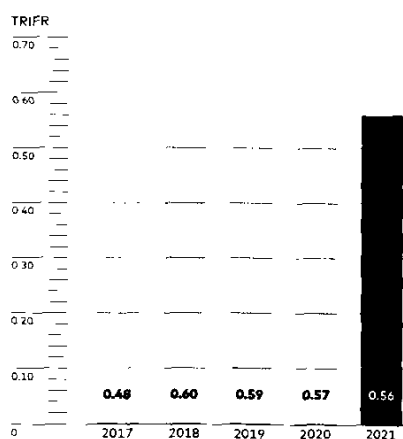
$$\text{Total Recordable Incident Frequency Rate (TRIFR)} = \frac{\text{Number of recordable work-related injuries}}{\text{Number of hours worked}} \times 200,000$$

Our TRIFR (total recordable incidence frequency rate) rate includes all work-related injuries greater than first aid. This is also in line with OSHA (Occupational Safety and Health Administration) and gives us the ability to benchmark against our industry peers.

We include all employees, contractors and visitors in our accident reporting statistics. There were no fatalities during the year.

Our recordable accident cases are static compared to prior full year 2020 at 53 injuries for both 2020 and 2021, this includes 15 Lost Time Accidents in 2020 and 23 Lost Time Accidents in 2021. The 2020 Lost Time Accident number has been restated to 15, from 14 reported in 2020, due to the reclassification of an injury and follow up treatment. Our TRIFR rate has improved slightly, decreasing from 0.57 to 0.56 for the year, driven by increased working hours across our operations. IMI remains in the top quartile of safety performance within the industry sector, but remains committed to its ambition of an accident free workplace.

Please see our TRIFR chart below.



Community engagement

All our community activity is aligned to the UN Sustainable development goals – we want to make the biggest impact we can through sharing our time, skills and experiences. We also want it to be a motivator for our employees which is why we offer a broad range of opportunities that connect with our people's personal values.

We measured the volunteering impact of this year's IMI Way Day and are proud to share that 3,418 employees delivered 13,226 of volunteering hours. Most importantly we are committed to building long lasting meaningful relationships with the charities we support to enhance our social impact.

We are engaging our graduates in creating a better world for our communities. This year we partnered with The Shining Light Project to challenge our graduate intake to design a 90 minute workshop to deliver in schools around the world for 15 to 16 year olds. Their ideas were outstanding and included:

» **The future of farming:** Teaching students the concepts of hydroponics and its role in creating a circular economy. The students then constructed a farm to understand the transparency of how food will be produced while also inspiring young people to plant their own food.

» **Listening for a better world:** The students listened to the story of a refugee, told in person. The goal was to develop their empathy and listening skills. The students then built a 'care package' for the refugee, based on what they learned from the refugee's story.

» **Flowing towards a better world:** The students created a rudimentary water filter to show the positive environmental impact through engineering.

» **Create from crates:** Students were taught about the environmental problems we face and then set a task to upcycle crates.

The graduates took part in a further day-long design sprint to pick the best of the ideas to design and build the full 90-minute workshop.



IMI Critical Engineering
Piacenza, Italy

Talent and succession

Our talent processes are well embedded and reach far into the organisation. We want our people to access a rich variety of resources and experiences to grow themselves and others, and fuel our growth priorities.

A particular focus is on succession planning to support internal talent appointments – 69% of Leadership Group roles have been appointed from within the organisation in 2021.

We have a very strong graduate programme and are focused on graduate progression and early careers development.

We continue to invest in our leadership development programmes to support our leaders in executing our business strategy. We want our leaders to create the environment for our culture to thrive, and to fuel the growth of our people and business. We also continue to invest in high potential talent through specialised development programmes that promote career acceleration and ensure a pipeline of high calibre talent. Our leadership catalyst development programme was also launched in June. This sponsors high potential talent.

The launch of Workplace has allowed for internal job opportunities to be opened up to all our employees right across our business for all to apply and is helping to promote an open and inclusive culture. This approach is currently being enhanced to further promote opportunities.

Flexible working practices have been necessary as part of the pandemic and are still being encouraged with a global flexible working framework supporting sites and leaders to enhance flexible working whilst also delivering safe, reliable operations.

IMI Learn

Our online learning platform continues to grow to be a valuable resource for all our people. They can access a broad range of modules to support both technical as well as 'soft' skills. Key topics covered include mental health and wellbeing, mentoring, leading virtual teams, personal development conversations and communication.



Environmental, Social & Governance



Governance – Our ethical standards

Founded on integrity

IMI's values

Our purpose and values are all strongly linked and are aligned with our strategy:

Our purpose is at the heart of everything we do, it is why we exist.

[Breakthrough Engineering for a better world].

Our values are an important part of who we are, as they provide a culture and collective mindset for our entire organisation. They are fully aligned with our purpose and vision.



Customer intimacy – a mindset where the customer is at the heart of everything we do.



One big team – leveraging IMI's diversity in every sense, whether this is the diversity of talent, knowledge and experience that we have with our people, or the diversity of technologies, processes and end markets across our businesses.

Playing to win – a growth mindset that is innovative and open to learning.

Integrity – being true to who we are and doing the right thing at all times.

The IMI values underpin all that we do, and ensure we maintain the foundations that have enabled IMI's success through its 150-year heritage.

Code of Conduct

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

It is a cornerstone of our culture. Our Code of Conduct (the 'IMI Code') sets out the standards we expect our employees to adhere to. It covers a range of issues including anti-bribery and anti-corruption and is available in thirteen languages.

Every employee receives a copy of the IMI Code upon joining the Group and specific training about the IMI Code is provided as part of our employee induction programme. On an annual basis we provide refresher training and updates on specific compliance issues to relevant employees. This year, we have rolled out training on anti-bribery and corruption, competition law and tax evasion.

The IMI Corporate Governance Framework

Our governance framework and the practical workings of our Board and its committees are described in the Corporate Governance Report on pages 86 to 101.

Policies and procedures

We have a number of detailed standing operating procedures underpinning the IMI Code of Conduct and appropriate compliance processes. A list of key policies and procedures can be found in the Non-financial Information Statement on page 135 and include anti-bribery and corruption policies. Around the Group there are 31 legal and compliance specialists supporting the businesses with training and implementation of compliance policies. Monitoring and review procedures include Internal Control Declarations, spot checks and regular on-site legal and compliance reviews, which are designed to help instil the highest standards of regulatory compliance. These policies and procedures are embedded in our risk assessment processes, further details of which are provided on page 70.

We encourage all employees to report any incident that is not in keeping with our values and behaviours through a confidential independent hotline in 12 languages, which allows anonymous reporting. We have refreshed our Speak Up policy this year and are in the process of carrying out a Group-wide campaign to enhance awareness of our hotline.

The Group's Ethics and Compliance Committee reviews hotline activity on a monthly basis. Reports are investigated thoroughly and, where required, action is taken to resolve issues. The Executive Committee monitors the operation of the hotline and receives information about any concerns raised. The Board also monitors the operation of the hotline and checks that commensurate investigation and follow-up is carried out. During 2021, 39 cases were reported via the hotline which compared to 33 in 2020.



Ethical conduct

Integrity is one of our four core values and forms the basis of IMI's decision-making, including dealings with our stakeholders.

Whilst we commit to acting responsibly, sustainably and with integrity, we expect our extended supply chain to do the same. We actively choose suppliers that respect the environment, their employees and adhere to our strict IMI Supply Chain Code of Conduct. But our supply chains are often long and complex, so we also encourage our partners to adopt similar working practices regarding their own suppliers. We strive to positively influence ethical and sustainable trading throughout the world.

IMI is also committed to sourcing our raw materials responsibly. This means that we have a process to identify the origins of conflict minerals in our supplies, and are committed to ensuring they originate from legal, audited mines. We ask all of our suppliers of products containing conflict minerals (specifically tin, tantalum, tungsten and gold – otherwise known as 3TG) to take immediate action to identify the origins of 3TG in the products they supply to us.

Our full Modern Slavery Act statement, includes detail about 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 on our website. The other policies referred to in this section, including our Anti-Bribery, Compliance and Hotline policies, are also available to all employees.

We have continued to work closely with our suppliers throughout 2021 with a view to further rationalise and simplify our supply chain networks. In 2021, we also updated our Supply Chain policy to include our ambition on CO₂ reduction across our suppliers, in line with our emerging Scope 3 emissions plan. This will be further developed throughout 2022. We are committed to addressing our Scope 3 emissions and are working closely within the Better World team to focus our attention with a view to report more fully in our 2022 Annual Report.

Actions speak louder than words. We constantly strive to live our values in everything we do. To pursue our purpose [**Breakthrough Engineering** for a better world] responsibly and sustainably. And we do that because it is the outcomes – for our business, our stakeholders, and our world – that really motivate us. Nonetheless, the outside recognition of our intent – including our 'AA' rating in the MSCI ESG survey and our membership of the UK's FTSE4Good Index – is encouraging to see.

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA



FTSE4Good







Our stakeholders



Building strong and positive relationships with our key stakeholders is critical to fulfilling IMI's purpose, delivering our strategy and achieving long-term sustainable success.

We aim to engage with our key stakeholder groups to develop and maintain positive and productive relationships. Where we are making strategic decisions, we assess the impact of the proposal on affected stakeholders, and where appropriate, engage directly with them on the topic. By taking a consistent approach to decision making and being guided by our purpose and our strategic aims, we hope that our stakeholders understand our decisions.

The table below features our two-way engagement process with key stakeholder groups.

	 Employees	 Shareholders	 Customers	 Suppliers	 Society & Community	 Government & Regulators
Why engage?	Trust & transparency Employee advocacy Attract, retain and develop talent fit for today and tomorrow	Trust and confidence Investment	Strong relationships Trust & confidence Business growth Value creation	Strong relationships Trust & confidence Innovation Value creation	Understand wider impact Support shared goal of a better world	To be a good corporate citizen
We provide stakeholder with...	Career development Remuneration Diverse, inclusive and engaged environment A safe place to work	Transparency Sustainable return on investment in the long-term	Quality products and services and related support Value Today and Tomorrow	Sustainable relationships Prompt payments Fair terms	Support through economic activity and tax payment	Compliance Taxes
Stakeholder provides us with...	Skills & expertise Behaviours in line with our values Ambassadors for IMI	Equity capital, strategic direction and stewardship	Sustainable relationships Value creation Growth	Quality products and services and related support Innovation	Societal and community perspectives on our activities	Level playing field within which to operate Opportunities to deliver new products/solutions which meet evolving regulatory standards

Our stakeholders





The table below shows our key stakeholder groups and summarises their principal issues and how we engage with them. For information about how stakeholder interests are addressed by our business model, see page 17 and the Environmental, Social and Governance section on pages 32 to 53.

Our statement pursuant to Section 172(1) of the Companies Act 2006, which references stakeholder considerations and other factors in Board decision-making appears on pages 97 to 100.

Our stakeholders	Their priorities	How we engage	Further information
 Customers	Value enhancing products & services New products to help meet ESG requirements Access to engineering expertise World-class customer service Long-term partnerships	The Growth Hub programme involving hundreds of customer interactions Ongoing relationship management at strategic, sales and technical engineering levels Technical and product support, with access to our industry renowned experts, such as through the Hydronic College and Valve Doctor programmes Increasing use of digital platforms to drive knowledge sharing, customer networking and relationship building Performance monitoring and improvement through customer driven metrics such as on time delivery and net promoter score Trade fair attendance and exhibition Social media – including building customer communities Participation in relevant trade associations & industry bodies	Our Growth Hub programme – see page 48 Examples of the use of digital platforms to drive knowledge sharing, customer networking and relationship building can be found on pages 20 to 21
 Employees	Health, wellbeing and safety at work – where our people can thrive A positive and inclusive culture – valuing the unique contribution of individuals and supporting their diverse working needs An environment that engages all employees – involving them in creating our future Opportunities to grow and develop – supporting our people to be their best Rewarding contribution – celebrating our people for their part in our growth	Comprehensive health, safety and wellbeing programmes that touch all employees Annual Group-wide IMI Way Day and annual One Big Voice employee survey Employee engagement actions, integrated within business plans, at every level Thomas Thune Andersen (our non-executive director with designated responsibility for employee engagement) has an annual programme of employee engagement events. Workforce engagement also takes place by the Board and management. This includes staff representation and Union participation. The European Communications Forum meets annually, with representatives from our key European geographies Appropriate engagement takes place at local level in relation to restructuring changes affecting the workforce A suite of face-to-face and online training and development programmes, targeted at business and employee needs Leadership calls, conferences, town hall meetings Targeted individual, team and Group emails through our internal communications platform Independent confidential hotline New online communications platform – One Big Team powered by Workplace – connecting people across our sites and showcasing customer wins, strategy updates & people initiatives. Media for annual communications calendar of events IMI Learn – access to face-to-face and online training and development programmes targeted at business and employee needs Corporate website	Health and Safety – see page 49 IMI Way Day – see page 44 Employee engagement – see page 44 Training and development – see page 51 Executive remuneration reflective of remuneration for the wider workforce – see page 117



 IMI Precision Engineering –
Bad Oeynhausen, Germany

Our stakeholders	Their priorities	How we engage	Further information
 Shareholders	Trust Financial returns Strategy & execution Sustainability Effective capital allocation Balance of long-term versus short-term results Stewardship	Annual General Meeting Active Investor Relations programme Capital Markets Events Investor and analyst engagement Chair and Senior Independent Director available to shareholders Investor communications and corporate website Remuneration related consultation, in policy change year, and as required	Shareholder engagement – see page 96
 Suppliers	Long-term partnerships Fair and timely payment Fair commercial terms Collaborative approach	Ongoing commercial dialogue Supplier audits & improvement action tracking Supplier summits Regular business reviews with preferred suppliers	Supply chain management – see page 53 Modern slavery statement, Supply Chain Code of Conduct and Responsible Minerals Sourcing policy – see our website
 Society/ community	Positive social impact Employment opportunities Environmental impact in the locations where we operate and on the global community	Obtain market insights from adviser – Ricardo Plans to adopt reporting in line with the Global Reporting Initiative Active tracking, management and reduction plans across IMI sites for emissions IMI Way Survey Local community support and charitable activities University partnerships and Graduate Programme Active management of emissions and reduction plans across IMI sites	Community activities – see page 50 Environmental, Social & Governance section – see pages 32 to 53 Environmental performance – see pages 40 to 42
 Governments & Regulators	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 strategy on our website www.imiplc.com/esg Corporate Governance Compliance statement on page 86

Operational review

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 Precision Engineering operates across three principal business units: Industrial Automation, Precision Fluid OEM and Transport.

Further details on that segmentation, and comparison with the 2020 results are available in Note 4.



[what-we-do/our-businesses/precision-engineering](#)

Revenue

▲ 3% **£836m**

Adjusted operating profit

▲ 8% **£149m**

Statutory operating profit

▼ 18% **£100m**

Please refer to Note 3 for definitions of the Group's Alternative Performance Measures.

The financial results for IMI Precision and IMI Critical have been restated following the transfer of the Energy business from IMI Precision to IMI Critical during 2021. Details are included in Note 1.



Beth Ferreira
Divisional Managing Director

2021 performance

IMI Precision's core end markets continue to provide excellent new opportunities for growth, as highlighted in the Capital Markets Event held in September.

During the year, the division delivered solid organic revenue growth of 7% as recovering key markets more than offset the reduction in Life Sciences revenue, following the 2020 ventilator component sales surge. If ventilator sales are excluded, the underlying growth rate was very strong at 19%. That progress was driven by gains across all three business segments: Industrial Automation, Precision Fluid OEM, and Transport. When compared with 2019, the organic revenue growth was 4%.

Industrial Automation revenues were up 17% compared with 2020 on an organic basis, with Transport revenues 26% ahead on the same basis. Both of these performances reflected strong recovery in their respective markets, and were supported by the division's proactive supply chain management which ensured core products remained available despite the challenges globally brought on by the pandemic. Sales within Precision Fluid OEM were down 18%, compared with 2020 with good performance in Process Control more than offset by the non-repeat of the ventilator surge in Life Sciences.

Adjusted operating margin in the division improved in the period by 80 basis points to 17.8%. The division continues to advance complexity reduction initiatives which will enable further improvements in customer service and support progress towards its margin targets.

Statutory operating profit reduced by 18% due to the restructuring programmes announced in the year to increase customer focus and reduce complexity in the division.

Outlook

Based on current market conditions, IMI Precision Engineering 2022 organic revenues and margins are expected to be higher than in 2021.

Key achievements

- » **Strong underlying sales growth, excluding ventilator surge, of 19%**
- » **Acquisition of Adaptas completed in attractive Life Sciences sector**
- » **Good early progress from Customer First and Growth Hub**

Operational review

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

Further details on IMI Critical Engineering market segmentation, and comparison with 2020, are available in Note 4 of this statement.

→ Find out more:
www.imiplc.com/what-we-do/our-businesses/critical-engineering

Revenue

▼ **£691m**
2%

Adjusted operating profit

▲ **£125m**
4%

Statutory operating profit

▲ **£111m**
35%

Please refer to Note 3 for definitions of the Group's Alternative Performance Measures.

The financial results for IMI Precision and IMI Critical have been restated following the transfer of the Energy business from IMI Precision to IMI Critical during 2021. Details are included in Note 1.



Jackie Hu
Divisional Managing Director

2021 performance

As is evidenced by the 2021 results, IMI Critical Engineering is advancing its strategy and deploying Growth Hub to access new markets where its expertise can support sustainable future growth. The division's Growth Hub and Sprint Teams are already providing a significant *impact to the divisional results and contributed £20m of orders in 2021, vs £6m in 2020.*

Organic order intake for 2021 was 3% higher than in 2020. Aftermarket orders grew 3%, with strong growth in Oil & Gas, Refining & Petrochemical and Power offsetting a reduction within Nuclear due to the significant upgrade activity in 2020. New Construction orders grew 4%, with good order growth in Refining & Petrochemical and Marine offsetting the expected decline in Oil & Gas and Power.

The closing order book at the end of the period was 3% higher when compared with 31 December 2020 on an organic basis. Orderbook margins are also higher.

Organic revenues were 2% higher than last year and 2% lower on an adjusted basis. Aftermarket organic sales were 11% higher than in 2020, largely due to growth in the Refining & Petrochemical and Power segments. New Construction organic sales were 7% lower compared with last year, largely due to lower Refining & Petrochemical sales.

Organic adjusted operating profit was 10% higher than in 2020, another strong result reflecting the hard work the division has done to maximise the aftermarket opportunity and optimise its operating footprint for the future. Adjusted operating margin for the year was 18.1%, which was 120 basis points higher than the prior year (2020: 16.9%).

Statutory operating profit increased by 35% due to the strong trading result and the non-repeat of the prior year restructuring costs.

Outlook

Based on the division's order book and current market conditions, IMI Critical Engineering 2022 organic revenues and margins are expected to be slightly higher when compared to 2021.

Key achievements

- » **Organic order intake up 3% in the full year, organic order book up 3% year on year**
- » **Margin increased to 18.1% supported by increased restructuring benefits**
- » **Growth Hub delivered £20m in orders**

Operational review

IMI Hydronic Engineering

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



Find out more:
www.imiplc.com/what-we-do/our-businesses/hydronic-engineering

Revenue

^
11%

£339m

Adjusted operating profit

^
22%

£68m

Statutory operating profit

^
27%

£64m

Please refer to Note 3 for definitions of the Group's Alternative Performance Measures.



Phil Clifton
Divisional Managing Director

2021 performance

With its strong brands and product positioning, as well as the global imperative to reduce energy consumption in buildings, IMI Hydronic Engineering is in a strong position to deliver sustainable, profitable growth. The division's performance in 2021 reflects these good market conditions as well as successful delivery of key strategic projects and growth from new products.

2021 revenues were 15% higher on an organic basis when compared to the prior year, and 10% ahead of 2019.

New products supported that growth, with good orders secured within control and actuation. Sales of our digitally enabled products – including the TA-Smart valve – continue to make excellent progress.

Adjusted operating profit increased 27% on an organic basis versus the prior year, reflective of the quality of the business as well as continued delivery of key efficiency initiatives. The adjusted operating margin improved to 20.1%, versus 18.3% in 2020.

Statutory operating profit increased by 27% due to the strong performance of the business and the non-repeat of one-off restructuring costs in 2020.

Outlook

Based on current market conditions, IMI Hydronic Engineering 2022 organic revenues are expected to be higher, with margins slightly higher, when compared to 2021.

Key achievements

- » **Strong organic sales growth of 15%, reflecting 10% growth vs 2019**
- » **Operating margins of 20.1%**
- » **Significant contribution from new products, including new connected products**

Financial review

IMI achieved a good financial result in 2021, with increased organic revenues, adjusted operating profit and margins in all divisions.

Key highlights

	Adjusted ¹					Statutory			
	2021	2020	Change vs 2020	Organic ² vs 2020	Organic ² vs 2019 ⁴	2021	2020	Change vs 2020	Change vs 2019
Revenue	£1,866m	£1,825m	+2%	+7%	+3%	£1,866m	£1,825m	+2%	0%
Operating profit	£318m	£285m	+12%	+18%	+23%	£251m	£227m	+10%	+23%
Operating margin	17.0%	15.6%	+140bps			13.4%	12.4%	+100bps	+250bps
Profit before tax	£307m	£274m	+12%			£245m	£214m	+14%	+29%
Basic EPS	92.0p	79.7p	+15%			73.5p	62.7p	+17%	+28%
Operating cash flow ²	£274m	£335m	-18%			£327m	£377m	-13%	-10%
Dividend per share	23.7p	22.5p	+5%			23.7p	22.5p	+5%	
Net debt	£623m	£316m							

¹ Excluding the effect of adjusting items as reported in the income statement. See Note 3 for definitions of alternative performance measures.

² Adjusted operating cash flow, as described in Note 19 to the financial statements. Statutory measure is Cash generated from operations as shown on the cash flow statement.

³ After adjusting for exchange rates, acquisitions and disposals (see Note 4).

⁴ Given the significant impact on business performance due to the pandemic in 2020, the results include comparative figures for 2019 and organic growth compared to 2021. A reconciliation is provided in Note 4.

Results summary

Certain alternative performance measures ('APMs') have been included within this Annual Report. These APMs are used by the Executive Committee to monitor and manage the performance of the Group, in order to ensure that decisions taken align with the Group's long-term interests. Movements in 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 revenue and operating margin improved. Revenue increased by 2% to £1,866m (2020: £1,825m). The exchange rate adjustment was adverse £72m. After adjusting for £4m of sales for the last 6 months of IMI InterAtiva in 2020 that were not in the comparative period in 2021 and excluding £2m of revenue from the recent acquisition of Adaptas, organic revenue was 7% higher and reflects the recovery of economic markets as a result of the global pandemic as well as early results from Growth Hub.

Adjusted operating profit of £318m (2020: £285m) was 12% higher and after removing the £14m adverse impact of exchange rates and the inorganic element of the IMI InterAtiva disposal and Adaptas acquisition was higher by 18%.

The adjusted operating margin was 17.0% (2020: 15.6%). All three divisions grew adjusted margins in the year, supported by revenue growth, the benefits of ongoing restructuring programmes, and value-pricing initiatives. Statutory operating profit was £251m (2020: £227m), which increased 10%.

Adjusted net financing costs on net borrowings of £12.1m (2020: £11.0m) was higher due to the non-repeat of a one-off tax interest benefit in 2020 and includes the impact of £2.8m (2020: £2.5m) interest cost on leases. Statutory net finance costs were £5.9m compared to £12.5m in 2020 due primarily to a favourable adjusting finance gain of £5.2m in 2021.

Adjusted net financing costs were covered 33 times (2020: 35 times) by adjusted earnings before interest, tax, depreciation, amortisation, impairment and adjusting items of £404m (2020: £380m) and included £28m (2020: £30m) of depreciation on our leased assets. The net pension financing income under IAS 19 was £1.0m (2020: £0.2m).

Statutory profit before taxation increased 14% to £245m (2020: £214m) as the Group continued its restructuring activities to improve customer focus and long-term competitiveness. Adjusted profit before taxation was £307m (2020: £274m), which is higher by 12% compared to 2020. The total statutory profit for the period after taxation was £196m (2020: £170m).

Adjusting items

Adjusting Items	2021 £m	2020 £m
Reversal of net economic hedge contract gains	(6)	(2)
Restructuring costs	(35)	(36)
Impairment losses	(5)	(2)
Loss on disposal of subsidiary	(4)	-
Acquired intangible amortisation and other acquisition items	(18)	(19)
Net financing income/(expense)	5	(2)
Tax in connection with the above adjusting items	15	13
Change in UK tax rate	(19)	-
Release of prior year provisions	17	-

Adjusting items that are excluded from adjusted 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 revenue and adjusted operating profit of the relevant business segment with the net loss at £1m (2020: net loss of £4m), which is the net of the reversal of net economic hedge contract gains of £6m and the associated net financing income of £5m. The adjusting item at the operating level reverses this treatment. The net financing adjusting item reflects the change in value or settlement of these contracts with the financial institutions with whom they were transacted.
- » Restructuring costs of £35m (2020: £36m) were the result of a number of major restructuring projects across the Group. These include costs of £31m within IMI Precision Engineering, primarily for the closure of a factory in Europe, which is currently under consultation with the Works Council, and the Customer First project, which both simplify the structure of the division and ensures the business structure is aligned to our customer base. In IMI Critical Engineering there were costs of £1m relating to the finalisation of projects announced in 2020. In IMI Hydronic Engineering there were costs of £3m for the finalisation of the ongoing projects in 2020 and a new project announced in 2021 to simplify finance processes through a shared service centre in Poland. These restructuring projects are due to be completed in 2023. Restructuring provisions at the year end were £32m and primarily related to expected payments to employees. Details of 2020 projects are included in Note 3.
- » In 2021, the Group recorded an adjusting impairment charge of £5m (2020: £2m) associated with the restructuring programmes ongoing in IMI Precision Engineering, and £2m associated with the restructuring programmes ongoing in IMI Critical Engineering in 2020.

» Acquired intangible amortisation is excluded from adjusted profits, to allow for 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 £15m (2020: £19m). Other acquisition costs of £3m primarily relates to professional fees associated with the acquisition of Adaptas in December 2021.

» A gain arose on the revaluation of financial instruments and derivatives under IFRS 9 of £5m (2020: £2m loss).

» The tax effect of the above items has been recognised as an adjusting item and amounts to a £15m gain (2020: £13m gain). The UK Government announced an increase in the corporation tax rate from 19% to 25%, with an effective date of April 2023, which was substantively enacted on 24 May 2021. The impact of this on the Group's deferred tax liabilities of £19m during the period has been recorded as an adjusting item. A credit of £17m due to the release of provisions in respect of exposures related to prior years which are no longer expected to arise, including the closure of open years with tax authorities has also been recorded as an adjusting item within the income statement.

Taxation

The adjusted effective tax rate for the Group reduced to 20.0% (2020: 21.0%) and benefitted from a one-off tax credit in the year. The total adjusted tax charge for the year was £61m (2020: £58m) and the statutory effective tax rate was 19.7% (2020: 20.6%).

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 average number of shares in issue during the period was 267m (2020: 271m), resulting in adjusted basic earnings per share of 92.0p (2020: 79.7p), an increase of 15%. Statutory basic earnings per share increased by 17% at 73.5p (2020: 62.7p) and statutory diluted earnings per share increased by 17% at 73.2p (2020: 62.6p).

Share buyback

In 2021, we successfully completed our planned £200m share buyback with the purchase and cancellation of 11,653,829 shares. Our average shares in issue for 2021 are 267m, and in 2022 are expected to be 259m.

Financial review

Cash flow

Movement in net debt	2021 £m	2020 £m
Adjusted EBITDA*	403.5	379.5
Working capital movements	(50.6)	14.6
Capital and development expenditure	(57.5)	(50.7)
Provisions and employee benefit movements**	(0.5)	8.5
Principal elements of lease payments	(30.0)	(28.7)
Other	9.0	11.3
Adjusted operating cash flow***	273.9	334.5
Cash impact of adjusting items	(35.6)	(36.7)
Interest	(12.1)	(11.0)
Derivatives	26.4	(22.5)
Tax paid	(50.9)	(41.0)
Additional pension scheme funding	(7.0)	(7.0)
Free cash flow before corporate activity	194.7	216.3
Dividends paid to equity shareholders	(61.8)	(91.6)
Acquisition/disposal of subsidiaries	(203.8)	-
Net purchase of own shares and share buyback programme	(225.6)	(8.5)
Net cash flow (excluding debt movements)	(296.5)	116.2
Reconciliation of net cash to movement in net borrowings		
Net (decrease)/increase in cash and cash equivalents excluding foreign exchange	(86.7)	98.4
Reverse cash acquired	(1.8)	-
Net (drawdown)/repayment of borrowings excluding foreign exchange and net debt disposed/acquired	(208.0)	17.8
(Increase)/decrease in net debt before acquisitions, disposals and foreign exchange	(296.5)	116.2
Net cash/(debt) acquired	-	-
Currency translation differences	(4.5)	3.3
Movement in lease creditors	(5.6)	2.1
Movement in net borrowings in the year	(306.6)	121.6
Net borrowings at the start of the year	(316.2)	(437.8)
Net borrowings at the end of the year	(622.8)	(316.2)

* Adjusted profit after tax (£245.6m) before interest (£111m), tax (£61.4m), depreciation (£68.3m), amortisation (£16.2m) and impairment (£0.9m)

** Movement in provisions and employee benefits as per the statement of cash flows (£1.8m) adjusted for the movement in restructuring provisions (£2.3m).

*** 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, a reconciliation is included in Note 19

Adjusted operating cash flow was £274m (2020: £335m).

This represents a conversion rate of total Group adjusted operating profit to adjusted operating cash flow of 86% (2020: 117%). There was a £36m cash outflow from adjusting items (2020: £37m outflow) primarily related to restructuring costs.

Net working capital balances increased £51m due to an increase in receivables of £44m as a result of the growth and an increase in inventory of £37m to maintain service levels to customers in light of the global supply chain crisis, partly offset by an increase in payables of £31m. The decrease in 2020 of £15m was due to a decrease in receivables of £18m and an increase in payables of £6m partly offset by an increase in inventory of £9m.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £58m (2020: £51m) which was equivalent to 1.0 times (2020: 0.8 times) depreciation and amortisation thereon. Capital spending in 2021 increased toward historical levels after being curtailed during the pandemic in 2020.

Research and development spend, including capitalised intangible development costs of £5m (2020: £7m), totalled £54m (2020: £46m) representing an increase year on year as the Group continues to support investment in Growth Hub and Sprint Teams. As this measure focuses primarily on the efforts of the engineering function, it does not fully capture the cross-functional support in Growth Hub initiatives with over 700 employees involved across the Group – a significant investment alongside our research and development spend

In 2021 the Group paid cash tax of £51m (2020: £41m) which was 83% (2020: 71%) of the adjusted tax charge for the year.

Dividends paid to shareholders totalled £62m (2020: £92m), reflecting the Group's decision to reduce its distribution to provide a dividend earnings cover baseline of three times adjusted earnings per share, which will enable IMI to deliver more effectively on its long-term growth ambitions.

In addition, there was a cash outflow of £200m in relation to the share buyback programme (2020: £nil) and £26m (2020: £9m outflow) for net share purchases to satisfy employee share options.

Balance sheet

Net debt at the year-end was £623m compared to £316m at the end of the previous year. The increase reflects the share buyback programme and the acquisition of Adaptas partly offset by the cash generation in the year. The net debt is composed of a cash balance of £95m (2020: £208m), a bank overdraft of £66m (2020: £74m), interest-bearing loans and borrowings of £558m (2020: £362m) and lease liabilities of £94m (2020: £88m).

The year-end net debt to adjusted EBITDA ratio was 1.5 times (2020: 0.8 times). At the end of 2021, loan notes totalled £353m (2020: £362m), with a weighted average maturity of 4.3 years (2020: 5.3 years) and other loans including bank overdrafts totalled £271m (2020: £74m). Total committed bank loan facilities available to the Group at the year-end were £300m (2020: £300m), of which £70m (2020: £nil) was drawn.

At 31 December 2021, the value of the Group's intangible assets was £768m (2020: £600m). The increase compared to the prior year is primarily due to the acquisition of Adaptas

The net book value of the Group's property, plant and equipment at 31 December 2021 was £268m (2020: £266m). Capital expenditure on property, plant and equipment amounted to £46m (2020: £38m), with the main capital expenditure focused on production facility investment to support operational efficiency and growth. Including capitalised intangible assets, total capital expenditure was £58m (2020: £51m) and was 1.0 times (2020: 0.8 times) the depreciation and amortisation charge (excluding acquired intangible amortisation and lease asset depreciation) for the year of £56m (2020: £63m)

The net surplus for defined benefit obligations at 31 December 2021 was £63m (2020: £22m deficit). The UK surplus was £129m (2020: £69m surplus) and constituted 77% (2020: 77%) of the total defined benefit liabilities and 88% (2020: 89%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2021 was £66m (2020: £91m deficit).

Return on invested capital ('ROIC')

The Group uses ROIC as an indication of IMI's ability to deploy capital effectively. This metric is the same as that presented in 2020, however it was previously referred to as Return on Capital Employed and has been renamed to Return on Invested Capital to better describe the metric. References to capital employed have also been updated to capital invested.

The Group's definition is Adjusted Operating Profit after tax divided by Average Capital invested (previously referred to as Average Capital employed). Capital invested (previously referred to as capital employed) is defined as net assets adjusted to remove net debt, derivative assets/liabilities, defined pension position (net of deferred tax) and to reverse historical impairments of goodwill and amortisation of acquired intangibles. ROIC was 13.2% in 2021 (2020: 12.3%) which increased by 0.9%. The acquisition of Adaptas adversely impacted the metric by 0.7% due to its proximity to the year end with incremental capital invested, but no corresponding operating profit.

Return on invested capital	2021 £m	2020 £m
Adjusted Operating Profit	318.1	284.7
Notional Tax charge	(63.6)	(59.8)
Net Adjusted Operating Profit after tax	254.5	224.9
Net Assets	779.1	799.5
Adjusted for		
Net debt	622.8	316.2
Restructuring provision	31.6	30.1
Net derivative assets / liabilities	(3.7)	(6.1)
Net defined pension benefit	(62.5)	22.0
Deferred tax on employee benefits	13.9	(7.0)
Previously written-off / impaired goodwill	346.9	351.9
Acquired intangibles amortisation	311.5	311.5
Closing capital invested	2,039.6	1,818.1
Opening capital invested	1,818.1	1,832.3
Average capital invested	1,928.9	1,825.2
Return on invested capital	13.2%	12.3%

Acquisitions

On 20 December 2021 the Group acquired 100% of the share capital, and associated voting rights, of Adaptas Solutions (Adaptas) for cash consideration of £203.9m. Adaptas is a manufacturer of mission critical mass spectrometry subsystems and components and is based in North America with facilities in the UK, Australia and China.

Disposals

On 23 July 2021 the Group disposed of IMI InterAtiva for proceeds of £0.1m resulting in a loss on disposal of £3.8m.

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	
	2021	2020	2021	2020
Euro	1.16	1.13	1.19	1.12
US Dollar	1.38	1.28	1.35	1.37

The movement in average exchange rates between 2020 and 2021 resulted in a 4% reduction to our 2021 revenue and a 5% decrease in adjusted operating profit, with both the Euro and US Dollar weakening against Sterling.

If exchange rates as at 11 February 2022 of US\$1.36 and €1.19 were projected for the full year and applied to our 2021 results, it is estimated that both revenue and adjusted operating profit would be 1% 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 manages financial risks in compliance with Board-approved policies. Further details of the Group's financial risk management are included in Note 18.

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.

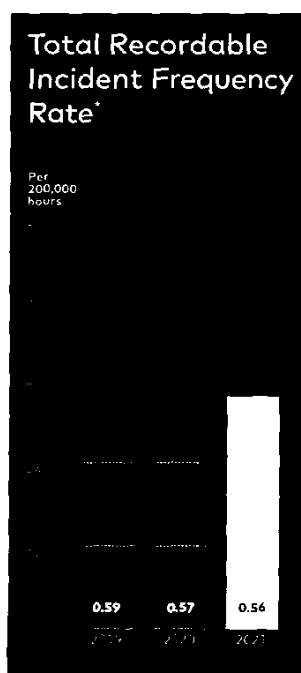
The Board is mindful that equity capital cannot be easily flexed and raising new equity would normally be likely only in the context of an acquisition. Debt can be issued and repurchased more easily, but frequent changes lead to high transaction costs and debt holders are under no obligation to accept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

At 31 December 2021, IMI plc (the company) had distributable reserves of £294m (2020: £292m).

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. In 2021, we have changed the Lost Time Accident Rate KPI to the Total Incident Frequency Rate to align with the Global Reporting Initiative definition and added CO₂ intensity reduction as a KPI, which aligns to our Better World strategy.



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 business success, including attracting and retaining the best talent

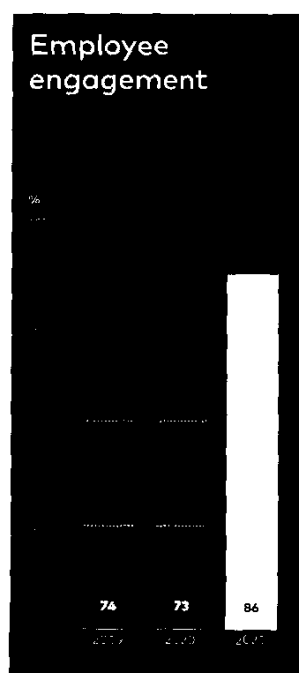
Definition

We measure our progress in this area by tracking the number of recordable work-related injuries per 200,000 hours worked ('TRIFR rate')

Performance

In 2021 our TRIFR rate reduced to 0.56 with no fatalities, reflecting the Group's continued focus on identifying and reducing workplace hazards

* For 2021 reporting the Group is using the Total Recordable Incident Frequency Rates to measure Health and Safety performance as it is recognised as an industry standard by the Global Reporting Initiative framework. Previously the Group reported Lost Time Accidents, for which the number in 2020 was 15 and in 2021 was 23. The 2020 Lost Time Accident number has been restated to 15, from 14 reported in 2020, due to the reclassification of an injury and follow up treatment



Why is this a KPI?

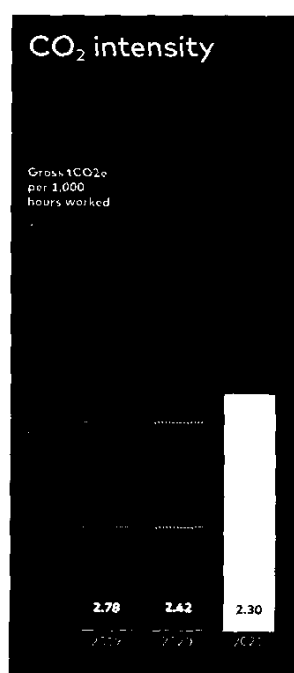
The engagement of our employees is key to retaining the existing skills and promoting and attracting employees who bring new ideas and capabilities

Definition

We carry out an annual employee survey as part of our 'IMI Way Day' and use the response to the question **'I would recommend my business (IMI) as a good employer to friends and family'** as a gauge of employee engagement – this is sourced via a group worksheet as part of the IMI Way Day activities. For the first time in 2021 we introduced an anonymised individual survey – One Big Voice. From next year we will report the response to this question from the anonymised survey

Performance

We continue to maintain a high percentage of employees that would recommend IMI as a good employer to family and friends.



Why is this a KPI?

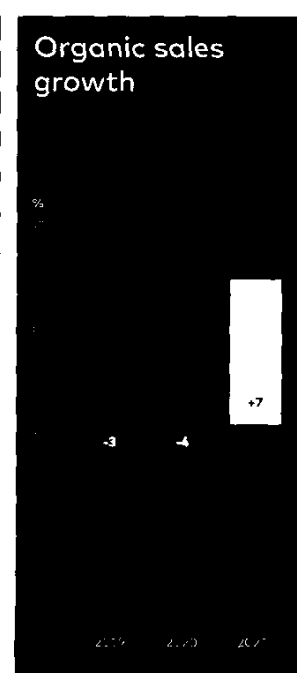
Our purpose [Breakthrough Engineering for a better world] drives our strategy and our ambition, including our commitment to halve our total CO₂ intensity by 2030 (based on 2019 Scope 1 and Scope 2 emissions)

Definition

We measure our progress in this area by tracking our total CO₂ intensity. This is calculated by looking at the ratio of total Scope 1 and Scope 2 emissions (tonnes CO₂e) per 1,000 hours worked

Performance

In 2021 our total CO₂ intensity reduced to 2.30, reflecting the Group's continued focus on identifying and delivering on projects to reduce our carbon emissions



Why is this a KPI?

