IMI plc
Annual Report & Accounts
2018

IMI

IMI

great solutions

† The Strategic Report on pages 10 to 49, 85, 86 to 87, 89 and 91 has been approved by the Board of Directors and signed on their behalf by Mark Selway, Chief Executive, on 28 February 2019.

2018 highlights

£1,907m	Up 5%[1]	£1,907m	Up 9%
£251m	Up 12%	£213m	Up 18%
14.0%	Up 20bps	£222m	Up 2%
73.2p	Up 12%	40.6p	Up 3%

- » Results ahead of market expectations
- » Good growth across all Precision Engineering verticals
- » Critical Engineering sales growth despite continued New Construction Power weakness
- » Hydronic Engineering margin recovery delivered
- » Bimba integration progressing well
- » Adjusted Basic EPS increased 12%
- » Further reduction of global pension liabilities
- » 3% increase in the full year dividend recommended
- » Roy Twite to succeed Mark Selway as Chief Executive

All figures are stated on an adjusted basis excluding the effect of adjusting items in the income statement. For other statutory measures see Consolidated Income Statement on page 84.

[1] On an organic basis, after adjusting for the impact of disposals and acquisitions and movements in exchange rates, see Section 2.1.1 on page 93.

[2] Operating Cash Flow before adjusting items as described in the commentary to the cash flow statement on page 91.

[3] Adjusted measures are defined in Section 2.1.1 on page 93.

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IMI eco-system

Introduction
Strategic Review
Corporate Governance
Financial Statements

Chairman's statement

2018 – another year of important progress

We delivered results ahead of market expectations and continued to execute our strategy effectively.

Lord Smith of Kelvin
Chairman

Continuous improvement now firmly established

As we enter the final year of our five year plan it is an appropriate time to reflect upon the significant progress that has been made to date and the work that remains to be done.

Our culture has been transformed. IMI is now a business that, as a matter of course, strives for continuous improvement and recognises the significant opportunities that flow from ever increasing operational efficiency and productivity. This mindset is fundamentally important and, now embedded throughout the Group, it will support the delivery of our overall strategic goal – the creation of long-term, sustainable value for our shareholders, employees and other stakeholders.

During the year we improved our health and safety performance in a number of areas. The total number of LTAs (lost time accidents) reduced more than 20% and following the launch of a targeted campaign, the Group delivered a reduction in hand injuries in the year of over 40%.

The Chief Executive's review on page 12 and the operational reviews on pages 28 to 33 provide more details on the recent progress made in each of the Group's three divisions. Whilst some of the markets we serve did offer some support to our performance during the year, elsewhere we did face a number of economic and trading challenges. Strengthening our business, and in particular our market competitiveness, to make the Group more resilient regardless of market conditions, continues to be a key priority.

In relation to geopolitical uncertainty, we have developed a number of Brexit related contingency plans, including building long lead-time inventories to mitigate supply chain interruptions in the event of increased border controls, or delays in obtaining clearance to and from the UK.

Our people and culture

Our people around the world remain key to our success and they have contributed significantly to the progress we have made during the year. On behalf of the Board, I would like to thank all of our employees for their continued hard work and commitment.

Throughout the year the Board has had the opportunity to spend time with our employees on a number of occasions. In April I participated in our senior management conference. This is an annual event over 2-3 days involving 300 of our business leaders from across the Group and is a valuable opportunity to discuss all aspects of the business with them. Later in the year we also held our October Board meeting at Bimba's University Park facility near Chicago. Although Bimba joined the Group only in January, the team there has embraced our continuous improvement culture with great enthusiasm and our Lean processes are already becoming apparent throughout the business. The Board also took the opportunity to visit IMI CCI RSM in California. During our visit we toured the site and learned about the continuous improvements being made across the business as well as its plans to expand the product offering to gain market share. We were also shown remote inspection technologies provided by IMI and increasingly accepted by customers as a means by which the product approval process can be made even more efficient by reducing unnecessary site visits by engineers.

Board and Governance

During the year two new non-executive directors joined, bringing considerable and relevant experience as well as fresh perspectives to the IMI Board. Thomas Thune Andersen joined the Board on 1 July 2018 and also became a member of the Nominations and Remuneration Committees. Thomas has extensive knowledge and experience in some of the key sectors we operate in, including oil, energy and critical infrastructure. Katie Jackson also joined the Board on 1 July 2018 and became a member of the Nominations and Remuneration Committees. Katie has deep knowledge of the international Oil & Gas market, and significant corporate finance and business development experience. Further information about Thomas and Katie, and the other members of the Board, is set out on page 52 to 53.

We acknowledge the introduction of the 2018 UK Corporate Governance Code and during the year we took appropriate steps to prepare for compliance with the new requirements which came into effect from 1 January 2019.

Lord Smith receives a demonstration of remote inspection technology at IMI CCI RSM, which allows customers to access the facility remotely to inspect equipment during assembly, test and final inspection.

In November 2018, we announced the appointment of Birgit Nørgaard as non-executive director with responsibility for workforce engagement. This important role, which is in line with the revised Code's recommendations, will build on the various mechanisms we already operate to ensure we continue to engage effectively with our people.

We have also revised our corporate governance framework and the business cycles for the Board and its committees to reflect the 2018 Code and appropriate training has been provided to the Board.

Chief Executive succession

Mark Selway will be stepping down as Chief Executive at the Annual General Meeting in May and retiring from the Board on 31 July 2019. He will be succeeded by Roy Twite, currently Divisional Managing Director of IMI Critical Engineering.

Under Mark's leadership IMI's market position has been significantly enhanced. The Group's infrastructure has been modernised, its operational performance radically improved and its customer offering refreshed. As a result, IMI is now a much more robust and sustainable business. On behalf of the Board I would like to thank Mark for his leadership, drive and commitment. He has made a significant contribution to the Group, and while fully respecting his decision to return home to retire, we are very sorry to see him go. We wish him well in his retirement back in Australia.

Roy was appointed following a comprehensive global search process that included both internal and external candidates. Roy joined IMI in 1988 and has been a member of the Board since 2007. He has held senior management roles in all parts of the Group including President of IMI Hydronic Engineering, President of IMI Precision Engineering and. since 2011. Divisional Managing Director of IMI Critical Engineering. The Board is delighted to appoint Roy as IMI's next Chief Executive. He is a strong and experienced successor who has been pivotal to the Group's continued success. He has extensive operational experience, deep knowledge of our core markets and outstanding leadership qualities.

Dividend

Reflecting the continued confidence in the Group's prospects, the Board is recommending an increase in the final dividend of 3% to 26.0p (2017: 25.2p) making a total dividend for the year of 40.6p, an increase of 3% over last year's 39.4p.