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

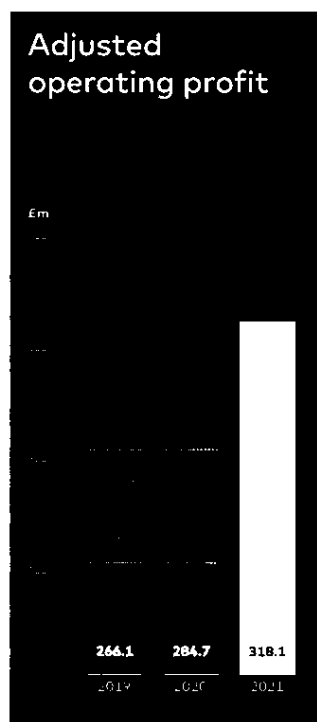
Definition

Organic sales is stated at constant exchange rates and excludes the incremental effect of acquisitions and disposals. For 2021 that means we are excluding the five months of sales for IMI InterAtiva in 2020 where IMI InterAtiva was not owned in 2021 and the results of the recent acquisition, Adaptas, for the 2 weeks of ownership in December 2021 were excluded

Performance

Organic sales growth was 7% in 2021 due to the recovery following the impact of the pandemic last year and included early results from the Growth Hub

Our KPIs have been designed to drive the Group towards meeting our strategic objectives outlined in our business model. See pages 16 and 17 for details. The Alternative Performance Measures used as Key Performance Indicators (organic sales growth, adjusted operating profit, adjusted earnings per share) are defined in Note 3.



Why is this a KPI?

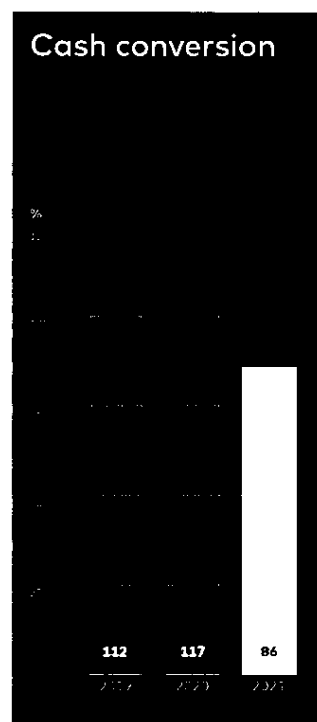
Growing our profits will ultimately generate value for our shareholders and create more opportunity to invest further

Definition

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

Performance

Adjusted operating profit improved in 2021 reflective of the commercial and operational focus during the year. Adjusted operating margin improved 140bps to 17.0%



Why is this a KPI?

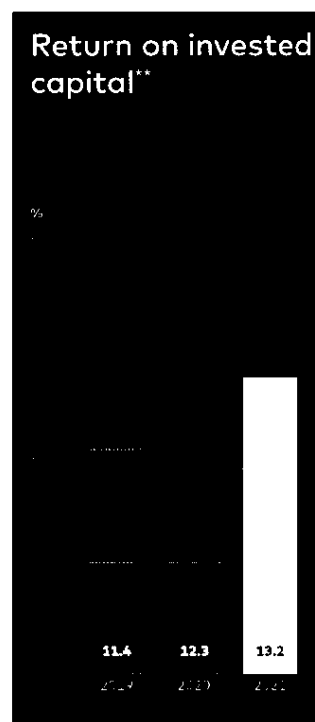
Cash generation supports investment in our business and enables the Group to provide returns to shareholders through dividends. Strong cash generation also ensures a strong balance sheet, giving customers and suppliers confidence in the future of the Group

Definition

Cash conversion is the adjusted operating cash flow as a percentage of the adjusted operating profit

Performance

Cash conversion is calculated as £273.9m of adjusted operating cash flow divided by £318.1m of adjusted operating profit and as a result was 86% in 2021. Cash conversion reduced year on year partly due to growth and partly because we maintained higher inventories due to the global supply chain challenges to ensure service to customers was maintained.



Why is this a KPI?

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

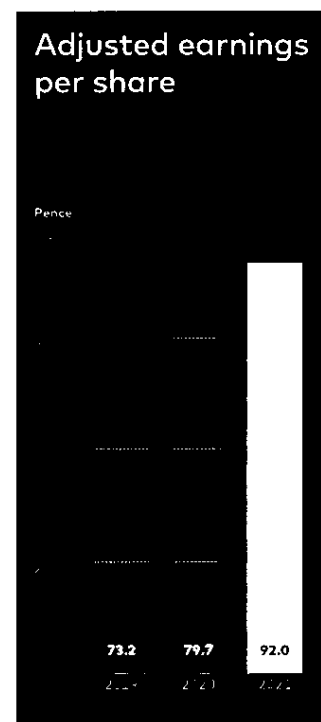
Definition

Adjusted operating profit after tax divided by average capital invested. Capital invested (previously 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. See the calculation on page 67

Performance

The Group's Return on Invested Capital improved in 2021 to 13.2%, reflecting the profit improvement in the year despite the adverse impact of the acquisition of Adaptas Solutions, which reduced the metric by 0.7%.

** This metric is the same as that presented in 2020, however it was previously referred to as Return on Capital Employed and has been renamed to Return on Invested Capital to better describe the metric. References to capital employed have also been updated to capital invested



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

Adjusted earnings per share increased in the year to 92.0p.

Adjusted operating profit is a target for the 2021 & 2022 annual bonus. Return on Invested Capital and Adjusted earnings per share are performance targets for the 2020, 2021 & 2022 IIP. See page 128 for further details.

How we manage risk

Our risk management processes are embedded throughout our businesses and are designed to identify, evaluate and manage the risks which could impact our performance, our reputation or our ability to execute successfully 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, emerging risks and including climate-related risks and opportunities.

The Board determines our risk appetite 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 team. 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 page 89.

How we approach risk management

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

IMI's three lines of defence

We review our risks and ensure we have mitigating controls and processes in place utilising the three lines of defence model. With each line of defence having a purpose, combined, they help us provide confidence to the Board and ultimately our shareholders. Our procedures provide robust assurance against our principal risks set out on pages 74 to 79.

First line	The preventative and detective controls in place managed by the operating sites and divisional teams on a day-to-day basis
Second line	As part of the overall control environment further detective processes, for example, via compliance teams across multiple disciplines (Quality, Supply Chain, Health & Safety, Legal & Compliance), are in place to oversee further risk management
Third Line	Group and divisional assurance teams review and report on the effectiveness of our risk management

Lines of defence			Level	Risk management process	
1	2	3			
	X		Board	Communicating strategy through the organisation	Approves the strategy, determines risk appetite and reviews biannually principal risks and annually the effectiveness of internal controls. Horizon scans for emerging risks
X	X		IMI Executive Committee		Monitors and reviews risk management processes and reviews bi-annually a detailed analysis of the Group's risk profile including supporting divisional data and the actions undertaken
			Regulators & External Audit		Brings a valuable perspective. Whilst not giving assurance, a number of key 3rd parties assist IMI in ensuring practices are up to date and reflect industry best practice (eg external Growth Hub advisers)
	X		Group Risk & Assurance		Determines principal risks and mitigation strategies and reports on the effectiveness of internal controls
X			Divisional Leadership		Monitors changes in the risk profile and is responsible for ensuring risk management culture is integrated across the division and aligned to the Group's objectives
	X	X	Divisional Assurance, Legal & Compliance		Provides assurance on internal controls, operating systems and risk management processes, including legal compliance matters
X	X		Local & Regional Management	Communication of the effectiveness of controls	Operates local internal control systems and provide monthly updates on key risks, mitigation and controls through incorporation of risk profile data in monthly management reporting process
X			Operating Companies		The operational teams provide the first line of defence by following defined policies and ensuring the effective running of key operating systems, local ownership and accountability of risk ownership and mitigation.

Emerging risks

The Board 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. All monitor and review emerging risks as part of our monthly operational performance reviews and Executive Committee meetings. Consideration of emerging risks also forms part of our strategy review process.

Emerging risks that could be relevant to our business include geopolitical instability and greater isolationism (reducing the previous trend of globalisation) and new technological advances including artificial intelligence, robotisation and the 'Internet of Things', 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.

Previously the Board highlighted climate change as an emerging risk. The section that follows highlights how we believe our existing principal risks include elements of climate change risk. With the assistance of external consultants, a significant amount of work has been undertaken this year to understand our climate change related risks and opportunities.

How we manage risk

Climate change

In the 2020 Annual Report, we noted that climate change creates potential disruption risks for our business, influences the expectations of our key stakeholders, and continues to drive demand for our products and services.

As opposed to creating one additional risk regarding climate change, the Board believes there are several principal risks which already cover the potential impact of climate change.

- » **Business disruption due to natural disasters** – which covers the physical risks of climate change
- » **Breach of legislation** – including the risk that IMI were to breach country specific legislation on carbon initiatives, industry standards, material restrictions etc
- » **Talent risk/Reputational risk** – the impact a poor ESG strategy or reputational climate incidents would have on the ability to retain and attract premium talent
- » **Supply chain** – the impact on the cost, availability, and delivery times of key components due to disruptive transition risks towards low carbon energy efficient products
- » **New Product Development** – the ability to adapt to new customer problems and realise the climate opportunities identified.

As noted on page 35, the Board have set a goal of halving IMI's total CO₂ intensity by 2030 (based on Scope 1 & 2 emissions from a 2019 baseline). Achieving this milestone will allow us to fulfil our ambition to be net zero by 2040. In 2022, we will engage with suppliers and set a strategy for the reduction of Scope 3 emissions (see page 42 for further details of our calculation of total greenhouse gas emissions). The Board is ultimately responsible for assessing and managing climate-related risks and opportunities (see page 36 for more information on Better World governance). To review the resilience of the Board's strategy through the lens of climate change, a Climate Risk Group ('CRG') was set up inviting key individuals from across the Group (facilities, operations, legal and business development), who, alongside our environmental consultants Ricardo, carried out an analysis of climate risks and opportunities for IMI using the TCFD framework. As with principal risks, an analysis was performed of the impact (for example the sensitivity of business units to climate events and their ability to mitigate or take advantage of those events) and the probability of the climate events occurring. Those risks highlighted on page 73 have a high impact and high likelihood in at least one of the reference scenarios outlined in the column to the right.

The analysis looked at the resilience of the Board's strategy over the short (by 2025), medium (by 2030) and long-term (2040). The analysis highlighted that climate change, regardless of the scenarios used, will present IMI with risks, and also opportunities in the future, but that none of the priority risks identified posed a high impact risk to IMI's strategy in the short-term. The analysis does highlight the risk that by 2030 a decline in the oil and gas sector could have a high impact on IMI unless successful mitigating actions are taken. The Board's strategy, particularly within the IMI Critical Engineering division, already incorporates

this potential scenario. Going forward, climate risk reviews will be integrated into the ongoing risk management process and be reported back to the Board on a regular basis.

The CRG identified two internationally recognised external reference scenarios to be used in the climate risk review:

Reference scenarios

EU ALLBANK - assumes implementation of intensive decarbonisation policies and is consistent with a 1.5°C warming trajectory, and

EU BSL - assumes regulations will remain largely unchanged from today and physical risks will intensify (3°C warming).

The CRG did an initial horizon scan which identified 63 potential climate-related risks and opportunities



Next, the CRG conducted climate materiality assessments to identify climate risks related to physical and transition risks of rising global temperatures, climate-related policy, emerging technologies and market changes. This identified 20 key areas of focus.

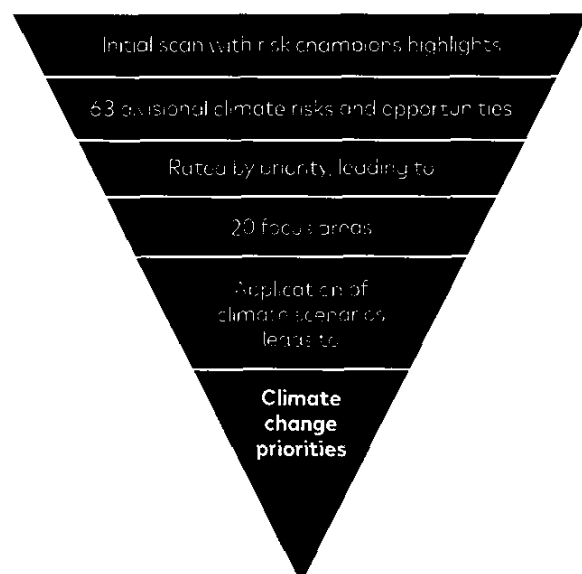


The next step was to carry out a scenarios analysis of the identified risks and opportunities aligned with the TCFD methodology and to quantify risks and opportunities where possible. This identified the highest priority climate-related risks and opportunities where the analysis suggested a high impact and high likelihood in at least one of the reference scenarios.



The CRG then carried out a deeper dive on the highest priority risks and opportunities to identify next steps and actions. The highest priority climate-related risks and opportunities have been identified and are set out on the next page.

Our approach to assessing climate change risk



TOP RISKS:

- » Floods and extreme weather events
- » Scarcity/high costs of materials (metal)
- » Water scarcity
- » Decline in Oil & Gas sector

TOP OPPORTUNITIES:

- » Increased demand for energy efficient/low carbon products/low emission technologies
- » Hydrogen
- » Circular Economy

Top Risks	Description	Mitigation
Floods and extreme weather events	Should global temperatures rise, the frequency and intensity of weather events will increase, which may lead to floods or storms causing damage and/or restricting operations. In the 3°C warming scenario, the peak impact of this could be seen as early as 2050. This would result in reduced output, high replacement costs, higher insurance premia (assuming coverage remains available), the setting up of back-up facilities and greater remote working.	IMI is aware of which sites currently have an elevated risk to natural disasters. Each IMI site has major incident plans with specific events (for example our Kobe plant in Japan, practiced a full evacuation response for World Tsunami Awareness Day 2021). In addition, the geographic spread of the businesses limits the impact to our customers, with dual sourcing, alternative production protocols in place. Over the short-term IMI will continue to study climate change models to determine the expected probability and impact of storm/flood damage to our sites and ensure business continuity plans are adapted accordingly, which may include in the medium term upgraded facilities and defences. Future mitigation may also involve the use of site-specific scenarios, to determine the expected probability to storm/flood damage and ensure business continuity plans are adapted accordingly.
Scarcity/high costs of materials (metal)	The aggressive drive to phase out products like plastics or metals may, by 2030, affect the availability of material supply or the cost of certain products (either due to the cost of upgrading equipment, purchasing 'cleaner' materials or due to lost revenues). In the worst-case scenario, manufacturing of some products may need to be discontinued.	Engineering and procurement teams continue to review the components within our products and where relevant gain certifications on more sustainable components, reviewing sourcing policies to ensure good availability and pricing on materials. In the medium-term product reviews will look at whether more fundamental product redesigns will be required.
Water scarcity	Regardless of the scenario used, some of IMI's raw materials such as plastic and steel could, in just a few years, be susceptible to in-country water availability issues, hydro-climatic extremes (such as drought or flooding); and associated political, social, economic and regulatory influences.	In the short-term IMI will continue to review the content of our products and implement sourcing policies which take into account the potential availability and pricing of key materials. In the medium-term IMI will review those materials that are likely to face restrictions and look at the possibilities of redesigning products to reduce or eliminate their content. Without mitigating measures, this could have a high impact to IMI in the long-term.
Decline in Oil & Gas sector	With stricter climate-related regulation, in the short-term, fossil fuel-related activities and the Oil & Gas sector are likely to decline. Given that some IMI products support technologies which rely on fossil fuels, the phase out of those technologies may result in the loss of business for the affected IMI products.	IMI is supporting our customers to reduce emissions, search for increased energy efficiency and the ability to monitor Scope 1 & 2 emissions. IMI is well placed to take advantage of new product opportunities and adjacent alternative markets.

Top Opportunities	Description
Increased demand for energy efficient/low carbon products/low emission technologies	With more demanding decarbonisation policies and standards, businesses looking to reduce their emissions and changing consumer preferences the demand for highly energy efficient / low carbon products and/or the ability to monitor Scope 1 & 2 emissions will increase. IMI (in particular IMI Hydronic Engineering) is being positioned to provide such products on the market, which is likely to result in increased sales and as a result higher revenue.
Hydrogen	IMI is well placed to provide products which support the transition to low carbon, for example, the increased use of hydrogen. See page 30 for more information on IMI and hydrogen.
Circular Economy	IMI Critical Engineering uses certain technologies which allow for re-use of materials (for example, 3D printing). Increased policy and consumer focus may increase demand for IMI products, as well as help reduce manufacturing costs.


Principal risks and uncertainties


Our principal risks

The Board also assesses the Group's principal risks which are detailed on pages 74 to 79. The principal risks facing the Group are shown in order of priority in the table below. This analysis covers how each risk (net of mitigating controls) could impact our strategy, our risk appetite to the particular risk, how our assessment has changed during 2021 and explains what we are doing to monitor and mitigate each risk area.


Our risk appetite



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.

Risk rating & appetite, link to strategy and key elements	Description and change in year	Risk mitigation including specific 2021 actions
1. Failure to manage the supply chain (Operational Risk) Risk rating VERY HIGH Impact: High Likelihood: High Risk appetite Prudent Link to strategy Strengthening customer intimacy Reducing complexity Driving market-led innovation Digital Links to other risk elements Macro-economic & geopolitical Climate change/Natural Disasters Poland leaving the EU	Failure to manage the supply chain could have a material impact on our financial performance and reputation.  Increased Increased economic demand, energy price shocks, weather events, scarcity of some key materials and the ongoing disruption caused by COVID-19, has increased the risks associated with receiving materials in the right place, at the right quality and at the right time.	The procurement strategy is to get supply chain teams working closer with production teams to understand future demand with greater accuracy. The divisional procurement teams continue to perform thorough reviews of our supplier base, signing framework agreements where necessary, utilising tooling registers, creating dual sourcing and working towards diversification of supply chains, and looking at moving the supply chain closer to our facilities and creating safety stocks where needed. Procurement teams assess specific Supplier Code of Conduct risks across the divisional supply chains and audit high risk suppliers for all aspects of supply chain risk including Modern Slavery. The teams also hold regular review meetings with key suppliers, and as required, deploy escalation meetings.

Risk rating & appetite, link to strategy and key elements	Description and change in year	Risk mitigation including specific 2021 actions
<p>2. Global economic or political uncertainty (Operational Risk)</p> <p>Risk rating HIGH</p> <p>Impact: High Likelihood: Moderate</p> <p>Risk appetite Balanced</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Driving market-led innovation</p> <p>Links to other risk elements Climate change/Natural Disasters Poland leaving the EU Poor forecasting accuracy Foreign Currency fluctuations Russia/Ukraine tensions</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> Increased</p> <p>Given the current global macroeconomic situation we consider this to have increased.</p> <p>The strong economic recovery as the world slowly comes to terms with the COVID-19 pandemic has reduced this risk from VERY HIGH last year to HIGH. IMI Critical continues to face highly competitive markets and faces a structural decline in the new construction fossil power sector. IMI Hydronic has seen strong investment in new construction and IMI Precision has benefited from strong demand in several of its key sectors.</p> <p>The Group, in particular IMI Hydronic, continue to keep a watching brief on political tensions between Poland and the EU.</p> <p>Direct exposure to Russia and Ukraine are limited and represented 2% of Group revenue in 2021.</p>	<p>We compile annual strategic plans and maintain a balanced portfolio operating across a range of markets, sectors and geographies with no single dependency.</p> <p>Our divisions ensure their forecasting processes include scenario stress testing, reviews of sector metrics and early indications of reduced customer demand to allow proactive and rapid management of plant output.</p> <p>Initiatives like 'Voice of the Customer' and Growth Hub alongside existing key relationships brings IMI closer to the customer and therefore should allow greater ability to predict shifts in demand.</p> <p>We have continued to improve our performance during the year through rationalisation and restructuring programmes.</p>
<p>3. Business disruption / Natural disasters (Operational Risk)</p> <p>Risk rating HIGH</p> <p>Impact: High Likelihood: Moderate</p> <p>Risk appetite Very prudent</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Digital</p> <p>Links to other risk elements Climate change Global pandemics</p>	<p>The risk to life or disruption to production caused by large scale events such as, pandemics, fires, floods, international conflicts etc.</p> <p> Decreased</p> <p>The impact of COVID-19 continued to be felt all around the world in 2021. Whilst recognising the potential impact continues to be material, well tested disease control and contingency measures alongside the global rollout of vaccines has enabled us to reduce the rating from last year's VERY HIGH</p>	<p>The disciplines from 2020 continued to be in place throughout 2021. With the Executive team, supported by a cross-function, cross-divisional team leading mitigation measures with monthly meetings supported by weekly updates. Where possible IMI continues to support local testing and vaccination programmes and has retained robust infection control measures (social distancing, provision of personal protection equipment, thermal cameras) and promoted greater flexibility in working arrangements. Site risk assessments and response plans continue to be tested regularly</p> <p>Through the work performed in 2021 alongside external environmental consultants a greater understanding of the physical risks posed by climate change and the mitigating actions required has been obtained. See pages 72 and 73.</p>

Principal risks and uncertainties

Risk rating & appetite, link to strategy and key elements	Description and change in year	Risk mitigation including specific 2021 actions
<p>4. Competitive markets (Operational Risk)</p> <p>Risk rating HIGH</p> <p>Impact: Moderate Likelihood: High</p> <p>Risk appetite Receptive</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Driving market-led innovation Digital</p> <p>Links to other risk elements Margin erosion Competitive pressures Loss of critical customers</p>	<p>Competition in our core markets, from both existing and new competitors could create strong pricing pressures, potentially resulting in lost sales and reduced profits.</p> <p></p> <p>No change</p> <p>Even prior to the pandemic several of our markets were seeing levels of reduced demand. Transitional risks around climate change could continue to see the decline in the Oil & Gas sector.</p>	<p>We also have a M&A strategy which looks to apply our expertise and ability to create synergistic benefits in established, new and adjacent market sectors. This has been demonstrated through the recent purchase of Adaptas Solutions.</p> <p>Our Growth Hub, with its use of external advisory boards, plus New Product Development Ignite and Growth Accelerator programmes, aims to create significant customer-pull and uncover new opportunities by solving our customers key problems through advanced applications engineering, helping us deliver more competitive products.</p> <p>We monitor competition risk via selected indicators during the monthly operational reviews undertaken by each of our businesses. We also defend our trademarks and brands and continue to develop our market leading applications engineering expertise.</p>
<p>5. Unauthorised access to our IT systems (Operational Risk)</p> <p>Risk rating HIGH</p> <p>Impact: Moderate Likelihood: High</p> <p>Risk appetite Very prudent</p> <p>Link to strategy Reducing complexity Digital</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>Unapproved access to our IT systems could result in loss of intellectual property, fraudulent activity, theft and business interruption.</p> <p></p> <p>Increased</p> <p>During 2021, we continued to detect, block and remediate threats on an ongoing basis with a visible increase in the volume and complexity of threats (including malware, ransomware, attempted data theft, credential theft, phishing and external hacking attempts). IMI Precision Engineering was the subject of such an attack in February 2021 and the contingency plans were put into effect successfully to minimise the disruption to customers. IMI continues to look to increase our investment in detective and preventative IT measures.</p>	<p>We have a well-developed multi-year 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 make enhancements to IT infrastructure and defences, digital forensic capabilities and penetration testing.</p> <p>We regularly test our disaster recovery plans to ensure we have stringent system back-up procedures in place.</p>

Risk rating & appetite, link to strategy and key elements	Description and change in year	Risk mitigation including specific 2021 actions
<p>6. Failure to deliver major transformational projects on time and on budget (Operational Risk)</p> <p>Risk rating HIGH</p> <p>Impact: Moderate Likelihood: High</p> <p>Risk appetite Prudent</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Digital</p> <p>Links to other risk elements IT/ERP project implementations</p>	<p>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.</p> <p> No change</p> <p>Whilst both IMI Critical and IMI Hydronic have recently successfully completed change management programmes, IMI Precision are in the middle of their Customer First and Fit For Growth programmes, which are of significant size and need to be managed proactively.</p>	<p>We have deep and extensive restructuring and integration expertise.</p> <p>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.</p> <p>Divisional restructuring costs and the associated benefits are tracked against targets on a monthly basis.</p> <p>Project management and governance processes underpin all IT projects to support efficient ERP system roll out.</p>
<p>7. Talent (Operational Risk)</p> <p>Risk rating HIGH</p> <p>Impact: Moderate Likelihood: High</p> <p>Risk appetite Balanced</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Driving market-led innovation Digital</p> <p>Links to other risk elements ESG Global macro-economic uncertainty Health & Safety</p>	<p>The inability to attract talent or retain a diverse set of employees with the required set of skills and experience in the desired territories.</p> <p> Increased</p> <p>The greater focus on new products, new delivery channels and a different way of working, places greater strains on current employees and may require recruitment into new areas (digital, entrepreneurial, product development) where IMI has less experience.</p> <p>The impact of the pandemic, the boost on economic growth and employment from the gradual opening of developed economies has seen, in some geographies, wage inflation, a potential scarcity in the desired skills and therefore a significant premium for the type of talent IMI seeks.</p>	<p>The risk is regularly assessed by the proactive monitoring by HR Business Partners of regretted turnover, exit interviews, performance objectives and succession plans.</p> <p>External consultants are used to ensure the appropriateness and competitiveness of remuneration. There has also been a greater use of flexible working and a wider range of voluntary employee benefits.</p> <p>The introduction of a new internal communications platform, Workplace, gives a broader and more direct communication channel into employees and there is a continuing increase in transparency and recognition for greater inclusion and diversity and mental health awareness.</p>

Principal risks and uncertainties

Risk rating & appetite, link to strategy and key elements	Description and change in year	Risk mitigation including specific 2021 actions
<p>8. Failure to comply with legislation or a breach of our own high standards of ethical behaviour (Legal & Compliance Risk)</p> <p>Risk rating MEDIUM</p> <p>Impact: High Likelihood: Low</p> <p>Risk appetite Very prudent</p> <p>Link to strategy Driving market-led innovation Strengthening customer intimacy Reducing complexity Digital</p> <p>Links to other risk elements ESG/Climate change Health & Safety Tax compliance</p>	<p>We have an established framework which demands the highest standards of ethics and regulatory compliance across all 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.</p> <p> No change</p> <p>We continue to operate in similar markets as last year, with no significant changes in legislation.</p>	<p>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.</p> <p>The wider reach of the new expanded intranet now gives employees a much greater depth of information on the key areas. In addition, 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 and corruption, anti-trust and economic and trade sanctions.</p> <p>In 2021, we distributed two online training modules, one on anti-bribery & corruption and another on competition law for select employees to complete, with completion percentages rigorously monitored. In addition, detailed training is given to staff in more commercial roles who have significant autonomy to contract with customers and suppliers.</p> <p>We operate a confidential independent hotline to report concerns (see page 53)</p>
<p>9. Quality issues leading to product recall, warranty issues, injury, damage or disruption to customers' business (Operational Risk)</p> <p>Risk rating MEDIUM</p> <p>Impact: Moderate Likelihood: Moderate</p> <p>Risk appetite Very prudent</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Driving market-led innovation Digital</p> <p>Links to other risk elements Reputation</p>	<p>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.</p> <p> Decreased</p> <p>This area continues to be a key focus for our businesses, by minimising the cost of quality and warranty claims. During the year, IMI Critical performed a Value Analysis and Value Engineering exercise on all recent new products and no issues were noted. Quality trends in 2021 especially with IMI Hydronic and IMI Precision continue to be very positive.</p>	<p>We have a continuing focus on product quality and detailed mapping of our engineering resources across our customers and geographies.</p> <p>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.</p> <p>IMI Precision have also widened their quality training during the year, for example by broadening its FMEA (Failure Mode & Effects Analysis) training and ensuring all quality leads receive Problem Solving training.</p>

Risk rating & appetite, link to strategy and key elements	Description and change in year	Risk mitigation including specific 2021 actions
<p>10. Failure to integrate acquisitions successfully and deliver the required synergies (Operational Risk)</p> <p>Risk rating MEDIUM</p> <p>Impact: Moderate Likelihood: Moderate</p> <p>Risk appetite Receptive</p> <p>Link to strategy Reducing complexity Digital</p> <p>Links to other risk elements Competitive markets Global economic uncertainty</p>	<p>Underperforming acquisitions deliver below expectation synergies and reduced profit. If material, this can significantly impact shareholder value.</p> <p> No change</p> <p>IMI acquired Adaptas in December 2021 and the acquisitions of PBM in 2019, and Bimba in 2017. We track these acquisitions to ensure they deliver value, planned synergies and that IMI provides ongoing support and training for the local management teams.</p>	<p>We have in-house M&A expertise and, as highlighted previously, operate a proven, structured integration process.</p> <p>The 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. The Board carries out a review in year 3 after each acquisition.</p>
<p>11. New product development (Operational Risk)</p> <p>Risk rating MEDIUM</p> <p>Impact: Moderate Likelihood: Moderate</p> <p>Risk appetite Receptive</p> <p>Link to strategy Strengthening customer intimacy Reducing complexity Driving market-led innovation Digital</p> <p>Links to other risk elements Competitive pressures Global macro-economic uncertainty ESG/Climate change</p>	<p>Failure to deliver market leading products on time and on budget, could impact our ability to grow.</p> <p> No change</p> <p>One of our core values is customer intimacy, ensuring unmet and emerging customer needs are at the core of our operations. The Growth Hub programmes, rather than starting with existing products, aim to start with the customer, working with them to understand their problems and find the solution together.</p>	<p>The use of the IMI Growth Advisory Board and the expansion of the Growth Hub, including the use of external experts, aims to ensure appropriate processes and governance are in place to avoid new product concentration risk, projects are scalable and relevant teams have the bandwidth to deliver successful new products/services effectively.</p> <p>The use of the New Product Development Ignite process allows a much shorter validation window to determine if the proposed solution to a customer problem has a viable business and value proposition. This shorter timetable allows efficient use of resources to ensure only the most appropriate solutions are developed.</p> <p>We have established centres of design and technological excellence across our businesses. 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</p>

Viability statement

Viability statement

The directors have assessed the viability of the Group 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 74 to 79, the Group's going concern assessment set out on page 153 and the five-year business plan reviewed by the Board in September 2021. 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 2026.

The directors determined that the period to 31 December 2026 constituted 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 2026 was chosen as it was aligned 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.

The Board has considered the long-term prospects of the Company based on the strategy, markets and business model as outlined previously within this report. In the Strategic review of the Group, the Board highlights a number of factors that underpin its long-term prospects and viability. These include:

- » Clear customer-focused strategy delivering [**Breakthrough Engineering** for a better world]. Solving acute industry problems with market-leading expertise, strong brands and the best people;
- » Increasing exposure to attractive global markets, supported by our Growth Hub programme and targeted M&A;
- » Robust social and governance policies, for a stronger, more responsible and more inclusive organisation;
- » Differentiated environmental profile – led by our customer solutions that enable energy efficiency, sustainability and safety;
- » A clear business model committed to delivering sustainable value to all our stakeholders, through Value Today and Value Tomorrow strategies and the increasing use of digital capabilities; and
- » Strong balance sheet offering strategic flexibility alongside disciplined financial objectives.

The business plan was used to assess the headroom on the Company's facilities and to model stress tests for 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 scenarios considered were as follows:

Scenario 1: A modest global macroeconomic recession in 2022 representing a 5% reduction in revenues.

Link to principal risks: global economic or political uncertainty.

Scenario 2: A product recall with a one-off cost of £200m.

Link to principal risks: Quality issues leading to product recall, warranty issues, injury, damage or disruption to customers' business.

Scenario 3: A severe global macroeconomic recession in 2022 representing a 15% reduction in revenues.

Link to principal risks: failure to manage the supply chain; global economic or political uncertainty; business disruption/natural disasters.

Scenario 4: This scenario considers the combined impact of scenario 2 and 3, both a £200m product recall and a 15% reduction in revenues due to macroeconomic recession.

Link to principal risks: Quality issues leading to product recall, warranty issues, injury, damage or disruption to customers' business; global economic or political uncertainty, business disruption/natural disasters

Finally, the Board considered a reverse stress test which demonstrated that a breach of covenants would not occur unless there was an extreme unforeseen event causing a revenue reduction of greater than 34% in the 12 months following approval of the Annual Report and Accounts. Mitigating actions considered for this reverse stress test include, but are not limited to, reducing working capital, restricting capital expenditure, reducing overhead spend and employee costs and cutting or suspending dividend payments to shareholders. The mitigating actions do not assume any special governmental support other than normally available schemes such as short-term working in certain countries.

The Board considered the Group's liquidity, available banking facilities and banking covenants, details of which are included in the going concern statement on page 153. 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. 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 74 to 79.





The directors' assessment also recognised a number of key features of the Group's operations. The Group's wide geographical and sector diversification, and the spread of activities across many production sites, help minimise the risk of serious business interruption. Furthermore, our business model is structured so that the Group is not overly reliant on a few large customers. Our largest customer constitutes only 3% of Group revenue and our top 20 customers account for just under 16% of Group revenue. In addition, our ability to flex our cost base reduces our exposure to sudden adverse economic conditions.

Going concern




After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for a period of at least twelve months (25 February 2023) following the approval of the Annual Report & Accounts. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details are included within Note 1 to the financial statements.



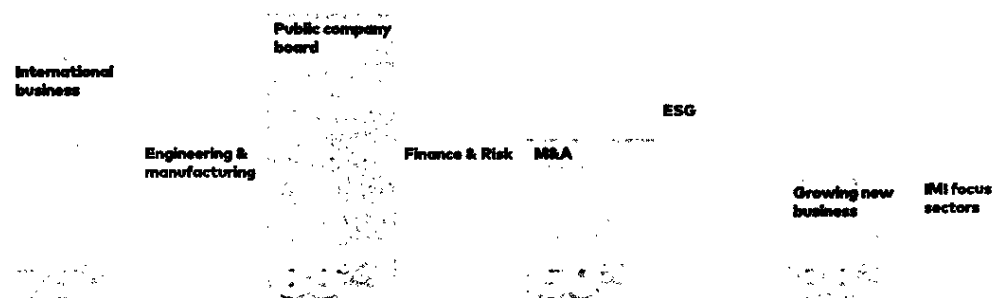
Board of Directors

	Nationality	Committee membership	Date of appointment	Expertise	Key external appointments	Specific contribution
 <p>Lord Smith of Kelvin Chair</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 Chair of Scottish Enterprise</p> <p>Non-executive Chair of the British Business Bank plc</p>	Extensive international business, sector and board level experience enables Lord Smith's valuable leadership of the Board and drives his commitment to robust corporate governance
 <p>Roy Twite Chief Executive</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 Holma plc*	Drawing on his general management and operational experience, Roy brings clear strategic leadership and a deep understanding of the engineering sector, the Group's divisions and stakeholders to lead and inspire the Group
 <p>Daniel Shook Finance Director</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 and Chair of Audit Committee of Ultra Electronics Holdings plc*	Daniel contributes his considerable global, financial and business development experience from large multinational companies to drive strong financial leadership and support the growth of the Group
 <p>Thomas Thune Andersen Senior independent non-executive director</p>	Danish	<p>Nominations Committee</p> <p>Audit Committee</p> <p>Non-executive director responsible for employee engagement and ESG matters</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>Special interest in ESG matters in particular corporate governance and climate change issues</p>	<p>Chair of Lloyds Register Group</p> <p>Chair of Orsted A/S*</p> <p>Non-executive director of Green Hydrogen Systems*</p> <p>Member of the Danish Committee for Good Corporate Governance</p> <p>Non-executive director of BW Group Ltd</p> <p>Chair of VRK Holdings A/S</p>	Thomas brings a wealth of international business and board level experience to his role as Senior Independent Director and draws on his broad knowledge and personal interest in sustainability and culture when performing his designated employee engagement and ESG activities

* Listed company directorship

	Nationality	Committee membership	Date of appointment	Expertise	Key external appointments	Specific contribution
 <p>Isobel Sharp Independent non-executive director</p>	British	Audit Committee – Chair Nominations Committee	2015	Considerable accounting, audit, governance and transactions experience including time as a member of the UK Accounting Standards Board and the Reporting Review Panel Worked with many international businesses on strategy, risk and sustainability matters	Non-executive director and Audit Committee Chair of The Bankers Investment Trust PLC* Member of the International Advisory Board at Edinburgh University Business School	Isobel contributes her extensive financial experience and a strong understanding of the audit and regulatory landscape to chair the Audit Committee effectively and bring a strong focus on governance
 <p>Caroline Dowling Independent non-executive director</p>	Irish	Nominations Committee Remuneration Committee - Chair	2020	Successful executive career in the technology sector with an industry-leading Fortune Global 500 company with operations in 30 countries Senior executive leadership roles across international operations including supporting complex supply chains	Non-executive director of DCC plc* Non-executive director of Tyndall National Institute Non-executive director of CRH plc*	Caroline brings substantial, global board level experience and expertise in digital, technology and supply chain management. Her experience serving on remuneration committees enables her to chair the Remuneration Committee effectively
 <p>Katie Jackson Independent non-executive director</p>	British	Nominations Committee Remuneration Committee	2018	Senior executive experience in major oil companies and investment banking Specialist knowledge of the Oil & Gas sector Excellent corporate finance experience including mergers and acquisitions	Executive Vice President Acquisition, Divestment and New Business Development at Shell plc	Drawing on her broad, international business and executive experience, Katie shares valuable insights on strategy, M&A and new business development
 <p>Dr Ajai Puri Independent non-executive director</p>	American British	Audit Committee Nominations Committee Remuneration Committee	2021	Experienced in international business Expert in innovation, science and technology and marketing Holds a PhD in Food Science Worked for The Coca-Cola Company in a variety of roles in research and development, innovation, consumer marketing and general management, rising to Senior Vice President	Non-executive director of Britannia Industries Limited, India* Non-executive director of Olam International Limited and member of Audit, Capital and Investment, Corporate Responsibility and Sustainability Committee	Ajai brings significant global business and board level experience, as well as expertise in driving innovation and developing new business to support delivery of the Group's strategy

Strong level of experience as recorded in our new board skills matrix



Chair's Governance Letter



Dear Shareholder

Guided by our purpose [**Breakthrough Engineering** for a better world], the Board has focused on:

- » Safe and engaging working environments for our people and our partners
- » Excellent customer service for our customers
- » Sustainable, profitable growth

In addition to overseeing the Group's response to the ongoing pandemic, we have also supported the Executive team as they navigate an external environment disrupted by a number of additional challenging situations including highly competitive labour markets, uncertain supply chains and rising inflation. We have reviewed developments in corporate governance and evolving investor and sustainability expectations, actioning change where appropriate.

In 2021, the Board has had a full agenda and has participated in an uninterrupted meeting schedule. When it was safe to do so, the Directors enjoyed the opportunity to meet one another in person and, for a second year, online meeting tools have continued to play an important role. I'm pleased that engagement levels have remained high and we are confident that our governance has continued to be robust.

Leadership & strategy

Throughout 2021, we have been guided by our purpose – [**Breakthrough Engineering** for a better world] – as we strive for sustainable, profitable growth whilst generating value for all our stakeholders, including our wider communities. As I mentioned on page 5, the Board has been delighted by progress made to define further our ESG and Better World strategy with the introduction of new, stretching targets. More information can be found in the ESG section from page 32 and on our website www.imiplc.com. Our first report against the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) can be found on page 37, with more information on page 72. Additionally, we have enhanced our alignment of executive remuneration with the introduction of a new sustainability target as part of our long-term incentive plan. See page 113 for more information.

In December 2021, Adaptas Solutions joined the Group, bringing with it significant, adjacent opportunities to IMI Precision Engineering. Fully aligned with IMI's strategy and purpose, this acquisition represents a highly attractive opportunity to deepen IMI Precision Engineering's Life Sciences offering. Integration is progressing well and I am pleased that the team are highly engaged and motivated.

Board members regularly attend Growth Hub meetings during which ideas for new products or opportunities are described. These discussions provide an excellent way for both the Growth Hub teams and Board members to share insights and experience. I am delighted that meaningful progress has been made in our Growth Hub projects and 2021 has seen another year of progress – both in terms of orders generated by them and in the number of employees who have had direct involvement in how a growth mindset works. Growth Hub continued to provide an excellent framework to enable the long-term strategic goals of the Group to be managed and realised.

Culture

The Board routinely assesses and monitors culture, and ensures it is aligned with the Group's purpose, values and strategy. This year, the Board received insights from the One Big Voice Survey and considered a new dashboard of cultural indicators aligned with our values, which together enhanced how the Board monitors culture. More information about the outcomes of the One Big Voice Survey can be found on page 44 and the culture dashboard is described in more detail on page 94.

Demonstrating integrity is a key value at IMI, underlining the importance of our ethics and compliance agenda, and the workforce is encouraged to 'speak up' and raise any concerns they may have. The Board regularly receives details about the number and nature of reports made to our hotline. More information is contained on page 53.

Developing our relationships with stakeholders

During the year the Board reviewed the Group's key stakeholders and the processes we operate to engage with them. Clearly, we cannot engage directly with everyone and so we have enhanced our review of direct and indirect stakeholder engagement processes to ensure that we maintain effective channels and that we are cognisant of their key concerns.

Board level engagement is conducted with shareholders (see page 96) and employees (see page 95). We have a designated non-executive director for employee engagement and ESG matters. Management regularly updates the Board about the state of relations and engagement with key stakeholders, including customers and suppliers. There are active feedback processes in place which form part of the Board's strategic review activity. The Group's key stakeholders and engagement channels are summarised on page 97.

Division of responsibilities

The IMI Governance Framework is summarised on page 88. It contains the Schedule of Matters Reserved for the Board, roles and responsibilities for key Board roles, and the Terms of Reference for each Board Committee. A complete copy is stored on our website.

Independence

Following a review by the Board, I am pleased to report that all non-executive directors meet independence criteria and display objective judgement. I was considered independent on appointment.

Diversity

I am delighted to report that we have enhanced diversity on the Board and on the Executive Committee during the year (see page 109 for more information). During 2021, the Board approved a Board Diversity Policy (see page 110) and approved diversity targets which are set out on page 37.

Composition, succession and evaluation

The Board performs effectively and there is open and constructive dialogue with the Executive team. It is well balanced, with the skills and experience to drive strategy, ensure governance and manage risk. Quality discussions take place and our diverse group of non-executive directors make valuable contributions. The effectiveness of the Board was confirmed by this year's internal performance evaluation which is described on page 100.

In our 2020 Annual Report we reported that, following an extensive search process, Dr Ajai Puri would join the Board in March 2021. We are delighted to have Ajai on the Board and *more information about the appointment process is contained on page 108*. In August 2021, after serving nine years on the Board and making a significant contribution, Carl-Peter Forster stepped down. The Board implemented its succession plans and Thomas Thune Andersen became Senior Independent Director, Caroline Dowling became Chair of the Remuneration Committee and Dr Ajai Puri joined the Audit Committee.

You can find biographies containing details about all of our directors on pages 82 and 83. I am pleased to confirm that all directors are standing for re-election at the 2022 Annual General Meeting. We are planning for our 2022 AGM to be a physical meeting in the usual manner. We will keep our shareholders informed of our AGM arrangements via our website.

As we look forward to 2022, our focus as a Board will be to help Roy and the team to:

- » minimise disruption for our customers from supply chain challenges
- » successfully develop new products and penetrate new markets through Growth Hub activities
- » successfully embed the Adaptas acquisition into IMI
- » retain key talent

I would like to thank my Board colleagues, our people and our stakeholders for their ongoing support and contribution to the long-term success of IMI.

Lord Smith of Kelvin
Chair

24 February 2022

Corporate Governance Report

Code Compliance Statement

The Board is committed to maintaining good governance and confirms that, throughout the year ended 31 December 2021, it is satisfied the Company has applied the principles contained in the 2018 UK Corporate Governance Code (the 'Code') and complied with its provisions, with the exception of Provision 38. At the time of the introduction of the new Code, the Company had already signed a contract with the Finance Director that entitled him to a pension contribution equal to 20% of his annual salary. This was higher than the pension contribution available to the workforce. However, despite contractual obligations, the Remuneration Committee has discussed this issue with the Finance Director and an agreement has been reached whereby a phased reduction by 3% every year of the Finance Director's pension will be implemented. Therefore, since the introduction of Provision 38, the Company has been non-compliant for the above reason. During 2020, the Remuneration Committee engaged with principal shareholders, explained the reasons for non-compliance and assured them of the intention to be fully compliant by 2023. During 2021, the Finance Director received a cash allowance of 17% of salary. From 1 January 2023, the Finance Director will receive a cash allowance equivalent to 11% of base salary which is consistent with the average global employee pension opportunity for employees. Please see page 116 for more information. Our reporting on the application of the principles and against the provisions is contained in this Report and key cross references are summarised below. Further details appear in the Directors' Report and other cross-referenced sections of this Annual Report, all of which are incorporated by reference into this Report. A copy of the Code can be found at www.frc.org.uk.

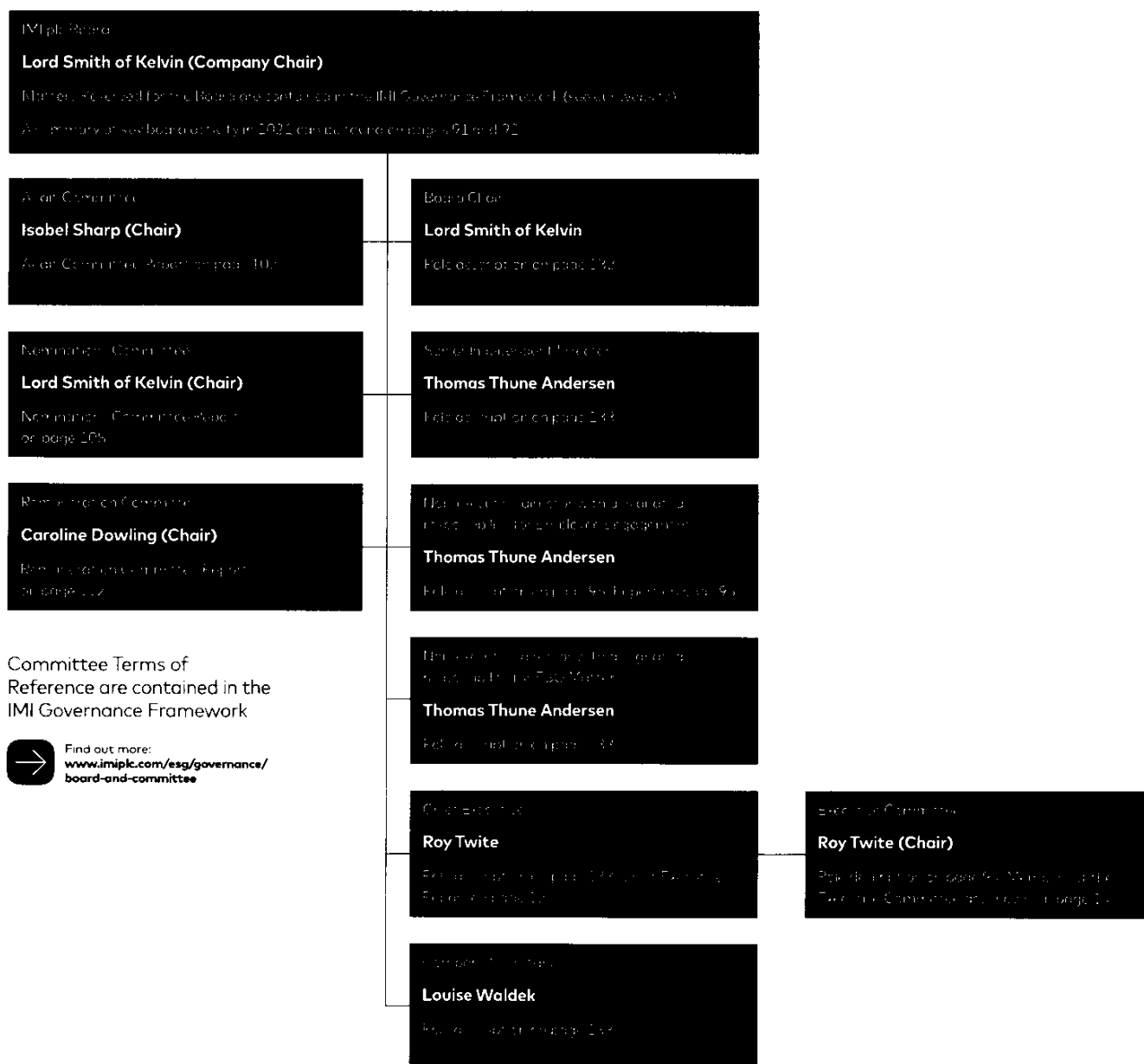
Code	Supporting disclosures and cross-references
Board leadership & Company purpose	<ul style="list-style-type: none"> » The Board promotes the long-term success of the Company. We work within our governance structure which is described in the IMI Governance Framework. This is summarised on page 88 and is located on our website. We have a programme of business which focuses on financial and operational performance, strategic initiatives, our Better World agenda, people and leadership matters and risk management. We hold an annual strategy day. For more information about the Group's strategy, see the Strategic Report from pages 12 to 81. » Our Business Model is displayed on pages 16 and 17. Reporting on our purpose, values, strategy and culture is set out on page 94. » Our Board is made up of a diverse group of skilled and experienced individuals. Director biographies are shown on pages 82 to 83. Individual role descriptions can be found on pages 88 and 132 to 133. » The Board ensures that the necessary resources are in place for the Company to meet its objectives and measures performance against them. The Board has established a framework of controls which enables risk to be assessed and managed. For more information on risk management and the risks faced by the Group, see the Risk Report from page 70. » IMI has multiple stakeholders who are all important to our business. A description of engagement processes in place with shareholders, employees and other key stakeholders is contained on pages 56 to 57 and 95 to 97. Where engagement is not direct, it takes place via feedback from individual Directors and members of management. The relevance of each stakeholder group will depend on the particular matter requiring Board decision. Our Section 172(1) Statement is contained on pages 97 to 100. This demonstrates how the Board promotes the long-term sustainable success of the Company. » Further information about our Better World strategy and how we impact wider society and contribute to society can be found in the ESG section of the Strategic Report on pages 32 to 53. » Our Code of Conduct sets out our values and the standards of behaviour we expect from everyone at IMI. We encourage people to report any breaches of the Code and other concerns through our IMI hotline. The Board reviews the operation of and reports from the IMI hotline. Details of key policies in place at IMI are listed on page 135. Details of our Speaking Up whistleblowing hotline arrangements are contained on page 53. » The Board has a formal system in place for directors to declare a conflict or a potential conflict of interest. A statement of Directors' interests in Company shares is set out on page 125.
Division of responsibilities	<ul style="list-style-type: none"> » A description of the different Board roles and responsibilities is set out on page 88. The outcomes of the reviews of independence of the non-executive directors and time commitments are set out on page 93 and page 109 respectively. » Board composition (including an assessment of independence) is displayed on page 93. No non-executive director has served for more than nine years. » A summary of the process and findings of the 2021 Board evaluation is on page 100. » Led by the Senior Independent Director, the Chair's performance was reviewed. See page 100 for more information. The performance of all directors was reviewed by the Chair. For more information, please see page 100. » The Company Secretary supports the effective and efficient operation of the Board and its Committees. All directors have access to the Company Secretary for advice, as well as access to independent professional advice at the Company's expense.

Code	Supporting disclosures and cross-references
Composition, succession and evaluation	<ul style="list-style-type: none"> » Succession planning process for the Board and certain senior management roles is described in the Nominations Committee Report on page 109. » Board composition is presented on page 93. Details of the new Board skills matrix, to ensure the Board and its Committees have a combination of right skills, experience and knowledge necessary to oversee and support the management team in the execution of the Company's strategy, is on page 109. » The formal, rigorous and transparent Board appointment process is described in the Nominations Committee Report on pages 108 to 109. The Group's induction programme for newly appointed directors is described on page 110. » A description of how the Company is progressing its Inclusion and Diversity agenda is described in the Nominations Committee Report on page 109 and in the Strategic Report on page 46. The new Board Diversity Policy is set out in full on page 110. » The outcome of the 2021 Board and Committee internally-facilitated annual evaluation, including agreed areas of focus for 2022, are set out on pages 100, 107, 111 and 129. » All directors are standing for re-election and further information (including details of their individual contribution to the long-term success of the Company) can be found on page 6 in the Notes to the AGM Notice.
Audit, risk & internal control	<ul style="list-style-type: none"> » The Board reviews the main features and effectiveness of the Company's internal control and risk management framework. The Audit Committee's work in relation to internal financial controls is summarised on page 103. » At least twice a year, the Board reviews the principal and emerging risks which apply to the Group. This is to ensure that they remain current and that, to the extent possible, there are mitigations in place to manage those risks in accordance with the Board's risk appetite to support the delivery of the Group's long-term strategic priorities. Our reporting on our risk management systems and information about the risks and uncertainties that relate to our business are detailed on pages 70 to 79 of the Strategic Report. » Our Audit Committee Report, describing how it is composed and how it has discharged its responsibilities, is contained on pages 102 to 107. A description of Group's internal audit function is set out on page 106 and a report on the independence and effectiveness of the external auditors, Deloitte, can be found on pages 106 and 107. » The 'fair, balanced and understandable statement' is contained on page 104.
Remuneration	<ul style="list-style-type: none"> » Our Remuneration Committee Report is contained on pages 112 to 129. » Following consultation with major shareholders, our Directors' Remuneration Policy was approved by shareholders in May 2021. The full Directors' Remuneration Policy can be found from page 85 of the 2020 Annual Report. » Page 123 of the Remuneration Committee Report describes any discretion applied by the Remuneration Committee in the course of its work. No director or member of senior management is involved in determining his or her own pay. » The views of a cross-section of employees on executive remuneration were obtained by Thomas Thune Andersen, our non-executive director with designated responsibility for employee engagement, during routine engagement activities. Feedback received was shared with the Board and the Remuneration Committee.

Corporate Governance Report

IMI Governance Framework

The Board has delegated certain roles and responsibilities to its principal Board Committees in accordance with the Code. While the Board retains overall responsibility, the Committees carry out deep dives into their areas of responsibility. Committee Chairs report back to the Board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the Board on matters requiring its approval. Minutes of all Committee meetings are made available to all directors. The IMI Governance Framework sets out the Schedule of Matters Reserved for the Board and the Terms of Reference for each principal Board Committee. The IMI Governance Framework also describes the responsibilities of key positions on the Board and the Company Secretary. A complete copy is located on our website. More information is contained on pages 132 of the Directors' Report. We review this regularly and will update it to reflect developments in corporate governance and best corporate practice.



Audit Committee

Isobel Sharp
Chair



Membership

Thomas Thune Andersen
Dr Ajai Puri

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



Audit Committee Report
Turn to page 102

Nominations Committee

Lord Smith of Kelvin
Chair



Membership

Thomas Thune Andersen
Caroline Dowling
Katie Jackson
Dr Ajai Puri
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



Nominations Committee Report
Turn to page 108

Remuneration Committee

Caroline Dowling
Chair



Membership

Katie Jackson
Dr Ajai Puri

Main responsibilities

- » Define and recommend the Remuneration Policy for the Chair and members of the Executive Committee
- » Determine the individual remuneration packages for the Chair 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



Remuneration Committee Report
Turn to page 112

Corporate Governance Report

Board & Committee attendances

During the year, the Board met on six occasions to cover scheduled business and there were four additional special Board meetings arranged for specific projects. The table below shows the number of scheduled meetings attended and the maximum number of scheduled meetings that the directors could have attended. Only in exceptional circumstances would directors not attend Board and Committee meetings. Scheduled meetings are normally held in person but a number have been held virtually via video conference in 2021 due to COVID-19 restrictions.

Director	Board	% eligible attendance	Audit Committee	% eligible attendance	Nominations Committee	% eligible attendance	Remuneration Committee	% eligible attendance
Thomas Thune Andersen	10/10	100	4/4	100	4/4	100	n/a	n/a
Caroline Dowling	9/10*	100	n/a	n/a	4/4	100	3/3	100
Carl-Peter Forster**	6/6	100	3/3	100	2/2	100	2/2	100
Katie Jackson	10/10	100	n/a	n/a	4/4	100	3/3	100
Dr Ajai Puri***	8/8	100	1/1	100	3/3	100	2/2	100
Isobel Sharp	10/10	100	4/4	100	4/4	100	n/a	n/a
Lord Smith of Kelvin	10/10	100	n/a	n/a	4/4	100	n/a	n/a
Daniel Shook	10/10	100	n/a	n/a	n/a	n/a	n/a	n/a
Roy Twite	10/10	100	n/a	n/a	n/a	n/a	n/a	n/a

* Caroline was unable to join a specially convened Board meeting on short notice due to urgent business and instead submitted comments to the Chair in advance of the meeting

** Carl-Peter Forster stepped down on 31 August 2021.

*** Dr Ajai Puri was appointed as a board director and a member of the Nominations and Remuneration Committees with effect from 1 March 2021. He was appointed a member of the Audit Committee with effect from 1 September 2021.

To date in 2022, the Board and each Committee has met once with all members in attendance.

Summary of 2021 Board activity

Activities	Outcomes	More Information
Strategy:		
Held a full day meeting to consider the Group's long-term strategic plans and priorities	Reaffirmed purpose and values. Approved strategy and key milestones	Pages 16 and 17 of the Strategic Report
Discussed and reviewed better world strategy, progress and proposals to set ESG related targets	With the support of Thomas Thune Andersen in his capacity as the non-executive director with designated responsibility for ESG matters, the Board provided direction on development of better world targets and ambitions. ESG related targets on page 37 were approved by the Board in February 2022	Pages 32 to 53 set out ESG progress in 2021 and targets
Received regular updates about strategic matters such as M&A transactions and business structuring decisions	After consideration, approved new 'Customer First' operating model for IMI Precision Engineering, related simplification projects and footprint optimisation plans	Page 98
	After consideration, concluded the review of 20%-30% of IMI Critical Engineering's business and approved the retention of the majority of those businesses following performance improvements and new opportunities aligned to the better world strategy	Page 98
	After consideration, approved the proposed acquisition of Adapta Solutions	Page 98
Finance, Risk & Operations:		
Reviewed financial results during 2021	Approved the 2020 year-end results (including Annual Report & Accounts), 2021 half-year results and related announcements	
Reviewed dividend proposals	Approved final and interim dividends	Page 130
Reviewed draft going concern and long-term viability statement	Approved the going concern and long-term viability statement	Pages 80 and 81
Reviewed share buyback proposal	Approved share buyback programme	Pages 5 and 131
Reviewed budgets and quarterly forecasts	Approved the 2022 budget	
Reviewed and debated the overall risk profile of the Group, including the principal risks, emerging risks and risk appetite	Approved the updates to the principal risks as shown in the Strategic Report including the new risk assessment on climate change	Pages 70 to 79
Conducted a deep dive into IT security and cyber-crime risk	Oversight of activities to enhance the effectiveness of the Group's IT security controls	Page 76
Following the recommendation of the Audit Committee, approved the proposed appointment of Deloitte as external auditor	The resolution was put to shareholders at the 2021 AGM and received 99.99% of votes in favour	Page 102
Reviewed the effectiveness of risk management systems and internal controls	Risk management and internal control systems were considered to be effective	Page 87
Reviewed the annual treasury update	Approved Treasury Policy	Page 67
Reviewed tax strategy	Approved Tax Strategy	Page 65
Received regular Executive reports	Monitored performance and progress	
Virtual site visits to IMI Hydronic's facility in Poland, IMI Critical's facility in PBM Inc, USA and IMI Precision's Farmington, USA site	Enhanced the non-executive directors' knowledge of the Group Engaged with local teams	Page 97

Corporate Governance Report

Summary of 2021 Board activity (cont'd)

Activities	Outcomes	More Information
Leadership, People & Culture:		
Reviewed Health and Safety activities and performance	Reviewed HSE performance and ongoing Group-led initiatives to enhance the safety culture and performance of the Group	Pages 49, 50 and 68
Reviewed progress made to further our inclusion and diversity ambitions including dashboard of diversity, inclusion and equity indicators	Met the recommendations of the Parker Committee Review on ethnic diversity on the Board and the recommendations of the FTSE Women Leaders Review (formerly the Hampton-Alexander Committee Review) on gender diversity on the Executive Committee. Approved a new Board Diversity Policy. Diversity targets shown on page 37 were approved by the Board in February 2022	Pages 109 and 110
Reviewed a dashboard of cultural indicators and related information	Monitored and assessed culture and agreed it was aligned with the Company's purpose, values and strategy	Page 94
Reviewed succession plans for the Board, Executive Committee and wider leadership group	Succession plans for the appointment of a new non-executive director on the Board and related changes to Board roles and responsibilities were implemented The Executive Committee succession plan for the appointment of a new Group General Counsel & Company Secretary was enacted	Pages 85 and 109
Received recommendations from Nominations Committee regarding Board and Committee appointments	Appointment of Dr Ajai Puri as a director, and a member of all Board Committees. Appointment of Thomas Thune Andersen as Senior Independent Director. Appointment of Caroline Dowling as Remuneration Committee Chair	Page 85
Reviewed the outcome of the new One Big Voice Engagement Survey and received a report from Thomas Thune Andersen in relation to his activities as the non-executive director with designated responsibility for employee engagement	Informed about the key themes from the One Big Voice Survey Thomas Thune Andersen gave a formal report on his activities as the non-executive director with designated responsibility for employee engagement and contributed relevant insight to boardroom discussions throughout the year	Page 84 Page 95
Shareholders:		
Received and discussed investor updates from the Investor Relations team and the Company's brokers	Provided the Board with an indirect view of investor priorities and perceptions	Page 96
Governance:		
Reviewed methods of stakeholder engagement	Effective direct and indirect stakeholder engagement affirmed	Pages 54 to 57, 96 and 97
Reviewed and discussed the internal evaluation of the Board, its principal Board Committees and individual directors	Identified key findings, focus areas for 2022 and any training needs	Page 111
Reviewed the terms of reference of each principal Board Committee and the role descriptions of key roles	The review concluded in February 2022 and resulted in the Board approving a revised IMI Governance Framework to take effect from 1 March 2022	www.imiplc.com
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chains	Approved the 2021 modern slavery and human trafficking statement	www.imiplc.com
Reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud	Received summaries of reports received via the IMI Hotline and reviewed updated 'Speaking Up' policy wording. Concluded that the 'Speaking Up' whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud	Page 134
Refresher training on Market Abuse Regulations	Ensured that the Board remained up to date	Page 111
Reviewed director conflicts of interest, significant external appointments and time commitments	Effective board processes for conflicts of interest and taking on additional external appointments were affirmed No concerns were raised regarding director time commitments	Page 86, 109 and 133
Reviewed 2021 AGM notice	Approved 2021 AGM notice	
Received legal and company secretary reports	Board apprised of key legal and governance matters across the Group	
Reviewed fees paid to the non-executive directors	The decision to determine fees to be paid to the non-executive directors was delegated to the Chair and the Chief Executive to ensure that no director was involved in decisions in respect of their own remuneration. Ordinary resolution proposed for the 2022 AGM to increase the maximum fees of Directors permitted under Article 60 of the Company's articles of association	See AGM Notice & single figure table on pages 124 and 135

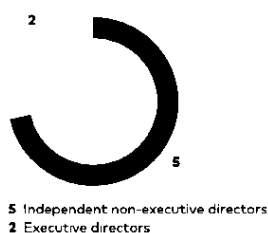
Board composition

The Board is currently composed of eight directors: the Chair; the Chief Executive; five independent non-executive directors and the Group Finance Director. Dr Ajai Puri joined the board on 1 March 2021 and Carl-Peter Forster was a director until 31 August 2021. All continuing directors will stand for re-election at each Annual General Meeting. Detailed biographies of each current director, including the specific reasons why the contribution of each director is, and continues to be, important to the Company's long-term sustainable success can be found on pages 82 to 83. A summary of key areas of Board experience can be found at the bottom of page 83.

Board diversity

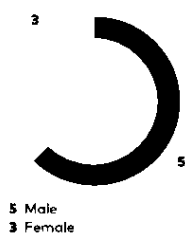
The non-executive directors are a diverse group from different backgrounds and nationalities and bring with them a wide range of skills and experience in commerce, finance and industry from around the world. The Board meets the targets set out in the FTSE Women Leaders (formerly Hampton-Alexander) and Parker Reviews. Our approach to diversity is set out in more detail on pages 46, 47, 109 and 110 and our Board Diversity Policy is set out in the Nominations Committee Report on page 110. The charts below represent the Board membership as at the date of this Annual Report.

Non-executive / executive directors*



5 Independent non-executive directors
2 Executive directors

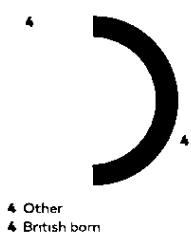
Gender



5 Male
3 Female

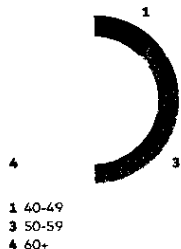
* Under the 2018 Code, the Chair is excluded when considering the independent non-executive composition of the Board.

Nationality



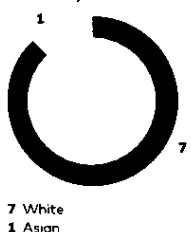
4 Other
4 British born

Age



1 40-49
3 50-59
4 60+

Ethnicity



7 White
1 Asian

Independence of non-executive directors

The Board has reviewed the independence of each non-executive director and considers that each non-executive director is free from any business or other relationship which could impair the exercise of their independent judgement. The Chair was regarded as independent at the date of his appointment and is considered by the other members of the board to be objective in his leadership.

Dates of appointment

Length of tenure at 31 December 2021



	Date of first appointment	Date of current letter of appointment
Thomas Thune Andersen	1 July 2018	1 September 2021
Caroline Dowling	1 January 2020	1 September 2021
Dr Ajai Puri	1 March 2021	1 September 2021
Katie Jackson	1 July 2018	25 February 2021
Isobel Sharp	1 September 2015	25 February 2021
Lord Robert Smith	7 May 2015	25 February 2021

Corporate Governance Report

Executive Committee

The Executive Committee is chaired by the Chief Executive and the other members are shown on page 14. It is the senior management body for the Group, and takes its authority from the Chief Executive and is not a committee of the Board. It is well balanced, experienced and diverse. It is 43% female (meeting the requirements of the FTSE Women Leaders Review (formerly Hampton-Alexander Review)) and is composed of three nationalities. The Committee meets monthly and more often as may be required. 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. It plays a key part in risk assessment and risk management and monitoring processes and receives regular reports on ESG matters, human resources, Health and Safety, internal audit, compliance, legal, investor relations and other corporate affairs.

Gender



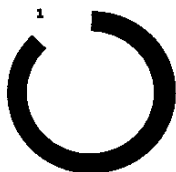
4 Male
3 Female

Nationality



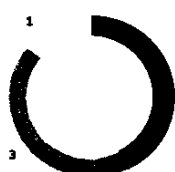
4 British
2 American
1 Singaporean

Ethnicity



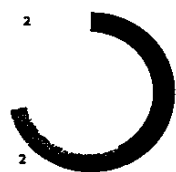
7 White
1 Asian

Age



3 40-49
3 50-59
1 60+

Tenure



2 0-5 years
2 6-10 years
2 11 years+

Purpose, Values & Culture

The Board endorses our purpose of **[Breakthrough Engineering for a better world]** and sets the strategy for the Group to align with this purpose. IMI's purpose is at the heart of everything we do, it is why we exist. We are committed to achieving profitable growth on a sustainable long-term basis while creating a better world for everyone we engage with – our customers, our employees, the communities we serve and operate in, and our shareholders. For more information about our purpose, please see page 16 of the Strategic Report.

Our values are an important part of who we are, as they provide a culture and collective mindset for our entire organisation. These values underpin all that we do, and ensure we maintain the foundations that have enabled IMI's success throughout its 150-year heritage. For more information, please see page 52 of the Strategic Report.



Customer intimacy



One big team

We have developed a dashboard of cultural indicators to support the Board's responsibility to monitor culture and ensure alignment with purpose, values and strategy. The dashboard comprises more than 20 metrics linked to the IMI values which individually and collectively provide cultural insights. These include customer net promoter scores, employee engagement scores, regretted turnover information, number of employees involved in our Growth Hub activities and details of hotline reports received. The dashboard is designed to help the Board identify any factors which indicate a negative culture or matters which could impede our ability to deliver our strategic objectives. The metrics in our culture dashboard will remain under review.

The Board reviewed the culture dashboard and related information, monitored and assessed our culture. In addition, there were a number of touchpoints in the annual cycle during which reports and presentations were provided to the Board and its Committees allowing for further consideration of these cultural indicators. Thomas Thune Andersen, in his role as non-executive director with designated responsibility for employee engagement, provided insights into the Group's culture based on his interactions with employees across the Group. Following a detailed review of culture which included considerations of the Group's values and insights from our non-executive director with designated responsibility for employee engagement, together with the annual review of our purpose and strategy, the Board affirmed that culture was aligned with IMI's purpose, values and strategy. We will continue to nurture our culture and ensure monitoring culture plays a key role in Thomas' employee engagement activities.

Board level employee engagement

Thomas Thune Andersen has been nominated as the non-executive director with designated responsibility for employee engagement.

The purpose of this role is to enhance the Board's understanding of the views of the IMI workforce, supporting the directors' collective responsibility to consider a wide range of stakeholder perspectives when arriving at Board decisions. It includes the following responsibilities:

- » Developing a balanced view of the issues and concerns of employees through various feedback channels such as Board site visits, employee forum groups, IMI Way Day focus groups and reverse mentoring for example, ensuring feedback is obtained from all divisions, all levels and all geographies
- » Sharing employee views learned in Board meetings on an ongoing basis and in written format at least once per year
- » Ensuring that the Board take appropriate steps to evaluate the impact of proposals and developments on employees
- » Where relevant and appropriate, providing feedback to employees on board decisions and direction during the engagement process
- » Soliciting the views of employees about executive remuneration and sharing feedback obtained with the Remuneration Committee

This role does not take on the responsibilities of an executive director, the Executive Committee, the HR team or act as a proxy. Although Board members actively and directly engage with our workforce through activities such as site visits and attendance at Growth Hub pitches, the Board felt that having a non-executive director with designated responsibility for employee engagement would enhance its ability to gather the views of the workforce in a more structured way, and enable a more focused approach to understanding the culture of the Group.

In 2021, Thomas has joined various programmes such as the Graduate Induction and Growth Accelerator pitches, met with the Better World team, Global Wellbeing and the Inclusion and Diversity team attended the European Communications Forum (ECF). Given the current COVID-19 pandemic, the ECF was held virtually and was attended by employee representatives from all our key European geographies and provides an opportunity for management (including the Chief Executive and Group HR Director) to update on progress on key business and human resource issues, as well as field a wide range of questions from the representatives on key matters of employee concern. A cross-divisional team working on Inclusion and Diversity invited Thomas to meet with them and Thomas will continue to take an active role with this forum and give insights into employee engagement and inclusion and diversity initiatives.



During the year, I have interacted with small groups of employees based all over the world. I have been involved with graduates and am being reverse-mentored by a small group of employees. I would like to thank all those I spoke with for their openness, enthusiasm and transparency. In addition to giving me feedback, their approach has provided me with valuable insight into culture. Overall, relationships between the group and employees are good and we continue to work on matters raised to enhance engagement.

Thomas Thune Andersen

Focus areas for 2022 include:

- » Increased exposure to different pipelines of key talent across the organisation
- » Participation in the IMI Way Day
- » Participation in the European Communication Forum
- » Participation in Growth Hub pitches
- » Participation in the Graduate Induction
- » Board lunches & site visits

Speaking Up

Details of the Group's speaking up arrangements are contained on page 53 of the Strategic Report and page 134 of the Directors' Report. The Board monitors operation of the Group's hotline and checks that appropriate investigation and follow up is carried out.

Corporate Governance Report

Shareholder engagement

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. The understanding of investor views resulting from this feedback helps inform the Board's decision-making.

Dialogue is maintained with the principal shareholders, and the executive directors and/or the Head of Investor Relations meet regularly with institutional investors. Virtual meetings were arranged in 2021 to ensure appropriate engagement with major investors. As in previous years, we maintained a significant programme of such interactions, with existing and potential shareholders, throughout the year. In 2021 these included two Capital Markets Events, each designed to facilitate a better understanding of the Group's strategy and ambitions – as well as the reasons why IMI is confident of achieving them. Smaller – often private – investors also have full and timely access to all IMI's presentations via the Group's website. The Chair and the Senior Independent Director also are available to shareholders as needed.

Consultation with our larger investors is very much concerned with the performance and strategy of the Group. Their feedback is shared with the Board so that it can be taken into account in Board discussions. Institutional investors have shown increasing interest in ESG matters and these are becoming a more common theme in investor relations meetings and information requests. We are also increasingly engaged in completing ESG rating questionnaires and surveys, of particular interest to our investors. More information on ESG matters appears on pages 32 to 53.

Due to the impact of COVID-19 on the conduct of the Annual General Meeting, a minimalist meeting with three shareholders present was held at the registered office with the Chief Executive being the only Board member present. 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 90% in favour in every case except for 87.31% Authority to allot shares and 89.46% Notice of general meetings.

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. Two trading updates were issued in 2021.

Outcome of 2021 AGM

At the 2021 AGM, votes were cast in relation to approximately 83.50 per cent of the issued share capital (2020: 84.02 per cent; 2019: 82.24 per cent). All 22 resolutions proposed by the Board were passed by the required majority. There were no significant votes cast against the Board's recommendations. Votes cast in favour of the re-appointment of the Board directors were as follows:

Director	Votes
Lord Smith of Kelvin	95.28%
Roy Twite	99.89%
Daniel Shook	99.09%
Carl-Peter Forster	91.47%
Isobel Sharp	99.73%
Thomas Thune Andersen	99.52%
Katie Jackson	99.93%
Caroline Dowling	99.93%
Dr Ajai Puri	98.60%







Stakeholder engagement

The Board is committed to engaging with key stakeholders, developing positive relationships with them, and making a positive contribution to the environment and local communities in which we operate. Although the Group has many stakeholders, the Board considers key stakeholders to be employees, customers, shareholders, suppliers, society & community and government & regulators.

A summary of how we engage with key stakeholders is set out on pages 54 to 57. The Board conducts a formal review of engagement processes with key stakeholders annually, and there are other touchpoints during the year. As part of this process, the Board drew on expertise from across the Group. The stakeholder assessment process considered the following, in relation to each key stakeholder:

- » why the stakeholder was an important stakeholder for the Group
- » the interests and concerns of the key stakeholder
- » strength of relationship (using relevant key performance indicators)
- » market dynamics, trends, risks and opportunities that could impact the relationship over the short, medium and long-term
- » recent interaction outcomes
- » priorities going forward
- » feedback mechanisms used & frequency

The review also considered how the Board supported engagement with each key stakeholder

Stakeholder	Board engagement
 Employees	The Board engages directly and indirectly with the workforce. A description of the activities of Thomas Thune Andersen (non-executive director with designated responsibility for employee engagement) is on page 95. The Board approves the Group Engagement Plan pursuant to which all Board members engage directly with the workforce via non-executive director site visits, attendance at Growth Hub pitches and other activities. The Board also receives reports from management on employee engagement activities and has access to our employee engagement platform, Workplace.
 Customers	The Board receives updates on key customer interactions, including any material quality or other relationship issues. Through participation in Growth Hub pitches, the Board receives information about customer relationships.
 Shareholders	Details of our shareholder engagement activities are in the left hand column of page 96.
 Suppliers	The Board receives regular updates on material supplier performance and key areas of engagement to deliver supply chain resilience. The Board also receives reports on how supply chain risks associated with modern slavery, human trafficking and conflict minerals are managed and approves a statement detailing our approach. A copy of our statement can be found on our website.
 Society & Community	As the non-executive director with designated responsibility for ESG matters, Thomas Thune Andersen has engaged with the Better World Team on a range of ESG related issues. For more information about our community activities, please see from page 50 of the Strategic Report. The Board is currently considering how to enhance the impact of its community support and ensure alignment with its ESG and broader strategic aims.
 Government & Regulators	The Board receives regular updates on legal and compliance matters and approves the Group's tax strategy and ESG strategy.

Following this review of key stakeholder engagement processes and activities, the Board determined that effective and appropriate engagement takes place with key stakeholders.

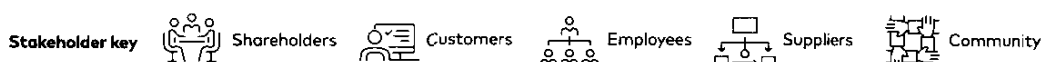
Stakeholder voice and Section 172(1) statement

This statement is made to explain how our Board of Directors, both individually and together, have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and having regard (amongst other matters) to factors set out in Section 172(1) (a) to (f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2021.

The IMI Governance Framework describes Board level governance and how the Board delegates its authority. 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 the table below, some of the key decisions made by the Board over the year are described. There is an explanation of how the Directors engaged with, or in relation to, the different key stakeholder groups and how stakeholder interests were considered over the course of decision-making. By taking a consistent approach to decision making and being guided by our purpose and our strategic aims, we hope that our stakeholders understand our decisions.

Corporate Governance Report



Key Board Decisions in 2021	Our Decision Process	Stakeholders
Acquisitions Acquisition of Adaptas Solutions for \$271m	<p>The Board receives regular updates about acquisition pipeline and approved the presentation of binding bids for targets. In the highly competitive M&A environment, the Group successfully completed one acquisition.</p> <p>In line with the Group's purpose (Breakthrough Engineering for a better world), the Board approved the acquisition of Adaptas Solutions, a business operating in the high growth and attractive Life Sciences sector, a sector which the Board considers to be aligned with its Better World strategy (see page 39 for alignment with the UN Sustainable Development Goals). As part of the decision-making process, the Board considered commercial opportunities, potential synergies and financial benefits of the acquisition. The Board also considered the longer-term growth prospects of the enlarged Group and potential returns. The views of our stakeholders, particularly the expected reactions of employees, customers and suppliers, as well as our brokers' opinions on the expected reactions from the market, were taken into account. The Board noted that IMI's enlarged life sciences business would provide employees with broader career development opportunities and would take this into account during the integration phase of the transaction. The Board considered that the combined product portfolio of IMI and Adaptas would provide customers with a larger range of solutions which would increase revenues and likely enhance IMI's contribution to a better world. It was agreed that teams from IMI and Adaptas should engage with key customers to understand their requirements and consider how the broader IMI portfolio could support them. The Board had regard to the opportunity for suppliers to increase their business with IMI, which could deliver synergies for IMI.</p>	
Distributions to shareholders » 7.9p per share interim dividend paid » £200m returned to shareholders through the share buyback	<p>During the year, the Board assessed the payment and rate of dividend per share payable to shareholders as well as the introduction of a share buyback programme. As part of decision-making, the Board considered how best to allocate capital, balancing the short-term impact on shareholders of receiving funds (dividend or return of capital) against the longer-term impact of using excess free cash flow to invest in acquisitions or growth projects, thus furthering the Group's strategic aims. Details of our capital allocation policy & dividend policy can be found on page 67.</p> <p>The Board assessed the proposal for an interim dividend, taking into account our brokers' opinions on the likely investor reaction as well as the impact on shareholders given the share buyback programme. There was also consideration of the impact on EPS, cash flow and distributable reserves.</p> <p>In making the decisions to initiate and continue with the share buyback programme, the Board considered investor expectations and potential M&A activity. The desire to maintain an effective capital structure was considered and it was important that shareholders benefit from delivery of the strategy in an efficient and attractive way.</p>	
Restructuring projects » IMI Precision Engineering's Customer First Programme » Retention of the 20-30% of 'under review' IMI Critical Engineering businesses	<p>The Group's budget and strategy, approved by the Board, sets the allocation of capital to deliver our growth strategy through investment in innovation, operational improvement and acquisitions. The weighting of each is determined by our strategic priorities and the rationalisation of the Group's manufacturing footprint plays an important part of our operational improvement plans.</p> <p>Optimising the manufacturing footprint, business simplification and increased margins are key considerations in deciding to invest in rationalisation. The Board seeks to balance investment in short-term operational improvement with investments in medium and long-term growth initiatives. Appropriate engagement takes place at local level in relation to restructuring changes affecting the workforce. The views of our stakeholders, particularly the expected reactions of shareholders, employees and customers, as well as our brokers' opinions on the expected reactions from the market, were taken into account. The Board carefully considered the negative effect on our employees but determined that taking action now would help IMI's long-term business performance, supporting future growth and employment prospects.</p> <p>The Board approved IMI Precision Engineering's 'Customer First' programme, a restructuring of the division into three platforms, aligned to customer segments. In reaching the decision, the Board considered the enhanced customer focus, reduced complexity, savings/cost and impact on the workforce. The Board understood the impact this would have on employment for some of the workforce, and was assured by management that relevant groups would be consulted fairly in line with IMI's values. The Board agreed with management's assessment that the change will benefit the Group over the long-term by creating a more efficient and customer-focused organisation.</p> <p>20-30% of IMI Critical Engineering was placed under review in 2020 and, as a result, a small business in Brazil, InterAtiva, was sold to management in July 2021. Following a detailed review of the remaining business, the Board received management's proposal in relation to retention and development as there had been developed a clear path to achieving division target returns and long-term growth potential. The Board was supportive and in reaching this decision, considered current business performance and outlook and received information about business performance improvements and new opportunities. The views of our stakeholders, particularly the expected reactions of shareholders, employees and customers, as well as our brokers' opinions on the expected reactions from the market, were taken into account. The Board recognised the positive effect on our employees and was encouraged by early orders secured in the attractive growth market of liquid hydrogen processing, a target market segment which could enhance IMI's contribution to a better world (see page 39 for alignment with the UN Sustainable Development Goals). The Board also considered alternatives to penetrate this focus market area including acquisition.</p>	

When making decisions, each Director ensures that he/she acts in the way he/she considers, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

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

The Board has adopted an established business planning process and sets strategy with a view to long-term success, to deliver our purpose – **[Breakthrough Engineering for a better world]**. The strategic emphasis is on creating great value through innovation processes such as the Growth Hub programme, through which we are building a pipeline of new products for the future success of the Group. Further information about this key strategic programme is included on pages 22 to 31. Our Better World strategy, including our ESG ambitions and targets are described on page 37. During strategy discussions, long-term considerations and alignment with our purpose had a particular influence when assessing which are the most attractive businesses and markets for IMI to target for investment. When considering any potential acquisition, the Board assesses the likely business performance of the enlarged Group over the short, medium and long-term time horizons, and alignment with our purpose.

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 page 51. Thomas Thune Andersen is the non-executive director with designated responsibility for employee engagement, which includes gathering the views of the workforce on behalf of the Board. Please see page 95 for more information about his role and activities. Due to the restrictions in place to manage COVID-19 transmission risk, most engagement activities have been conducted via video teleconference. The Board considers employees views gathered through engagement mechanisms and potential impacts on the workforce when it makes key decisions, with Thomas and other directors (where relevant), contributing any relevant employee insights during board discussion.