IMI eco-system inside

Group overview

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

IMI Critical Engineering

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

IMI Critical Engineering operational review
Turn to page 28

Revenue
£682m

Adjusted operating profit
£88.3m

Number of employees
3,200

Revenue by geography

IMI Precision Engineering

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

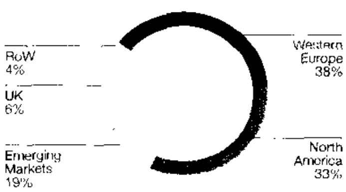
IMI Precision Engineering operational review
Turn to page 30

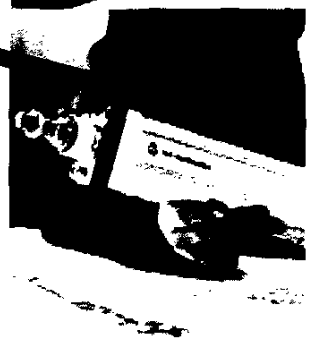
Revenue
£916m

Adjusted operating profit
£153.2m

Number of employees
6,100

Revenue by geography





IMI Hydronic Engineering

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

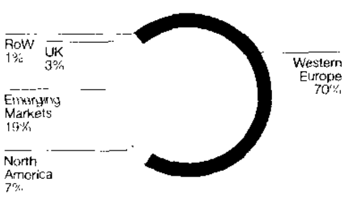
IMI Hydronic Engineering operational review
Turn to page 32

Revenue
£309m

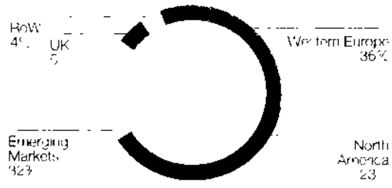
Adjusted operating profit
£52.0m

Number of employees
1,800

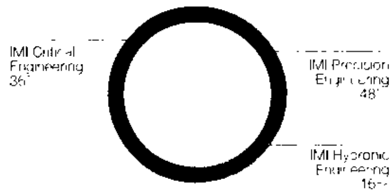
Revenue by geography



Group revenue by geography



Revenue by division



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

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

Main markets
Oil & Gas, Fossil Power, Nuclear Power, Petrochemical, Iron & Steel, Desalination and Process Industries

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

Power

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

2018 revenue: £266m

Oil & Gas

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

2018 revenue: £224m

Petrochemical

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

2018 revenue: £117m

Actuation

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

2018 revenue: £25m

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

Main markets
Commercial Vehicle, Energy, Food and Beverage, Industrial Automation, Life Sciences and Rail

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

Industrial Automation

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

2018 revenue: £525m

Commercial Vehicle

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

2018 revenue: £196m

Oil & Gas

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

2018 revenue: £77m

Life Sciences

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

2018 revenue: £77m

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

Main markets
Water based heating and cooling systems for commercial buildings, and temperature control for residential buildings

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

Balancing & Control

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

2018 revenue: £151m

Thermostatic Control

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

2018 revenue: £98m

Pressurisation

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

2018 revenue: £32m

Water Quality

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

2018 revenue: £10m

IMI


Goggle valves

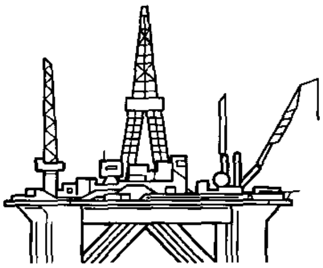
Refinery

We keep the world moving from petrol to diesel and jet fuel, our specialist valves refine crude oil to provide a wide range of products.


Conventional control valves


Specialist triple eccentric butterfly valves

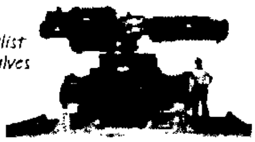

100DMT choke valve



Offshore platform

We design and provide valves for the most critical applications including offshore.

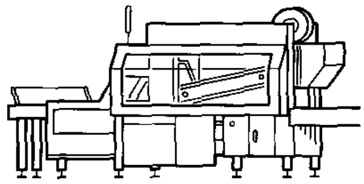

Control valves


Specialist ball valves


ISOLine™ actuator

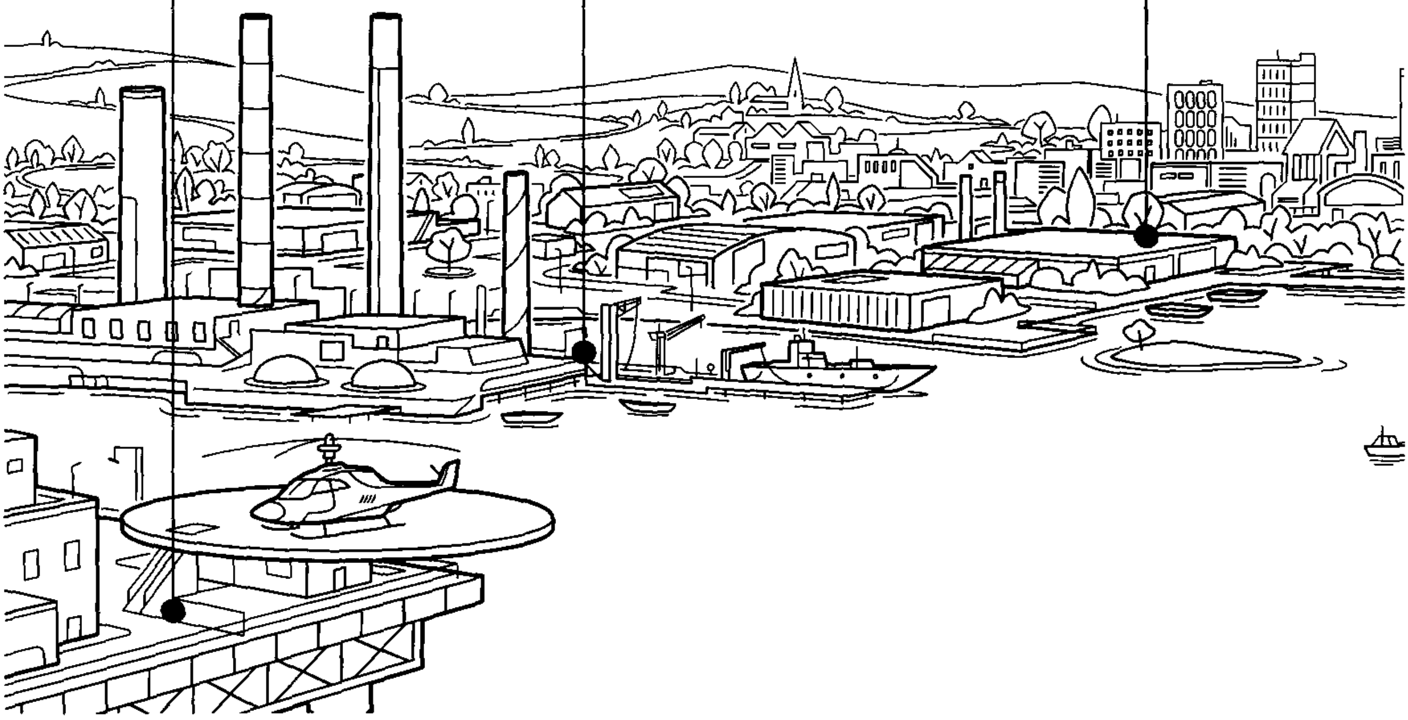
Industrial Automation

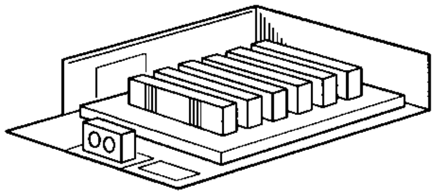
We develop solutions for our customers in the machinery; food and beverage; printing; and factory automation industries.