As a Group, we also engage with our workforce through our recently launched internal communications platform, Workplace. The platform has truly transformed how we connect and bring in our employee voice. We are able to reach each other in real time to share news and updates, and seek input in to our strategy and performance. Most importantly, it is a great channel for celebrating our people and their contribution across all geographies and levels. We encourage people to simply be who they want to be, through sharing their ideas and insights. It also allows our employees to connect and communicate in their local language. All Board members have access to the platform and can view information shared by employees. For more information, please see page 46.

We conducted an all employee survey this year to understand the views of our people. Results from the survey are contained in the Strategic Report on pages 44 and 46. Focus groups have been established to review findings, conduct deep dives into key topics and consult on proposed follow up actions. The Board has received details of the survey findings and actions underway.

Investment decisions including rationalisation and relocation of activities are considered with due regard to the interests of 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 the importance of safety, we measure and track our performance. See pages 49 to 50 for an update on our performance 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 page 67.

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 attended presentations and received regular updates on our Growth Accelerator programme. 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 collaboratively with partners including suppliers, distributors and agents who are closely managed from a commercial and compliance perspective. Further information can be found on pages 53 and 135.

The Board is committed to fair treatment and payment of suppliers. Information about key suppliers is provided to the Board by the executive Directors when relevant to Board discussions and the Board reviews prompt payment performance. Following a review of arrangements in place, the Board reviews updates and approves the Group's Modern Slavery Act Statement, which can be found on our website. The Board receives a monthly operating cash flow statement and commentary explaining working capital movements including creditor movements that would highlight payment issues. The Board receives a cash flow forecast each quarter and yearly Budget, which includes cash flows in relation to payments and would act as a highlight in case of significant unexplained creditor movements representing inflows. Supplier payment performance data is provided to the Board for certain UK companies and certain other areas of the Group.

Corporate Governance Report

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 44.

The Board approves and monitors the Group policy on minimising our impact on the environment, which is outlined on pages 40 to 42. Our continued progress depends upon the Board driving ESG initiatives and channelling investment to projects with due regard for the environment. During the year, the Board received updates on ESG matters and Thomas Thune Andersen, non-executive director for ESG matters, supported the Better World Team and worked closely with the newly appointed Head of Sustainability to support the next phase of planning around the positive contribution of our products to a better world and improving the environmental impact of our operations. Further information on ESG matters appears on pages 32 to 53.

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

The Board takes care 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 or do not pass our onboarding checks. Further information about how we ensure we operate ethically at all times and our purpose, values and culture, can be found on pages 16 and 52 to 53. Similarly, our ESG initiatives are consistent with building our standing as a good corporate citizen looking to have a positive impact on the world.

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

The Directors act fairly between shareholders of the Company but are not required to balance the Company's interests with those of other stakeholders. This sometimes results in the Company's interests not being fully aligned with those of certain stakeholders.

Evaluation of the effectiveness of the Board, its principal Committees, the Chair & the directors

The Chair arranged an internally facilitated evaluation process in 2021 which was supported by the Company Secretary. Questionnaires were created to gather information about the effectiveness of the Board and its committees. Draft conclusions were discussed with the Chair and they were subsequently reviewed with the whole Board at its meeting in December 2021. The Directors were satisfied that the Board is fulfilling its

responsibilities appropriately, that the Board and its Committees were efficient and effective and that each director demonstrated a valuable contribution and a commitment to their role.

There were no material evaluation actions reported in the 2020 Annual Report. In the 2021 evaluation, progress during the year was described in the following areas:

- » The Board celebrated progress made on diversity
- » The Board recognised improvements in the way culture is assessed, monitored and how it is aligned with the Group's purpose, values and strategy
- » The Board acknowledged more effective shareholder and stakeholder engagement

Following discussion of the report, the Board noted a small number of areas to consider in 2022 to enhance the Board's operation. The main recommendation was to review the Board agenda to ensure it continued to meet increasing regulatory expectations and evolving best practice. A review of the timing of key Board discussion matters in the annual cycle was also suggested to ensure such discussions were scheduled most effectively. It was also agreed to review Committee scope and membership.

The chairs of the three principal Board Committees each received a report from the internal evaluation exercise and reviewed that with their Committee. All were found to be operating effectively and minor suggestions to improve performance were noted.

The Senior Independent Director, Thomas Thune Andersen conducted a review of the Chair's performance with the other non-executive directors which found that the Chair's leadership of the Board was highly efficient and effective. The results of this review were shared with the Chair.

The Chair also met with the non-executive directors to review the performance of the Chief Executive. The Chair passed on to the Chief Executive appropriate feedback from the review of his performance.

The Chair conducted performance reviews of each individual director. Each director was found to be performing effectively, discharging his or her duties, and making a valuable contribution to the Board.

Details of the personal contribution of each board member can be found in the director biographies on pages 82 and 83.

Approved by the Board and signed on its behalf by:

Louise Waldek

Group General Counsel and Company Secretary

24 February 2022



Audit Committee Report



Dear Shareholder

I am pleased to give my report as Chair of the Audit Committee. The Committee's principal responsibilities are 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 an external auditor. The Committee acts in an oversight role for Annual Reports, financial statements and announcements with extended financial content, all of which are prepared by management. The full terms of reference of the Committee, which were reviewed during the year, can be found in the IMI Corporate Governance Framework on the Company's website.

In addition to our regular cycle of challenge and oversight activity, we have focused this year on the operation of the Company's second line of defence and on the ongoing impacts of COVID-19 on the business and our Group Assurance programme for the year. We have challenged detailed aspects of the Group's policy for treatment of adjusting items in relation to Alternative Performance Measures ('APMs'). We have reviewed the significant restructuring spend and the provisions for rationalisation at the year end and satisfied ourselves that the treatment of those disclosed as adjusting items is appropriate. The provisional accounting for the acquisition of Adaptas was also on the agenda. Following our recommendation to appoint Deloitte as auditor for the 2021 year end audit, the Committee has monitored the auditor transition during 2021 to ensure external auditor effectiveness remains at the highest level and welcomed the fresh challenges from the new auditors.

Members of the Audit Committee

Thomas Thune Andersen and I were members of the Audit Committee throughout the year. Dr Aja Puri joined the Committee on 1 September 2021, following the retirement of Carl-Peter Forster on 31 August 2021. All of the Committee members are regarded by the Board as independent non-executive directors and details of our experience are included on pages 82 to 83. 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, are satisfied that I have significant recent and relevant financial experience. I also currently chair the Audit Committee at The Bankers Investment Trust PLC. In my role as Chair, I have significant interactions with the Finance Director and other key senior executives, review in advance 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, commercial and auditing skills, experience and objectivity to be an effective Audit Committee. Furthermore, Committee members attend as appropriate external training sessions to update our knowledge and in 2021 Deloitte delivered a training and skills update session tailored for the Committee, with a particular focus on the 'Restoring trust in audit and corporate governance: proposals on reforms' issued by the UK Department for Business, Energy & Industrial Strategy.

The Committee invites the following to join appropriate parts of its meetings: the Chief Executive, the Finance Director, the Group Financial Controller, the Director of Group Assurance and the external auditor. In addition, the Chair and other non-executive directors are welcome to attend, and usually join, the meetings.

The Committee meets alone with the external auditor and with the Director of Group Assurance. The Committee has the power to call on any employee to attend. In 2021, one of the three Divisional Finance Directors (IMI Hydronic) attended a committee meeting to discuss financial and internal control matters including more use of shared services facilities. In addition, members of the Committee met separately with the Divisional Finance Directors, together with members of their teams, in IMI Precision and IMI Critical to understand better the digital analytic and control tools available to them. The Secretary to the Committee is the Company Secretary.

Main areas of activity

The Audit Committee met four times in 2021, each time by video conference. 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 included a review of current accounting matters within the Group, internal audit reports and external audit matters. These activities are detailed in the following sections.

During the year, the Committee reviewed the proposed amendments for the treatment of adjusting items relating to Alternative Performance Measures ('APMs'). It challenged one particular aspect on which amendment was made and welcomed the comments from the external auditor on this topic. At its meeting in February 2022 the provisional accounting for the acquisition of Adaptas was reviewed and approved.

The Committee continues to seek out with management constructive opportunities for improvement in the effectiveness of internal financial controls. A number of relevant initiatives were implemented in 2021, including the simplification of monthly reporting requirements and the ongoing IT investment and infrastructure programme, which facilitates improvements in both external audit efficiency and internal controls.

In 2021, the Committee made a deep dive into the control environment of the Group, with a review of the Internal Control Declaration (ICD) and the associated evidence binder which sites maintain. This review helped the Committee gain additional comfort around the quality of the finance function within the Group. Management has worked to strengthen finance teams and refreshed the talent pipeline for succession planning. The Committee monitors changes in senior finance roles and challenges management to ensure continuity of financial reporting standards following team changes. In 2021, management achieved successful internal transitions of key senior finance roles. The Committee also welcomed the overall improvement in the ICD evaluations and the actions being taken in those areas where there is scope for improvement.

An update on tax affairs and compliance from the Head of Group Tax was received by the Committee and the Corporate Tax Strategy included in this Annual Report on page 171 was approved by the Committee.

This year's discussion with the Group Treasurer focused on the challenges for the treasury function arising from replacement of LIBOR with SONIA as the risk-free rate and the associated update of documentation and processes.

The Committee reviewed management's approach to preparing the Annual Report and Accounts with the European Single Electronic Format ('ESEF') tagging. Management chose to use an outsourced provider with expertise to complete the initial tagging prior to finalisation internally.

Audit Committee Report

The Committee reviewed and approved for submission to the Board the statements on going concern and viability, which are on page 153 and 80 respectively. During 2021, this involved regular assessment of the impact of the pandemic and the associated uncertainties and included the effect of the share buyback programme. The Committee was satisfied with the going concern and viability statements taking comfort in particular from the resilience of its businesses demonstrated in the past periods, the strength of the Company's balance sheet and the borrowing facilities in place.

The Committee advises the Board on the fair, balanced and understandable requirements for the Annual Report and half year results statement. In the Annual Report, the fair, balanced and understandable criteria are also a review area for the external auditor who has not reported any exceptions. The Statement of directors' responsibilities on page 136 includes confirmation by the Board that it considers this Annual Report, taken as a whole, to be fair, balanced and understandable.

As noted above, Deloitte was appointed to be the Group's external auditor for the year ended 31 December 2021. The Committee reviewed the audit transition process with management and the external auditor at each meeting in 2021 and were satisfied the audit transition was completed effectively.

Significant judgements and estimations in 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 from management and the external auditor. The Committee reviewed the most significant accounting areas involving such judgements and estimates and these are described below.

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 the external auditor reported to the Committee. Having reviewed management's process and the external auditor's comments, the Committee concluded that revenues were appropriately reflected in the financial statements. Note 2 to the financial statements provides further information.

Adjusting items

The Committee considered both the items treated as adjusting and their application in APMs. In addition, this is a key audit matter on which the external auditor reported to the Committee. The Committee reviewed all adjusting items, in particular the treatment of restructuring costs, acquired intangible amortisation and tax related adjustments.

The Committee reviewed the amounts and appropriateness of restructuring costs of £35.1m and provisions of £31.6m disclosed as adjusting items. It reviewed the restructuring costs incurred by project to seek confirmation that they were non-recurring.

The Committee reviewed tax related adjusting items, including the impact of the UK corporation tax rate change that resulted in a one-off charge of £18.6m, and concluded management's treatment was appropriate.

The Committee concluded there had been adherence to the company's adjusting items policy.

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 recent and 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 £533.6m and intangible assets arising on acquisitions of £157.4m.

During 2021, prompted by questions from the external auditor, the Committee considered management's proposed amendments to the methodology used to calculate the discount rate for the purposes of impairment testing and concluded this was appropriate.

Impairment was also a key audit matter for the external auditor who reported its findings to the Committee and also concurred with the assessment that no impairments were required. Note 11 to the financial statements provides details regarding the Group's intangible assets and goodwill.

Inventory valuation

The year end balance sheet includes inventories of £335.2m after £46.2m 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.

Inventory valuation was a key audit matter for the external auditor, in respect of which it reported to the Committee that inventory valuation across the Group is considered appropriate. Note 15 to the financial statements provides details of inventory valuation.

Other judgement areas – tax and pensions

The Committee reviewed the adequacy of taxation provisions for uncertain matters. Further details on these areas can be found in Notes 3 and 9 respectively.

The Committee also 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 concluded that the accounting for pensions proposed by management was not materially misstated.

The Committee supported management's ongoing efforts to de-risk the Group's pension obligations. Further details can be found in Note 14.

Control environment

The Committee reviewed the overall control environment during the year and considered the different responsibilities for site, region, divisional and Group teams. The Committee welcomed the implementation of electronic evidence binders to provide automated documentation of controls to facilitate remote review. The Committee considered the existing control framework both in the context of the 'Restoring trust in audit and corporate governance: proposals on reforms' issued by the UK Department for Business, Energy & Industrial Strategy and in determining what was right for the Group and supported management's decision to establish a project team. The Committee supported management's decision to pilot in 2022 an automated balance sheet reconciliation tool, to assess how best to advance automation solutions across the Group over the coming years.

Divisional Financial Directors



Sukhjot Purewal
IMI Precision
Engineering



Roby Buyung
IMI Critical
Engineering



Alex Hunt
IMI Hydronic
Engineering

Audit Committee Report

Internal audit

The Committee received reports from, and monitored the work of, the Group's internal audit function, known as Group Assurance. Group Assurance has a direct reporting line to the Committee and also reports through the Finance Director to the Chief Executive. 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.

In addition to the sites reviewed in the year, the principal projects assured in 2021 focused on the Group's increasing use of digital tools and included: central review of the Group-wide travel and expenses system; IT system implementation within the Divisions; and Capital and Rationalisation project reviews. Group Assurance works closely with the divisions to implement monitoring and review processes to complement the internal and external audit coverage.

Locations to be reviewed each year are selected on a risk assessed basis, discussed and agreed with the Committee and take account of the external audit plan. In 2021, as in any other year, the plan is adjusted to meet changes in the business and one audit was cancelled due to an internal restructuring. The completion of actions arising from internal audits and reviews is monitored by the Committee and the track record for timely completion of actions is excellent.

During the year, 37 internal audit reviews were completed with 28 of these supported by divisional finance managers. As in 2020, in response to the pandemic, a flexible approach and greater use of remote audit procedures were used to deliver the internal audit plan in 2021, with the Audit Committee being consulted on the amendments at all of its meetings. The involvement of divisional financial managers in the internal audit process continues to be great value to cope with travel restrictions.

Group Assurance continues to use technology and automation to facilitate remote reviews, making use of the Group's improved ERP and data warehouse systems.

The Group Assurance team is led centrally by experienced, senior internal audit professionals and across the Group there are over 100 staff trained to conduct internal financial control audits. 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. 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 working together with experienced financial managers from the divisions to enhance the effectiveness of assurance processes. An area for improvement in 2022 which was identified for the Group Assurance team is to develop further its capability to carry out operational and commercial risk reviews. The improvement actions for 2021 were made, most notably with the advancement of electronic evidence binders including sharing of best practice examples for key controls from the best sites.

The Committee has welcomed the way in which staff involved in Group Assurance activities have coped with the challenging circumstances of 2021 so that the level of assurance gained from its activities during the year is equivalent to previous years.

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 the external auditor take a risk-based approach to audit and other assurance activity. The key audit matters identified by Deloitte are set out in its report on pages 138 to 147 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 (FRC) best practice guidance for audit committees. In addition, the external auditor confirmed that its ethics and independence policies complied with the requirements of the FRC's Ethical Standard. 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, Dean Cook, was first appointed for the 2021 audit.

The policy on the engagement of the external auditor for non-audit work reflects regulatory requirements. It 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 Deloitte 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. Non-audit fees paid to the auditor were £0.1m (2020: £0.1m), which represents 4% of the audit fee and demonstrates the tight control which is maintained in this area. The only significant non-audit engagement during the year was in respect of the interim results review, which is technically not statutory audit work but is typically placed with the audit firm 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. The Committee is satisfied that Deloitte is fully independent from management and free of conflicts of interest.

Pursuant to the power granted at the 2021 Annual General Meeting, the Committee reviewed and approved the proposed audit fee payable to Deloitte.

The Committee formally reviewed the effectiveness of the 2020 external audit process. As in other years, a questionnaire, sent to over 25 business unit finance directors and interviews with members of the Committee and selected executives were used to review the effectiveness of the external audit process. Based on the results of the questionnaire and feedback received, the Committee believes the 2020 external audit process has been good and effective. To enhance further the external audit process, certain improvement actions were identified, and plans were put in place by Deloitte to address these during the 2021 audit. Following the 2020 review of EY's effectiveness, Deloitte made improvements in key action areas by increasing the use of digital analytics tools to improve the effectiveness of the audit. The Committee also reviewed the FRC's Audit Quality Review report regarding both EY and Deloitte as firms in this transition year.

Statement of compliance

IMI confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitor Tender Processes and Audit Committee Responsibilities) Order 2014 during the year ended 31 December 2021.

Audit tendering

Current legislation will require an audit tender by not later than 2031 and the Company retains the freedom to tender earlier. The Committee considers it would be appropriate to conduct an external audit tender process commencing in the year before any change of auditor is made and therefore not later than 2030 in any event.

Committee attendance and evaluation

Director	Audit Committee meetings	% attended where eligible
Thomas Thune Andersen	4/4	100
Carl-Peter Forster*	3/3	100
Dr Ajai Puri†	1/1	100
Isobel Sharp (Chair)	4/4	100

* Carl-Peter Forster retired on 31 August 2021 and Dr Ajai Puri joined on 1 September 2021.

The Committee reviewed its own performance and terms of reference. It received positive feedback on its performance, with no recommended changes, from the internally facilitated evaluation exercise carried out for the Board and each of its standing committees. Minor amendments were made to the terms of reference which are available on the Group's website. The Committee is aware of the current external debates on the roles and responsibilities of auditors and audit committees. It is vigilant in reviewing its work to meeting changing business needs as well as external developments.

The Committee approved this report on its work.

Yours faithfully

Isobel Sharp
Chair of the Audit Committee

24 February 2022

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 activities. The core responsibilities of the Committee include reviewing Board composition, overseeing the development of a diverse pipeline for succession, leading search processes, making recommendations for 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, Caroline Dowling, Katie Jackson, Isobel Sharp and I were members of the Committee throughout the year. Dr Ajai Puri joined the Committee on 1 March 2021 and Carl-Peter Forster retired on 31 August 2021. The composition of the Committee meets the requirement of the Code that a majority of members should be independent non-executive directors. All of the non-executive directors on the Committee are regarded as independent non-executive directors.

Attendance

Director	Nomco	% attended where eligible
Thomas Thune Andersen	4/4	100
Caroline Dowling	4/4	100
Carl-Peter Forster*	2/2	100
Katie Jackson	4/4	100
Dr Ajai Puri**	3/3	100
Isobel Sharp	4/4	100
Lord Smith of Kelvin (Chair)	4/4	100

* Carl-Peter Forster retired on 31 August 2021

** Dr Ajai Puri was appointed to the Committee on 1 March 2021

The Company Secretary and the Group HR Director attend all meetings of the Committee.

The Chief Executive is not a member of the Committee but is invited to attend all meetings. Neither the Chair, nor the Chief Executive, would participate in the recruitment of their own successor.

The Committee reviewed and refreshed its own Terms of Reference and the descriptions of key board roles, which were approved by the Board to take effect from 1 March 2022.

Main areas of activity

Board changes and recommendations for election and re-election

In our 2020 Annual Report we reported that Carl-Peter Forster would complete nine years as a director in October 2021. We reported that the Committee had already engaged Audeliss to search for a new non-executive director to help enrich diversity at Board level. Audeliss has no other connection with the Company or any individual director. A formal, rigorous and transparent selection process took place which was supported by the Group Human Resources Director Liz Rose. Core competencies for the role were scoped and agreed by the Committee, a long list of potential candidates was reviewed and the short listed candidates were interviewed. Following this process, the Committee recommended the appointment of Dr Ajai Puri, which was approved by the Board. Ajai joined the Board and became a member of the Nominations and Remuneration Committees with effect from 1 March 2021. He received a virtual induction which is described in more detail on page 110.

Following Carl-Peter Forster's retirement and with effect from 1 September 2021, Thomas Thune Andersen became Senior Independent Director and Caroline Dowling became the Chair of the Remuneration Committee. Dr Ajai Puri joined the Audit Committee. These appointments were recommended by the Committee and approved by the Board.

All of the directors standing are recommended for re-election at the Annual General Meeting following Board approval of the recommendations made by the Committee in this regard. Further information (including a description of the personal contribution of each director) can be found in the Notes to the AGM Notice or in the director biographies on pages 82 and 83.

Composition & succession planning

The Committee has undertaken a comprehensive review of Board composition supported by the development of a new skills and experience matrix. The annual evaluation found that the Board was considered to be well balanced, composed of an appropriate balance of skills and experience to support the Group's strategic objectives, with no major gaps. Please see a summary of key board skills and experience on pages 82 and 83 and more detail on individual aspects of board composition such as diversity, ethnicity, nationality, age and tenure is located on page 93.

Board succession planning features on the agenda at every Committee meeting. The Committee has evolved the Board's succession plan to provide more detail about the anticipated timescales for changes in board positions (taking into account tenure), plans for interim cover and in the short to medium term. As part of future succession planning and to ensure a diverse board is maintained, the Committee will also take into account any critical experience, skills or expertise to ensure achievement of the strategy using the board skills and experience matrix, the Board Diversity Policy (on page 110) and performance against diversity targets (see page 37).

The Committee supported succession planning for the Executive Committee in the year which resulted in the appointment of Louise Waldek as Group General Counsel & Company Secretary, following the retirement of John O'Shea.

The Committee reviewed talent development and succession planning for the top 184 roles in the Group with the support of the Chief Executive and Group Human Resources Director. The Committee was 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 increasing proportion of internal appointments now running at 69%. Details of our leadership development and succession planning processes are set out in the Environmental, Social & Governance section on page 51.

Review of time commitments and contributions

The appointments of the Chair 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. In accepting their appointment to the Board of IMI, non-executive directors confirm they are able to allocate

sufficient time to discharge their duties effectively. No director has raised concerns over the time commitment required of them to fulfil their duties. Details of other significant appointments of each director are contained in the biographies on pages 82 to 83. Prior to accepting additional external positions, non-executive directors are asked to confirm they can continue to meet their time commitment and discharge their obligations to IMI.

The Committee considers that the time given to IMI by each non-executive director is sufficient and the Board is satisfied that no director is overcommitted and unable to fulfil his or her responsibilities. The Board is satisfied that I have the necessary time to devote to my role as Chair. Details of the individual contribution of each director can be found in the biographies on pages 82 and 83.

Inclusion and diversity

Diversity and inclusion continues to be an area of focus, and feedback received as part of the annual Board evaluation acknowledged improvements have been made in diversity at Board and Executive Committee levels. The Board considers diversity in its broadest sense to ensure a range of views are given during discussions and the decision-making process.

The Board is committed to gender and ethnic diversity, and its membership reflects the recommendations of the FTSE Women Leaders Review (formerly Hampton-Alexander Review Committee) and the Parker Review Committee respectively. The diversity of our Board is shown on page 93. Our diversity related targets are contained on page 37.

We have strengthened our gender diversity at Executive Committee level in the year - we now have 43% female membership on the Executive Committee. The Executive Committee includes three nationalities. 18% of direct reports to the Executive Committee were female as at 31 December 2021.

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 the Board and the Executive Committee to ensure that we have the right mix of skills and experience while maintaining our effectiveness and execution capabilities. The Committee's oversight role in relation to inclusion and diversity was enhanced this year through the development of a dashboard which reported on performance and progress against relevant equity, diversity and inclusion targets. Indicators on the dashboard included gender pay gap metrics, equal pay confirmations, and performance against external gender and ethnicity targets. The dashboard also collated relevant scores from the IMI Way Day survey which provided insights into equity and inclusion. The Committee was pleased with progress made and endorsed management's proposal to put in place the framework for UK Ethnicity Pay Gap reporting and improve diversity at the leadership level.

This year, the Committee reviewed the following Diversity Policy, which was approved by the Board.

Nominations Committee Report

Board Diversity Policy

The Company acknowledges the value of diversity in its widest sense and its contribution towards effective Board operations and decisions.

The Group operates an Inclusion and Diversity Policy which is reviewed each year and provides the framework for productive working relationships.

Taking account of its changing strategic needs, the Board will ensure:

- » The Board and its Committees have the appropriate balance, composition and mix of skills, experience, independence and knowledge to ensure their continued effectiveness, having regard to external guidance on diversity;
- » A pipeline is maintained promoting diversity for succession to the Board, Executive Committee and Leadership Group positions;
- » Only executive search consultancies who have signed up to the voluntary code of conduct for executive search firms on gender diversity on corporate boards are engaged when seeking appointments to the Board so that the selection processes provide access to a diverse range of candidates;
- » Appointments to the Board are made on the basis of merit, with regards for suitability for role, Board balance and composition and the required mix of skills, background and experience – diversity will be a consideration;
- » Policies adopted by the Group promote diversity in the broadest sense;
- » Adequate and appropriate disclosure of:
 - This Policy and diversity and inclusion initiatives the Group has in place and the steps it is taking to promote diversity at Board level and across the Company including a description of progress made;
 - The composition and structure of the Board;
 - The gender balance of those in the Executive Committee, their direct reports and the Leadership Group; and
 - The process of appointments to the Board; and
- » This policy is reviewed from time to time to monitor progress being made to assess its effectiveness.

Despite making meaningful progress in the year, there is more work for us to do. Further information about the initiatives we are implementing to increase inclusion and diversity across the Group are detailed in the Environmental, Social & Governance section on pages 46 to 47.

Non-executive director induction

A formal induction process for new non-executive directors is well established and is the responsibility of the Chair 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. In normal circumstances, 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 allow business familiarisation and are also a good opportunity to engage with a wider range of employees. Virtual Board site visits were arranged but due to the Coronavirus pandemic individual travel has been impractical for most of 2021.

The induction process for Dr Ajai Puri is summarised below:

- » Ajai spent time (both virtually and face-to-face where possible) with all members of the Executive Committee and the auditor.
- » Ajai received a governance induction which included a briefing on key matters relevant to each committee.
- » Ajai attended a corporate induction day alongside new leadership colleagues. This is an immersive and dynamic induction focused on IMI's core values and how we can achieve our purpose by focusing on solving key industry problems in attractive markets. There is an integrity between the delivery method and IMI's renewed focus on a growth mindset and an innovative approach to problems.
- » Ajai has actively participated in a number of Growth Accelerator events, where innovation working groups present new product and business ideas, engaging with the diverse teams involved from the businesses.
- » As part of a Board event, Ajai attended a virtual site visit to IMI Critical's PBM site.



Having served on several international Boards, I can honestly say that IMI's onboarding process for NEDs is amongst the best. I was able to spend quality time with Roy, Dan, Liz and the Divisional Managing Directors. These meetings gave me an excellent understanding of IMI's strategy, innovation agenda, key markets and customers. Besides strategy, it is also important for a newly appointed NED to get a feel for the culture at a Company. My onboarding was most helpful in this regard. I loved the approach of building the corporate induction session around 'solving a customer problem' which provided a very stimulating, engaging, and uplifting experience.

Dr Ajai Puri

Following Caroline Dowling's appointment as chair of the Remuneration Committee, induction meetings were held with Willis Towers Watson (remuneration advisers), the Group Human Resources Director and the Group General Counsel & Company Secretary. To support Thomas Thune Andersen in his appointment as Senior Independent Director, a briefing session was held with the Group General Counsel & Company Secretary.

Board continuing development

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, tailored best practice updates were provided to the Audit and Remuneration Committees during 2021 and the Board received a refresher on UK Market Abuse Regulations. Non-executive directors are encouraged to undertake appropriate external training and most did attend external training during the year.

Committee evaluation

This year, supported by the Company Secretary, the Committee reviewed its own performance using anonymous self-assessment questionnaires. Feedback received was positive and the Committee was considered to operate effectively and focus on the right things. The Committee valued improvements made in diversity at the Board and Executive Committee. Under the leadership of the Chair, the board appointment process was considered to have been successful and effectively run by the Chair. The Committee also recognised the support provided by the Group Human Resources team in relation to strong talent development and talent acquisition planning.

There were no material evaluation actions reported in the 2020 Annual Report. Following discussion of the Committee evaluation report, the Committee agreed to:

- » maintain current levels of gender and ethnic diversity on the Board and Executive Committee (adopting new measurable objectives to reflect any changes in corporate practice);
- » continue its emphasis on succession planning in 2022; and
- » enhance its exposure to high potential individuals across the Group to support the next level of succession candidates and pipeline.

Details of the evaluation of the effectiveness of the Board, Board Committees, the Chair and individual directors conducted in 2021 can be found on page 100.

The Committee approved this report on its work.

Yours faithfully

Lord Smith of Kelvin

Chair of the Nominations Committee

24 February 2022

Statement from the Chair of the Remuneration Committee



On behalf of the Board, I am pleased to present the Annual Directors' Remuneration Report for the year ended 31 December 2021. This is my first report as Remuneration Committee Chair following my appointment on 1 September 2021.

Remuneration in 2021

Context

2021 was Roy Twite's second full year as Chief Executive and we continue to make excellent progress to deliver on our strategy. Our efforts are balanced on Value Today – delivering improved returns through greater customer intimacy, operational efficiency, and complexity reduction; and on Value Tomorrow – investing in our future growth through engineering and market-led innovation. The Committee is confident that its decisions have been well judged and meaningful in ways that ensure that the success of the Company fairly cascades down throughout the organisation and aligns the wider workforce with the Chief Executive.

Last year, the Committee completed its review of IMI's executive Remuneration Policy which was presented for approval at the Annual General Meeting. The Committee was pleased to see that 93.4% of shareholder votes supported the new Remuneration Policy and 95.61% of votes supported the Committee's implementation of the current Remuneration Policy.

Economic environment

Our stretching 2021 annual incentive targets were set with the ambition to achieve significant growth on 2020 results, which included the temporary surge in ventilator valve demand, and there has been no cause to adjust targets as a result of any economic downturn caused by the COVID-19 pandemic.

Pay for performance

Our focus this year has been to implement the changes introduced in our new Policy, and to ensure our remuneration arrangements remain appropriate with a strong pay for performance relationship between the Policy and its implementation. A high proportion of our executive directors' remuneration remains closely tied to business performance.

The Committee select performance measures that align to our purpose and the strategy, and when setting stretching performance targets take into account a number of factors, including the strategic plan, annual budget, analysts' forecasts, alignment with the wider workforce, and economic conditions. Our objective is always to set stretching targets while at the same time ensuring that strong underlying performance, which can sometimes be obscured by external macro-economic conditions, is recognised.

When assessing the level of performance achieved, the Committee takes into account wider circumstances to ensure incentive outcomes are a fair reflection of actual performance. Further information about the process we follow when setting targets and assessing performance is set out on page 118.

Key strategic and performance highlights in 2021 include:

- » Group revenue of £1,866m increased by 2% and adjusted operating margin increased by 140bps, statutory operating margin increased by 110bps
- » Group adjusted profit before tax increased from £274m to £307m, statutory profit before tax increased from £214m to £245m
- » Adjusted Basic EPS increased from 79.7p to 92.0p
- » £200m share buyback completed in the year and shareholders will receive a total dividend of 23.7p – subject to approval at the Annual General Meeting

The Alternative Performance Measures referred to above are defined in Note 3.

Incentive outcomes

Annual incentives paid to executive directors in respect of performance in 2021 were based on achievement of stretching targets relating to Group adjusted profit before tax and strategic and personal objectives, incorporating ESG metrics. The Committee determined annual incentive outcomes ranging between 97.6% and 97.8% of maximum for the executive directors, which fairly reflects business, individual performance and is aligned with the wider stakeholder experience.

The 2019 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 75.3% in March 2022.

As part of its determination of incentive outcomes, the Committee considered the underlying performance of the business, external factors such as macro-economic conditions and shareholder experience during the performance period. The Committee also considered the impact of the Adaptas acquisition in December 2021 which, if included, would have resulted in a slightly lower vesting outcome for the ROCE metric. In line with the principles of our Remuneration Policy relating to corporate transactions, the Committee concluded that the acquisition of Adaptas should not lead to an adverse impact on remuneration outcomes, and have therefore excluded Adaptas from the 2019 IIP award outcome. In addition, Group Assurance performed an internal assurance review of the annual incentive and the 2019 IIP award outcomes.

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 pages 118 to 121 in respect of the annual incentive and page 122 for the 2019 IIP award.

Remuneration in 2022

Policy implementation

Consistent with prior years, salary increases effective 1 January 2022 considered a range of factors including the increases for the wider workforce, the financial performance of the Group and prevailing economic conditions. For 2022 the Chief Executive received a 4% base salary increase which is aligned to the general increase applied to UK employees. The base salary for the Chief Executive will be increased to £760,000 in 2022. Consistent with the approach taken for other high performing employees, the Committee awarded the Finance Director a 9% base salary increase in recognition of his outstanding performance in role and taking into account the competitiveness of salary and total package relative to peers. The base salary for the Finance Director will be increased to £506,300 in 2022. The Chair and non-executive director fees were also reviewed and increased by 4%, with effect from 1 January 2022.

Environmental, Social and Governance

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 further align incentive arrangements to our Better World strategy.

Given the existing linkage of incentives to IMI's sustainability agenda (see pages 120 and 121), the Committee has determined that annual bonus for 2022 will continue to be contingent on a PBT growth metric alongside strategic and personal objectives for each executive director. Each Director will continue to have specific, measurable Environmental, Social and Governance (ESG) targets built into their Strategic and Personal Objectives. Furthermore, the ESG underpin will also remain in place taking into account any relevant Health and Safety, environmental, social or regulatory matters when determining remuneration outcomes.

During 2021, the Committee reviewed the Company's long-term incentive plan with a view to further strengthening its linkage to our purpose [**Breakthrough Engineering** for a better world] and the successful delivery of our long-term strategy. With Better World at the core of this review, and in particular, our impact on the Environment, the Committee unanimously agreed to introduce a metric focusing on the reduction of our CO₂ emissions (Scope 1 & 2). This new ESG metric will be the reduction of total CO₂ intensity (Scope 1 & 2) when compared to the 2019 base year (2.78 tCO₂e per 1,000 hours worked) as at the end of the vesting period of the award. This aligns to our announcement in 2021 of halving our total CO₂ intensity (Scope 1 & 2) by 2030. The threshold target will equate to a total reduction of CO₂ intensity (Scope 1 & 2) of 40% by the end of 2030 (1.67 tCO₂e per 1,000 hours worked) when compared to the 2019 base year with maximum target proposed to be equal to a total reduction of 55% by the end of 2030 (1.25 tCO₂e per 1,000 hours worked) when compared to the 2019 base year. Vesting at threshold will equal 25% with maximum vesting equalling 100%. This new metric will be introduced into the IIP from 2022 and have a 10% weighting.

In light of wider, continued global economic uncertainty the Committee considered whether the performance metrics for LTIP awards remain appropriate before concluding that the existing metrics of TSR, EPS and Return on Capital Invested (ROIC*), remain aligned with strategy and with the creation of shareholder value and each will have a 30% weighting.

* This metric is the same as that presented in 2020, however it was previously referred to as Return on Capital Employed and has been renamed to Return on Invested Capital to better describe the metric. References to capital employed have also been updated to capital invested

The Committee believes that with the introduction of the new long-term incentive metric, there is now clear alignment for both short and long-term incentives with our Better World purpose which also promotes the long-term sustainable success of the strategy.

Finally, I would like to take the opportunity to thank my predecessor Carl-Peter Forster for his excellent stewardship of the Committee as demonstrated by the high level of shareholder support we received for both the renewal of Directors' Remuneration Policy and its implementation at the 2021 AGM.

Yours faithfully

Caroline Dowling

Chair of the Remuneration Committee
on behalf of the Board

24 February 2022

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 5 May 2022. 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 2021. A copy of the approved Directors' Remuneration Policy is included in the 2020 Annual Report which can be found on the IMI website.

The Committee

Composition

The members of the Committee throughout the year were Carl-Peter Forster (outgoing Chair), Caroline Dowling (incoming Chair), Katie Jackson and Dr Ajai Puri. In accordance with the Code, all the non-executive directors are regarded by the Board as independent. As previously noted, Carl-Peter Forster stood down from the Board on 31 August 2021 and Caroline Dowling became Chair of the Committee from 1 September 2021. Dr Ajai Puri joined the Board and Committee on 1 March 2021. Caroline Dowling meets the requirements of the Corporate Governance Code having more than 12 months' previous experience on a remuneration committee before being appointed Remuneration Committee Chair.

Responsibility

The Committee determines the Remuneration Policy and rewards for the executive directors and other members of the Executive Committee and the Chair. The Committee also considers the levels of pay and benefits across the Group. A copy of the Committee's terms of reference (which were reviewed and refreshed in 2021) are included in the IMI Corporate Governance Framework and are 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 2021. 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 £102,250 in 2021.

Willis Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK.

A summary of the Committee's activities during 2021

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

- » final review and approval of the Directors' Remuneration Policy presented at the 2021 AGM;
- » 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 under the incentive plans;
- » consideration of the fees for the Chair;
- » approval of the 2021 share awards to members of the Executive Committee;
- » prospective review of the performance metrics and targets for the 2021 incentive cycle;
- » consideration of prevalence of ESG within strategy and current linkage to incentives, paying particular attention to clarity, simplicity, risk, predictability, proportionality and alignment to culture;
- » development of a proposal to link the Better World strategy to the Long-Term Incentive Plan structure by including a CO₂ Intensity metric for 2022;
- » review of IMI's gender pay gap data for 2021 against the prior years' data;
- » review of IMI's pay ratio of the Chief Executive to UK employees and underlying calculation methodology;
- » review of a report presented to the Board by Thomas Thune Andersen in his role as non-executive director with responsibility for employee engagement. Consideration of how Director pay aligns with that of the wider workforce;
- » receipt of an update on 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; and
- » review of executive director's service agreements.

Attendance

Director	Remuneration Committee meetings	% attended where eligible
Caroline Dowling (Chair)	3	100
Dr Ajai Puri¹	2	100
Carl-Peter Forster²	2	100
Katie Jackson	3	100

¹ Dr Ajai Puri joined the Remuneration Committee on 1 March 2021

² The July 2021 meeting was Carl-Peter Forster's last meeting before he stood down from the Board

Annual General Meeting voting outcomes

The following table summarises the details of votes cast for and against the 2020 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
Directors' Remuneration Report	95 61%	4 39%	0 6%
Directors' Remuneration Policy	93 40%	6 60%	1 0%

Annual Directors' Remuneration Report

Executive single figure table (audited)

		Fixed pay (£000)			Annual variable pay (£000)	Long-term variable pay (£000)	Other items in the nature of remuneration (£000)			
Director	Base salary ¹	Pension ²	Taxable benefits	Annual incentive bonus	IMI Incentive Plan ('IIP')		All-employee share plans	Total (£000)	Total fixed pay (£000)	Total variable pay (£000)
See page	Page 117	Page 117	Page 117	Pages 118 to 121	Page 122		Page 124			
Roy Twite	2021	731	80	25	1,427	1,709	6	3,978	836	3,142
	2020	684	75	23	1,051	618	4	2,455	782	1,673
Daniel Shook	2021	465	79	47	681	948	7	2,227	591	1,636
	2020	435	87	35	500	428	4	1,489	557	932

¹ On 30 March 2020, the Board announced that both the Chief Executive and Finance Director agreed to a 20% salary reduction, effective 1 May, for three months ended on 31 July 2020. Pension allowance as a percentage of salary remained the same, and hence reduced in absolute terms, in line with the salary reduction.

² Daniel Shook continued to receive a pension allowance of 20% of salary during 2020. As previously stated, Daniel Shook's pension allowance will reduce as per the following schedule: from 1 January 2021 17% of salary, from 1 January 2022 14% of salary, and from 1 January 2023, 11% of salary.

Roy Twite served on the Board of Halma plc during the year and received fees of £58,500 in respect of this appointment, which he retained.

Daniel Shook served on the Board of Ultra Electronics Holdings plc during the year and received fees of £67,625 in respect of his appointment, which he retained.

These figures have been calculated as follows:

Base salary and fees:	the actual salary receivable for the year	Share price assumptions:	for shares vesting in 2022, that related to performance in the three years to 31 December 2021, the average share price over the final three months of 2021 (1,720.83 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	Total fixed pay:	Sum of fixed pay columns
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	Total variable pay:	Sum of annual incentive bonus, IMI Incentive Plan ('IIP'), all-employee share plans, and dividend equivalent payments (if applicable)
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 below)		

Executive remuneration received in respect of 2021

Base salary

Consistent with prior years, salary increases effective 1 January 2021 considered 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 2021 was 2.3%.

For 2021 the Chief Executive received 1.5% and the Finance Director received 1.5%. Base salary levels were set at £730,800 for the Chief Executive and £464,500 for the Finance Director.

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, Finance Director received a cash allowance of 17% of salary. His allowance will reduce 3% p.a. until 1 January 2023 where he will receive a cash allowance equivalent to 11% of base salary which is consistent with the average global employee pension opportunity for employees.

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 2021 £000pa	Accrued pension in the Fund as at 31 December 2020 £000pa
Roy Twite	79	78

Benefits

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

	Roy Twite		Daniel Shook	
	2021	2020	2021	2020
Non-cash benefits (£000)	5	3	33	21
Company car and fuel allowance (£000)	20	20	14	14
Allowances and reimbursement (£000)	-	-	-	-
Total	25	23	47	35

In addition to the above benefits and allowances that are included in the single figure table (refer to table on page 116), 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 2021 that were fully aligned to the business strategy and the annual budget as approved by the Board in December 2020. The 2021 annual incentive bonus focused on just one financial metric and non-financial metric.

These included:

- » Group adjusted profit before tax (80%)
- » Strategic and personal objectives (20%)

Free cash flow was also monitored and, if it materially underperformed against budget, the Committee were required to automatically consider applying downward discretion.

There was also an Environmental, Social & Governance (ESG) underpin to provide discretion for the Committee to take into account any relevant ESG matters when determining bonus outcomes.

For 2022, see page 128 for information regarding the financial metric.

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 including the ongoing impact of COVID-19, individuals' areas of responsibilities and the Committee's expectations over the relevant period. Notwithstanding stretching targets are set at the outset, the Committee will also consider the application of discretion at the end of the performance period if relevant.

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 downward economic and market headwinds:

- » Group revenue of £1,866m increased by 2% and adjusted operating margin increased by 140bps, statutory operating margin increased by 110bps
- » Group adjusted profit before tax increased from £214m to £307m, statutory profit before tax increased from £227m to £245m
- » Adjusted Basic EPS increased from 79.7p to 92.0p
- » £200m share buyback completed in the year and shareholders will receive a total dividend of 23.7p – subject to approval at the Annual General Meeting

The Alternative Performance Measures referred to above are defined in Note 3.

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 2021 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, there is erroneous or misleading data 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 Committee has considered the position and determined that for 2021 it is not appropriate for any reason to exercise the discretion to override formulaic outcomes or recover amounts previously awarded.

Summarised in the table below is the achievement against Group targets applicable for Roy Twite and Daniel Shook.

Director	Measure	Maximum opportunity (% of bonus opportunity)	Performance targets			Actual performance (£m)	Actual performance (% out of 100)	Actual performance as a percentage of metric weighting
			Threshold	Target	Maximum			
All executive directors	Group adjusted profit before tax ¹	80%	£263.0m	£276.8m	£290.6m	£323.9m	100%	80%
	Strategic and personal objectives	20%	See table on pages 120 and 121					
		100%						

¹ Adjusted Group profit before tax, as set out in the Consolidated Income Statement on page 148, adjusted for the impact of foreign exchange, acquisitions and disposals




Strategic and personal objectives

As part of the strategic growth plan, the Committee sets each executive director several strategic and personal objectives each year. 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 2021 and the performance against them is provided in the table below.

Director	2021 Strategic and personal objectives	Commentary	Weighting (% of maximum)	Performance achieved (% of maximum)
Roy Twite	<p>Strategic growth: Fully embed a culture of market-led innovation across IMI to accelerate profitable growth. Execute major strategic projects on time and to budget. Continue to develop acquisition options and relationships across all three divisions, ensuring successful acquisitions have robust integration planning, financial controls and resourcing.</p> <p>Strengthen organisation: Drive succession plan and develop the depth of talent in the organisation across all management roles. Continue to build the IMI Executive team and accelerate its performance. Further improve employee communication and engagement.</p> <p>Deliver projects: Focus the entire management team on profitable growth, ensuring each part of the organisation is designed most appropriately to achieve this. Optimize each division's performance to deliver the strategic plan.</p> <p>Environment: Focus on elevating the visibility of IMI's progress, further developing metrics and targets. Advance 'FTSE4Good' scores to ensure entry in the next two years. Continue to monitor and review that HSE, quality and risk improvement plans are robust and delivered across the three divisions.</p> <p>Social: Drive a proactive diversity and inclusion culture throughout the organisation. Ensure that IMI's values are lived by and any breaches are investigated with any resultant improvements plans implemented.</p> <p>Governance: Ensure IMI's financial controls and reporting integrity are maintained at the highest level. Continue to regularly update our key shareholders.</p>	<p>» Our Better World strategy of customer focus, market-led innovation and complexity reduction was deployed effectively in 2021.</p> <p>» Growth Hub orders trebled to £23m and over 700 employees were involved in Growth Accelerator initiatives.</p> <p>» IMI Precision Engineering's 'Customer First' organisational restructuring programme was completed with more simplification to follow.</p> <p>» IMI Hydronic Engineering structures were simplified with the consolidation of manufacturing and warehouses.</p> <p>» The acquisition of Adaptas was completed in late December 2021.</p> <p>» IMI Executive team performance continues to improve. The recruitment of Louise Waldek enhances the diversity of the Executive team.</p> <p>» Chief Executive and executive succession pipeline was strengthened with strong candidates identified and undergoing rapid development programmes.</p> <p>» Employee engagement scores improved significantly with 80% of employees 'recommending IMI as a good employer to friends and family' compared to 73% in 2020.</p> <p>» Employee engagement improved significantly through quarterly Executive video calls to the Leadership Group and our new communications platform; Workplace.</p> <p>» The IMI Executive Committee and Leadership Group all focused their efforts on profitable growth to create a better world.</p> <p>» IMI Precision Engineering was reorganised around its end-markets through the 'Customer First' initiative, with stronger business unit leadership put in place.</p> <p>» IMI Critical Engineering won £20m in new business from Growth Hub initiatives, and continued to grow its after-market business.</p> <p>» IMI Hydronic Engineering structure was simplified to enable growth by restructuring manufacturing.</p> <p>» Risk mitigation actions in the supply chain have proved effective so far in the pandemic. Total Recordable Incident Frequency Rate decreased from 0.57 to 0.56.</p> <p>» IMI re-entered FTSE4Good in 2021 which was achieved ahead of schedule.</p> <p>» Total CO₂e emissions have also been reduced by 23% since 2019.</p> <p>» IMI Executive Committee now includes three female members out of a total of seven.</p> <p>» Half of graduates recruited were female for the second year running.</p> <p>» Employee engagement scores have improved further and 87% of employees now feel that they are treated fairly and with respect compared to 80% a year ago.</p> <p>Financial controls improved in the year as per external auditors assessment. Over 100 interactions with institutional and other shareholders took place including meeting with 80% of top 20 shareholders.</p>	20.0%	88%

Director	2021 Strategic and personal objectives	Commentary	Weighting (% of maximum)	Performance achieved (% of maximum)
Daniel Shook	Strengthen finance organisation: Ensure finance leadership changes are successful and enhance internal succession options. Develop a strong, diverse pipeline of talent and maintain high levels of engagement within the finance function	» Finance leadership team changes were implemented effectively with a strong and committed team now in place » Strong recruitment has improved the talent pipeline and enhanced succession planning for senior finance roles	20.0%	89.0%
	Deliver projects: Deliver new employee engagement project to create a dedicated internal communications platform. Advance the use of automation within the finance function, ensuring no control degradation. Reduce financial reporting complexity, delivering 50% reduction in monthly reporting data. Actively engage and support the delivery of divisional Growth Accelerator and new product development targets	» Workplace, the new employee communications platform was successfully launched in May 2021 and has transformed the way IMI is able to communicate effectively with employees » Financial reporting simplification programme was completed in 2021 with a 50% reduction in monthly reporting data achieved » A new automated reporting tool was successfully piloted during 2021 with further development plans in place for 2022.		
	 Environment: Ensure ESG activity and reporting is delivered to a high standard. Support initiatives to advance progress to enter 'FTSE4Good'	» Achieved re-entry to FTSE4Good earlier than anticipated in 2021		
	 Social: Ensure IMI has a diverse list of candidates on the short list for all open Finance positions	» New hiring protocols have been embedded during 2021 to ensure IMI has a diverse list of candidates for open positions » More new hires into the Finance team have been female, continuing to improve the diversity of the team		
	 Governance: Effectively manage the audit transition process to ensure a quality and efficient audit from Deloitte in 2021.	» The new audit team have transitioned successfully and the onboarding process has been smooth. Early insights provided by Deloitte supporting the decision to make the appointment		

Performance under the financial metric (80% of the total annual incentive bonus achievement) and the strategic and personal objectives (20% of the total annual incentive bonus achievement) and the total achievement (% of maximum) is set out below:

Director	Actual performance of financial metrics (%)	Performance achieved under the strategic and personal objectives (%)	2021 maximum bonus achieved (% of maximum)
Roy Twite	80%	17.6%	97.6%
Daniel Shook	80%	17.8%	97.8%

Based on the performance described above, the annual incentive bonus outcomes for 2021 are set out below:

Director	2021 maximum bonus opportunity (% of salary)	2021 maximum bonus achieved (% of maximum)	Total bonus awarded (£000)	Total bonus awarded (% of salary)	Achievement of share ownership guidelines at 31 Dec 2021 ¹	Bonus delivered in form of cash (£000)	Bonus delivered in form of share awards (£000) ¹
Roy Twite	200%	97.6%	1,427	195%	191%	1,427	-
Daniel Shook	150%	97.8%	681	147%	166%	681	-

¹ 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 123

Annual Directors' Remuneration Report

Awards vesting under the IIP

In March 2019, 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 ended 31 December 2021. The 2019 IIP award will vest in March 2022 at 75.3% 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	120,758	1,214	90,930	8,386	99,316	1,709
Daniel Shook	66,962	673	50,422	4,650	55,072	948

¹ The three-day average mid-market price on the date of award was 1,005.00 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 2021 1,720.83 pence

Return on capital employed (ROCE)

25% of the award was subject to the achievement of ROCE. This measure is defined as adjusted operating profit as a percentage of the average capital employed during the financial year ended 31 December 2021. Capital Employed being Intangible Assets (excluding Acquired Intangibles and Goodwill), Property, Plant and Equipment and Working Capital. It compares the earnings of the Group with the Capital employed. 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 performance 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 47.7% resulting in this element vesting at 20.7%.

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 9th of the peer group. The resultant vesting outcome for this element of the award 9.0%.

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 ended 31 December 2021, IMI delivered Group profit before tax growth of 6.9%. The resultant vesting outcome for this element of the award is 45.6%.

Deferred bonus share awards

In March 2019, deferred bonus share awards were also made under the IIP which vest in March 2022. 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.

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:

- » the Company misstated financial results;
- » the Company suffers serious reputational damage;
- » if there was an error or miscalculation in determining the size of the award;
- » gross misconduct by an executive; and/or
- » the Remuneration Committee has made decisions using erroneous or misleading data; or
- » in such other circumstances as the Committee sees fit.

The Committee has considered the position and determined that for 2021 it is not appropriate for any reason to exercise the discretion to override the formulaic outcome of the 2019 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 200% 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.

The Committee has determined that as both Roy Twite and Daniel Shook have met their guidelines (as at 31 December 2021) as outlined above, their entire 2021 bonus will be delivered in cash.

Share interests granted to executive directors during 2021 (audited)

Grants made under the IIP

Performance share award grants under the IIP were made on 22 March 2021 in the form of nil-cost options. Awards are due to vest on 22 March 2024, subject to performance in three core areas aligned to our longer-term strategic priorities: Adjusted EPS growth ($\frac{1}{3}$), relative TSR ($\frac{1}{3}$), and ROIC ($\frac{1}{3}$). 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 2021 IIP awards are as follows

	Adjusted EPS	Relative TSR	ROIC	Level of vesting
Threshold	3%	Median	11.5%	25%
Maximum	7.5%	Upper quartile	13.5%	100%
Weighting	$\frac{1}{3}$	$\frac{1}{3}$	$\frac{1}{3}$	

The following performance share award grants were approved and made in 2021:

	IIP shares awarded	Value on date of award ¹ (£000)	Award as a percentage of salary
Roy Twite	139,288	1,827	250%
Daniel Shook	53,119	697	150%

¹ The three day average mid-market price on the date of award was 1,311.67 pence

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 2021 are shown in the table on page 125 under the 'without performance conditions' column. No performance conditions apply to these awards.

Annual Directors' Remuneration Report

For share awards granted in 2021 the TSR group included 18 companies to ensure 2021 alignment with our peers and comparison to companies with similar products, customers and global spread. The 2021 peer group includes the following companies which is broadly consistent with our 2020 peer group (changes in bold), and in line with the Committee's guidelines:

TSR comparator group companies

Belimo	Ingersoll-Rand US Inc	SMC
Circor	ITT	Smiths Group
Curtiss-Wright	Morgan Advanced Materials	Spectris
Eaton	Parker-Hannifin	Spirax Sarco
Emerson Electric	Rockwell Automation	SPX
Flowserve	Rotork	The Weir Group

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 ² (£000)		
Roy Twite	2021	259	4	1,542	2	-	6
	2020	436	4	-	-	-	4
Daniel Shook	2021	259	4	2,571	3	-	7
	2020	436	4	-	-	-	4

¹ In 2021 free shares were awarded at a share price of 1,389.33 pence (824.97 pence in 2020).

² In 2021 SAYE awards were made at a 10% discount and the value shown is the intrinsic gain at the date of grant, calculated in accordance with the single figure requirements (on page 116)

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

The following table summarises the total fixed fees and benefits paid to the Chair and non-executive directors in respect of the financial years ended 31 December 2021 and 31 December 2020.

Director	2021 (£000)				2020 (£000)			
	Base fees	Additional fees	Taxable benefits ²	Total	Base fees	Additional fees	Taxable benefits ²	Total
Lord Smith of Kelvin¹	311	-	3	314	317	-	1	318
Carl-Peter Forster^{3,4}	45	19	-	64	63	24	2	89
Birgit Nørgaard⁵	-	-	-	-	11	4	-	15
Isobel Sharp⁶	68	17	2	87	63	16	1	80
Thomas Thune Andersen⁷	68	14	5	87	63	4	1	68
Katie Jackson	68	-	2	70	63	-	1	64
Caroline Dowling⁴	68	6	3	77	63	-	2	65
Dr Ajai Puri	57	-	6	63	-	-	-	-

¹ On 30 March 2020 the Board agreed to a 20% salary reduction in fees, effective 1 May 2020, for the three months ended on 31 July 2020

² Taxable benefits includes travel and hotel expenses plus tax costs associated with Board meetings held at IMI HQ

³ Includes fee for Senior Independent Director (pro-rated)

⁴ Includes fee for being Chair of the Remuneration Committee (pro-rated)

⁵ Includes fee for being Chair of the Remuneration Committee (pro-rated) and the non-executive director with responsibility for employee engagement

⁶ Includes fee for being Chair of the Audit Committee

Includes fee for Senior Independent Director (pro-rated) and non-executive director with responsibility for employee engagement and for ESG matters

⁷ As a consequence of the Company being near to its Articles of Association limit on payments it may make to Directors, the Chair, Lord Smith of Kelvin agreed to a £27,778 underpayment of his £338,500 fee in 2021. The Chair will be repaid in 2022. We shall be seeking shareholder approval at the 2022 AGM to increase the payment limit within our Articles of Association

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 2021 or at the date of leaving the Board.

During the period 31 December 2021 to 24 February 2022 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 11 January 2022 of 9 shares on behalf of Roy Twite and 8 shares on behalf of Daniel Shook at 1,679.00 pence per share, and 8 February 2022 of 9 shares on behalf of Roy Twite and 8 shares on behalf of Daniel Shook at 1,645.00 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	726,213	189,345	506,716	-	20,995	-	9,157
Daniel Shook	329,227	80,143	216,078	-	30,260	-	2,746
Lord Smith of Kelvin	14,300	14,300	-	-	-	-	-
Carl-Peter Forster	2,625	2,625	-	-	-	-	-
Isobel Sharp	3,000	3,000	-	-	-	-	-
Thomas Thune Andersen	2,625	2,625	-	-	-	-	-
Katie Jackson	2,846	2,846	-	-	-	-	-
Caroline Dowling	1,714	1,714	-	-	-	-	-
Dr Ajai Puri	3,000	3,000	-	-	-	-	-

¹ Vesting dates of share awards are shown in Note 6, page 166

Relative importance of spend on pay

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

	2021 (£m)	2020 (£m)	Change
Dividends	61.8	91.6	-32.5%
Total employment costs for Group (see Note 5 on page 165)	593.7	583.2	1.8%

In 2021, the total dividend for the year of 23.7p represented an increase of 5% year over year. The share buyback programme returned £200.0m to shareholders in the year.

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	Employees ¹
Base salary	6.9%	4.4%
Benefits	8.7%	3.6%
Annual bonus	35.8%	68.8%

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

Annual Directors' Remuneration Report

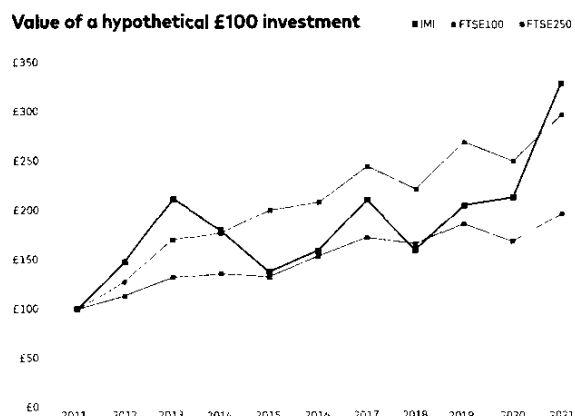
Historical performance and remuneration

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

The graph 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 adjacent illustrates, IMI's absolute and relative TSR performance has been strong over the last ten years.



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	2012 ¹	2013 ¹	2014 ¹	2015 ²	2016 ²	2017 ²	2018 ²	2019 ³	2020 ³	2021 ³
Total remuneration (single figure, £000)	7,954	6,688	1,567	1,667	1,901	2,773	3,047	1,707	2,455	3,978
Annual variable pay (% of maximum)	47%	62%	36%	40%	50%	95%	75%	43%	73%	98%
Long-term variable pay (% of maximum) - Share Matching Plan	100%	100%	-	-	-	-	-	-	-	-
Long-term variable pay (% of maximum) - Performance Share Plan	100%	82.6%	-	-	3.5%	-	-	-	-	-
Long-term variable pay (% of maximum) - IMI Incentive Plan	-	-	-	-	-	6.55%	29.2%	47.1%	58.8%	75.3%

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.

The following table summarises the annual percentage change of each director's remuneration compared to:

- » The annual percentage change of the average remuneration of the Group's employees, calculated on a full-time equivalent basis
- » The performance of the Group over the same preceding financial year

	2020			2021		
	Annual Salary/Fees	Benefits	Annual bonus	Annual Salary/Fees	Benefits	Annual bonus
Executive Directors						
Roy Twite	7.5%	-23.3%	103.7%	6.9%	8.7%	35.8%
Daniel Shook	-3.1%	-14.6%	101.6%	6.9%	34.3%	36.2%
Chair						
Lord Smith of Kelvin	-3.1%	-85.7%		-1.9%	200.0%	
Non-executive directors						
Carl-Peter Forster ¹	13.0%	-80.0%		-26.4%	-100.0%	
Birgit Nørgaard	-82.8%					
Isobel Sharp	-3.7%	-50.0%		7.6%	100.0%	
Thomas Thune Andersen	1.5%	-87.5%		22.4%	400.0%	
Katie Jackson	-4.5%	-75.0%		7.9%	100.0%	
Caroline Dowling				17.5%		
Dr Ajai Puri ¹						
Average Pay of UK HQ employees	3.75%	0.1%	92.0%	4.40%	3.6%	68.8%

¹ Dr Ajai Puri was appointed to the Board on 1 March 2021 and Carl-Peter Forster stepped down from the Board on 31 August 2021. Fees represented pro-rated amounts.

Pay ratio reporting

Pay ratio legislation 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)
2021	Option C	116.1	95.1	63.1
2020	Option C	85.1	67.1	45.1
2019	Option C	83.1	62.1	45.1

- » The 2021 Chief Executive single figure is calculated considering the Chief Executive's remuneration calculation includes base salary, fees, pension, taxable benefits, annual bonus and shares paid during 2021.
- » As is permitted by Option C of the regulations, the Gender Pay Gap data for 2021 based on a snapshot in April 2021 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 ten employees at each of the quartiles for the full year ended on 31 December 2021.
- » 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 2021 calendar year. Gathering data on more than three 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 employees receive competitive pay and benefits and have the opportunity for annual pay increases and career progression and development opportunities.
- » Changes to the ratio in 2021 compared to 2020 are largely attributable to the improved performance of the business and the subsequent impact on improved variable pay.

The total pay and benefits and base salary component of the total pay and benefits figures are as follows:

2021	Base salary (£)	Total pay and benefits (£)
Chief Executive remuneration	730,800	3,977,072
25th Percentile employee	22,472	34,398
50th Percentile employee	30,352	41,902
75th Percentile employee	51,538	62,657

Annual Directors' Remuneration Report

Application of the Policy for 2022

Executive director fixed pay

Consistent with prior years, salary increases effective 1 January 2022 considered a range of factors including the increases for the wider workforce, the financial performance of the Group and prevailing economic conditions.

For 2022 the Chief Executive received a 4% base salary increase which is aligned to the general increase applied to UK employees. The base salary for the Chief Executive will be increased to £760,000 in 2022. As noted in the Chair's letter, the Committee awarded the Finance Director a 9% base salary increase. The base salary for the Finance Director will be increased to £506,300 in 2022. The Finance Director will have his pension entitlement reduced by 3%. As such he will receive a cash allowance of 14% of base salary. Other elements of fixed pay (benefits and allowances) will remain unchanged, although pension allowances are a fixed percentage of salary.

Incentive pay

Annual bonus

During 2021 the Committee reviewed the appropriateness of continuing with the metrics that applied to the 2021 annual bonus to ensure alignment with IMI's strategy.

The Committee determined that the 2022 annual bonus will be contingent on a Profit Before Tax growth target alongside strategic and personal objectives for each executive director. There will be a weighting of 80% to financial metrics and 20% to strategic and personal objectives.

Free cash flow, if it should materially underperform against budget, will continue to be considered as an explicit reason for the Committee to apply downward discretion. The ESG underpin will continue to be considered to allow the Committee to take into account any relevant ESG matter when determining remuneration outcomes.

The Committee will continue to monitor the underlying performance of the business when determining bonus outcomes. Due to the commercially sensitive nature of the financial targets 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 be set at 200% of salary for Roy Twite. The annual bonus opportunity for Daniel Shook will be set at 150% of base salary. 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 attached to IIP awards.

The Committee continues to believe that this will ensure that executives are only rewarded if underlying earnings are increased over the performance period and shareholder returns outperform peers.

2022 awards will be set 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.

During 2021, the Committee reviewed the Company's long-term incentive plan with a view to further strengthening its linkage to our purpose (**Breakthrough Engineering** for a better world) and the successful delivery of our long-term strategy. With Better World at the core of this review, and in particular, our impact on the Environment, the Committee unanimously agreed to introduce a metric focusing on the reduction of our CO₂ emissions (Scope 1 & 2). This new ESG metric will be the reduction of total CO₂ intensity (Scope 1 & 2) when compared to the 2019 base year (2.78 tCO₂e per 1,000 hours worked) as at the end of the vesting period of the award. This aligns to our announcement in 2021 of halving our total CO₂ intensity (Scope 1 & 2) by 2030. The threshold target will equate to a total reduction of CO₂ intensity (Scope 1 & 2) of 40% by the end of 2030 (1.67 tCO₂e per 1,000 hours worked) when compared to the 2019 base year with maximum target proposed to be equal to a total reduction of 55% by the end of 2030 (1.25 tCO₂e per 1,000 hours worked) when compared to the 2019 base year. Vesting at threshold will equal 25% with maximum vesting equalling 100%. This new metric will be introduced into the IIP from 2022 and have a 10% weighting.

In light of wider, continued global economic uncertainty the Committee considered whether the performance metrics for LTIP awards remain appropriate before concluding that the existing metrics of TSR, EPS and Return on Invested Capital (ROIC*), remain aligned with strategy and with the creation of shareholder value and each will have a 30% weighting.

TSR metrics remain unchanged but having taken into account internal budgets and analyst consensus estimates available at the time the targets were set the Committee decided that the maximum target for EPS should be increased from 7.5% in 2021 to 10.0%. The Committee feels that given economic uncertainty, increasing tax rates and a historic 10 year EPS CAGR of 3.6%, the increased maximum remains appropriately stretching. EPS threshold will remain the same as 2021 at 3.0%. In addition, the Committee decided that both the maximum and threshold target for ROIC should be lower than the targets set for 2021 by 0.5%. The Committee believes that despite this reduction the maximum target for ROIC remains appropriately stretching in the context of the current operating environment and well above the Company's WACC of 7.0%. Further, the Committee retains discretion to determine, should the 2022 LTIP vest, whether the formulaic outcome is a fair reflection of underlying business performance and consistent with the shareholder experience over the performance period and if not, to adjust the formulaic outcome accordingly.

* This metric is the same as that presented in 2020, however it was previously referred to as Return on Capital Employed and has been renamed to Return on Invested Capital to better describe the metric. References to capital employed have also been updated to capital invested.

The performance targets that will apply to the 2022 IIP awards are as follows.

	Relative TSK	Adjusted EPS	ROIC	Total CO ₂ intensity	Level of vesting
Threshold	Median	3%	11%	2019 base -17% (2.31 tCO ₂ e per 1,000 hours worked)	25%
Maximum	Upper quartile	10%	13%	2019 base -32% (1.89 tCO ₂ e per 1,000 hours worked)	100%
Weighting	30%	30%	30%	10%	

Service contracts

The unexpired terms of the non-executive directors' service contracts can be reviewed in the Board's Corporate Governance Report on page 93.

Fees for the Chair and non-executive directors

The Chair and non-executive directors' remuneration increased by 4% with effect from 1 January 2022 which is aligned to the general increase applied to UK employees.

Committee evaluation

The Committee reviewed its own performance and terms of reference and received positive feedback, with no recommended changes, from the evaluation exercise carried out in respect of the Board and each of its committees.

The Committee approved this report on its work.

Caroline Dowling

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

24 February 2021

Directors' Report

Statutory & Other Information

The directors present their management report, including the Strategic Report, together with the audited financial statements of IMI plc (the Company) and its subsidiaries (together, the Group), for the year ended 31 December 2021.

Strategic Report

The Strategic Report on pages 12 to 81 is incorporated by reference.

Results and dividend

The directors recommend a final dividend of 15.8p per ordinary share for the year ended 31 December 2021. Subject to shareholder approval by our shareholders at our Annual General Meeting on 5 May 2022, the final dividend will be paid on 13 May 2022 to shareholders on the register at the close of business on 8 April 2022. Together with the interim dividend of 7.9p per ordinary share paid on 12 August 2021, this gives a total dividend for the 2021 financial year of 15.8p per ordinary share. The interim and final dividends paid in respect of the 2020 financial year were 7.5p per ordinary share and 15.0p per ordinary share respectively (2020 total dividends paid of 22.5p).

Research and development

See Note 5 to the financial statements on page 165 for an indication of research and development activities of the Group. More information about our investment in Growth Hub projects can be found on page 66.

Share capital

As at 31 December 2021, the Company's issued share capital was £78,549,911.70 divided into 274,924,691 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 205. 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 depository. See page 220 for further details.

As at 31 December 2021, 1,823,819 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.7% 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 2021, 104,849 new ordinary shares were issued under employee share schemes: 104,849 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 in an attempt to match beneficiaries with shares held by shareholders who had not claimed or cashed a single dividend payment from the Company over a period of at least the last twelve consecutive years. All shares held in the names of such shareholders and which are not matched with beneficiaries, will be forfeited and sold in November 2021 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 in 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, in accordance with the Companies Act 2006, Listing Rules or the City Code on Takeover and Mergers); 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.

Purchase of own shares

The Company was granted authority at the Annual General Meeting held on 6 May 2021 to purchase up to 27,200,000 of its ordinary shares. This authority will expire at the conclusion of the next Annual General Meeting to be held on 5 May 2022, where shareholders will be asked to give a similar authority, details of which will be given in the Notice of Annual General Meeting. The Company commenced a share buyback programme on 26 April 2021 and in the period to 23 November 2021, the Company purchased 11,653,829 ordinary shares of 28 4/7p each totalling £200,026,665.39 including dealing costs, all of which have been cancelled.

Treasury shares

As at 31 December 2021, 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 number of shares held in treasury during the year ended 31 December 2021 was constant.

Major shareholdings

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules is published on a regulatory information service and on the Company's website. As at 31 December 2021, 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:

Name of shareholder	Per cent of issued share capital	Direct or indirect nature of holding
Massachusetts Financial Services Company	9.89	Indirect
Ameriprise Financial Inc.	5.58	Direct
Standard Life Investments (Holdings) Limited	4.97	Indirect
BlackRock, Inc.	4.90	Direct
Norges Bank	3.05	Direct
Legal & General Group plc	3.03	Direct

Between 31 December 2021 and 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 for notifications received from BlackRock, Inc on 25 January 2022 that its interests totalled 5% and on 9 February 2022 that its interests totalled below 5%.

Related party transactions

Details of related party transactions are in Note 26 on page 207.

Corporate governance

The Corporate Governance Report on pages 86 to 100 is incorporated into this Directors' Report by reference and includes details of our compliance with the 2018 UK Corporate Governance Code (which can be found on the Financial Reporting Council's website - www.frc.org.uk).

Information about our diversity policy, as well as our diversity objectives, activities and performance, are set out on pages 46 to 47.

An explanation of the Board's activities in relation to culture is set out on page 94.

Employee matters

Details of how we engage with our workforce, provide them with relevant information and take account their interests in decision-making can be found on pages 97 to 99. Our approach to investing in and rewarding the workforce is set out on page 99. Our Section 172(1) statement can be found on pages 97 to 100. A description of how our directors have engaged with the workforce is set out on pages 95 and 97.

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 43 to 47.

Details of employee share schemes are set out in Note 6 of the financial statements on pages 166 to 168.

Details of the arrangements in place under which employees can raise any matter of concern are set out on pages 53 and 134.

Our business relationships

A summary of how the Company has engaged with suppliers, customers and other third parties can be found on pages 53, 54 to 57, and 96 to 100. Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the Company during the financial year are contained in the section 172(1) statement on pages 97 to 100. Further information on our payment practices with suppliers can be found on the government's reporting portal. Our statement on slavery and human trafficking can be found on our website at <https://www.imipic.com/sites/imi-corp/files/2021-Modern-Slavery-Act-Statement.pdf>

Health, safety and the environment

Details of our approach to operating as a responsible business is set out in the Strategic Report on pages 32 to 53 and are incorporated into this Director's Report by reference. The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our Section 172(1) Statement on pages 97 to 100.

Our TCFD reporting includes our energy and carbon report on pages 37, 40 to 42, and 72 to 73 and is hereby incorporated by reference into this Directors' Report.

Directors' Report

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 82 and 83 and are incorporated into this report by reference. In addition, Carl-Peter Forster was a director until 31 August 2021.

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.

Branches

The Company does not have any branches outside the UK.

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 2021 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 Board provides strategic and entrepreneurial leadership for the Group. It is responsible for:

- » promoting the long-term success of the Company for the benefit of its shareholders;
- » generating value for shareholders and contributing to wider society;
- » demonstrating ethical leadership, high standards of behaviour and overseeing good governance;

- » ensuring effective engagement with and encouraging participation from shareholders and key stakeholders;
- » setting and monitoring the Group's values, purpose and strategy and ensuring that these and its culture are aligned;
- » ensuring that the necessary resources are in place for the Group to meet its objectives and measure performance against them;
- » setting a framework of prudent and effective controls, which enable risk to be assessed and managed;
- » ensuring the Group is appropriately managed, operates responsibly, with effective controls in place;
- » ensuring that workforce policies and practices are consistent with the Group's values and support its long-term sustainable success; and
- » reviewing management performance and the operating and financial performance of the Group.

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

Division of responsibilities amongst directors

There is a clear division of responsibility between the Chair and Chief Executive, which is reflected in the IMI Corporate Governance Framework approved by the Board. In summary, the Chair 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 responsibilities of the Chair include:

- » creating the conditions for overall Board and individual director effectiveness
- » promoting a culture of openness and debate
- » setting a board agenda primarily focused on strategy, performance, value creation, culture, stakeholders and accountability
- » ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals
- » fostering constructive relations between executive and non-executive directors based on trust, mutual respect and open communications

- » encouraging all Board members to engage in Board and Committee meetings by drawing on their skills, experience and knowledge
- » developing a productive working relationship with the Chief Executive, providing support and advice, while respecting executive responsibility
- » leading the annual Board evaluation, with support from the Senior Independent Director as appropriate, and acting on the results
- » ensuring the Board listens to the views of shareholders, the workforce, customers and other key stakeholders

The Chair 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.

The responsibilities of the Chief Executive include:

- » running of the business and corporate affairs of the Group under the authority delegated by the Board
- » proposing Company strategy and annual budgets
- » delivering the strategy as agreed by the Board
- » leading the Executive team
- » developing a productive working relationship with the Chair
- » implementing Board decisions
- » communicating to those working for the Group expectations in respect of the Group's culture, values and behaviours, and leading by example
- » ensuring that operational policies and practices drive appropriate behaviour
- » ensuring that effective business and financial controls and risk management processes are in place
- » ensuring management provides the Board with accurate, timely and clear information

There is a nominated Senior Independent Director.

The responsibilities of the Senior Independent Director include:

- » acting as a sounding board for the Chair
- » leading the evaluation of the Chair
- » ensuring an orderly succession planning process for the Chair, working with the Nominations Committee

There is a **designated non-executive director for employee engagement and ESG matters** whose role descriptions can be found in the IMI Corporate Governance Framework on our website.

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 6 May 2021 by the passing of new resolutions. The current authorities will expire at the conclusion of the next Annual General Meeting to be held on 5 May 2022, 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

Details of the interests in the Company's shares held by our directors and persons connected with them (including interests under share option and incentive schemes), are shown in the Directors' Remuneration Report on page 125 and are hereby incorporated by reference into this Directors' Report.

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 2021.

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.

Directors' Report

Information to be disclosed under Listing Rule 9.8.4R

Listing Rule statement	Detail	Note reference of financial statements/page number
9.8.4R (1-2)(6-14)	Not applicable	-
9.8.4R (4)	Long-term incentive schemes	pages 128 to 129
9.8.4R (5)	Directors' waiver of emoluments	pages 116 and 124

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 supplemented 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 70 to 79. 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 2021 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 for 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.

Financial instruments

Our risk management objectives and policies in relation to the use of financial instruments can be found on Note 17 on pages 193 to 194.

Compliance hotline

During 2021, 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. Further information in relation to the hotline appears on page 53.

Statements on viability and going concern

The statements on viability and going concern on pages 80 and 81 respectively, are incorporated by reference in this Directors' Report.

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 135, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Additional information
Environmental matters	Environmental policy	Pages 40 to 42
Employees	IMI Code of Conduct	Page 53
	Speaking Up (Hotline for reporting concerns)	Page 53
	Health and Safety policy	Pages 49 to 50
	Inclusion and Diversity policy	Pages 37, 46, 47 and 110
Human rights	Modern Slavery Act	Page 53
Social matters	IMI Way Day	Page 44
	Our purpose	Page 17
	Contributing to communities	Page 50
Anti-corruption and anti-bribery	Compliance policies supplementing our IMI Code of Conduct which includes our policy statements on (1) no bribery and corruption (2) no facilitation payments (3) no political donations (4) appropriate charitable donations, gifts, hospitality & entertainment (5) know your customer checks (6) dealing with third parties (7) managing conflicts of interest	Page 53
Description of principal risks	-	Pages 70 to 79
Description of the business model	-	Pages 16 and 17
Stakeholder engagement	-	Pages 54 to 57 and 95 to 100
Outcome of non-financial policies and standards	Carbon emissions reporting	Page 42
	Employee engagement survey results	Pages 44 to 48
	Diversity reporting	Pages 37, 46, 47 and 110
	Health and Safety reporting	Pages 49, 50 and 68
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 measurement	
	Monitoring of expenses, hospitality and entertainment	
	Monitoring employee engagement surveys	
	All employees receive the IMI 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.

Important events since 31 December 2021

There have been no important events affecting the Company or any member of the Group since 31 December 2021.

Annual General Meeting

The Annual General Meeting will be held on 5 May 2022. Full details of the resolutions to be proposed to our shareholders, and accompanying explanatory notes are contained in our Notice of the Annual General Meeting, a copy of which will be published on our website.

At our 2022 AGM, resolutions will be proposed, among other matters:

- » to receive the Annual Report & Accounts;
- » to approve the Directors' Remuneration Report;
- » to declare a final dividend;
- » to reappoint Deloitte LLP as auditor and set the auditor's remuneration;
- » to approve the directors' general authority to allot shares;
- » to grant the authority to issue shares without first applying statutory rights of pre-emption;
- » to authorise the Company to make market purchases of its own shares;
- » to authorise the making of limited political donations by the Company and its subsidiaries;
- » to increase the maximum fees of directors permitted under Article 60 of Company's Articles of Association from £750,000 to £1,250,000;
- » to adopt the US Stock Purchase Plan following expiry of the previous plan; and
- » to enable the Company to continue to hold general meetings on not less than 14 clear days' notice.

Approved by the Board and signed on its behalf by:

Louise Waldek
Company Secretary

24 February 2022

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 International Financial Reporting Standards as adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and the parent company financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006. 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 whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- » state for the parent company financial statements whether applicable International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006.

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 International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies to the European Union, 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

We confirm that to the best of our knowledge:

- » 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

Roy Twite
Chief Executive

24 February 2022

Daniel Shook
Group Finance Director

24 February 2022

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Independent Auditor's Report to the Members of IMI plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of IMI plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement;
- the related Notes 1 to 27 for the consolidated financial statements; and
- the related Notes C1 to C10 for the parent company.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and United Kingdom adopted International Accounting Standards. 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).

2. 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.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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. The non-audit services provided to the Group and parent company for the year are disclosed in Note 5 to the financial statements.

We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

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

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • inventory valuation – provision for excess and obsolete inventory in IMI Critical and IMI Precision; • overstatement of revenue throughout inappropriate cut-off in IMI Critical; and • the classification of adjusting items.
Materiality	<p>The materiality that we used for the Group financial statements was £13.0m which was determined on the basis of approximately 5% of pre-tax profit adjusted for restructuring costs.</p>
Scoping	<p>Full scope audit work was performed on 8 reporting components, and specified audit procedures were undertaken on a further 39 reporting components. Our full scope and specified audit procedures covered 73% of Group revenue and 77% of Group operating profit. Group operating profit has been calculated on an absolute basis, reflecting the nature of certain individual business units that are loss making or cost centres.</p>

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the Group's financing facilities including the nature of facilities, repayment terms and covenants;
- challenging the assumptions used in the Board approved forecasts by reference to historical performance and other supporting evidence such as market data;
- recalculating the amount of headroom in the forecasts (in liquidity terms and against the relevant covenant limits);
- assessing the appropriateness of the sensitivity analysis and reverse stress tests performed by management; and
- assessing the appropriateness of the disclosures made by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Inventory valuation – provision for excess and obsolete inventory in IMI Critical and IMI Precision

Key audit matter description	<p>The Group's provision for excess or obsolete (E&O) inventory as at 31 December 2021 was £46.2m (FY20: £42.8m), relative to gross inventory of £381.4m (FY20: £336.1m), as described in Note 15.</p> <p>The Group's provision policy for E&O inventory is determined by considering expected usage levels of inventory, based on historical sales, as well as forward looking judgements such as forecast sales associated with new products. Where local management judgement is applied, Group level review and approvals are required.</p> <p>There is a risk that the policy applied for E&O inventory may not be appropriate based on the specific conditions and market trends prevalent across the various locations in which the Group operates.</p> <p>There is also a risk, either due to fraud or error, that the Group's reporting components are not correctly applying the Group accounting policy when provisioning inventory; either due to local differences in historical sales trends or calculation error.</p> <p>The key audit matter we identified in respect of the E&O provision was pinpointed to:</p> <ul style="list-style-type: none"> • the appropriateness and application of the expected usage period applied in the calculation of the excess inventory provision, • the judgements made by management to calculate the provision associated with new products; and • where management judgement is undertaken in overrides applied to the policy. <p>Based on the quantum involved, our work was further pinpointed to the E&O inventory provisions in IMI Critical and IMI Precision.</p>
How the scope of our audit responded to the key audit matter	<p>We have performed the following procedures to address this key audit matter:</p> <ul style="list-style-type: none"> • obtained an understanding of the relevant controls relating to the E&O provision; • challenged the appropriateness of the usage period applied to calculate the inventory that isn't provided against based on historical data; • challenged the assumptions underpinning the provision levels applied to new products, including an assessment of market success to date and forecast sales; • challenged the management judgements applied in instances of override to the formulaic application of the policy, including testing the specific instances of approved overrides to the policy; and • assessed whether the approach to E&O inventory provisioning is being applied consistently across the Group in line with policy requirements.
Key observations	<p>Based on our procedures performed, we are satisfied that the valuation of inventory as at 31 December 2021 is appropriate.</p>

Independent Auditor's Report to the Members of IMI plc

5.2. Overstatement of revenue through inappropriate cut-off in IMI Critical Engineering

Key audit matter description	<p>The Group recognised revenue of £1,866m (FY20: £1,825m), principally through the provision of goods and services accounted for under IFRS 15, as described in Note 2c.</p> <p>We have performed a detailed risk assessment of the Group's revenue streams to understand the revenue cycles across each business. During this assessment we considered whether any non-standard revenue terms, such as bill and hold arrangements or contracts where percentage of completion accounting was applied, were sufficiently material or judgemental in nature to give rise to a key audit matter.</p> <p>We identified a key audit matter in relation to the risk, either due to fraud or error, of inappropriate cut-off of revenue in IMI Critical (see Note 4) owing to the fact that more revenue is generated towards the year-end across the division when compared to other periods in the year.</p>
How the scope of our audit responded to the key audit matter	<p>We have performed the following procedures to address this key audit matter:</p> <ul style="list-style-type: none"> • obtained an understanding of the relevant controls over revenue, and specifically controls that address the cut-off risk; and • tested a sample of transactions around the year end to assess whether revenue is being recognised in the wrong period.
Key observations	We consider the year-end cut-off of revenue recognised in IMI Critical is appropriate.