Excelon® / preparati

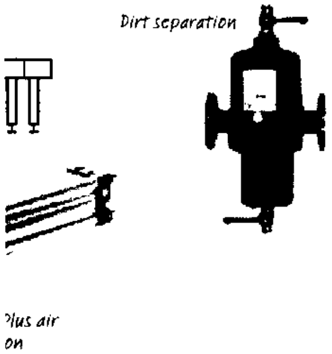

Bimba Intellisense





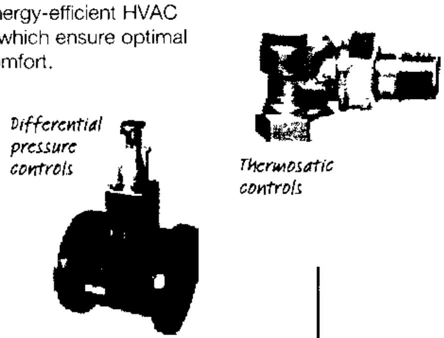
Data centres

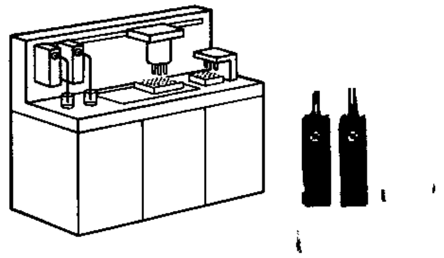
We ensure stable pressure and clean water for high cooling intensity applications, preventing premature equipment failure and costly downtime.



Hospitals

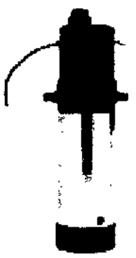
Our products help to deliver quality, energy-efficient HVAC systems, which ensure optimal patient comfort.

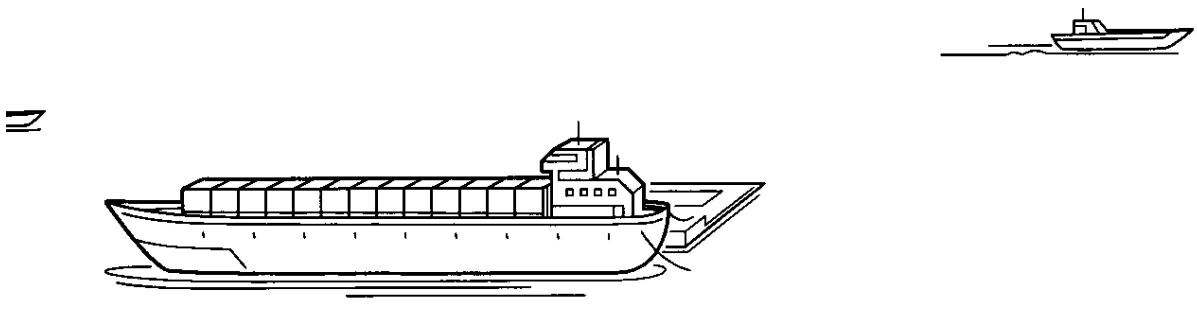




Medical devices and instrumentation

We help OEMs increase performance of their systems, enabling cutting edge devices that improve health and the environment





Family house

We provide a comprehensive range of thermostatic control products, ensuring optimal temperature control and energy efficiency.

LNG

We provide the control and safety systems to ensure safe delivery of liquefied natural gas to power cities across the world.

Multipurpose commercial building

Our balancing and control solutions combine highly precise mechanical valves and digital actuation allowing complete electronic integration and greater efficiency in complex heating and cooling systems.

Co

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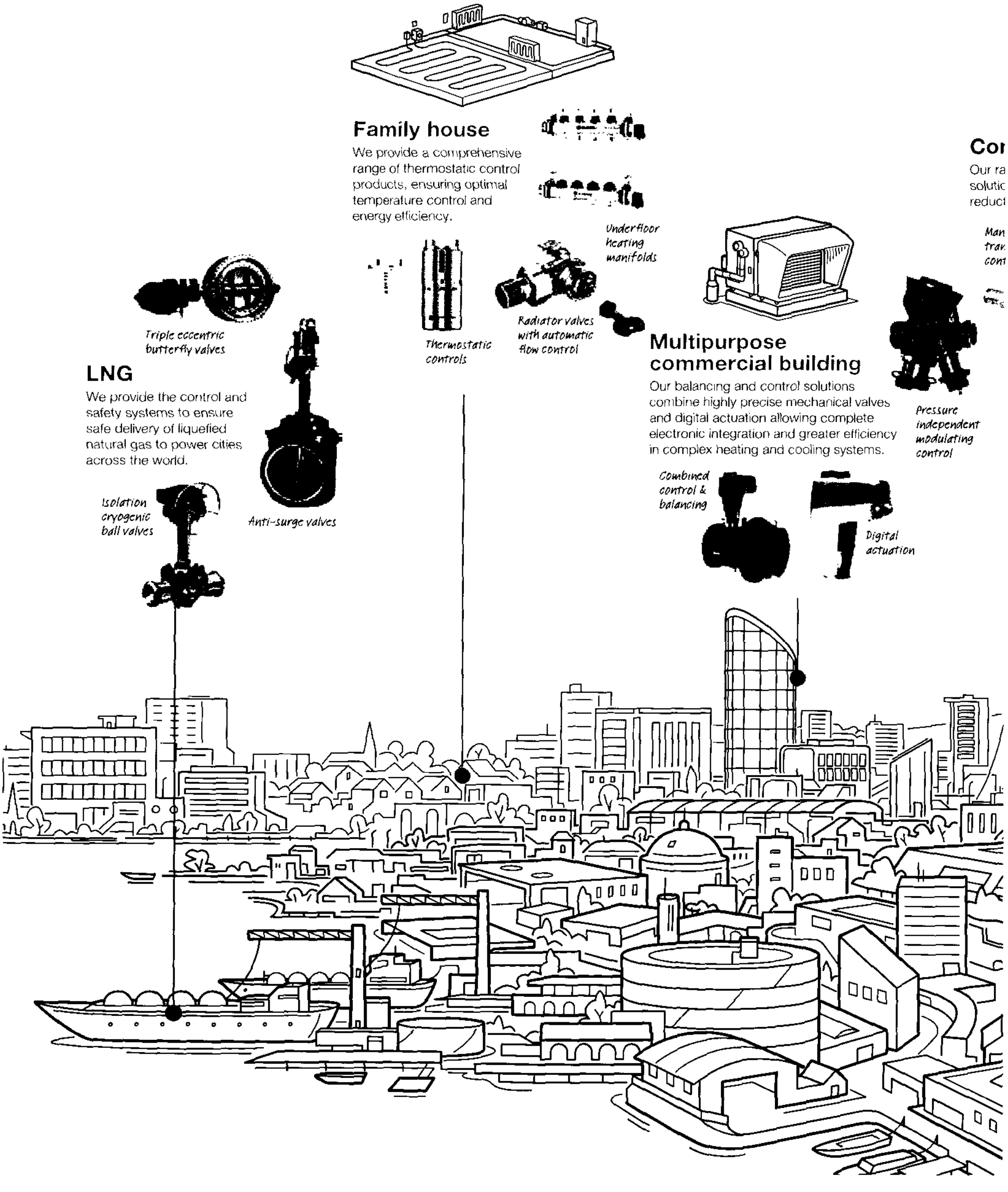
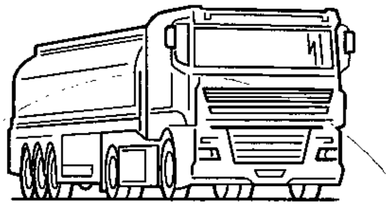
reduct



Engineering **GREAT** the IMI Way



ımmercial Vehicle

ınge of cab, chassis and powertrain
ıns deliver fuel efficiency, emissions
ion and faster assembly times.