5.3. Classification of adjusting items

Key audit matter description	<p>The Group has recognised net costs of £67.6m (FY20: £57.9m) which are presented as adjusting items within operating profit, as well as an income of £5.2m (FY20: expense of £1.7m) within net financial expense/income and a net credit of £13.1m (FY20: £13.4m) within the taxation charge. These amounts are aligned to the Group's policy for classification of adjusting items as described in Note 3. The Audit Committee's challenge and assessment of these items is also noted on page 104.</p> <p>The identification of adjusting items is subjective and judgement is required in the determination of what items are identified as 'adjusting' to ensure consistency with the Group's accounting policy.</p> <p>A further challenge exists to ensure that equal prominence is provided to statutory measures in order to provide the user of the financial statements with clarity in understanding performance year on year, aligned to the ESMA and FRC guidance regarding disclosure of Alternative Performance Measures.</p> <p>There is a risk that items are incorrectly presented as adjusting that distort the view of performance in the year and give rise to a potential fraud risk as adjusted performance is linked to key executive remuneration schemes.</p> <p>The classification of adjusting items has been determined to be a key audit matter based on the quantum identified within Note 3.</p>
How the scope of our audit responded to the key audit matter	<p>We have performed the following procedures to address this key audit matter:</p> <ul style="list-style-type: none"> • challenged management to better document their policy to provide greater clarity on the definition of what may be considered to be an adjusting item by reference to benchmarking performed against comparable companies; • obtained an understanding of the relevant controls over classification of adjusting items; • challenged the nature and quantum of the items identified by reference to the substance of the underlying transaction to obtain assurance that amounts being adjusted meet the Group's policy and the quantum is appropriate; and • assessed whether the disclosure of the adjusting items identified during the year is consistent with the nature of the underlying transactions and aligned to the ESMA and FRC guidance regarding disclosure of Alternative Performance Measures, see Note 3.
Key observations	Based on our procedures performed, we are satisfied with the classification of adjusting items.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£13.0m	£10.9m
Basis for determining materiality	Approximately 5% of pre-tax profit adjusted for restructuring costs.	2% of net assets.
Rationale for the benchmark applied	<p>Profit before tax is a key metric for users of the financial statements and reflects the way business performance is reported and assessed by external users of the financial statements.</p> <p>The Group has incurred significant restructuring costs as an adjusting item therefore we believe appropriate to adjust for these costs in determining an appropriate level of materiality.</p>	The Parent company does not generate external sales therefore we have determined net assets for the current year to be the appropriate basis.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% of Group materiality	70% of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality for the Group and parent company, we considered the following factors:</p> <ul style="list-style-type: none"> the control environment in place across the Group; the level of oversight from both a Group and Divisional level over the local entity financial reporting processes; the low level of corrected and uncorrected misstatements identified in the prior year audit by the predecessor auditor; and the stability and experience of key management personnel in senior roles at Group and Divisional levels. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £260,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report to the Members of IMI plc

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The Group operates in over 50 locations across the world. Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group and component level.

Based on that assessment, we focused our Group audit scope across all three divisions: IMI Critical, IMI Precision and IMI Hydronic.

These three divisions comprise of many individual reporting components, which represent the lowest level at which management prepares financial information that is included in the Financial Statements. The Parent company is located in the UK and is audited directly by the Group audit team.

We have considered reporting components based on their contribution to Group revenue and profit, as well as qualitative considerations such as results of recent internal audit reviews undertaken by the Group Assurance function, and an understanding of any recent or projected restructuring or relocation activities in specific locations.

Full scope audit work was completed on 8 components and specified audit procedures were undertaken at a further 39 components. Each reporting component in scope was subject to an audit materiality level between £2m and £6m.

Our full scope and specified audit procedures covered 73% of Group revenue and 77% of Group operating profit. Group operating profit has been calculated on an absolute basis, reflecting the nature of certain individual business units that are loss making or cost centres.

Revenue

27% Review at Group level



58%
Specified audit procedures

Operating profit

15%
Full audit scope

23% Review at Group level



64%
Specified audit procedures

7.2. Our consideration of the control environment

The Group uses a number of different IT systems across the reporting components and we worked with our IT specialists to obtain an understanding of the general IT controls for relevant systems. Following this, we focused our testing on the three core systems that underpin the three divisions and which the majority of entities either utilise or plan to migrate to in the future.

Our testing highlighted that the control environment is decentralised and reliant on manual processes with improvements required to the IT environment, as well as in the wider business controls framework, in order for us to adopt a controls reliance approach to our audit.

Where control improvements were identified, both in the IT environment and more broadly across the business, these have been reported to management and the Audit Committee as appropriate. As management develops and completes their controls improvement programme of work in future years, we expect our audit approach to evolve alongside these developments to the internal control environment.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

As noted on page 72 the Group has assessed the risk and opportunities relevant to climate change and whilst has not created a separate principal risk in relation to the potential risk of climate change, they note that this is incorporated into several existing principal risks.

We have obtained management's climate-related risk assessment and held discussions with those charged with governance to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions, and did not identify any additional risks of material misstatement. Our procedures included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4. Working with other auditors

The audit work on all components was performed by Deloitte member firms. The component work was performed under the direction and supervision of the Group audit team. At a Group level, further substantive audit work was performed over the consolidation and analytical review procedures were performed over all components not in scope.

The audit plan which we designed as part of our involvement in the component auditors' work was delivered over the course of the Group audit.

The extent of our involvement which commenced from the planning phase included;

- setting the scope of the work to be performed by the component auditor and assessment of their independence;
- designing the audit procedures for all significant risks to be addressed by the component auditors and issuing Group audit instructions detailing the nature and form of the reporting required by the Group engagement team;
- providing direction on enquiries made by the component auditors through online and telephone conversations; and
- a risk-based approach to the review of specific component auditors' engagement files by senior members of the Group engagement team.

In response to the COVID-19 pandemic, which limited our ability to make component visits, frequent calls were held between the Group and component teams and remote access to relevant documents was provided. Given the pandemic, most of our year-end audit was performed in a remote working environment.

Independent Auditor's Report to the Members of IMI plc

8. Other information

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

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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's and the 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.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, Group Assurance, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: inventory valuation – provision for excess and obsolete inventory in IMI Critical and IMI Precision, overstatement of revenue through inappropriate cut-off in IMI Critical, and classification of adjusting items. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation in all relevant jurisdictions where the Group operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified inventory valuation – provision for excess and obsolete inventory in IMI Critical and IMI Precision, overstatement of revenue through inappropriate cut-off in the IMI Critical, and classification of adjusting items as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including significant component audit teams and internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report to the Members of IMI plc

Report on other legal and regulatory requirements

12. 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.

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

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 81;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 80;
- the directors' statement on fair, balanced and understandable set out on page 136;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 74;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 70; and
- the section describing the work of the Audit Committee set out on page 102.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors at the Annual General Meeting on 6 May 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year, covering the year ended 31 December 2021.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. 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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Dean Cook MA FCA
Senior statutory auditor

For and on behalf of Deloitte LLP, Statutory Auditor
London, United Kingdom
24 February 2022

Consolidated income statement

For the year ended 31 December 2021

	Notes	2021			2020		
		Adjusted £m	Adjusting items (Note 3) £m	Statutory £m	Adjusted £m	Adjusting items (Note 3) £m	Statutory £m
Revenue	4	1,866		1,866	1,825		1,825
Cost of sales		(1,004.3)	(0.3)	(1,004.6)	(1,008.8)		(1,008.8)
Gross profit		861.7	(0.3)	861.4	816.2	-	816.2
Operating costs	5	(543.6)	(67.3)	(610.9)	(531.5)	(57.9)	(589.4)
Operating profit		318.1	(67.6)	250.5	284.7	(57.9)	226.8
Financial income	8	2.4	5.2	7.6	3.8		3.8
Financial expense	8	(14.5)		(14.5)	(14.8)	(1.7)	(16.5)
Net financial income relating to defined benefit pension schemes	14	1.0		1.0	0.2		0.2
Net financial (expense)/income		(11.1)	5.2	(5.9)	(10.8)	(1.7)	(12.5)
Profit before tax		307.0	(62.4)	244.6	273.9	(59.6)	214.3
Taxation	9	(61.4)	13.1	(48.3)	(57.5)	13.4	(44.1)
Profit after tax		245.6	(49.3)	196.3	216.4	(46.2)	170.2
Earnings per share	7						
Basic – from profit for the year				73.5p			62.7p
Diluted – from profit for the year				73.2p			62.6p

All activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Profit for the year		196.3	170.2
Items that will not subsequently be reclassified to profit and loss			
Re-measurement gain on defined benefit plans	14	70.9	4.3
Related taxation effect	9	(18.4)	(2.1)
Effect of taxation rate change on previously recognised items	9	15.8	5.7
		68.3	7.9
Items that may be reclassified to profit and loss			
Gain/(loss) arising on hedging instruments designated in hedges of the net assets in foreign operation (Note 1)	17	20.0	(19.4)
Exchange differences on translation of foreign operations net of funding revaluations		(33.8)	21.4
Exchange differences reclassified to income statement on disposal of operations		0.1	-
Related tax effect on items that may subsequently be reclassified to profit and loss	9	1.2	(0.7)
		(12.5)	1.3
Other comprehensive income for the year, net of taxation		55.8	9.2
Total comprehensive income for the year, net of taxation		252.1	179.4
Attributable to:			
Equity holders of the parent		252.1	179.4

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Notes	Share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve (Note 1) £m	Retained earnings £m	Total equity £m
As at 1 January 2020		81.8	14.1	174.4	21.3	418.3	709.9
Profit for the year						170.2	170.2
Other comprehensive income excluding related taxation effect					2.0	4.3	6.3
Related taxation effect					(0.7)	3.6	2.9
Total comprehensive income					1.3	178.1	179.4
Issue of share capital	22	-	0.2				0.2
Dividends paid	10					(91.6)	(91.6)
Share-based payments (net of tax)	6					10.3	10.3
Shares acquired for: employee share scheme trust						(8.7)	(8.7)
As at 31 December 2020		81.8	14.3	174.4	22.6	506.4	799.5
Changes in equity in 2021							
Profit for the year						196.3	196.3
Other comprehensive (expense)/income excluding related taxation effect					(13.7)	70.9	57.2
Related taxation effect					1.2	(2.6)	(1.4)
Total comprehensive (expense)/income					(12.5)	264.6	252.1
Issue of share capital	22	-	0.9				0.9
Dividends paid	10					(61.8)	(61.8)
Share-based payments (net of tax)	6					15.0	15.0
Cancellation of Treasury shares	22	(3.2)		3.2			-
Shares acquired for: employee share scheme trust						(26.6)	(26.6)
share buyback programme	22					(200.0)	(200.0)
As at 31 December 2021		78.6	15.2	177.6	10.1	497.6	779.1

Consolidated balance sheet

At 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Goodwill	11	533.6	449.5
Other intangible assets	11	234.5	150.3
Property, plant and equipment	12	267.7	266.0
Right of use assets	13	91.5	85.6
Employee benefit assets	14	129.0	69.1
Deferred tax assets	9	39.7	36.3
Other receivables		1.9	3.4
Total non-current assets		1,297.9	1,060.2
Inventories	15	335.2	293.3
Trade and other receivables	16	414.0	378.9
Derivative financial assets	17	10.0	10.8
Current tax		14.2	3.3
Investments	17	2.9	3.1
Cash and cash equivalents	19	94.6	207.9
Total current assets		870.9	897.3
Total assets		2,168.8	1,957.5
Liabilities			
Trade and other payables	21	(400.4)	(371.9)
Bank overdraft	19	(65.5)	(73.5)
Interest-bearing loans and borrowings	19	(127.7)	-
Lease liabilities	13	(23.9)	(26.3)
Provisions	20	(38.1)	(43.9)
Current tax		(66.0)	(66.3)
Derivative financial liabilities	17	(6.3)	(4.7)
Total current liabilities		(727.9)	(586.6)
Interest-bearing loans and borrowings	19	(430.3)	(362.3)
Lease liabilities	13	(70.0)	(62.0)
Employee benefit obligations	14	(66.5)	(91.1)
Provisions	20	(18.3)	(15.1)
Deferred tax liabilities	9	(70.2)	(33.9)
Other payables	21	(6.5)	(7.0)
Total non-current liabilities		(661.8)	(571.4)
Total liabilities		(1,389.7)	(1,158.0)
Net assets		779.1	799.5
Share capital	22	78.6	81.8
Share premium		15.2	14.3
Other reserves		187.7	197.0
Retained earnings		497.6	506.4
Total equity		779.1	799.5

Approved by the Board of Directors on 24 February 2022 and signed on its behalf by:

Lord Smith of Kelvin

Chairman

Consolidated statement of cash flows

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Operating profit for the year		250.5	226.8
Adjustments for:			
Depreciation and amortisation	11, 12, 13	99.5	111.1
Impairment of property, plant and equipment and intangible assets	11, 12	5.5	4.0
Loss on disposal of subsidiaries	24	3.8	-
(Profit)/loss on sale of property, plant and equipment	12	(1.3)	2.3
Equity-settled share-based payment expense	6	12.0	10.3
Increase in inventories	15	(37.3)	(8.8)
(Increase)/decrease in trade and other receivables	16	(44.0)	17.2
Increase in trade and other payables	21	30.7	6.2
Increase in provisions and employee benefits	14, 20	1.8	7.9
Settlement of transactional derivatives (Note 1)	17	5.9	0.2
Cash generated from operations		327.1	377.2
Income taxes paid	9	(50.9)	(41.0)
Cash generated from operations after tax		276.2	336.2
Additional pension scheme funding	14	(7.0)	(7.0)
Net cash from operating activities		269.2	329.2
Cash flows from investing activities			
Interest received	8	2.4	3.8
Proceeds from sale of property, plant and equipment	12	4.6	0.2
Settlement of effective net investment hedge derivatives	17	20.5	(22.7)
Acquisitions of subsidiaries net of cash	23	(202.1)	-
Acquisition of property, plant and equipment and non-acquired intangibles	11, 12	(57.5)	(50.7)
Proceeds from disposal of subsidiaries net of cash	24	0.1	-
Net cash from investing activities		(232.0)	(69.4)
Cash flows from financing activities			
Interest paid	8	(14.5)	(14.8)
Shares acquired for employee share scheme trust	22	(26.6)	(8.7)
Share buyback programme including acquisition expenses		(200.0)	-
Proceeds from the issue of share capital for employee share schemes	22	1.0	0.2
Repayment of borrowings	19	5	(17.8)
Drawdown of borrowings	19	208.0	-
Principal elements of lease payments	13	(30.0)	(28.7)
Dividends paid to equity shareholders	10	(61.8)	(91.6)
Net cash from financing activities		(123.9)	(161.4)
Net (decrease)/increase in cash and cash equivalents	19	(86.7)	98.4
Cash and cash equivalents at the start of the year	19	134.4	28.1
Effect of exchange rate fluctuations		(18.6)	7.9
Cash and cash equivalents at the end of the year		29.1	134.4
Reconciliation of cash and cash equivalents			
Cash and cash equivalents		94.6	207.9
Bank overdraft		(65.5)	(73.5)
Cash and cash equivalents at the end of the period		29.1	134.4

Notes to the cash flow appear in Note 19.

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 UK. The Company financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006 and these are presented on pages 208 to 209. The financial statements were approved by the Board of Directors on 24 February 2022.

Basis of accounting

The financial statements are presented in Pounds Sterling (which is the Company's functional currency), rounded to the nearest hundred thousand, except revenues, which are rounded to the nearest whole million. They are prepared on the historical cost basis except 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.

(i) New or amended UK Endorsed Accounting Standards adopted by the Group during 2021

Noted below are the amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2021, none of which have a material impact on the financial statements:

- IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39 – amendments to Interest Rate Benchmark Reform (Phase 2)
- IAS 38 'Intangible Assets' – guidance regarding expenditure associated with cloud computing arrangements

(ii) New accounting standards in issue but not yet effective

New standards and interpretations that are in issue but not yet effective are listed below:

- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before intended use
- Annual improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 37: Onerous Contracts – Costs of fulfilling a contract
- IFRS 7 Insurance Contracts
- Amendments to IAS 1: Classification of Liabilities as current or non-current
- Amendments to IFRS 4: Extension of the Temporary Exemption from Applying IFRS 9
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of accounting estimates

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

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 business development, performance and position are set out in the Strategic Report. Principal risks are detailed on pages 74 to 79. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. In addition, Note 18 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.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for a period of at least twelve months (25 February 2023) following the approval of the Annual Report & Accounts. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The directors have considered the ongoing macroeconomic uncertainty resulting from the pandemic. Business disruption, so far, has been reasonably modest as the Group is well diversified and maintains a balanced portfolio operating across a range of markets, sectors and geographies with no single dependency. Performance in each of IMI's three divisions has been robust during the year.

Across the Group, all sites are continuing at normal levels of production. Supply chain disruptions have been minimal and alternative suppliers or contingency stocks have addressed the few instances of part shortages.

During this period of uncertainty, the Group continues to maintain a robust financial position. At 31 December 2021, the group had cash and cash equivalents of £29m and undrawn committed facilities of £230m in the form of Revolving Credit Facilities (RCF), of which £50m is due for renewal in 2022, £95m in 2023, £12m in 2024 and £72m in 2025. Forecasts indicate that the Group can operate within the level of facilities in place without the need to obtain any new facilities in the twelve-month period following the approval of the Annual Report & Accounts.

The directors have assessed the viability of the Group and reviewed detailed cash flow forecasts for a period of at least twelve months following the date of approval of the Annual Report & Accounts. These forecasts factored in a decline in revenue based on slowdowns in various end markets, experiencing tough trading conditions. After applying a reverse stress test on the Group's banking covenants and making comparisons to the detailed forecasts, the directors have a reasonable expectation that the financial headroom will not be exhausted during this period.

Covenant compliance reviews are undertaken to ensure that the Group remains fully within the covenant limits. Funding covenants currently require EBITDA to be no less than 4.0 times interest and net debt to be no more than 3.0 times EBITDA. Those covenant ratios, at 31 December 2021, were 33.3x times and 1.5x times, respectively.

A reverse stress test shows that for there to be a breach of covenants during the twelve-month period following the approval of the Annual Report & Accounts, forecast revenue would need to fall by 34% and forecast EBITDA by 65% after taking into account the mitigating actions that would be undertaken in these circumstances. The mitigating actions include, but are not limited to, reducing working capital, restricting capital expenditure, reducing overhead spend and employee costs, cutting or suspending dividend payments to shareholders.

Changes in presentations

The following re-presentations have been included in the following financial statements in the current year and as a result, 2020 comparatives have been re-presented accordingly:

Consolidated statement of changes in equity

Within the Statement of changes in equity, the Hedging reserve and Translation reserve have been merged to reflect better the impact of matching the gains and losses on the hedged items with the gains and losses on the hedging instruments. Prior year comparatives have been re-presented.

Consolidated statement of comprehensive income

'Change in fair value of unsettled effective net investment hedge derivatives' and 'Settled effective net investment hedge derivatives' disclosed in the Consolidated statement of comprehensive income in the prior year are now disclosed as the 'Gain/(loss) arising on hedging instruments designated in hedges of the net assets in foreign operation'. Prior year comparatives have been re-presented.

Consolidated statement of cash flows

The 'Settlement of transactional derivatives' previously recorded within 'Cash flows from investing activities' are now disclosed as 'Cash flows from operating activities' within the 'Consolidated statement of cash flows' following an internal review of the policy. Prior year comparatives have been re-presented.

Segmental information – Energy Transfer

During the year, the Energy business of IMI Precision Engineering division was transferred into the IMI Critical Engineering division. The resulting impact has increased IMI Critical Engineering revenue by £63m (2020: £64m) and operating profit £9.1m (2020: £13.3m) with the equal and opposite impact reducing the results of IMI Precision Engineering. Prior year comparatives have been re-presented in Note 4 to reflect this.

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 2021. 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 critical judgements and key sources of estimation uncertainty

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. Critical judgements

The critical judgements are disclosed in Notes 3 and 13.

ii. Key sources of estimation uncertainty

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 sources of estimation uncertainty concerning the future and other sources of estimation uncertainty are disclosed in Note 14 'Retirement benefits'.

iii. Changes in critical judgements and key sources of estimation uncertainty

Management has reassessed the critical judgements and key sources of estimation uncertainty presented in the 2020 Annual Report & Accounts and concluded that, in the current year, we no longer consider there to be key sources of estimation uncertainty associated with inventory or goodwill impairment.

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; and
- 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. Sale 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 IMI 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 level of estimation uncertainty associated with variable consideration is minimal, as discounts and rebates are accounted for at the point of sale and adjusted as required at each financial year end.

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 2020, 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 2020 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.

ii. Rendering of services

Servicing relates to repairs and maintenance activity that is completed at our customer sites within our installed base. 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. 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 rates 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; and
- fair value through other comprehensive income financial instruments are carried at fair value with gains and losses being recognised in equity, and represent investments.

i. Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as fair value through other comprehensive income (FVTOCI), the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2. Significant accounting policies (continued)

When the Group exchanges with the existing lender one debt instrument into another one, with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

ii. Derecognition of hedging arrangements

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

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 Group 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 operations

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. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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 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 re-presented 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.

3. Alternative Performance Measures ('APMs') & adjusting items

Accounting Policy

The Group's policy is to exclude items from underlying performance that are considered to be significant in nature (i.e. outside of the normal course of business) and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess period-on-period trading performance of the Group.

The Group believes Alternative Performance Measures ('APMs'), which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Executive Committee. Some of these measures are also used for the purpose of setting remuneration targets and for banking covenants.

The adjusting items in the income statement and the reasons these are considered to be adjusting items are detailed below:

- **Costs associated with major restructuring projects** – These costs are reported as adjusting items on the basis that they are significant in quantum, relate to specific, approved strategic initiatives following reviews of our organisation structure during the period and to provide stakeholders with comparability of underlying results from one period to the next. Restructuring costs which are not considered to be major or one-off are included within underlying results in the consolidated income statement.
- **Impairment losses** – Impairment losses treated as adjusting items include those which are large in quantum or one-off in nature and as a result are not considered to be usual operating costs of the Group. In addition to this, impairment losses associated with major restructuring projects are considered to be part of the overall project and therefore follow the same treatment as restructuring projects, as described above. Impairment losses incurred, which are not significant or do not form part of a major restructuring project are recorded as adjusted items. All impairment losses recorded as adjusting items in the current and prior period relate to restructuring projects treated as adjusting items.
- **Gains and losses on property disposals** – Significant in quantum gains and losses on property disposals are not considered to relate to the underlying trading of the business and are therefore treated as adjusting items. All gains and losses on property disposals associated with major restructuring projects are considered to be part of the overall project and therefore follow the same treatment as restructuring projects, as described above.
- **Acquired intangible amortisation** – The amortisation charge is not considered to be related to the underlying performance of the Group and can fluctuate materially period-on-period as new businesses are acquired. All acquired intangible amortisation is treated as an adjusting item due its nature. The trading results of acquired businesses are included in the adjusted results.
- **Gains and losses on disposal of subsidiaries** – Due to their one-off nature and large quantum, gains and losses on disposals are treated as adjusting items. If these gains or losses are not considered to be one-off or material, these amounts would be included within underlying results.
- **The reversal of gains and losses on economic hedges** – Gains and losses on economic hedges are treated as an adjusting item on a qualitative basis. The adjusting item reverses the treatment taken locally by the Group's businesses, where the impact of foreign currency forwards and commodity hedges are booked at the hedged rate in the adjusted results of the local businesses. In compliance with IFRS 9 'Financial Instruments', these do not meet the requirement of an effective hedge and are therefore adjusted to be booked at the spot rate. The recognition of the gain and losses on the hedged items is recorded as a financing item, including any unrealised gains and losses.
- **Other acquisition costs** – For an acquired business, the acquisition costs which are primarily advisor and legal fees and the one-off write-off of the inventory uplift to fair value do not reflect trading performance and so are treated as adjusting items to ensure consistency between periods.
- **Special pension events** – Due to their one-off nature and typically large quantum, special pension events are treated as adjusting items. Special pension events which are not significant are recorded as adjusted items. There are no special pension events recorded as adjusting items in the current or prior period.
- **Tax effect on adjusting items above** – Any tax effect of the above items is treated as an adjusting item.
- **Other tax items** – An assessment is made, on a case-by-case basis, for one-off tax items which significantly impact the Group's results to determine whether the item should be treated as an adjusting item.

The policies outlined above are consistent with the policies adopted in the previous period.

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 directors' commentary discusses these APMs to remove the effects of items of both income and expense that are considered different in nature from the underlying trading and normal quantum and where treatment as an adjusting item provide stakeholders with additional information to assess period-on-period trading.

Critical Judgement

Management has applied judgement in the selection of the APMs used in the Annual Report & 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.

3. Alternative Performance Measures ('APMs') & adjusting items (continued)

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 profit before tax	Adjusted profit before tax is statutory profit before tax before adjusting items as shown on the income statement.	See income statement on page 148.
Adjusted net interest cost	Adjusted net interest cost is statutory net interest costs before adjusting items as shown on the income statement.	See income statement on page 148.
Adjusted earnings per share	Adjusted earnings per share is defined within the table in Note 7.	See Note 7.
Adjusted effective tax rate	The adjusted effective tax rate is the tax impact on adjusted profit before tax divided by adjusted profit before tax.	See Note 9.
Adjusted EBITDA	This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation.	See Note 19.
Adjusted operating profit	Adjusted operating profit is statutory operating profit before adjusting items as shown on the income statement.	See income statement on page 148 and segmental reporting in Note 4.
Adjusted operating margin	Adjusted operating margin is adjusted operating profit divided by revenue.	
Organic revenue growth Organic adjusted operating profit	These two measures remove the impact of adjusting items, acquisitions, disposals and movements in exchange rates and are reconciled in Note 4.	
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.
Net debt	Net debt is defined as the cash and cash equivalents, overdrafts, interest-bearing loans and borrowings and lease liabilities.	See Note 19.
Free cash flow before corporate activity	This measure is a sub-total in the reconciliation of adjusted EBITDA to Net debt and is presented to assist the reader to understand the nature of the current year's cash flows excluding dividends, share buybacks and the purchase and issuance of own shares.	See Note 19.

Outlined below are the adjusting items impacting the current and prior year results.

	Key	2021 £m	2020 £m
Recognised in arriving at operating profit			
Reversal of net economic hedge contract gains	a)	(6.0)	(1.5)
Restructuring costs	b)	(35.1)	(36.1)
Loss on disposal of subsidiary	c)	(3.8)	-
Impairment losses	d)	(4.6)	(1.6)
Acquired intangible amortisation and other acquisition items	e)	(18.1)	(18.7)
		(67.6)	(57.9)
Recognised in net financial expense			
Financial income/(expense)	a)	5.2	(1.7)
Recognised in taxation			
Tax impact of adjusting items above	f)	15.1	13.4
Change in UK tax rate	f)	(18.6)	-
Release of prior year provisions	f)	16.6	-
		13.1	13.4

(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 revenue and adjusted operating profit of the relevant business segment. The adjusting items at the operating level reverse this treatment. The 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 of £35.1m were the result of a number of major restructuring projects across the Group. These include costs of £31.0m within IMI Precision Engineering, primarily for the closure of a factory in Europe, which is currently under consultation with the Works Council, and the Customer First project, which both simplify the structure of the division and ensures the business structure is aligned to our customer base. In IMI Critical Engineering there were costs of £0.8m relating to the finalisation of the ongoing projects announced in 2020. In IMI Hydronic Engineering there were costs of £3.3m for the finalisation of the ongoing projects announced in 2020 and a new project announced in 2021 to simplify finance processes through a shared service centre in Poland. These restructuring projects are due to be completed in 2023. The cash effect of restructuring costs incurred during the year was £32.8m and restructuring provisions at the year end were £31.6m. See Note 20 for further details.

Restructuring costs of £36.1m were recognised in 2020. These included the continuation of a cost and footprint rationalisation programme within IMI Precision Engineering, £4.8m in Europe and £2.5m in the Americas, which included the closure of a manufacturing site in each region. In IMI Critical Engineering, adjusted restructuring costs related to a restructuring programme in the EMEA region of £22.4m, which included the closure of manufacturing at two Italian sites and restructuring at two German sites, and £2.1m in the Americas to right size the workforce. In IMI Hydronic Engineering, there were costs of £5.1m related to closure of a manufacturing site in Slovenia and consolidation of the Swedish and German distribution hubs into one hub in Poland. There was a provision release of £0.8m related to the Corporate HQ following the closure of matters relating to previous projects.

(c) Loss on disposal of subsidiary – following the disposal of IMI Interativa in July 2021, the Group recorded a loss on disposal of £3.8m. Further details are included in Note 24.

(d) Impairment losses – in 2021, the Group recorded an adjusting impairment charge of £4.6m associated with the restructuring programmes ongoing in IMI Precision Engineering and £1.6m associated with the restructuring programmes ongoing in IMI Critical Engineering in 2020.

(e) Acquired intangible amortisation and other acquisition items – 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 an 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 £15.0m (2020: £18.7m), which largely relates to the amortisation of the intangible assets recognised on the acquisition of Bimba in 2018.

Other acquisition costs of £3.1m primarily relates to professional fees associated with the acquisition of Adaptas in December 2021.

(f) Taxation – the tax effect of the above items has been recognised as an adjusting item and amounts to a credit of £15.1m (2020: £13.4m). In addition, there are two tax items which have been treated as adjusting due to their large size: a charge of £18.6m due to the effect of the forthcoming increase in the UK corporation tax rate on timing differences recognised for deferred tax purposes, and a credit of £16.6m due to the release of provisions in respect of exposures related to prior years which are no longer expected to arise, including the closure of open years with tax authorities.

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.

Segmental information – Energy Transfer

During 2021, the Energy business of the IMI Precision Engineering division was transferred into the IMI Critical Engineering division. The resulting impact has increased IMI Critical Engineering revenue by £63m (2020: £64m) and operating profit £9.1m (2020: £13.3m) with the equal and opposite impact reducing the results of IMI Precision Engineering. Prior year comparatives have been re-presented in Note 4 to reflect this.

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	
	2021 £m	2020* £m	2021 £m	2020* £m	2021 %	2020* %
IMI Precision Engineering	836	813	148.9	138.1	17.8%	17.0%
IMI Critical Engineering	691	707	125.0	119.8	18.1%	16.9%
IMI Hydronic Engineering	339	305	68.1	55.7	20.1%	18.3%
Corporate costs			(23.9)	(28.9)		
Total adjusted revenue/operating profit and margin	1,866	1,825	318.1	284.7	17.0%	15.6%
Reversal of net economic hedge contract gains			(6.0)	(1.5)		
Restructuring costs			(35.1)	(36.1)		
Loss on disposal of subsidiary			(3.8)	-		
Acquired intangible amortisation and other acquisition items			(18.1)	(18.7)		
Impairment losses			(4.6)	(1.6)		
Statutory revenue/operating profit	1,866	1,825	250.5	226.8		
Net financial expense			(5.9)	(12.5)		
Statutory profit before tax			244.6	214.3		

* 2020 results for IMI Precision and IMI Critical have been restated to reflect the Energy business transfer.

The following table shows a reconciliation of divisional adjusted operating profit to statutory operating profit:

	IMI Precision Engineering		IMI Critical Engineering		IMI Hydronic Engineering		Corporate		Total	
	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Revenue	836	813	691	707	339	305			1,866	1,825
Adjusted operating profit	148.9	138.1	125.0	119.8	68.1	55.7	(23.9)	(28.9)	318.1	284.7
Reconciliation to statutory operating profit:										
Reversal of net economic hedge contract gains	(3.4)	(0.9)	(1.9)	(0.6)	(0.7)				(6.0)	(1.5)
Restructuring costs	(31.0)	(7.3)	(0.8)	(24.5)	(3.3)	(5.1)		0.8	(35.1)	(36.1)
Loss on disposal of subsidiary			(3.8)						(3.8)	-
Acquired intangible amortisation and other acquisition items	(10.3)	(7.7)	(7.8)	(11.0)					(18.1)	(18.7)
Impairment losses	(4.6)			(1.6)					(4.6)	(1.6)
Statutory operating profit	99.6	122.2	110.7	82.1	64.1	50.6	(23.9)	(28.1)	250.5	226.8
Statutory operating margin (%)	11.9%	15.0%	16.0%	11.6%	18.9%	16.6%			13.4%	12.4%

* 2020 results for IMI Precision and IMI Critical have been restated to reflect the Energy business transfer.

The following table illustrates how revenue and adjusted operating profit have been impacted by movements in foreign exchange, acquisitions and disposals compared to 2020 by restating 2020 to the 2021 full year average rates and removing the impact of Adaptas from the 2021 results, and removing InterAtiva from the final six months of 2020 as the business was disposed of in July 2021:

	Year ended 31 December 2020*				Year ended 31 December 2021				
	As adjusted	Exchange	Disposals	Organic	As adjusted	Acquisitions	Organic	Adjusted growth (%)	Organic growth (%)
Revenue									
IMI Precision Engineering	813	(36)		777	836	(2)	834	3%	7%
IMI Critical Engineering	707	(27)	(4)	676	691	-	691	-2%	2%
IMI Hydronic Engineering	305	(9)		296	339	-	339	11%	15%
Total	1,825	(72)	(4)	1,749	1,866	(2)	1,864	2%	7%
Adjusted operating profit									
IMI Precision Engineering	138.1	(6.7)		131.4	148.9		148.9	8%	13%
IMI Critical Engineering	119.8	(5.6)	(0.5)	113.7	125.0		125.0	4%	10%
IMI Hydronic Engineering	55.7	(2.0)		53.7	68.1		68.1	22%	27%
Corporate costs	(28.9)	-		(28.9)	(23.9)		(23.9)		
Total	284.7	(14.3)	(0.5)	269.9	318.1	-	318.1	12%	18%
Adjusted operating profit margin (%)	15.6%			15.4%	17.0%		17.1%		

* 2020 results for IMI Precision and IMI Critical have been restated to reflect the Energy business transfer.

4. Segmental information (continued)

Given the significant impact on the business performance due to the pandemic in 2020, comparative figures for 2019 are shown below. The following table illustrates how revenue and adjusted operating profit have been impacted by movements in foreign exchange, acquisitions and disposals compared to 2019 by restating 2019 to the 2021 full year average rates and removing the impact of Adaptas from the 2021 results, removing the impact of PBM from the 2021 results for the first nine months of the year as the business was not owned by IMI until September 2019, and removing InterAtiva from the final six months of 2019 as the business was disposed of in July 2021:

	Year ended 31 December 2019				Year ended 31 December 2021				
	As adjusted	Exchange	Disposals	Organic	As adjusted	Acquisitions	Organic	Adjusted growth (%)	Organic growth (%)
Revenue									
IMI Precision Engineering*	841	(37)		804	836	(2)	834	-1%	4%
IMI Critical Engineering*	717	(29)	(4)	684	691	(17)	674	-4%	-1%
IMI Hydronic Engineering	315	(8)		307	339		339	8%	10%
Total	1,873	(74)	(4)	1,795	1,866	(19)	1,847	0%	3%
Adjusted operating profit									
IMI Precision Engineering*	134.4	(5.0)		129.4	148.9		148.9	11%	15%
IMI Critical Engineering*	103.7	(5.0)	(0.2)	98.5	125.0	(3.4)	121.6	21%	23%
IMI Hydronic Engineering	56.7	(0.5)		56.2	68.1		68.1	20%	21%
Corporate costs	(28.7)			(28.7)	(23.9)		(23.9)		
Total	266.1	(10.5)	(0.2)	255.4	318.1	(3.4)	314.7	20%	23%
Adjusted operating profit margin (%)	14.2%			14.2%	17.0%		17.0%		

* 2019 results for IMI Precision and IMI Critical have been restated to reflect the Energy business transfer.

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	
	2021 £m	2020 £m	2021 £m	2020 £m
IMI Precision Engineering*	916.1	630.2	202.4	150.5
IMI Critical Engineering*	714.6	764.6	231.2	260.2
IMI Hydronic Engineering	233.5	224.7	90.9	84.8
Total segmental assets/liabilities (including lease liabilities)	1,864.2	1,619.5	524.5	495.5
Corporate items	24.2	18.3	39.0	35.4
Employee benefits	129.0	69.1	66.5	91.1
Investments	2.9	3.1	-	-
Net debt items (excluding lease liabilities)	94.6	207.9	623.5	435.8
Net taxation and others	53.9	39.6	136.2	100.2
Total assets and liabilities in Group balance sheet	2,168.8	1,957.5	1,389.7	1,158.0

* 2020 results for IMI Precision and IMI Critical have been restated to reflect the Energy business transfer.

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***	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
IMI Precision Engineering*	31.0	7.3	29.9	28.0	11.2	11.7	32.7	36.8
IMI Critical Engineering*	0.8	24.5	9.8	11.4	14.7	17.8	20.5	23.5
IMI Hydronic Engineering	3.3	5.1	17.8	11.3	5.3	5.5	14.3	15.0
	35.1	36.9	57.5	50.7	31.2	35.0	67.5	75.3
Corporate costs		(0.8)					0.8	0.8
Total	35.1	36.1	57.5	50.7	31.2	35.0	68.3	76.1

* 2020 results for IMI Precision and IMI Critical have been restated to reflect the Energy business transfer.

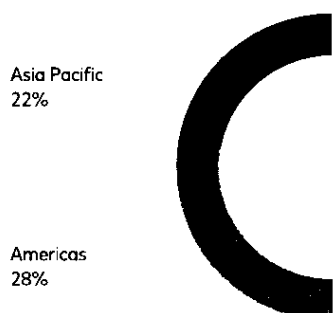
** The amortisation figures above include the amortisation of acquired intangibles. £7.2m (2020: £7.7m) is included in respect of IMI Precision Engineering, £7.8m (2020: £11.0m) is included in respect of IMI Critical Engineering and £nil (2020: £nil) is included in respect of IMI Hydronic Engineering.

*** The depreciation figures above include the impact of IFRS 16 'Leases': £0.6m in respect of Corporate (2020: £0.6m), £12.3m in respect of IMI Precision Engineering (2020: £12.5m), £8.5m in respect of IMI Critical Engineering (2020: £9.6m) and £6.9m in respect of IMI Hydronic Engineering (2020: £7.0m).

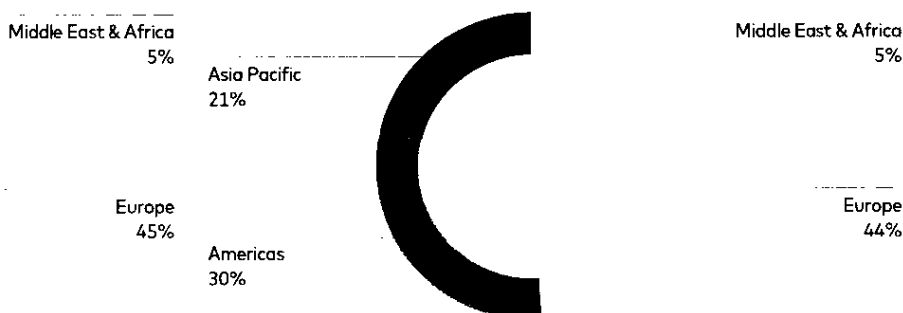
The following table shows a geographical analysis of how the Group's revenue is derived by destination:

	2021 £m	2020 £m
UK	83	88
Germany	238	222
Rest of Europe	520	486
Total Europe	841	796
USA	410	443
Rest of Americas	116	102
Total Americas	526	545
China	165	156
Rest of Asia Pacific	244	234
Total Asia Pacific	409	390
Middle East & Africa	90	94
Total revenue	1,866	1,825

Revenue by geography (2021)



Revenue by geography (2020)



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:

	2021 £m	2020 £m
UK	78.4	74.2
Germany	202.4	232.2
Rest of Europe	224.9	279.5
USA	487.9	279.8
Asia Pacific	104.1	47.6
Rest of World	29.6	38.1
Total	1,127.3	951.4

4. Segmental information (continued)

The Group's revenue streams are disaggregated in the table below:

Sector	2021 Revenue £m	2020 Revenue £m
IMI Precision Engineering*		
Industrial Automation	413	369
Process Control	119	102
Life Sciences	91	165
Precision Fluid OEM	210	267
Commercial Vehicle	180	140
Rail	33	37
Transport	213	177
Total IMI Precision Engineering	836	813
IMI Critical Engineering**		
Power	144	134
Refining & Petrochemical	105	94
Nuclear	57	46
Oil & Gas	45	49
Marine	11	19
Other	17	17
Aftermarket	379	359
Oil & Gas	77	71
Refining & Petrochemical	108	126
Power	66	69
Marine	22	25
Nuclear	3	6
Other	36	51
New Construction	312	348
Total IMI Critical Engineering	691	707
IMI Hydronic Engineering		
TA	159	146
Heimeier	106	95
Pneumatex	61	51
Other	13	13
Total IMI Hydronic Engineering	339	305
Total revenue	1,866	1,825
Sale of goods	1,806	1,762
Sale of services	60	63
Total revenue	1,866	1,825

* The IMI Precision Engineering sector segmentation has been restated to reflect the new business structure as part of the Customer First restructuring project (see Note 3 for further details). In addition, the 2020 figures have been restated for the impact of the Energy transfer with £64m of revenue moved to IMI Critical from IMI Precision (see Note 1).

** The IMI Critical Engineering sector segmentation has been re-ordered to display Aftermarket and New Construction totals for the division, and includes a £10m reclassification from New Construction to Aftermarket for Petrochemical for 2020, with the total of each segment included in the table consistent with the prior year. In addition, the 2020 figures have been restated for the impact of the Energy transfer with £64m of revenue moved to IMI Critical from IMI Precision (see Note 1).

5. Operating costs

Operating profit is stated after charging/(crediting):

	2021 £m	2020 £m
Net foreign exchange (gains)/losses included in operating profit	(5.1)	0.6
Research and development expense	49.7	38.7
Amortisation of intangible assets	31.2	35.0
Impairment of intangible assets treated as adjusting items	-	1.6
Impairment of intangible assets	0.1	2.7
Depreciation of owned property, plant and equipment	40.0	44.4
Impairment of owned property, plant and equipment treated as adjusting items	4.6	-
Impairment/(reversal of impairment) of owned property, plant and equipment	0.8	(0.3)
Depreciation of right of use assets	28.3	29.7
Cost of inventories recognised as an expense	1,004.6	1,008.8
(Profit)/loss on disposal of property, plant and equipment	(1.3)	2.3

Operating costs by function

The following table shows how much of the operating costs disclosed in the income statement relate to selling and distribution costs and administrative expenses:

	2021 £m	2020 £m
Selling and distribution costs	(233.1)	(222.5)
Administrative expenses	(310.5)	(309.0)
	(543.6)	(531.5)

Employee information

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

	2021	2020*
IMI Precision Engineering	5,740	5,547
IMI Critical Engineering	3,117	3,402
IMI Hydronic Engineering	1,969	1,899
Corporate	90	95
Total Group	10,916	10,943

* 2020 Employee information has been re-presented to include agency staff and contractors to show comparable year on year figures.

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

	2021 £m	2020 £m
Wages and salaries	491.9	489.9
Share-based payments	12.0	10.3
Social security costs	80.3	77.4
Pension costs*	9.5	5.6
Total	593.7	583.2

* There are no special pension events included in 2021 pension costs (2020: £nil, see Note 3).

The aggregate gains made by directors on the exercise of share options was £1.6m (2020: £0.6m). 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 116 of the Remuneration Report. For details of the non-executive directors' remuneration please refer to page 124 of the Remuneration Report.

Research and development expenditure

The cost of research and development expenditure charged directly to the income statement was £49.7m (2020: £38.7m), included within this is amortisation of capitalised intangible development costs which amounted to £7.1m (2020: £7.0m) and across the Group a further £4.6m (2020: £6.9m) was capitalised in the year.

Exchange on operating activities net of hedging arrangements

The transactional foreign exchange gains in the Group were £5.1m (2020: losses of £0.6m).

Audit fees

The Group engages its auditor, Deloitte (2020 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 106. Fees earned by Deloitte (2020 auditor: EY) and its associates during the year are set out below:

	2021 £m	2020 £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	2.5	2.9
Other assurance services	0.1	0.1
Total	2.8	3.2

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 2021, 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	29.04.16	1,557	845.10p	01.08.19 or 01.08.21
	21.04.17	4,631	1106.00p	01.08.20 or 01.08.22
	04.04.18	13,095	1012.68p	01.08.21 or 01.08.23
	04.04.19	127,551	884.16p	01.08.22 or 01.08.24
	02.04.20	61,467	904.66p	01.08.23 or 01.08.25
	02.04.21	72,327	1166.58p	01.08.24 or 01.08.26
		280,628		
Purchase Plans	10.08.20	38,071	956.07p	10.08.22
		38,071		
IMI Incentive Plan	07.05.15	1,042	-	07.05.17 or 07.05.18
	09.03.16	8,174	-	09.03.18 or 09.03.19
	09.03.17	12,594	-	09.03.19 or 09.03.20
	12.03.18	66,941	-	12.03.20 or 12.03.21
	18.03.19	609,752	-	18.03.21 or 18.03.22
	16.03.20	1,175,903	-	16.03.23
	22.03.21	830,351	-	22.03.24
		2,704,757		
IMI Share Option Plan	22.03.10		645.00p	22.03.13
	04.05.12	37,500	980.67p	04.05.15
	12.03.13	85,300	1322.70p	12.03.16
	22.10.13	9,000	1518.33p	22.10.16
	11.03.14	87,350	1467.00p	11.03.17
		219,150		
Total		3,242,606		

Schemes under which options are outstanding

The options in the adjacent table relate to the following share-based payment schemes:

IMI Sharesave Scheme ('SAYE')

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase IMI shares. SAYE options may be exercised within six months of the date they first become exercisable.

Global Employee Share Purchase Plans ('GESPP')

These plans were introduced in 2011 for the US and Germany. The German and US GESPP's offer the opportunity to buy shares in IMI at a fixed price at a future date. The German GESPP mirrors the UK Sharesave Scheme, with a minimum/maximum savings limit per month and contract duration of three to five years. The US GESPP also operates in a similar way to the UK Sharesave Scheme, with a minimum/maximum savings limit per month, but the contract duration is for a fixed period of two years and different taxation conditions apply for the exercise period. No further awards are intended to be granted under the German GESPP.

IMI Share Option Plan ('SOP')

Share option awards were made from 2009 to selected senior managers and certain other employees under the SOP. These awards are not subject to performance conditions, but are subject to a three year vesting period. The purpose of the SOP is to give selected IMI employees (who are not executive directors of the Company) the opportunity to share in the benefits of share price growth and to increase their IMI shareholding.

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 – allows 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 awards 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 exerciseable date
SAYE			
2019	200	884p	2022-2025
2020	68	905p	2023-2026
2021	75	1167p	2024-2027
GESPP			
2019	33	903p	2021
2020	43	956p	2022
IIP			
2019	845	-	2021-2022
2020	1,466	-	2022-2023
2021	891	0	2023-2024

6. Share-based payments (continued)

Movement in outstanding options in the year

	Options not granted at nil cost ¹			Options granted at nil cost ¹	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 2020	1,490	645-1518p	1173p	2,692	4,182
Exercisable at 1 January 2020	1,067	645-1518p	1264p	202	1,269
Granted	110	905-956p	925p	1,567	1,677
Exercised	88	645-1467p	1046p	540	628
Lapsed	546	845-1518p	1254p	671	1,217
Outstanding at 31 December 2020	966	845-1518p	1098p	3,048	4,014
Exercisable at 31 December 2020	586	971-1518p	1216p	167	753
Granted	75	1167p	1167p	978	1,053
Exercised	395	845-1467p	1085p	500	895
Lapsed	108	845-1467p	1101p	461	569
Outstanding at 31 December 2021	538	845-1518p	1116p	3,065	3,603
Exercisable at 31 December 2021	222	845-1518p	1325p	272	494

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 £12.0m (2020: £10.3m) which comprises a charge of £15.3m (2020: £13.5m) for the year offset by a credit of £3.3m (2020: £3.2m) in respect of lapses.

£2.5m (2020: £2.3m) of the total charge and £0.7m (2020: £1.0m) 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 2021 included a dividend yield of 1.7% (2020: 2.4%), expected share price volatility of 25% (2020: 28%), a weighted average expected life of 3.5 years (2020: 3.4 years) and a weighted average interest rate of 0.1% (2020: 0.1%). 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 2021 is 7.08 years (2020: 6.70 years) and the weighted average fair value of share options granted in the year at their grant date was £12.18 (2020: £7.58).

The weighted average share price at the date of exercise of share options exercised during the year was £14.84 (2020: £9.29).

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 and provide insight into the performance of the Group. The note below demonstrates how this calculation has been performed.

	Key	2021 million	2020 million
Weighted average number of shares for the purpose of basic earnings per share	A	266.9	271.4
Dilutive effect of employee share options		1.1	0.5
Weighted average number of shares for the purpose of diluted earnings per share	B	268.0	271.9

	Key	£m	£m
Statutory profit for the year	C	196.3	170.2
Total adjusting items charges included in profit before tax		62.4	59.6
Total adjusting items credits included in taxation		(13.1)	(13.4)
Earnings for adjusted EPS	D	245.6	216.4

	Key	2021	2020
Statutory EPS measures			
Statutory basic EPS	C/A	73.5p	62.7p
Statutory diluted EPS	C/B	73.2p	62.6p
Adjusted EPS measures			
Adjusted basic EPS	D/A	92.0p	79.7p
Adjusted diluted EPS	D/B	91.6p	79.6p

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.

	2021			2020		
	Interest £m	Financial instruments £m	Total £m	Interest £m	Financial instruments £m	Total £m
Recognised in the income statement						
Interest income on bank deposits	2.4		2.4	3.8		3.8
Financial instruments at fair value through profit or loss:						
Other economic hedges		5.2	5.2			
Financial income	2.4	5.2	7.6	3.8	-	3.8
Interest expense on interest-bearing loans and borrowings	(11.7)		(11.7)	(12.3)		(12.3)
Interest expense on lease arrangements	(2.8)		(2.8)	(2.5)		(2.5)
Financial instruments at fair value through profit or loss:						
Other economic hedges					(1.7)	(1.7)
Financial expense	(14.5)	-	(14.5)	(14.8)	(1.7)	(16.5)
Net financial income relating to defined benefit pension schemes	1.0		1.0	0.2		0.2
Net financial (expense)/income	(11.1)	5.2	(5.9)	(10.8)	(1.7)	(12.5)

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 3). 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.

	2021 £m	2020 £m
Recognised in other comprehensive income		
Gain/(loss) arising on hedging instruments designated in hedges of the net assets in foreign operations	20.0	(19.4)
Exchange differences on translation of foreign operations net of funding revaluations	(33.8)	21.4
Exchange differences reclassified to income statement on disposal of operations	0.1	
Income tax on items recognised in other comprehensive income	1.2	(0.7)
Total items recognised in other comprehensive income (net of tax)	(12.5)	1.3
Recognised in statement of changes in equity		
Translation reserve	(12.5)	1.3

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 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 its 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 profits 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 to enhance long-term shareholder value whilst also contributing to the public expenditure and the overall welfare of the communities in which it operates. 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 primary 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 IMI Workplace and Knowledge Library, the Group communicates policies, procedures, guidance and best practices to improve the management of taxation across its subsidiary companies worldwide.

Compliance: IMI pays and collects significant amounts of taxes around the world as a result of its business activities. It 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. 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.

The Group Tax Policy is fully aligned with the Group's Code of Conduct, which requires the Group and its employees and agents to act in compliance with applicable laws and with fairness and integrity in all of its business dealings. IMI has a zero-tolerance approach to tax evasion and the facilitation of tax evasion. Consideration of UK legislation regarding third party tax evasion has also been incorporated into the Group's prevention procedures, including employee training.

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 and commercial positions. In doing so, the Group may make use of legitimate tax incentives, exemptions and statutory alternatives offered by governments and will look to ensure that it is not taxed more than once on the same profit. 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 on page 70.

UK Corporation tax

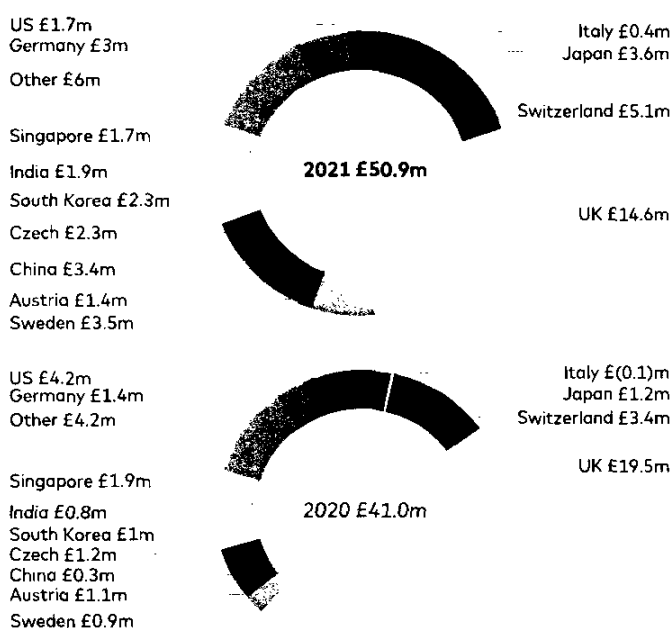
The weighted average rate of corporation tax in the UK for the 2021 calendar year was 19.0% (2020: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the UK corporation tax rate will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have therefore been calculated using a rate of 25% (2020: 19%).

9. Taxation (continued)

Tax payments

During the year, the Group made payments of corporate income tax of £50.9m (2020: £41.0m), 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, acquisitions 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 2021 increased significantly compared to 2020. Payments in Sweden increased due to restructuring undertaken in earlier years. Other larger increases, such as in Germany, Japan, China, Korea and Switzerland reflect more normal levels of payments having recovered tax debtors in earlier periods, whilst payments in Italy had previously reduced as a result of claiming tax credits on patents and R&D. The UK payments decreased significantly due to a change in rules regarding the timing of payments resulting in additional payments in 2020 which were not required in 2021. Other territorial changes in payments largely reflect changes in trading profits in those territories.

In addition, the Group makes substantial other tax payments relating to employment, consumption, procurement and investment to tax 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.

	2021 £m	2020 £m
Current tax charge		
Current year charge	53.9	43.9
Adjustments in respect of prior years	(11.1)	2.7
	42.8	46.6
Deferred taxation		
Origination and reversal of temporary differences	5.5	(2.5)
Total income tax charge	48.3	44.1

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:

	2021			2020		
	Adjusted £m	Adjusting items £m	Statutory £m	Adjusted £m	Adjusting items £m	Statutory £m
Profit before tax	307.0	(62.4)	244.6	273.9	(59.6)	214.3
Income tax using the Company's domestic rate of tax of 19.00% (2020: 19.00%)	58.3	(11.9)	46.4	52.0	(11.3)	40.7
Effects of:						
Non-deductible items	1.4	0.8	2.2	0.8	0.2	1.0
Non taxable loss on disposal of businesses	-	0.7	0.7	-	-	-
Utilisation of losses on which no deferred tax had been recognised	(0.4)	-	(0.4)	(0.3)	-	(0.3)
Current year losses for which no deferred tax asset has been recognised	0.3	0.1	0.4	0.2	0.1	0.3
Recognition of deferred tax asset on previously unprovided timing differences	(2.8)	-	(2.8)	(8.1)	-	(8.1)
Change in future tax rate on deferred tax	-	18.6	18.6	6.5	-	6.5
Differing tax rates	6.2	(4.8)	1.4	4.2	(2.4)	1.8
Adjustments to prior year current and deferred tax charges	(1.6)	(16.6)	(18.2)	2.2	-	2.2
Total tax in income statement	61.4	(13.1)	48.3	57.5	(13.4)	44.1
Income tax expense reported in the consolidated income statement	61.4	(13.1)	48.3	57.5	(13.4)	44.1
Effective rate of tax:	20.0%		19.7%	21.0%		20.6%

Events after the reporting period

In January 2022, the UK Government reconfirmed its intention to introduce legislation to give effect to the OECD Inclusive Framework agreement that there should be a global minimum corporate income tax rate of 15%, taking effect in 2023. This event does not affect IMI's results for 2021 and is not expected to have a material impact on IMI's financial statements for subsequent years. However, the exact impact will depend on the precise rules adopted in individual countries which are not known at this time.

Recognised outside of the income statement

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

	2021 £m	2020 £m
Deferred tax:		
On equity-settled transactions	(2.5)	(0.4)
On re-measurement gains and on defined benefit plans	18.4	2.1
Effect of rate change on previously recognised items	(15.8)	(5.7)
	0.1	(4.0)
Current tax:		
On change in value of effective net investment hedge derivatives	(1.2)	0.7
On equity-settled transactions	(0.5)	0.4
	(1.6)	(2.9)
Of which the following amounts are charged/(credited):		
to the statement of comprehensive income	1.4	(2.9)
to the statement of changes in equity	(3.0)	-
	(1.6)	(2.9)

9. Taxation (continued)

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	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Intangible and tangible fixed assets	11.1	7.5	(59.8)	(38.8)	(48.7)	(31.3)
Inventories	4.5	4.3	(1.2)	(2.2)	3.3	2.1
Revaluation of derivatives	0.1	-	(0.7)	(1.1)	(0.6)	(1.1)
Pension, employee benefits and provisions	39.2	39.0	(36.6)	(18.1)	2.6	20.9
Other tax assets	12.9	11.8	-	-	12.9	11.8
	67.8	62.6	(98.3)	(60.2)	(30.5)	2.4
Offsetting within tax jurisdictions	(28.1)	(26.3)	28.1	26.3	-	-
Total deferred tax assets and liabilities	39.7	36.3	(70.2)	(33.9)	(30.5)	2.4

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

	Balance at 1 Jan 21 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions / disposals £m	Balance at 31 Dec 21 £m
Intangible and tangible fixed assets	(31.3)	12.3		0.6	(30.3)	(48.7)
Inventories	2.1	1.0		(0.1)	0.3	3.3
Revaluation of derivatives	(1.1)	0.5				(0.6)
Pension, employee benefits and provisions	20.9	(18.8)	(0.1)	(0.9)	1.5	2.6
Other tax assets/(liabilities)	11.8	(0.5)		(0.4)	2.0	12.9
Net deferred tax asset/(liability)	2.4	(5.5)	(0.1)	(0.8)	(26.5)	(30.5)

	Balance at 1 Jan 20 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Acquisitions / disposals £m	Balance at 31 Dec 20 £m
Intangible and tangible fixed assets	(31.4)	(0.6)		0.7		(31.3)
Inventories	1.4	0.7				2.1
On revaluation of derivatives	(0.6)	(0.5)				(1.1)
Pension, employee benefits and provisions	23.6	(7.2)	4.0	0.5		20.9
Other tax assets	1.7	10.1				11.8
Net deferred tax (liability)/asset	(5.3)	2.5	4.0	1.2		2.4

All exchange movements are taken through the translation reserve.

Unrecognised deferred tax assets and liabilities

Deferred tax assets of £46.7m (2020: £40.6m) have not been recognised in respect of tax losses of £51.8m (2020: £65.2m), interest of £13.2m (2020: £nil) and capital losses of £118.9m (2020: £118.9m). 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, £128.4m (2020: £94.4m) of those earnings may still result in a tax liability principally as a result of withholding taxes levied by the overseas jurisdictions in which those subsidiaries operate. These tax liabilities are not expected to exceed £7.5m (2020: £7.2m) of which £2.2m (2020: £3.3m) has been provided on the basis that the Group expects to remit these amounts.

10. Dividends

Accounting policy

Dividends are recognised as a liability in the period in which they are approved by shareholders.

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.

	2021 £m	2020 £m
Current year final dividend - 15.8p per qualifying ordinary share (2020: 15.0p)	40.9	40.7

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

	2021 £m	2020 £m
Prior year final dividend paid - 15.0p per qualifying ordinary share (2020 final year dividend: 26.2p)	40.8	71.2
Current year interim dividend paid - 7.9p per qualifying ordinary share (2020: 7.5p)	21.0	20.4
	61.8	91.6

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.

The Group does not have a formal dividend policy or pay out ratio. In 2020, the Group reset the dividend with the intention that it will be covered by at least three times adjusted earnings, from an aim of two times adjusted earnings in previous years. In future years 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. 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 as the impact of any acquisitions, which are clearly identifiable, can materially impact the net book value, from period to period.

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.

Analysis of intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Other non- acquired intangibles* £m	Non-acquired intangibles under construction £m	Other intangible assets £m
Cost						
As at 1 January 2020	480.4	240.3	129.8	154.9	15.6	540.6
Exchange adjustments	7.0	3.7	2.5	5.8	0.5	12.5
Additions				5.6	7.2	12.8
Transfers from assets in the course of construction				13.5	(13.5)	-
Disposals				(9.6)		(9.6)
As at 31 December 2020	487.4	244.0	132.3	170.2	9.8	556.3
Exchange adjustments	(14.7)	(7.9)	(5.2)	(3.0)	(0.8)	(16.9)
Acquisitions (Note 23)	97.4		109.6			109.6
Additions				4.5	6.8	11.3
Transfers from assets in the course of construction				6.9	(6.9)	-
Disposals	(0.5)	(3.6)	(0.3)	(6.4)		(10.8)
As at 31 December 2021	569.6	232.5	236.4	172.2	8.9	650.0
Amortisation						
As at 1 January 2020	36.3	186.4	99.2	80.3		365.9
Exchange adjustments	1.6	4.1	3.1	3.0		10.2
Disposals				(9.4)		(9.4)
Impairment				4.3		4.3
Amortisation for year		14.3	4.4	16.3		35.0
As at 31 December 2020	37.9	204.8	106.7	94.5		406.0
Exchange adjustments	(1.9)	(7.7)	(3.7)	(0.9)		(12.3)
Acquisitions						
Disposals		(3.3)	(0.3)	(5.9)		(9.5)
Impairment				0.1		0.1
Amortisation for year		10.5	4.5	16.2		31.2
As at 31 December 2021	36.0	204.3	107.2	104.0	-	415.5
Net book value at 31 December 2020	449.5	39.2	25.6	75.7	9.8	150.3
Net book value at 31 December 2021	533.6	28.2	129.2	68.2	8.9	234.5

* Other non-acquired intangibles includes capitalised development costs with a carrying value of £34.5m (2020: £40.1m) and capitalised software costs with a carrying value of £33.7m (2020: £35.6m).

11. Intangible assets (continued)

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 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.

The Group has 13 (2020: 12) 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, including consideration of the future impacts of climate change which is considered as part of the Group's five-year strategic planning process.

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 country and region-specific post-tax weighted average cost of capital ('WACC') for specific country risk premium, the Group's size risk premium and tax rate relevant to the jurisdiction in which the cash flows are generated. The basis on which the discount rates are derived has changed during the year. During 2020, pre-tax discount rates specific to each cash generating unit were calculated by adjusting the Group post-tax WACC of 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 resided, and the geographical regions from which the cash flows were derived.

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

	2021 %	2020 %
Discount rate	7.3 – 11.2	9.2 – 10.7
Long-term growth rate	1.5 – 2.0	1.3 – 2.1

For the purpose of assessing the significance of CGUs, the Group uses a threshold of 10% of the total goodwill balance. The recoverable amount of the CGUs is determined from a value in use calculation and the key assumptions used in this calculation are the discount rate, growth rate and operating cash flows. These estimates are determined using the methodology discussed above and for those CGUs considered to be significant; outlined in the table adjacent:

2021	Goodwill £m	Discount rate %	Growth rate %
CGU			
IMI Critical – Petrochemical & Isolation	110.6	10.9	2.0
IMI Critical – Control Valves	95.9	10.8	2.0
IMI Precision Americas – Fluid Technologies	59.0	10.9	1.7
2020			
CGU			
IMI Critical – Petrochemical & Isolation	117.1	10.9	2.1
IMI Critical – Control Valves	94.0	10.9	2.1
IMI Precision Americas – Fluid Technologies	58.1	12.2	1.8

Sensitivity to changes in assumptions

The key estimates reflect the combination of assumptions used, including the long-term growth rates and the discount rate applied to forecast cash flows in addition to the achievement of the forecasts themselves.

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.

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 (2020: £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 2020	179.9	668.8	19.6	868.3
Exchange adjustments	6.0	16.6	1.0	23.6
Additions	1.6	17.7	18.6	37.9
Transfers from assets in the course of construction	3.1	18.7	(21.8)	-
Disposals	(1.0)	(23.6)	(0.5)	(25.1)
As at 31 December 2020	189.6	698.2	16.9	904.7
Exchange adjustments	(5.6)	(27.3)	(1.4)	(34.3)
Acquisitions (Note 23)	4.1	5.0	0.5	9.6
Additions	1.1	20.6	24.5	46.2
Transfers from assets in the course of construction	1.8	12.1	(13.9)	-
Disposals	(4.3)	(33.9)		(38.2)
As at 31 December 2021	186.7	674.7	26.6	888.0
Depreciation				
As at 1 January 2020	90.4	506.6		597.0
Exchange adjustments	3.1	15.3		18.4
Disposals	(0.5)	(22.3)		(22.8)
(Reversal of impairment)/Impairment charge	(0.4)	0.1		(0.3)
Depreciation	4.4	42.0		46.4
As at 31 December 2020	97.0	541.7		638.7
Exchange adjustments	(0.6)	(28.3)		(28.9)
Disposals	(2.6)	(32.3)		(34.9)
Impairment charge	3.1	2.3		5.4
Depreciation	3.7	36.3		40.0
As at 31 December 2021	100.6	519.7	-	620.3
NBV at 31 December 2020	92.6	156.5	16.9	266.0
NBV at 31 December 2021	86.1	155.0	26.6	267.7

An impairment charge of £5.4m occurred during the year (2020: £0.3m net reversal of impairment). 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 amounted to £3.4m (2020: £5.6m).

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 payments 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.

Critical 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 £nil 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 £11.0m (2020: £5.3m).

13. Leases (continued)

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 2020	75.3	14.8	90.1
Additions	12.3	6.0	18.3
Extensions	6.3	0.8	7.1
Payment changes	1.2	0.1	1.3
Terminations	(1.1)	(0.7)	(1.8)
Depreciation expense	(21.5)	(8.2)	(29.7)
Exchange	0.1	0.2	0.3
As at 31 December 2020	72.6	13.0	85.6
Additions	14.9	5.0	19.9
Acquisitions	3.8	0.1	3.9
Extensions	12.4	0.7	13.1
Payment changes	0.5	0.1	0.6
Terminations	(1.5)	(0.4)	(1.9)
Depreciation expense	(20.9)	(7.4)	(28.3)
Exchange	(0.9)	(0.5)	(1.4)
As at 31 December 2021	80.9	10.6	91.5

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Land & buildings £m	Plant & equipment £m	Total £m
As at 1 January 2020	75.7	14.7	90.4
Additions	12.8	6.0	18.8
Extensions	6.3	0.8	7.1
Payment changes	1.8	0.1	1.9
Terminations	(1.1)	(0.6)	(1.7)
Accretion of interest	2.2	0.3	2.5
Payments	(22.6)	(8.6)	(31.2)
Exchange	0.4	0.1	0.5
As at 31 December 2020	75.5	12.8	88.3
Additions	14.6	5.1	19.7
Acquisitions	3.8	0.1	3.9
Extensions	12.1	0.7	12.8
Payment changes	(0.8)	0.1	(0.7)
Terminations	(1.5)	(0.3)	(1.8)
Accretion of interest	2.6	0.2	2.8
Payments	(22.3)	(7.7)	(30.0)
Exchange	(0.8)	(0.3)	(1.1)
As at 31 December 2021	83.2	10.7	93.9
Current	18.4	5.5	23.9
Non-current	64.8	5.2	70.0

The following are the amounts recognised in the income statement:

	2021 £m	2020 £m
Depreciation expense of right-of-use assets	(28.3)	(29.7)
Interest expense on lease liabilities	(2.8)	(2.5)
Total amount recognised in profit or loss	(31.1)	(32.2)

Practical expedients applied

The Group has used the following practical expedients permitted by the standard:

- i. the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

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.

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 (2020: 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. At each year end the Company and the local actuaries consider whether the plans are affected by the asset ceiling requirements. 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 source of estimation uncertainty

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 are set out on pages 188 and 189. 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 surplus: £62.5m (2020: deficit of £22.0m)

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: 70 (2020: 71)

The movement in the year is the result of the removal of two Mexican schemes where the opening liability was nil and the costs are recognised when occurred and an additional scheme in Germany.

The following table shows a summary of the geographical profile of the Group's defined benefit schemes:

	Quantity 2021	Quantity 2020	Assets £m	Liabilities £m	Net surplus/ (deficit) £m
Australia	3	3		(0.4)	(0.4)
Austria	6	6		(3.2)	(3.2)
France	3	3	0.2	(0.9)	(0.7)
Germany	30	29	7.0	(55.9)	(48.9)
India	6	6		(1.0)	(1.0)
Italy	6	6		(3.1)	(3.1)
Mexico	5	7		(0.6)	(0.6)
Spain	2	2		-	-
Switzerland	5	5	80.6	(83.9)	(3.3)
UAE	1	1		(1.0)	(1.0)
US*	2	2		(4.3)	(4.3)
UK	1	1	631.9	(502.9)	129.0
	70	71	719.7	(657.2)	62.5

* The US deficit above excludes £1.8m of assets relating to unqualified plans classified as investments (see Note 17).

As at 31 December 2021, the Group has recognised a net defined benefit asset of £129.0m (2020: £69.1m) for the UK Deferred Fund. No asset ceiling has been applied to the net surplus recognised since the Group has an unconditional right to a refund of surplus assets following the settlement of the liabilities.

The Group provides pension benefits through a mixture of funded and unfunded DB and DC arrangements. Assessments of the obligations of the defined benefit plans are carried out by actuaries, based on the projected unit credit method. A historical split of the types of defined benefit schemes in operation is as follows:

Type of scheme	Qty No.	Assets £m	% of total assets	Liabilities £m	% of total liabilities
2021					
Final salary*	25	632.5	88%	(549.2)	84%
Cash balance**	12	80.6	11%	(87.1)	13%
Jubilee Awards***	14	-	0%	(3.0)	0%
Other	19	6.6	1%	(17.9)	3%
Total	70	719.7	100%	(657.2)	100%
2020					
Final salary*	26	638.8	89%	(624.4)	84%
Cash balance**	12	73.2	10%	(93.8)	13%
Jubilee Awards***	14	-	0%	(3.2)	0%
Other	19	6.8	1%	(19.4)	3%
Total	71	718.8	100%	(740.8)	100%

* **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 Awards:** 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.

	2021 £m	2020 £m
Quoted equities	27.8	25.7
Quoted bonds	256.8	423.2
Total quoted assets	284.6	448.9
Unquoted equities	120.8	121.5
Insurance policies*	254.7	68.3
Property	20.0	18.6
Other**	39.6	61.5
Total unquoted assets	435.1	269.9
Fair value of assets	719.7	718.8
DBOs for funded schemes	(598.1)	(672.1)
DBOs for unfunded schemes	(59.1)	(68.7)
Surplus/(deficit) for DBOs	62.5	(22.0)
Schemes in net pension deficit	(66.5)	(91.1)
Schemes in net pension surplus	129.0	69.1

* The value of the insurance policies match the value of the IAS 19 liabilities insured.

** 'Other' assets primarily consists of cash, currency swaps and UK commercial real estate debt.

The overseas assets of £87.8m (2020: £80.6m) comprise equities of £27.8m (2020: £25.7m), bonds of £20.2m (2020: £17.8m), insurance of £4.1m (2020: £7.4m), property of £19.2m (2020: £17.6m) and other assets of £16.5m (2020: £12.1m).

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	2021	2020
UK*	21.7	21.9
Switzerland	16.8	18.3
US	5.5	5.7
Eurozone	14.6	15.2

* UK Fund excluding buy-ins

The UK Funds

The United Kingdom constitutes 77% (2020: 77%) of total defined benefit liabilities and 88% (2020: 89%) 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%.

Liability management

In 2021, the Group completed a bulk insurance buy-in exercise in relation to certain members of the UK Deferred Fund during the year. The difference between the value of the liabilities insured and the cost of the premium to insure them of £26.4m was recognised as a loss in other comprehensive income.

Contributions

The March 2021 Valuation was completed in December 2021 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.

Specific effect on the financial statements

The corresponding entries for increases and decreases in the net pension surplus reported in the balance sheet are reflected as follows.

- i. **Cash flow statement:** When the Group makes cash contributions to fund the pension surplus/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 surplus/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 surplus/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 2021 and 31 December 2021.

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) at 1 January 2021	69.1	(91.1)	(22.0)
Movement recognised in:			
Income statement	2.0	(6.5)	(4.5)
OCI	50.9	20.0	70.9
Cash flow statement	7.0	6.8	13.8
Exchange movements	-	4.3	4.3
Net defined benefit surplus/(obligation) at 31 December 2021	129.0	(66.5)	62.5

Risks faced by the schemes

The main risks that the Group face in respect of the UK Deferred Fund, which makes up 77% of the Group's liabilities, are:

Risk	Description/mitigation
Interest rate risk	<p>Under IAS 19, the discount rate should be set with reference to the yield on high quality corporate bonds (typically taken to mean those rated AA) of term appropriate to the duration of the liabilities.</p> <p>A decrease in corporate bond yields and therefore the resulting discount rate, leads to a higher value being placed on the pension liabilities.</p> <p>The Trustees' investment strategy for the UK Deferred Fund includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates. The Trustees have a target to hedge 100% of interest rate risk. The Trustee's investment managers measure and monitor the hedging arrangements in place and the latest performance report shows this target is being met.</p> <p>Note that the Scheme hedges interest rate risk on a scheme funding basis (relative to gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Scheme's exposure to corporate bonds mitigates this risk to some extent.</p>
Inflation risk	<p>In the UK Deferred Fund, a large proportion of the benefits are linked to inflation. Therefore, an increase in inflation would lead to higher benefits being paid than expected.</p> <p>To mitigate this risk, the UK Deferred Fund aims to hedge 100% of the Fund's liabilities against inflation risk. The Trustee's investment managers measure and monitor the hedging arrangements in place and the latest performance report shows this target is being met.</p>
Investment risk	<p>The UK Deferred Fund holds investments in asset classes, such as private equity and property, which have volatile market values. These assets are expected to provide better returns than Government bonds over the long-term. However, the short-term volatility can cause additional funding to be required, if a deficit emerges. As these investments make up around 20% of the total assets, the risk to the Group is relatively small.</p>
Mortality risk	<p>The majority of the plans' obligations are to provide benefits for the life of each retired member and his/her spouse, so increases in life expectancy result in an increase in the plans' liabilities.</p> <p>An increase of one year in life expectancy for the UK Deferred Fund would act to increase liabilities by c.£17.9m.</p> <p>The Group has an objective to insure benefits as members retire in order to reduce mortality risk.</p>

14. Retirement benefits (continued)

Cash flow impacts

	2021			2020		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Amounts from employees	-	2.2	2.2	-	2.2	2.2
Amounts from employers	7.0	2.7	9.7	7.0	2.7	9.7
Benefits and settlements paid directly by the Group	-	4.1	4.1	-	4.1	4.1
Total	7.0	9.0	16.0	7.0	9.0	16.0

The expected contributions to the DB arrangements in 2022 are £2.6m of normal employer contributions and £2.1m of normal employee contributions, both in relation to overseas pension funds. Additional contributions of £7.0m will be made in the UK in 2022.

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:

	2021				2020				
	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	49.9	8.0		57.9	(78.5)	(7.2)		(85.7)	
Change in inflation	(16.0)	-		(16.0)	4.7	0.4		5.1	
Change in other assumptions	5.4	3.2		8.6	(1.0)	-		(1.0)	
Actuarial experience - Liabilities	3.6	1.4		5.0	5.7	(0.7)		5.0	
Asset experience	8.0	7.4		15.4	82.5	(1.6)		80.9	
Actuarial gains/(losses) in the year	50.9	20.0		70.9	13.4	(9.1)		4.3	
Exchange gains/(losses)		4.0	0.3	4.3		(3.2)	(0.1)	(3.3)	
Gains/(losses) recognised through equity	50.9	24.0	0.3	75.2	13.4	(12.3)	(0.1)	1.0	

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:

	31 Dec 2021		Weighted Averages		31 Dec 2019	
	UK* % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.4	n/a	3.1	n/a	3.1	n/a
Inflation - CPI (pre-2030)	2.4	1.3	2.1	1.3	2.1	1.4
Inflation - CPI (post-2030)	3.4	1.3	3.1	1.3	2.1	1.4
Discount rate	1.9	0.8	1.4	0.4	2.0	0.7
Expected salary increases	n/a	1.7	n/a	1.6	n/a	n/a
Rate of pension increases	3.3	0.7	3.1	0.7	3.1	0.6

* Assumptions based on 31 December 2021 UK market conditions excluding buy-ins.

	2021 Years	2020 Years	2019 Years
Life expectancy at age 65 (IMI Pension Fund only)			
Current male pensioners	21.8	21.8	21.8
Current female pensioners	24.1	24.6	24.8
Future male pensioners	23.1	23.5	23.4
Future female pensioners	25.6	26.4	26.6

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 2021. The assumptions used as at 31 December 2021 have been based on 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 2021, in the event of the following reasonable changes in the key assumptions above.

UK	2021 £m	2020 £m
Discount rate 0.1% pa lower*	11.0	13.0
Inflation-linked pension increases 0.1% pa higher	9.0	10.0
Increase of one year in life expectancy from age 65	18.0	21.0
10% fall in non-bond-like assets**	37.0	57.0

* Due to the volatility of the discount rate year on year, sensitivities using a percentage of 0.1% are shown to provide the users of the accounts the ability to adjust the sensitivities as they consider necessary.

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

In each case all other assumptions are unchanged.

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	2021 £m	2020 £m
Discount rate 0.1% pa lower	2.5	2.9
Salary increases 0.1% higher	0.3	0.4
Increase of one year in life expectancy at age 65	4.2	4.6

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 cost reported in the income statement in respect of pension obligations (excluding defined benefit contributions):

	2021				2020			
	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m	UK £m	Overseas post employment £m	Overseas non-post employment £m	Total £m
Current service cost		5.1	0.8	5.9	-	4.6	1.1	5.7
Past service cost/(credit)				-	0.2			0.2
Settlement/curtailment gain	(0.4)			(0.4)	-		(0.2)	(0.2)
Pension (income)/expense – operating costs	(0.4)	5.1	0.8	5.5	0.2	4.6	0.9	5.7
Interest on DBO	9.0	0.6	0.1	9.7	9.9	1.0	0.1	11.0
Interest on assets	(10.6)	(0.1)		(10.7)	(10.9)	(0.3)	-	(11.2)
Interest (income)/expense – financing costs	(1.6)	0.5	0.1	(1.0)	(1.0)	0.7	0.1	(0.2)

14. Retirement benefits (continued)

Overall reconciliation of changes in the net surplus/(liability) for DBOs

	2021			2020		
	DBO £m	Assets £m	Net DB asset/ (liability) £m	DBO £m	Assets £m	Net DB asset/ (liability) £m
Brought forward at start of year	(740.8)	718.8	(22.0)	(654.9)	623.6	(31.3)
Income statement (charges)/credits						
Current service cost	(5.9)		(5.9)	(5.7)		(5.7)
Past service cost – plan amendments			-	(0.2)		(0.2)
Settlements	25.3	(24.9)	0.4			-
Net interest (cost)/income on net DB (liability)/asset	(9.7)	10.7	1.0	(11.0)	11.2	0.2
Immediate recognition of gains/(losses) – other long-term benefits			-	0.2		0.2
Total charged to income statement	9.7	(14.2)	(4.5)	(16.7)	11.2	(5.5)
Remeasurements recognised in other comprehensive income						
Actuarial gain/(loss) due to actuarial experience	5.0		5.0	4.9		4.9
Actuarial gain/(loss) due to financial assumption changes	41.9		41.9	(80.5)		(80.5)
Actuarial gain/(loss) due to demographic assumption changes	8.6		8.6	(1.0)		(1.0)
Return on plan assets* less than discount rate		15.4	15.4		80.9	80.9
Total remeasurements recognised in other comprehensive income	55.5	15.4	70.9	(76.6)	80.9	4.3
Cash flows in the year						
Employer contributions		9.7	9.7		9.7	9.7
Employee contributions	(2.2)	2.2	-	(2.2)	2.2	-
Benefits paid directly by the Company	4.1		4.1	4.1		4.1
Benefits paid from plan assets	10.8	(10.8)	-	13.0	(13.0)	-
Net cash inflow/(outflow)	12.7	1.1	13.8	14.9	(1.1)	13.8
Other movements						
Changes in exchange rates	5.7	(1.4)	4.3	(7.5)	4.2	(3.3)
Total other movements	5.7	(1.4)	4.3	(7.5)	4.2	(3.3)
Carried forward at end of year	(657.2)	719.7	62.5	(740.8)	718.8	(22.0)

* 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.

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. The amount of inventory provision recognised is disclosed below:

Inventories

	2021 £m	2020 £m
Raw materials and consumables	135.4	100.3
Work in progress	107.0	112.5
Finished goods	92.8	80.5
	335.2	293.3
Inventories are stated after:		
Allowance for impairment	46.2	42.8

In 2021, the cost of inventories recognised as an expense (being segmental cost of sales) amounted to £1,004.3m (2020: £1,008.8m).

In 2021, the write-down of inventories to net realisable value amounted to £0.4m (2020: £20.0m). The reversal of write-downs amounted to £nil (2020: £6.2m). Write-downs and reversals in both years relate to ongoing 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.

The expected credit loss is calculated based on the ageing of individual customers receivables, giving consideration to the geographical location in which they operate, historical collectability and the customer's financial position, where this information is known.