Engine control multi-valve block

ual ısmission rols

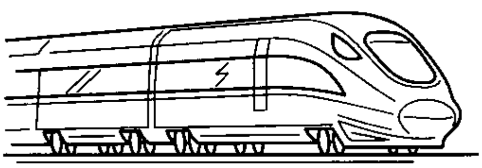
Valve arrays

Combined cycle power plant

Products designed to cope with high pressure and temperature differences in the most critical applications ensures power is available when needed.

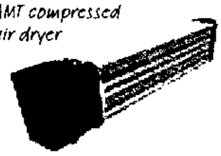
Desuperheaters

Turbine bypass valves



Rail

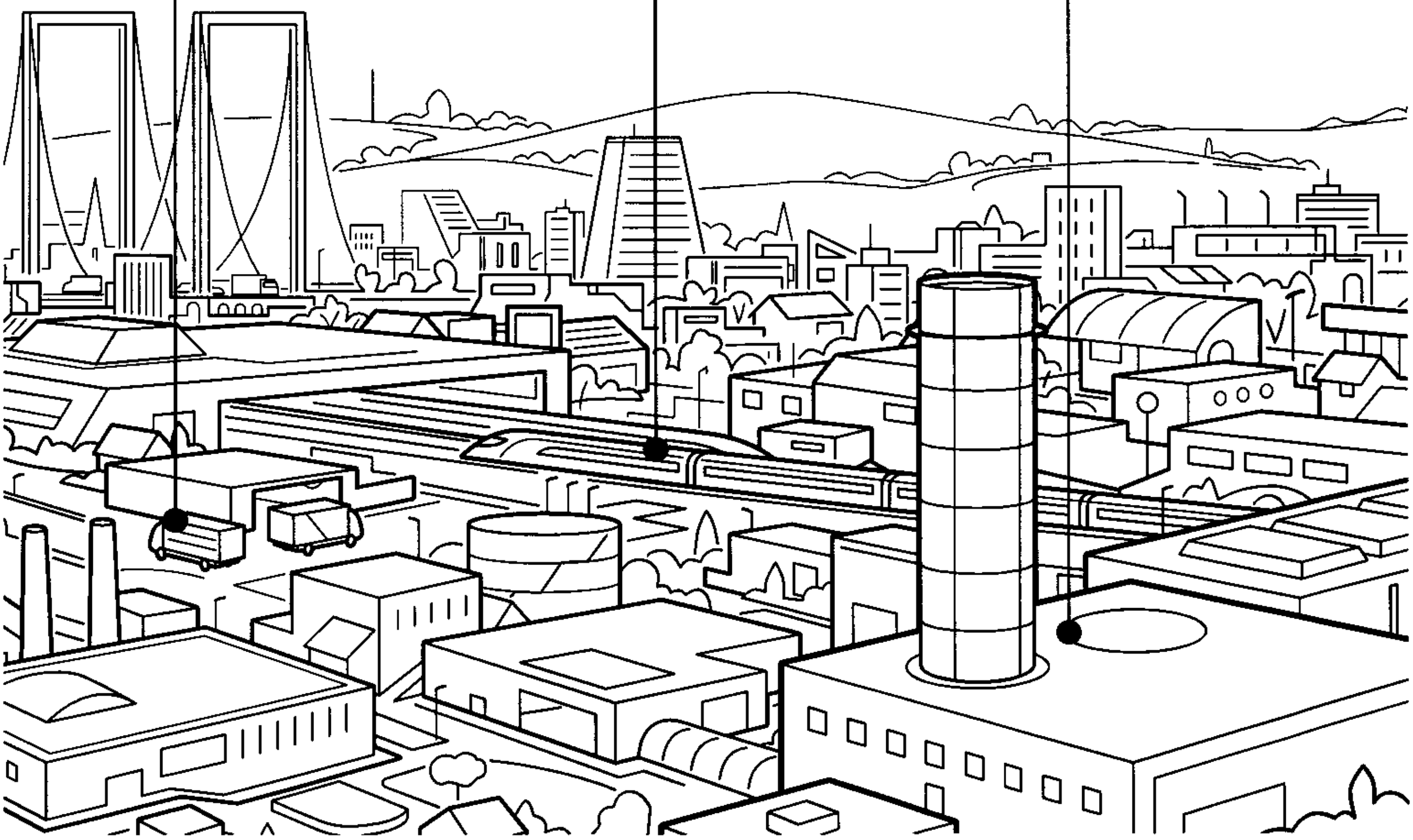
We offer customised solutions for all types of rail applications.



AMT compressed air dryer

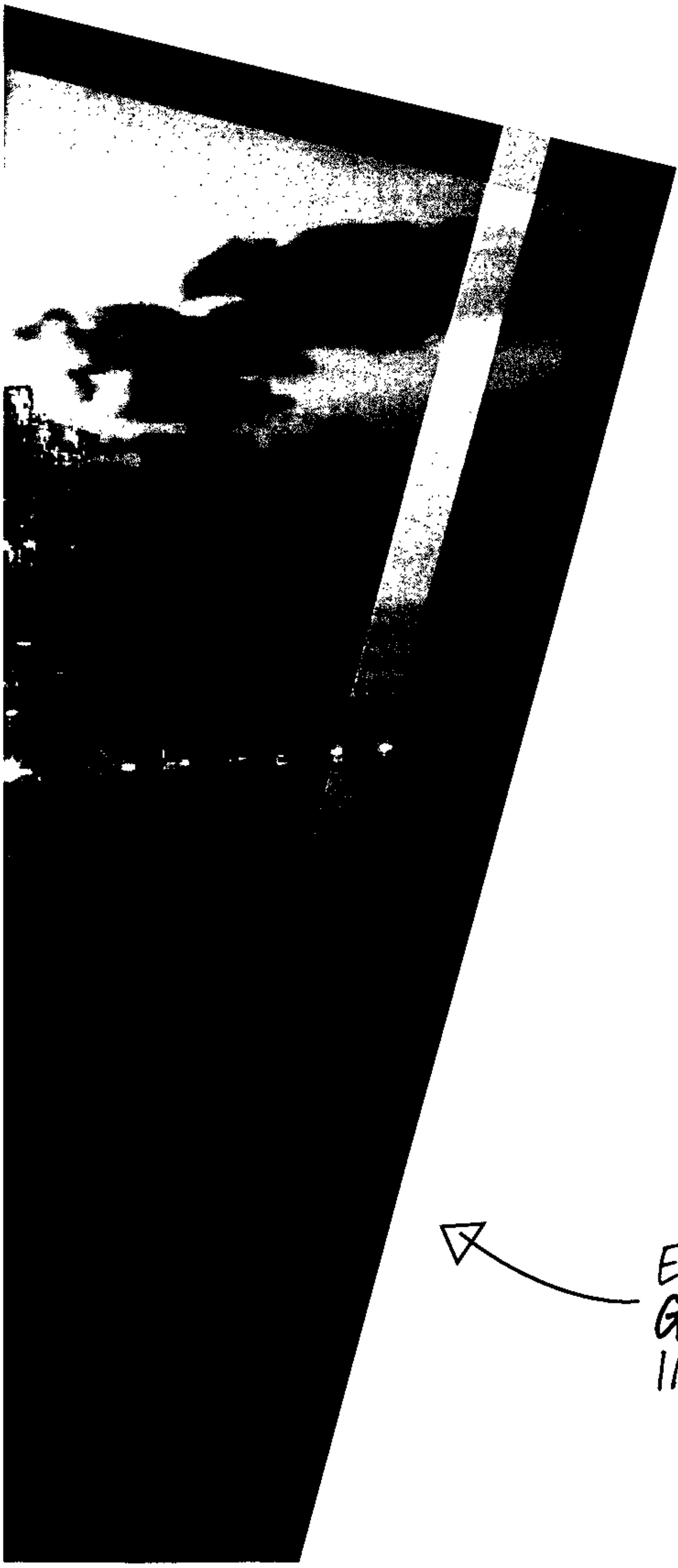
Pantograph control systems

Door control valve systems



IMI Critical Engineering are renowned for design and manufacture of specialist products in offshore applications.

Strategic Review



Engineering GREAT the IMI Way

Chief Executive's review

An increasingly robust portfolio

In 2018 IMI delivered a solid operating performance with growth in sales, earnings and margins when compared to 2017. We enter 2019 with an even more robust portfolio of businesses, a healthy balance sheet and significant opportunities for future growth.

Mark Selway
Chief Executive

Overview

It is pleasing to report the continuation of the progress achieved in the first half of 2018. Our strategic plan to drive sustainable long-term growth continues to make a real difference across all parts of the Group. Our new product pipeline is developing well, our manufacturing operations have further improved and the new systems and processes being embedded throughout the business are delivering gains in efficiency and competitiveness.

Integration of Bimba Manufacturing Company ('Bimba')

The acquisition of Bimba for a total consideration of £138m (US$198m) was completed on 31 January 2018. The transaction has increased our US revenues while extending IMI Precision Engineering's presence in its core Industrial Automation segment. Good progress has been made with the integration of Bimba into Precision Engineering's North American operations. We have also accelerated some of our plans for Bimba to improve its operations and IT infrastructure in readiness for the opportunities for growth and margin improvement.

Trading environment

Trading conditions across our three divisions continued to be mixed throughout 2018 with growth in IMI Precision Engineering's end markets offsetting declines in New Construction Fossil Power and Energy markets in IMI Critical Engineering.

For IMI Critical Engineering, the Petrochemical market again produced some encouraging opportunities which reflect the division's success at extending its reach into a broader range of applications. The improving outlook in some parts of the Oil & Gas sector again contrasted with the challenging outlook for coal-fired power generation.

In IMI Precision Engineering, all of the division's verticals and regions showed further good progress in the year. This was achieved despite tougher comparators and increased market volatility, particularly in Industrial Automation, through the latter part of 2018.

Within IMI Hydronic Engineering where European construction represents over 79% of the division, markets were marginally stronger than the previous year. Although less significant for the division overall, the North America and China construction markets also continued to grow.

While we have a broad international manufacturing footprint and less than 5% of sales in the UK, it would be remiss not to mention the potential impact of Brexit on the Group's operating performance. Despite prevailing uncertainty, the Group has developed a number of Brexit related contingency plans, including a programme of building long lead-time inventories to support customers in the event of increased border controls or delays in getting clearance to and from the UK. While we hope that these increased inventories will not be required, it is essential that we do as much as we can to minimise potential supply chain disruption and ensure our customer delivery commitments are met.

Results overview

2018 was another year of important progress for IMI. A now well-established culture of continuous improvement, both within our operations and in our product offering, further enhances our competitive position, irrespective of the market environment.

Adjusted Group revenues were 9% higher at £1,907m (2017: £1,751m). Excluding adverse foreign exchange and the acquisition of Bimba, Group revenues on an organic basis were 5% higher when compared to the prior year. Adjusted segmental operating profit was 11% higher at £266m (2017: £241m). Excluding the impact of adverse foreign exchange and Bimba, segmental

Strategic timeline

2014	2015	2016	2017	2018	
Year 1: The hard work begins ☑	**Year 2:** Increased investment ☑	**Year 3:** Benefits starting to show ☑	**Year 4:** Nearly firing on all cylinders ☑	**Year 5:** Up to full speed ☑	**Ambition:** Double operating profits

Supported by value enhancing acquisitions

1 Mark Selway on a tour at the India manufacturing site opening ceremony.

2 Ribbon cutting at the Indian site opening ceremony l-r Massimo Grassi - Divisional Managing Director, Mark Selway - CEO, Andrew Taylor - Regional Managing Director APAC.

operating profits were 9% higher on an organic basis. The Group's operating margin was 14.0% against 13.8% in 2017 and adjusted earnings per share were 12% higher at 73.2p (2017: 65.3p).

Adjusted operating cash flow of £222m (2017: £218m) followed a strong performance last year and reflected higher working capital to support growth in Precision Engineering and comparatively higher advanced payments received by Critical Engineering in 2017. Both debtor and inventory days showed modest improvement while creditors reflected the impact of lower pre-payments in Critical Engineering. Net Debt of £405m (2017: £265m) reflected payment of the consideration for Bimba and resulted in a Net Debt to adjusted EBITDA ratio of 1.3x against 0.9x at the end of 2017.

We continue to be proactive in our efforts to manage the Group's pension liabilities and in 2018 successfully completed the transfer of a further £409m of liabilities to insurance partners. This brings the total value of pension schemes removed from our balance sheet over the last two years to £838m. The UK schemes remain in surplus and the overseas deficit remained constant at £80m in the year.

Good strategic progress

Our strategic plan to drive long-term sustainable growth is making a real difference across all parts of the Group. Significantly improved operational performance, new systems and processes that are helping us operate more efficiently and a new product pipeline all continue to enhance our competitive position.

Chief Executive's review

1 IMI's Board visits the Bimba University Park site in Illinois.

2 Lamp lighting at the Precision Engineering's new India manufacturing site opening.

3 The IMI Board receive a safety briefing ahead of a tour of IMI CCI RSM in California.

4 Mark Selway greets employees at the India site opening.

Executive Committee

Mark Selway	Daniel Shook	Roy Twite	Massimo Grassi	Phil Clifton	Paul Roberts	Geoff Tranfield	John O'Shea
Chief Executive	Finance Director	Divisional Managing Director IMI Critical Engineering	Divisional Managing Director IMI Precision Engineering	Divisional Managing Director, IMI Hydronic Engineering	Group Business Development Director	Group Human Resources Director	Group Legal Director and Company Secretary

Improving our operational performance

During 2018 each of our divisions further enhanced their operational performance. At the year-end the Group's average Lean score increased to 75% compared to 71% at the same point in 2017. Scrap rates, on-time-delivery and inventory management all improved and the benefits were evident in the Group's results in the year. Most importantly, this improved performance provides an important foundation for our increased competitiveness and responsiveness to customers.

Positioning our businesses for growth

In the past four years much has been done to simplify the way our businesses operate and make them more efficient.