Trade and other receivables

	2021 £m	2020 £m
Current		
Trade receivables	325.4	305.5
Other receivables	58.7	49.9
Prepayments and accrued income	29.9	23.5
	414.0	378.9
Receivables are stated after:		
Allowance for impairment	15.7	19.5

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 2021 these totalled £446.0m (2020: £516.4m).

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 3% of our 2021 revenues (2020: 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.

Exposure to credit risk in respect of trade receivables

	Carrying amount	
	2021 £m	2020 £m
UK	12.9	8.9
Germany	24.9	23.6
Rest of Europe	83.3	78.4
USA	62.5	59.0
Asia Pacific	93.4	81.2
Rest of World	48.4	54.4
	325.4	305.5

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

	Carrying amount	
	2021 £m	2020 £m
IMI Precision Engineering	153.8	152.4
IMI Critical Engineering	128.3	111.5
IMI Hydronic Engineering	43.3	41.6
	325.4	305.5

Impairment provisions for trade receivables

The ageing of trade receivables at the reporting date was:

	2021		2020	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	285.8	(0.3)	266.9	(0.2)
Past due 1-30 days	24.5	(1.0)	24.4	(1.5)
Past due 31-90 days	9.2	(1.1)	11.3	(1.9)
Past due over 90 days	21.6	(13.3)	22.4	(15.9)
Total	341.1	(15.7)	325.0	(19.5)

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

	2021 £m	2020 £m
Net balance at 1 January	19.5	13.7
Acquisitions	(0.1)	-
Utilised during the year	(3.0)	(3.1)
Charged to the income statement	1.7	9.9
Released	(1.3)	(1.2)
Exchange	(1.1)	0.2
Net balance at 31 December	15.7	19.5

The net impairment charge of £0.4m (2020: charge of £8.7m) 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 2021, credit exposure including cash deposited did not exceed £15.8m with any single institution (2020: £30.0m).

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 2021 and 31 December 2020. 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.

	Fair value			At amortised cost £m	Total carrying value £m	Fair value if different £m
	Designated at fair value £m	Other derivatives at fair value £m	Financial assets at fair value* £m			
2021						
Cash and cash equivalents			94.6		94.6	
Bank overdrafts				(65.5)	(65.5)	
Borrowings due within one year				(127.7)	(127.7)	(128.3)
Borrowings due after one year				(430.3)	(430.3)	(446.6)
Lease liabilities				(93.9)	(93.9)	
Trade and other payables**				(406.9)	(406.9)	
Trade receivables				325.4	325.4	
Investments			2.9		2.9	
Other current financial assets/(liabilities)						
Derivative assets***	4.9	5.1			10.0	
Derivative liabilities****		(6.3)			(6.3)	
Total	4.9	(1.2)	97.5	(798.9)	(697.7)	
2020						
Cash and cash equivalents			207.9		207.9	
Bank overdrafts				(73.5)	(73.5)	
Borrowings due after one year				(362.3)	(362.3)	(394.3)
Lease liabilities				(88.3)	(88.3)	
Trade and other payables**				(378.9)	(378.9)	
Trade receivables				305.5	305.5	
Investments			3.1		3.1	
Other current financial assets/(liabilities)						
Derivative assets***	5.4	5.4			10.8	
Derivative liabilities****		(4.7)			(4.7)	
Total	5.4	0.7	211.0	(597.5)	(380.4)	

* 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 include liabilities of £6.5m (2020: £7.0m) falling due after more than one year.

*** Includes £0.1m (2020: £0.2m) falling due after more than one year.

**** Derivative liabilities include liabilities of £0.2m (2020: £0.1m) falling due after more than one year: £0.1m in 1-2 years and £0.1m in 2-3 years (2020: £0.1m in 1-2 years). Derivative liabilities designated at fair value represent the fair value of unsettled net investment hedge derivatives. The decrease in value of net investment hedge derivatives in the year of £0.5m is shown in the consolidated statement of comprehensive income.

The decrease in other derivative assets and liabilities at fair value of £1.9m is recognised in the income statement and consists of £2.0m decrease of unsettled net foreign currency and metal forward contracts, which are not designated as hedges for accounting purposes offset by an increase of £0.1m of forward contracts to be utilised against specific trade receivables and trade payables.

There are no other financial liabilities included within payables disclosed above.

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.

17. Financial assets and liabilities (continued)

The following table shows the Group's financial instruments held at fair value (excluding cash):

	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 2021				
Financial assets measured at fair value				
Equity instruments*	2.9			2.9
Foreign currency forward contracts		10.0		10.0
	2.9	10.0		12.9
Financial liabilities measured at fair value				
Foreign currency forward contracts		(6.3)		(6.3)
		(6.3)		(6.3)
As at 31 December 2020				
Financial assets measured at fair value				
Equity instruments*	3.1			3.1
Foreign currency forward contracts		10.8		10.8
	3.1	10.8		13.9
Financial liabilities measured at fair value				
Foreign currency forward contracts		(4.7)		(4.7)
		(4.7)		(4.7)

* 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 £10.0m and £6.3m 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 2021, 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 87 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.

The Group have designated £360m (2020: £157m) of loans in a net investment hedge of USD net assets and £193m (2020: £205m) of EUR net assets. No ineffectiveness was recorded (2020: nil) and a loss of £0.5m (2020: £3.3m gain) was taken to the translation reserve. The amount accumulated in this reserve in respect of gains/losses arising on hedging instruments designated in net investment hedges up to 31 December 2021 was an accumulated profit of £7.6m (2020: accumulated profit of £8.0m).

18. Financial risk management (continued)

Currency profile of assets and liabilities

	Cash*	Debt	Lease liabilities	Exchange contracts	Assets and liabilities subject to interest rate risk	Other net assets**	Total net assets	Total net assets
	2021 £m	2021 £m	2021 £m	2021 £m	2021 £m	2021 £m	2021 £m	2020 £m
Sterling	(302)	(3)	(17)	321	(1)	208	207	510
US dollar	196	(360)	(11)	-	(175)	353	178	196
Euro	41	(193)	(15)	(232)	(399)	562	163	-
Other	94	(2)	(51)	(89)	(48)	279	231	94
Total	29	(558)	(94)	-	(623)	1,402	779	800

* Cash is stated net of overdrafts.

** Other net assets includes leased assets: £16.5m Sterling (2020: £13m), £10.6m US Dollar (2020: £10m), £15.5m Euro (2020: £20m) and £48.9m other (2020: £43m).

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.

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* 2021 £m	Cash and exchange contracts 2021 £m	Assets subject to interest rate risk* 2021 £m	Floating rate 2021 £m	Fixed rate 2021 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(20)	19	(1)	(1)			
US dollar	(371)	196	(175)	(15)	(160)	4.1	4.4
Euro	(440)	41	(399)	(206)	(193)	1.4	4.3
Other	(142)	94	(48)	(48)			
Total	(973)	350	(623)	(270)	(353)		

* Net of lease liabilities; £17m Sterling, £11m US Dollar, £15m Euro and £51m other.

	Debt and exchange contracts** 2020 £m	Cash and exchange contracts 2020 £m	Assets subject to interest rate risk** 2020 £m	Floating rate 2020 £m	Fixed rate 2020 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(14)	453	439	453	(14)		
US dollar	(167)	-	(167)	-	(167)	4.1	5.4
Euro	(401)	44	(357)	(132)	(225)	1.4	5.3
Other	(236)	5	(231)	(187)	(44)		
Total	(818)	502	(316)	134	(450)		

** Net of lease liabilities; £14m Sterling, £10m US Dollar, £20m Euro and £44m other.

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.

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 2021						
Impact on income statement: (loss)/gain	2.0	(2.0)	(11.3)	11.3	0.2	(0.2)
Impact on equity: (loss)/gain	-	-	(53.7)	53.7	-	-
At 31 December 2020						
Impact on income statement: (loss)/gain	-	-	(12.4)	12.4	(0.3)	0.3
Impact on equity: (loss)/gain	-	-	(67.2)	67.2	-	-

18. Financial risk management (continued)

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 2021 the Group had undrawn committed facilities totaling £230m (2020: £300m) and was holding cash and cash equivalents of £95m (2020: £208m). 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

	2021 £m	2020 £m
Total equity	779	800
Gross debt including overdrafts	624	436
Gross cash	(95)	(208)
Capital base	1,308	1,028
Employee benefits and deferred tax assets	169	105
Extended capital base	1,477	1,133
Undrawn funding facilities	230	300
Available capital base	1,707	1,433

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 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 2021 was 1.5 times (2020: 0.8 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% (2020: 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

	2021 £m	2020 £m
Adjusted EBITDA*	403.5	379.5
Working capital movements	(50.6)	14.6
Capital and development expenditure	(57.5)	(50.7)
Provisions and employee benefit movements**	(0.5)	8.5
Principal elements of lease payments	(30.0)	(28.7)
Other	9.0	11.3
Adjusted operating cash flow***	273.9	334.5
Cash impact of adjusting items	(35.6)	(36.7)
Interest	(12.1)	(11.0)
Derivatives	26.4	(22.5)
Tax paid	(50.9)	(41.0)
Additional pension scheme funding	(7.0)	(7.0)
Free cash flow before corporate activity	194.7	216.3
Dividends paid to equity shareholders	(61.8)	(91.6)
Acquisition of subsidiaries	(203.9)	-
Disposal of subsidiaries	0.1	-
Net purchase of own shares and share buyback programme	(225.6)	(8.5)
Net cash flow (excluding debt movements)	(296.5)	116.2

* Adjusted profit after tax (£245.6m) before interest (£11.1m), tax (£61.4m), depreciation (£68.3m), amortisation (£16.2m) and impairment on property, plant and equipment and non-acquired intangible assets (£0.9m).

** Movement in provisions and employee benefits as per the statement of cash flows (£1.8m) adjusted for the movement in the restructuring provisions (£2.3m).

*** 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.

Reconciliation of net cash to movement in net borrowings

	2021 £m	2020 £m
Net (decrease)/increase in cash and cash equivalents excluding foreign exchange	(86.7)	98.4
Reverse cash acquired	(1.8)	-
Net (drawdown)/repayment of borrowings excluding foreign exchange and net debt disposed/acquired	(208.0)	17.8
(Increase)/decrease in net debt before acquisitions, disposals and foreign exchange	(296.5)	116.2
Currency translation differences	(4.5)	3.3
Movement in lease creditors	(5.6)	2.1
Movement in net borrowings in the year	(306.6)	121.6
Net borrowings at the start of the year	(316.2)	(437.8)
Net borrowings at the end of the year	(622.8)	(316.2)

19. Net debt (continued)

Reconciliation of adjusted operating cash flow to cash flow statement

	2021 £m	2020 £m
Cash generated from operations	327.1	377.2
Principal lease payments	(30.0)	(28.7)
Settlement of transactional derivatives	(5.9)	(0.2)
Acquisition of property, plant and equipment and non-acquired intangibles	(57.5)	(50.7)
Cash impact of adjusting items	35.6	36.7
Proceeds from sale of property, plant and equipment	4.6	0.2
Adjusted operating cash flow	273.9	334.5

Reconciliation of cash and cash equivalents

	2021 £m	2020 £m
Cash and cash equivalents in current assets	94.6	207.9
Bank overdraft in current liabilities	(65.5)	(73.5)
Cash and cash equivalents	29.1	134.4

Analysis of net debt

	Cash and cash equivalents £m	Borrowings and finance leases due		Lease creditors £m	Total net debt £m
		within one year £m	after more than one year £m		
At 1 January 2020	28.1	(17.6)	(357.9)	(90.4)	(437.8)
Lease additions, extensions, terminations and payment changes				(26.1)	(26.1)
Lease payments and interest				28.7	28.7
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash disposed of/acquired	121.1	17.8			138.9
Settlement of currency derivatives hedging balance sheet	(22.7)				(22.7)
Currency translation differences	7.9	(0.2)	(4.4)	(0.5)	2.8
At 31 December 2020	134.4		(362.3)	(88.3)	(316.2)
Lease additions, extensions, terminations and payment changes				(33.9)	(33.9)
Lease payments and interest				27.2	27.2
Cash flow excluding settlement of currency derivatives hedging balance sheet and net cash/debt disposed of/acquired	(122.2)	(126.7)	(81.3)		(330.2)
Cash/debt acquired	1.8	(1.8)			
Settlement of currency derivatives hedging balance sheet	20.5				20.5
Currency translation differences	(5.4)	0.8	13.3	1.1	9.8
At 31 December 2021	29.1	(127.7)	(430.3)	(93.9)	(622.8)

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:

	2021 £m	2020 £m
Expiring between one and two years	145.4	150.0
Expiring after more than two years	84.2	150.0
Total	229.6	300.0

The weighted average life of these facilities is 1.7 years (2020: 2.0 years).

Terms and debt repayment schedule

The terms and conditions of cash and cash equivalents, outstanding loans, lease liabilities and derivative financial liabilities 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
2021									
Cash and cash equivalents	Floating	94.6	94.6	94.6					
Revolving credit facilities	Floating	(70.3)	(70.3)	(70.3)					
Term loan 2024	Floating	(133.3)	(133.3)	(44.4)	(44.4)	(44.5)			
Acquired loan		(1.8)	(1.8)	(1.8)					
US loan notes 2022	7.17%	(11.1)	(12.7)	(12.7)					
US loan notes 2025	1.39%	(126.1)	(133.3)	(1.8)	(1.8)	(1.8)	(127.9)		
US loan notes 2026	3.86%	(92.6)	(110.6)	(3.6)	(3.6)	(3.6)	(3.6)	(96.2)	
US loan notes 2027	3.92%	(55.6)	(68.8)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(57.8)
US loan notes 2028	1.53%	(67.2)	(74.2)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(69.2)
Bank overdrafts	Floating	(65.5)	(65.5)	(65.5)					
Lease liabilities	Various	(93.9)	(93.9)	(23.9)	(18.3)	(14.0)	(9.2)	(7.4)	(21.1)
Derivative financial liabilities		(6.3)	(6.3)	(6.1)	(0.1)	(0.1)			
Total		(629.1)	(676.1)	(138.7)	(71.4)	(67.2)	(143.9)	(106.8)	(148.1)
2020									
Cash and cash equivalents	Floating	207.9	207.9	207.9					
US loan notes 2022	7.17%	(10.9)	(12.5)	(0.8)	(11.7)				
US loan notes 2025	1.39%	(133.9)	(142.1)	(1.9)	(1.9)	(1.9)	(1.9)	(134.5)	
US loan notes 2026	3.86%	(91.3)	(109.6)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(92.1)
US loan notes 2027	3.92%	(54.7)	(68.0)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(57.5)
US loan notes 2028	1.53%	(71.5)	(79.3)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(73.8)
Bank overdrafts	Floating	(73.5)	(73.5)	(73.5)					
Lease liabilities	Various	(88.3)	(88.3)	(26.3)	(19.7)	(13.9)	(9.6)	(5.6)	(13.2)
Derivative financial liabilities		(4.7)	(4.7)	(4.6)	(0.1)				
Total		(320.9)	(370.1)	94.1	(40.1)	(22.5)	(18.2)	(146.8)	(236.6)

Contractual cash flows include undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

19. Net debt (continued)

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	1 Jan 2021 £m	Financing cash flows* £m	Acquisition of subsidiary £m	Non-cash changes			31 Dec 21 £m
				New leases £m	Exchange £m	Other** £m	
2021							
Revolving credit facilities	-	(71.7)			1.4		(70.3)
Term loan 2024	-	(136.2)			2.9		(133.3)
Acquired loan	-		(1.8)				(1.8)
US loan notes	(362.3)				9.7		(352.6)
Bank overdrafts	(73.5)	8.0					(65.5)
Lease liabilities	(88.3)	30.0		(33.9)	1.1	(2.8)	(93.9)
Total	(524.1)	(169.9)	(1.8)	(33.9)	15.1	(2.8)	(717.4)

	1 Jan 2020 £m	Financing cash flows* £m	Acquisition of subsidiary £m	Non-cash changes			31 Dec 20 £m
				New leases £m	Exchange £m	Other** £m	
2020							
Revolving credit facilities	(17.6)	17.8			(0.2)		-
US loan notes	(357.9)				(4.4)		(362.3)
Bank overdrafts	(60.1)	(12.8)			(0.6)		(73.5)
Lease liabilities	(90.4)	31.2		(26.1)	(0.5)	(2.5)	(88.3)
Total	(526.0)	36.2	-	(26.1)	(5.7)	(2.5)	(524.1)

* Financing cash flows exclude the impact of interest paid

** Includes IFRS 16 interest payments

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.

	2021 £m	2020 £m
Current liabilities		
Unsecured loan notes and other loans	127.7	-
Lease liabilities	23.9	26.3
Total	151.6	26.3
Non-current liabilities		
Unsecured loan notes and other loans	430.3	362.3
Lease liabilities	70.0	62.0
Total	500.3	424.3

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 using the best estimate methodology (with the exception of provisions indemnities as noted below) 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 £m	Total £m
Current	30.1	13.4	0.4	43.9
Non-current	-	8.5	6.6	15.1
At 1 January 2021	30.1	21.9	7.0	59.0
Arising during the year	36.8	2.0	-	38.8
Released during the year	(1.7)	(0.4)	(0.2)	(2.3)
Utilised during the year	(32.8)	(4.4)	(0.5)	(37.7)
Exchange adjustment	(0.8)	(0.6)	-	(1.4)
At 31 December 2021	31.6	18.5	6.3	56.4
Current	27.8	9.9	0.4	38.1
Non-current	3.8	8.6	5.9	18.3
	31.6	18.5	6.3	56.4

Restructuring

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects that are discussed further in Note 3, where the cost is a reliable estimate of the obligation. The opening balance of £30.1m relates to restructuring costs booked in prior periods. The utilised balance includes £32.8m of cash settlements and the balance released during the year of £1.7m relates to amounts not required following completion of projects. Arising during the year primarily relates to the announced closure of a factory in Europe, which is currently under consultation with the Works Council, within our IMI Precision Engineering division and the Customer First project, which both simplify the structure of the division and ensures the business structure is aligned to our customer base. The provision as at 31 December 2021 of £31.6m primarily relates to the expected redundancy payments for the facility closure with the majority of the resulting outflow expected during 2022 and remainder expected during 2023.

Trade warranties

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. The provision represents the Directors' best estimate of the Group's liability based on past experience.

Environmental & legal

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. Due to the long-term nature of the liabilities, the timescales are uncertain and the provisions represent the directors' best estimates of these costs.

21. Trade and other payables

	2021 £m	2020* £m
Current		
Trade payables	120.3	112.5
Social security and other taxation	27.1	22.4
Other payables, accruals and deferred income	179.8	159.7
<i>Progress billings and advance payments from customers*</i>	73.2	77.3
	400.4	371.9
Non-current		
<i>Other payables</i>	6.5	7.0
	406.9	378.9

* Prior year numbers have been reclassified to correctly reflect the comparators for the current year.

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

	2021		2020	
	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	286.5	81.8	286.4	81.8
Issued to satisfy employee share schemes	0.1	-	0.1	-
Share cancellations	(11.7)	(3.2)	-	-
In issue at the end of the year	274.9	78.6	286.5	81.8

All issued share capital at 31 December 2021 and 2020 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 2020	1.1	14.3	271.1	286.5
New issues to satisfy employee share scheme awards			0.1	0.1
Market purchases	1.7	11.7	(13.4)	-
Share cancellations		(11.7)		(11.7)
Shares allocated under employee share schemes	(1.0)		1.0	-
At 31 December 2021	1.8	14.3	258.8	274.9

During the year 0.1m (2020: 0.1m) shares were issued under employee share schemes realising £1.0m (2020: £0.2m).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of 1.7m (2020: 0.8m) shares with an aggregate market value of £30.0m (2020: £9.0m) and a nominal value of £0.5m (2020: £0.2m). Associated transaction costs amounted to £nil (2020: £nil).

Share options exercised in 2021 were settled using the shares in the Group's Employee Benefit Trust. In 2021, 1.0m (2020: 0.8m) shares were issued for cash of £3.4m (2020: £0.2m).

Of the 16.1m (2020: 15.4m) shares held within retained earnings, 1.8m (2020: 1.1m) shares with an aggregate market value of £27.9m (2020: £13.4m) are held in trust to satisfy employee share scheme vesting.

Share buyback

On-market purchases of 11.7m shares were conducted relating to the share buyback programme. The aggregate market value of these shares at the dates of purchase were £200.0m, which includes dealing costs related to these purchases of £1.9m.

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 December 2021 the Group acquired 100% of the share capital, and associated voting rights, of *Adaptas Solutions (Adaptas)* for cash consideration of £203.9m. Adaptas is a manufacturer of mission critical mass spectrometry subsystems and components and is based in North America with facilities in the UK, Australia and China.

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 December 2021 £m
Intangible assets	109.6
Property, plant and equipment	9.6
Leased assets	3.9
Inventories	15.7
Trade and other receivables	8.4
Cash and cash equivalents	1.8
Interest-bearing loans and liabilities	(1.8)
Lease liabilities	(3.9)
Trade and other payables	(9.4)
Current taxation	(0.9)
Deferred taxation	(26.5)
Total identified net assets at fair value	106.5
Goodwill arising on acquisition	97.4
Purchase consideration transferred	203.9

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. Acquisition costs of £2.8m were recognised in the income statement in 2021.

The revenue and adjusted operating profit included in the income statement for 2021 contributed by Adaptas were £2.0m and £nil respectively. If the acquisition had taken place on 1 January 2021, Adaptas would have contributed revenue and adjusted operating profit of £58.0m and £9.2m respectively.

There were no acquisitions during 2020.

24. Disposals

During the year, the Group disposed of *Interativa Industria, Comercio e Representacoes Ltda.*

This disposal resulted in a loss of £3.8m and is presented in the income statement as an adjusting item as it meets our definition of adjusting items based on its nature and quantum. The loss on disposal is not disclosed within discontinued operations because this business did not represent a separate major line of business.

A summary of the proceeds received, assets disposed and resulting loss on disposal is included in the table below:

	23 July 2021 £m
Sale consideration	0.2
Net assets disposed	(3.8)
Costs of disposal	(0.1)
Foreign exchange loss reclassified on disposal	(0.1)
Loss on disposal	(3.8)
Net cash flow arising on disposal	
Sale consideration	0.2
Cash costs of disposal	(0.1)
Net cash flow arising on disposal of operations	0.1

There were no disposals of subsidiaries during 2020.

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 £112m (2020: £142m).

26. Related party transactions

Related parties include the key management personnel. The Board, including the non-executive directors are considered to be the key management personnel of the Group.

	2021 £m	2020 £m
Short-term employee benefits*	4.3	3.6
Share-based payments**	1.8	1.3
Total	6.1	4.9

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

** For details of the shared based payment charge for key management personnel, see Note 6.

Transactions with associated companies

	2021 £m	2020 £m
Sales to associated companies	0.5	0.9
Purchases from associated companies	-	-
Accounts receivable	-	-
Accounts payable	-	-
Total	0.5	0.9

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 or non-adjusting subsequent events after the balance sheet date of 31 December 2021.

Company balance sheet

At 31 December 2021

	Note	2021 £m	2020 £m Restated*
Fixed assets			
Investments	C5	547.0	540.4
		547.0	540.4
Current assets			
Debtors	C6	12.1	11.9
Deferred tax assets	C7	6.8	3.2
Cash at bank and in hand		2.0	10.4
		20.9	25.5
Creditors: amounts falling due within one year			
Other creditors	C8	(2.2)	(3.5)
Net current assets		18.7	22.0
Total assets less current liabilities		565.7	562.4
Net assets		565.7	562.4
Capital and reserves			
Called up share capital	C9	78.6	81.8
Share premium account		15.2	14.3
Capital redemption reserve		177.6	174.4
Profit and loss account		294.3	291.9
Equity shareholders' funds		565.7	562.4

* See Note C5.

The Company reported a profit for the financial year ended 31 December 2021 of £276.0m (2020: £78.2m).

Approved by the Board of Directors on 24 February 2022 and signed on its behalf by:

Lord Smith of Kelvin

Chairman

Company statement of changes in equity for the year

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Parent equity £m
At 1 January 2020	81.8	14.1	174.4	303.3	573.6
Retained profit for the year				78.2	78.2
Dividends paid on ordinary shares				(91.6)	(91.6)
Shares issued in the year	-	0.2			0.2
Share-based payments				10.7	10.7
Shares acquired for: employee share scheme trust				(8.7)	(8.7)
At 31 December 2020	81.8	14.3	174.4	291.9	562.4
Retained profit for the year				276.0	276.0
Dividends paid on ordinary shares*				(61.8)	(61.8)
Shares issued in the year	-	0.9			0.9
Share-based payments				14.8	14.8
Cancellation of Treasury shares	(3.2)		3.2		-
Shares acquired for: employee share scheme trust*				(26.6)	(26.6)
share buyback programme				(200.0)	(200.0)
At 31 December 2021	78.6	15.2	177.6	294.3	565.7

* 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 2021 and 31 December 2020 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 114 to 129 and in Note 26 on page 207 of the Group financial statements.

Critical 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.

There were no critical judgments or key sources of estimation uncertainty applied in 2021 or in 2020.

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 114 to 129, Note 5 and Note 26 of the Group financial statements.

C3. Staff numbers and costs

The number of people employed by the Company, including directors, during the year was 18 (2020: 17) 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:

	2021 £m	2020 £m
Prior year final dividend paid - 15.0p per qualifying ordinary share (2020: 26.2p)	40.8	71.2
Current year interim dividend paid - 7.9p per qualifying ordinary share (2020: 7.5p)	21.0	20.4
Aggregate amount of dividends paid in the financial year	61.8	91.6

Dividends paid in the year of £61.8m represent 22.9p per share (2020: 33.7p).

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.

	2021 £m	2020 £m
Current year final dividend - 15.8p per qualifying ordinary share (2020: 15.0p)	40.9	40.7

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

	2021 £m	2020 £m Restated
Investments in subsidiary undertakings	173.2	173.2
Loans owed by subsidiary undertakings	373.8	367.2
	547.0	540.4

Details of subsidiary undertakings as at 31 December 2021 are shown on pages 213 to 216.

The loan due from subsidiary undertakings is due for repayment on the 31 December 2022. The loan is unsecured and attracts interest at EURIBOR +0.25%.

Restatement of prior period balance

In the prior year, amounts owed by subsidiary undertakings of £367.2m were classified as a current asset, falling due after one year. However, although the amount is contractually due for repayment on the 31 December 2022, the loan provides financing on a continuing basis to the borrower and the agreement is likely to be extended and therefore it should be classified as a fixed asset.

C6. Debtors

	2021 £m	2020 £m Restated*
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	12.1	11.9
	12.1	11.9

* Refer to Note C5.

Company notes to the financial statements (continued)

C7. Deferred tax

	2021 £m	2020 £m
The deferred tax included in the balance sheet is as follows:		
Employee benefits and share-based payments	6.8	3.2
Deferred tax asset included in the balance sheet	6.8	3.2
Reconciliation of movement in deferred tax asset:		
At 1 January 2021	3.2	2.7
Adjustment in respect of prior years	0.1	-
Deferred tax credit in the profit and loss account	1.1	0.2
Deferred tax charge in equity	2.4	0.3
At 31 December 2021	6.8	3.2

The average weighted rate of corporation tax in the UK for the 2021 calendar year was 19.0% (2020: 19.0%). In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the rate of UK corporation tax will increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. UK deferred tax assets and liabilities have therefore been calculated at a rate of 25% (2020:19%).

C8. Other creditors falling due within one year

	2021 £m	2020 £m
Corporation tax	1.3	2.5
Other payables	0.9	1.0
	2.2	3.5

C9. Share capital

	2021 £m	2020 £m
Issued and fully paid		
274.9m (2020: 286.5m) ordinary shares of 28 4/7p each	78.6	81.8

C10. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £22.1m (2020: £13.7m).

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 2021 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 and IMI Deutschland Verwaltungs GmbH which are held directly by IMI plc.

The Group has an interest in two partnerships, The IMI Scottish Limited Partnership and The IMI 2017 Scottish Limited Partnership, which are both 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 these qualifying partnerships to these accounts. Separate accounts for the partnerships are not required to be and have not been filed at Companies House.

Charles Baynes Netherlands B.V., FCX Pension Trustees Limited, Holford Estates Limited, IMI CIF Trustee Limited, IMI Components 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
Finch Land Management LLC, IMI Americas LLC, IMI Fluid Controls Holdings Inc, IMI Norgren LLC, Norgren LLC	5400 South Delaware Street, Littleton, CO 80120, United States
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
Adaptas Acquisition Co., Adaptas Acquisition Holdings, LLC Adaptas Solutions, LLC	Palmer Industrial Park, 9 Second Street, Palmer, MA 01069, United States
Heimeier GmbH, IMI Hydronic Engineering Deutschland GmbH, THJ Holding GmbH	Voellinghauser Weg 2, 59597 Erwitte, Germany
IMI Australia Pty Ltd, IMI Critical Engineering (PAC) Pty Ltd, IMI Lakeside Australia Pty Ltd	33 South Corporate Avenue, Rowville VIC 3178, Australia
IMI Finance SA, IMI Finance USD SA, IMI Hydronic Engineering International SA	Route de Crassier 19, Lake Geneva Business Park, 1262 Eysins, Switzerland
Adaptas Solutions Pty Ltd, DeTech Australia Holdings Pty Ltd	2-8 Martha Street, Clyde NSW 2142, Australia
IMI Aero-Dynamiek BVBA, IMI Hydronic Engineering NV	Boomsesteenweg 28, B 2627 Schelle, Belgium
CCI Italy S.R.L., IMI Holding Italy S.R.L., Orton S.R.L.	Via Larga 6, 20122 Milan, Italy

Subsidiary undertakings (continued)

IMI Hydronic Engineering A/S, Norgren A/S	Vesterlundvej 18, 2730 Herlev, Denmark
IMI Hydronic Engineering AS, Norgren AS	Glynitveien 7, Ski, N-1400, Norway
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, The IMI 2017 Scottish Limited Partnership	15 Atholl Crescent, Edinburgh EH3 8HA, United Kingdom
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 LLC	1990 Olivera Rd., Sta. A Concord, CA 94520, United States
Adaptas Solutions China Co, Ltd	No. 1588 Xinhong Road, Qidong City, Nantong, Jiangsu, China
Applied Kilovolts Limited	Woods Way, Goring By Sea, Worthing, West Sussex, BN12 4QY
Bimba LLC	25150 S. Governors Hwy, University Park, IL 60484, 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, Bela Vista, Sao Paulo, 01332-000, Brazil
CCI Czech Republic s.r.o.	K Letišti 1804/3, Šlapanice, 62700, Brno, 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 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 (AUS) Pty Ltd	C/-, 21-22 Greenhill Road, Wayville SA 5304, Australia
IMI Critical Engineering (Shanghai) Company Limited	Building 3, No. 1-5, Lane 800, Yewang Road, Yexie Town, Songjiang District, Shanghai, 201609, China
IMI Critical Engineering Korea	14 Dangdong 2-ro, Munsan-eup, Paju-si, Gyeonggi-do, 10816, Republic of Korea
IMI Critical Engr PBM LLC	1070 Sandy Hill Road, Irwin, PA 15642, United States
IMI Critical Engr Z&J LLC	4525 Kennedy Commerce Drive, Houston, TX 77032, United States
IMI Critical FZE	Office No. FZJ0A1308, FZJ0A1310, FZJ0A1307A, Jebel Ali Free Zone, PO Box 17827, Dubai, UAE
IMI Deutschland B.V.	Versterkerstraat 6, 1322 AP Almere, Netherlands
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 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 7, Objekt 5, 2353, Guntramsdorf, Austria
IMI Hydronic Engineering Inc	8908 Governors Row, Dallas, TX 75247, United States
IMI Hydronic Engineering Limited	Hat House Third Floor, 32 Guildford Street, Luton, Bedfordshire, LU1 2NR, 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	Calle Orduña 3 Planta Baja, 28034 Madrid, Spain
IMI Hydronic Engineering S.R.L.	Via Roma, 108 – Edificio F/2, 20051 Cassina de Pecchi (MI), 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 K.K.	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	3826 unit No. 7, Street 122, Second Industrial City, Post 34325-7535, Dammam, Saudi Arabia
Industrie Mecanique Pour Les Fluides SA	15 Avenue des Cures, 95580, Andilly, France
Kynoch Sweden Holding AB	c/o IMI Hydronic Engineering AB, 52 480 Ljung, Sweden
Mead Fluid Dynamics, Inc.	4114 North Knox Avenue, Chicago, IL 60641, United States
Newman Hattersley Limited	151 Superior Blvd, Unit 14, Mississauga ON L5T 2L1, Canada
Norgren AG	Fabrikstrasse 10, 8370 Sirmach, Switzerland
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, FI-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 LLC	425 "C" Street NW, Suite 100, Auburn, WA 98001, United States
Norgren Kloehn LLC	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
IMI Webber Limited, Norgren Limited	Blenheim Way, Fradley Park, Lichfield, Staffordshire, WS13 8SY, United Kingdom

Subsidiary undertakings (continued)

Norgren Ltda	Av. Eng. Alberto de Zagottis, 696-B, Sao Paulo SP, 04675-085, Brazil
Norgren Manufacturing (Suzhou) Co., Ltd	No. 975, Xinzi Road, Wujiang Economic & Technological Development Zone, Jiangsu Province, China
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
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 Malmo, Sweden
Norgren Taiwan Co Limited	3F, No. 540 Sec. 1, Minsheng N. Rd., Guishan Dist., Taoyuan City, 333, Taiwan
Pneumadyne LLC	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, Chengqiao Town, 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	Blucherstrasse 47, 66386 Sankt Ingbert, Germany
Thompson Valves Limited	17 Balena Close, Creekmoor, Poole, Dorset, BH17 7EF, United Kingdom
Truflo Rona S.A.	3e avenue, 16, Parc Industriel des Hauts Sarts, 4040 Herstal, Belgium
Truflo Marine Limited	Westwood Road, Birmingham, B6 7JF, United Kingdom
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

* Treated as external investments.

Subsidiary audit exemptions

IMI plc has issued guarantees over the liabilities over the following companies at 31 December 2021 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
Applied Kilovolts Limited	02101051	IMI Precision Engineering Limited	01687068
CCI International Limited	00259162	IMI Refiners Limited	00148305
Holford Estates Limited	01181406	IMI Scotland Limited	SC378424
IMI Components Limited	01640862	IMI Sweden Finance Limited	07272731
IMI Deutschland Limited	07843551	IMI Vision Limited	04421176
IMI Euro Finance Limited	07929408	IMI Webber Limited	01416237
IMI Fluid Controls (Finance) Limited	08528502	Norgren Limited	00564656
IMI Germany Limited	07843576	Thompson Valves Limited	02791464
IMI Hydronic Engineering Limited	02945254	Truflo Group Limited	04430846
IMI Kynoch Limited	00713735	Truflo International Limited	00164822
IMI Marston Limited	00155987	Truflo Investments Limited	04430927
IMI Overseas Investments Limited	00209251	Truflo Marine Limited	00993167

Geographic distribution of employees*

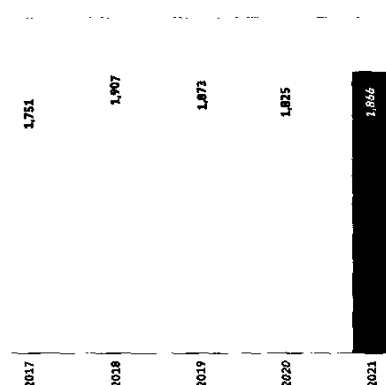
The following table shows the geographic distribution of employees as at 31 December 2021 and is not required to be audited.

United Kingdom	1,338
Continental Europe	5,692
Americas	2,873
Asia Pacific	1,282
Rest of World	48
Total	11,233

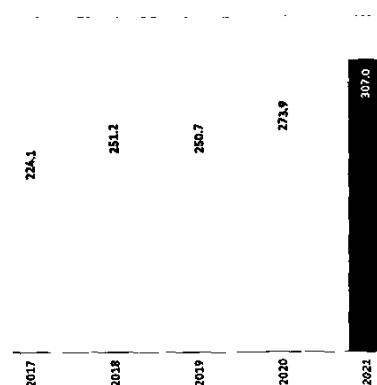
* Includes agency and contractors.

Five year summary*

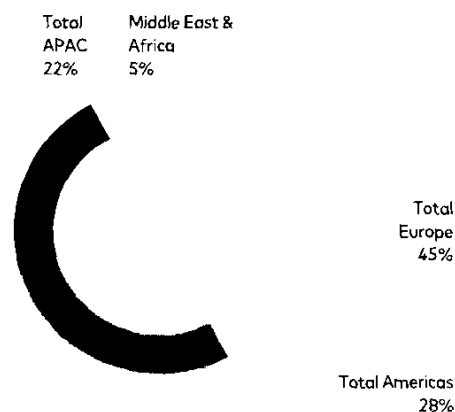
Revenue £m



Adjusted profit before tax* £m



Group revenue by geography 2021



* On an adjusted basis.

Income statement

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m
Revenue	1,751	1,907	1,873	1,825	1,866
Adjusted operating profit	239.2	265.5	266.1	284.7	318.1
Adjusted profit before tax	224.1	251.2	250.7	273.9	307.0
Special pension events	10.8	6.8	8.6	-	-
Restructuring costs	(34.6)	(12.4)	(51.8)	(36.1)	(35.1)
Acquired intangible amortisation and impairment	(17.5)	(27.1)	(21.0)	(20.3)	(19.6)
Other acquisition items	(2.0)	(3.7)	(1.6)	-	(3.1)
(Loss)/gain on disposal of subsidiaries	(2.3)	0.6	-	-	(3.8)
Financial instruments excluding economic hedge contract gains/(losses)	2.4	(2.5)	4.4	(3.2)	(0.8)
Profit before tax	180.9	212.9	189.3	214.3	244.6
Adjusted EBITDA	288	320	357	380	404

Group sales by destination

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m
UK	79	90	90	88	83
Germany	260	288	234	222	238
Rest of Europe	519	519	494	486	520
Total Europe	858	897	818	796	841
Total Americas	405	515	538	545	526
Total Asia Pacific	355	357	404	390	409
Middle East and Africa	133	138	113	94	90
Revenue	1,751	1,907	1,873	1,825	1,866

Earnings and dividends

	2017	2018	2019	2020	2021
Adjusted basic earnings per share	65.3p	73.2p	73.2p	79.7p	92.0p
Statutory basic earnings per share	53.6p	62.5p	56.6p	62.7p	73.5p
Ordinary dividend per share	39.4p	40.6p	41.1p	22.5p	23.7p

Balance sheet

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m
Segmental net assets (including lease liabilities)	1,027	1,220	1,168	1,124	1,340
Other net non-operating liabilities excluding borrowings (gross)	(155)	(149)	(111)	(96)	(32)
Net debt (excluding lease liabilities)	(265)	(405)	(347)	(228)	(529)
Net assets	607	666	710	800	779

Statistics

	2017	2018	2019	2020	2021
Adjusted operating profit as a percentage of revenue	13.8%	14.0%	14.2%	15.6%	17.0%
Adjusted operating profit as a percentage of segmental net assets	23.4%	21.8%	22.8%	25.3%	23.7%
Effective tax rate on adjusted profit before tax	21.0%	21.0%	21.0%	21.0%	20.0%
Net assets per share (excluding treasury and EBT shares)	224.0p	245.8p	262.2p	294.9p	301.0p
Net debt as a percentage of shareholders' funds	43.7%	60.7%	48.9%	39.5%	79.9%
Net debt: Adjusted EBITDA	0.9	1.3	1.2	0.8	1.5
Adjusted EBITDA: Interest	20	25	24	35	33

* The five year summary is not required to be audited.

Shareholder and general information

Announcement of trading results

The trading results for the Group for the first half of 2022 will be announced on 29 July 2022. The trading results for the full year ending 31 December 2022 will be announced in February 2023.

Interim management statements will be issued in May and November 2022.

Expected dividend payments

Final: 13 May 2022

Interim: September 2022

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 2021 was 1,736.0p (2020: 1,165.0p). 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 SEAQ number is 51443.

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings, please contact the Company's Registrar: Equiniti (contact details appear to the right).

Please remember to tell Equiniti if you move house, change bank details or if there is any other change to your account information.

Managing your shares online

Shareholders can manage their holdings online by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- help us to reduce print, paper and postage costs and the associated environmental impact of these;
- cast your AGM vote electronically;
- receive an email alert when important shareholder documents are available online such as Annual Reports and Notices of General Meetings;
- access details of your individual shareholding quickly and securely;
- set up a dividend mandate online; and
- change your registered postal address or your dividend mandate details.

To find out more information about the services offered by Shareview and to register, please visit: www.shareview.co.uk.

Corporate website

The IMI plc website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares. As well as providing share price data and financial history, the site also provides background information about the Company.

Shareholders are also encouraged to sign up to receive news alerts by email in the Investors section of the website. These include all of the financial news releases from throughout the year that are not sent to shareholders by post. You can access the corporate website at: www.imiplc.com.

Annual General Meeting 2022

This year's AGM will be held on 5 May 2022. 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.

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Email:
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bereavementsupport@equiniti.com

Stockbrokers

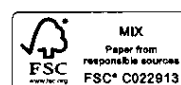
JPMorgan Cazenove
Bank of America

Auditor

Deloitte

Cautionary statement

This Annual Report may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this Annual Report. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.



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