We have invested heavily in new systems and processes which are essential if the Group is to deliver long-term sustainable growth. An increasing number of our businesses are upgrading their core IT systems to modern divisional platforms that automatically manage business processes to deliver consistent, accurate data. As a result, we have better visibility across the production process and we are able to manage our day-to-day operations more cost and time effectively and make our product and service offering more competitive.

Across all of our operations we have embedded disciplined and efficient processes, including New Product Development and Value Engineering. These consistent processes support our continuous improvement culture and help ensure that our investments ultimately deliver an earlier and greater return.

New product pipeline

For each division targeted New Product Development initiatives remain a key focus. We launched a significant number of new products during 2018 covering a range of applications. All three divisions have ambitious plans to continue their focused product development strategies in 2019 and beyond.

By increasingly combining New Product Development initiatives with Value Engineering processes, we have continued to expand our addressable markets and are competing in segments that were not previously accessible.

Business development

Alongside our organic growth initiatives, targeted acquisitions that meet our clearly defined and disciplined criteria continue to represent a core part of our strategy. We seek opportunities that are culturally aligned and have the potential to deliver sustainable long-term profitable growth. As was the case with the acquisition of Bimba in January 2018, we aim to engage early with potential partners with the ambition of securing preferred buyer status ahead of any formal process being started.

Our people

This is my final IMI Chief Executive's review. Choosing to leave IMI has been a tough decision, but the time is now right to hand over to a successor to continue the Group's development. Roy will do a great job leading the business through its next phase of development and growth.

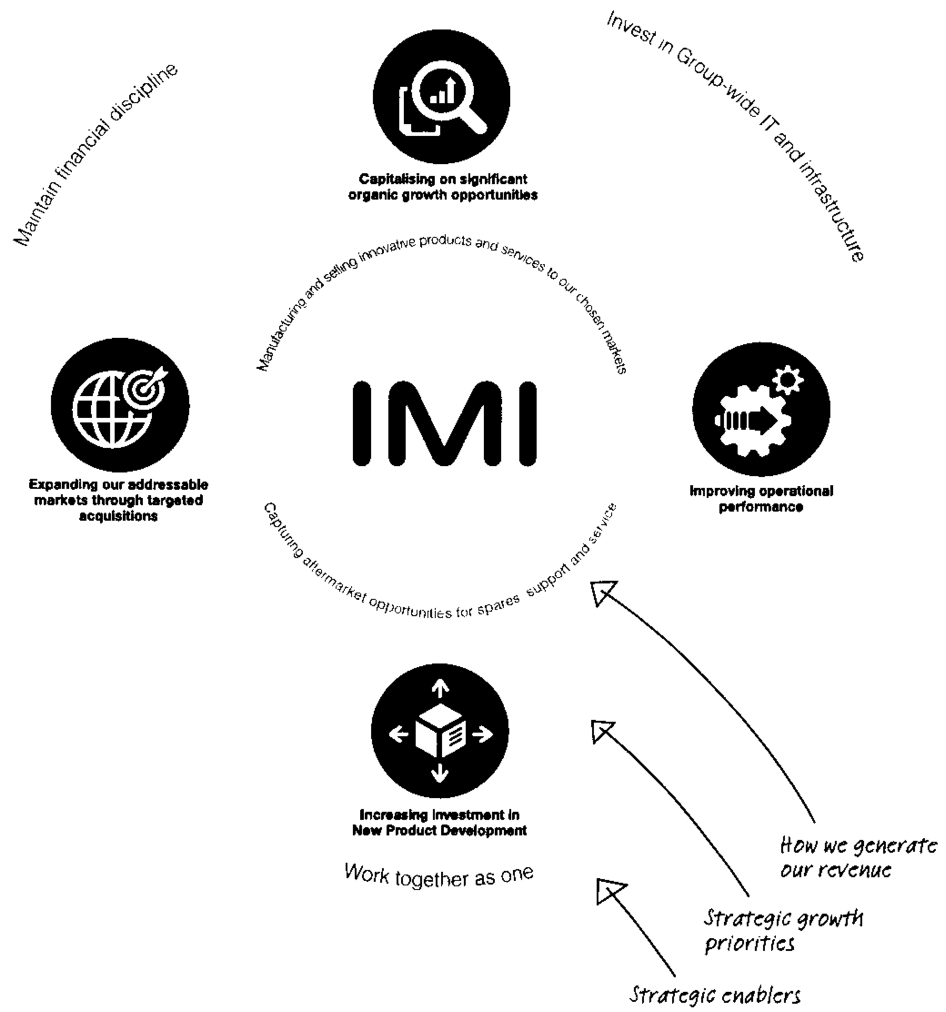
I am very proud of what the team at IMI has delivered and I would like to thank our employees for their hard work, commitment and passion. They have contributed significantly to the progress we have made in recent years. I am confident that the solid foundations put in place in recent years position the Group well for the future and I would like to wish all our employees around the world much success.

Outlook

In the first half of 2019 we expect organic revenues to be lower than the same period in 2018 due to the phasing of Critical Engineering's order book and slowing market demand in the Industrial Automation sector in Precision Engineering. Margins are expected to be broadly similar, supported by our operational initiatives and an improved performance from Hydronic Engineering. Results for the full year will also reflect the benefits of restructuring and our normal second-half bias.

Our strategic model

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



1 Collaboration between divisions ensures best practice shared across all functions.

2 World-class engineering in IMI Remosa, Italy relies on the best tools and processes.

3 Engineering expertise through Value Engineering has helped transform IMI Critical Engineering's competitiveness.

Strategic growth enablers

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

Maintaining financial discipline

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

Net debt to adjusted EBITDA

2017 0.9x **2018 1.3x**

Working together as one simplified IMI

To harness the Group's full potential we remain determined to maximise the opportunity that our scale provides us by acting as one IMI. Establishing core processes has provided a strong platform that underpins a framework for creating consistent Group–wide standards and behaviours. The impact goes far beyond manufacturing with industry best practice now consistently adopted across back-office functions. The Group intranet is a catalyst for knowledge and best practice transfer and the conferences and Leadership Programmes help build a strong and collaborative environment across the whole of IMI.

Investing in Group-wide IT and infrastructure

Since 2014 we have significantly enhanced our IT enabled business capabilities. We are standardising the ERP systems, business processes and reporting in our Divisions to provide us with access to accurate and consistent data. As a result, we have better visibility across the production environment, can manage our day-to-day operations more efficiently and make our product and service offerings more competitive.

IMI Hydronic Engineering rolled out new systems across its sales and service offices in Spain, Italy, Switzerland, Austria, Czech Republic, Australia and the Netherlands and also installed a new system at its plant in Fullinsdorf in Switzerland. Today 50% of the division's plants and over 40% of its sales and service offices share a common IT system.

Over the past three years, the Group has also established a solid foundation of IT security capabilities and controls across the business. This investment will continue to identify and remediate new and emerging threats through a 24/7 Security Operations Centre. The Group policies include a requirement that all businesses maintain a robust backup of all critical operating data so business continuity can be maintained even in the event of a system failure.

The delivery of standardised ERP solutions in each of our divisions continues to be a high priority in terms of major systems investment. In IMI Critical Engineering, implementations have taken place in China, Germany, Switzerland and Italy. IMI Hydronic Engineering has rolled out new systems in its Swiss factory and its sales offices in Switzerland, Austria, Netherlands, Czech Republic, Spain and Italy. IMI Precision Engineering has finalised ERP solutions at its core US sites and will commence ERP implementations in Asia during 2019.

IT infrastructure investment extends far beyond manufacturing. In Engineering and New Product Development, IMI Precision Engineering's new AutoDesk capability allows engineers to collaborate on product design and specification regardless of where they are located, enhancing our service through driving out complexity. This globalisation of the division's design capability generates several benefits including making the design process more efficient and cost-effective. Most importantly, it also makes it easier to develop the optimal product for a specific market and localise the manufacturing process accordingly.

Innovative marketing campaigns and digital communication tools in both IMI Precision Engineering and IMI Hydronic Engineering are improving the quality of contact we have with our customers and allowing them better access to our products and services, much more efficiently.

Strategic growth priorities

Our strategic plan to accelerate growth is focused on four key growth pri

Capitalising on significant organic growth opportunities

Our priority is to capitalise on end-markets where we already are, or have the potential to be, in a leading position.

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Improving operational performance

Our self-help Lean journey is underpinned by the engagement of management and employees at all levels.

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Increasing investment in New Product Development

All three divisions are increasingly delivering on our promise to introduce great new products and solutions for our customers, more quickly and more effectively than ever before.

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Expanding our addressable markets through targeted acquisitions

Beyond our existing business portfolio, we have the potential to expand through the careful execution of value enhancing acquisitions.

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Strategic growth priorities

Capitalising on significant growth opportunities

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

New facility – Japan

Over the last four years IMI Critical Engineering has successfully repositioned its business. In particular, its global footprint has been realigned and today the division has world-class manufacturing facilities in the heart of the industry's fastest growing markets. Building on the success of its new facilities in China, India and South Korea, in 2018 the division committed to relocating its existing factory in West Kobe, Japan to a new purpose-built facility near Kobe Airport. Aside from offering a much more efficient layout, the new plant will focus on the design and manufacture of large valves and hydraulic actuating systems – products that the existing facility is not equipped to manufacture. This investment will enhance IMI Critical Engineering's offering in the attractive Petrochemical market in Japan.

Strengthening our position in growing markets

IMI Precision Engineering is continuing to strengthen its presence in growth markets around the world. During 2018 the division completed the relocation of its plant in Noida near New Delhi to a new purpose-built facility, nearby. The new facility, which is three times the size of the old plant provides a core low cost manufacturing and engineering capability to Precision Engineering's, already competitive Asian operations. Our New Delhi operations include sales and customer service, production, distribution and a technical centre, and provides increased production capacity to meet the growing demand for IMI Precision products in the Indian market.

Capitalising on growing market demand

The global underfloor heating market is expected to grow at a compound annual growth rate of nearly 5% over the next five years, driven by a number of factors including increasing legislation aimed at reducing carbon emissions. IMI Hydronic Engineering's product portfolio includes a range of products that control underfloor heating systems, including manifolds which incorporate the division's Automatic Flow Control ('AFC') technology. This unique AFC technology ensures that the correct flow rates of water are delivered to each room thereby ensuring precise temperature control. In the last 12 months the division has won a number of significant contracts to supply its underfloor heating products and technology to both new build and refurbishment projects across Europe. In particular a number of municipal and social housing authorities across central Europe, including Austria & Germany, have installed IMI Hydronic Engineering's AFC technology solution to help save energy across their building stock.

1 Precision Engineering's new Indian manufacturing facility in Noida, India.

2 IMI Critical Engineering's new Lean factory in Japan will support regional growth.

3 Hydronic Engineering's leading underfloor heating manifold, Dynacon Eclipse, not only helps to save energy in homes, but is also easy to install.

4 Cardboard engineering in action, with a scale replica of Precision Engineering's new Indian manufacturing facility.

5 Hydronic Engineering's underfloor heating solutions are providing comfort to home owners and tenants across Central Europe.

Strategic growth priorities

Improving operational performance

As we improve how our businesses operate, we are better utilising capacity, enhancing our competitiveness, reducing working capital and generating cost savings by operating more efficiently. By doing this, we are improving our service to customers. We are well on our way in the self-help Lean journey, underpinned by the engagement of management and employees at all levels and we remain absolutely confident that by embedding Lean across the whole of IMI we will improve our competitiveness and sustain our achievements.

Better operational performance enhances customer offering

Across the Group we have continued to optimise the use of Obeya, the visual tool which facilitates project management by bringing together multiple work streams and encouraging collaborative working practices. The IMI Remosa team in Italy is now using Obeya to manage its aftermarket business more effectively. In particular, current and future field service workload, together with field engineering capability and availability, is now clearly mapped to ensure that the appropriate engineering service is available when required. As a result, the time taken to identify and match the appropriate service engineer to each job has reduced by 62% and service engineers, spares and tools are more effectively utilised.

74%

Lean score up 50% from first assessment

Enhancing Bimba's operational performance

We completed the acquisition of Bimba in January and shortly thereafter launched a Lean implementation programme to begin the process of transforming the operational performance across Bimba's eight sites. The first assessment process started in March where Bimba's operations achieved a 19% Lean score. At the end of 2018, this score had improved significantly to 27%. In particular the business' accident rates have fallen by 86% and more generally a continuous improvement culture is now becoming embedded across the Bimba business. Bimba's University Park site underwent an accelerated transformation and improved their assessment score from 20% to 44% in under 10 months.

75%

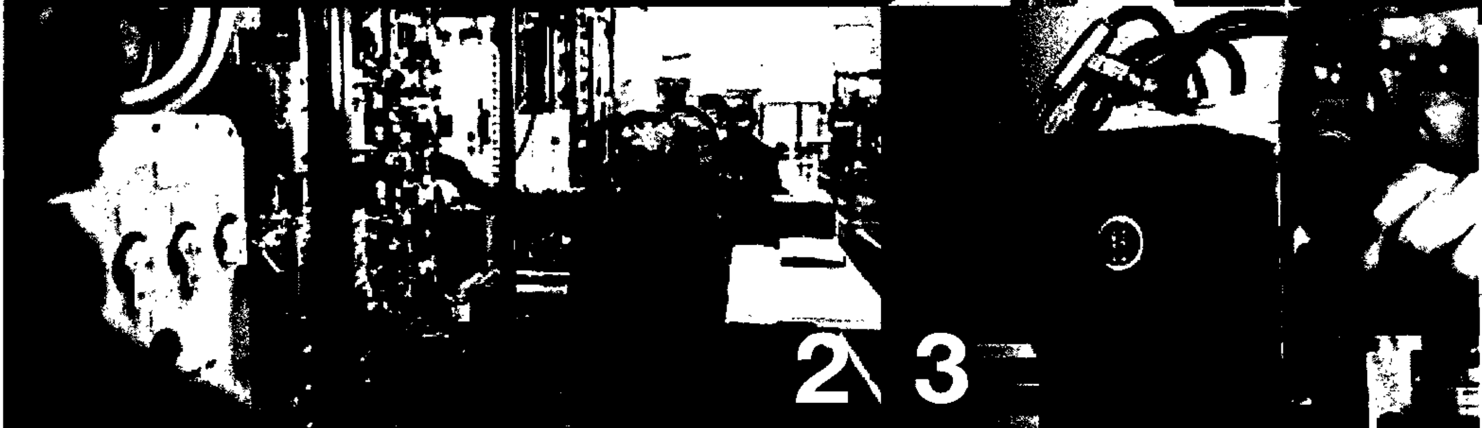
Lean score up 42% from first assessment

Embedding the voice of the customer in our operational processes

IMI Hydronic Engineering's facilities in Olkusz Poland, and Brezice, Slovenia were two of the first plants in the Group to achieve world-class operational benchmark performance. The division's effective application of Lean within its production facilities is now being extended across its sales offices and distribution hubs to ensure that customer requirements are consistently delivered. Additionally, the IMI Hydronic Engineering senior operations team now meet regularly with sales teams and customers out in the field, to better understand their needs and collaborate on projects to address any customer issues or opportunities which might arise. One such project focussed on improving our quality processes to drive down average response times and has reduced unresolved complaints by 85% in the final quarter of 2018.

78%

Lean score up 41% from first assessment



1 Individual valve quality check at Hydronic Engineering's plant in Ljung, Sweden.

2 IMI Remosa's world-class Hydraulic Power Control Units enable remote monitoring to ensure optimised plant performance for our customers.

3 Bimba's IntelliSense is an industry 4.0 product that integrates directly into pneumatic systems, enabling predictive intelligence.

4 Five Hydronic Engineering sites now have a Lean score above 70%.

5 IMI Remosa has produced leaner designs enabling their products to deliver significant reliability and operational improvements.

Strategic growth priorities

Increasing investment in New Product Development

Over the course of the past five years, we have successfully embedded New Product Development systems and disciplines across the Group. These systems and disciplines include a Group-wide advanced product quality planning process (APQP), continuous competitor product tear-downs, Value Engineering and an increased focus on transformational technologies. All three divisions now have strong new product pipelines and are bringing new products and solutions to market quicker and more effectively than ever before.

Value Engineering delivering competitive advantage

Value Engineering is a core component of the division's New Product Development activities and, over the last two years, our enhanced skills and capability in this area have significantly improved our competitiveness. Despite challenging market conditions, since 2016 IMI Critical Engineering has won nearly half a billion pounds of new contracts through the application of Value Engineering tools and processes. On average, a 15% cost reduction for our customers has been delivered. Included in the division's 2018 contract wins was an order for IMI Remosa to provide a package of products for installation in a Spanish oil refinery which was being refurbished. The product package included control systems, actuators and slide valves, which operate together in extreme temperatures of up to 980°C. These products control and shut down the flow of liquids and gases during the critical "crude oil to liquid fuels" conversion process. Using Value Engineering, IMI Remosa was able to re-develop its products which significantly reduced welding and other manufacturing costs and created a compelling solution for the customer at a competitive price.

Industry 4.0 at the centre of New Product Development

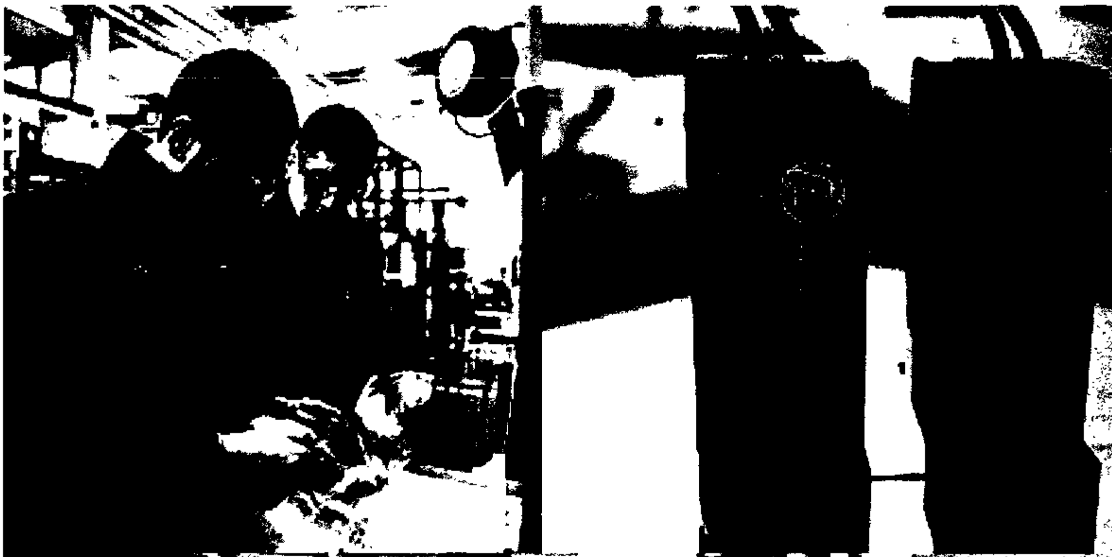
Digitisation is at the centre of IMI Precision Engineering's New Product Development process where investment is being focused on product control and data monitoring. This in essence, allows our products to be used as integrated components in a customers' connected application.

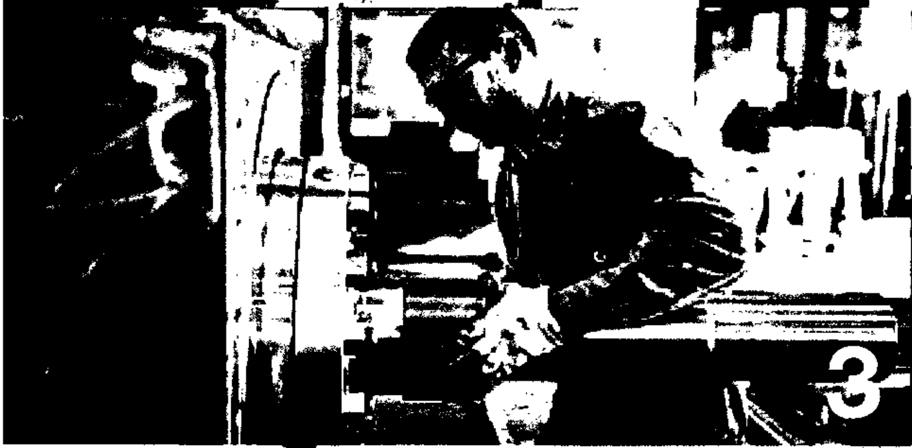
During the year the division expanded its portfolio of high performance, platform and bespoke products which offer enhanced digital capability and connectivity. New connected products include a range of electric actuators which are expected to launch in Spring 2019 at Hannover Messe, the world leading technology trade fair.

Digital technology is providing a competitive dynamic in IMI Precision's commercial activities. The division's IMI Norgren Express™ App, which enables customers to find and buy products quickly and easily using their smartphone, is now available worldwide. This efficient and effective digitised customer service, which provides access to over half a million parts, is enhancing our customer support offering.

Maintaining our position at the forefront of innovation

In the last five years IMI Hydronic Engineering has launched numerous new products, many of which incorporate software that allows them to be digitally enabled and connected to other components and systems. This software is developed by the division's dedicated in-house Electronic Research & Development team which focuses on creating solutions to satisfy customer demand and maintain IMI Hydronic Engineering's leading position at the forefront of innovation. During the year the division continued to expand its digital product portfolio. In December we extended our existing market leading TA-Slider actuator range to include a number of new products suitable for smaller applications such as ceiling cooling. These new actuators, which open and close valves to control the flow of water in HVAC systems, connect to building management systems and gather large amounts of data ultimately used to drive energy and cost efficiencies.





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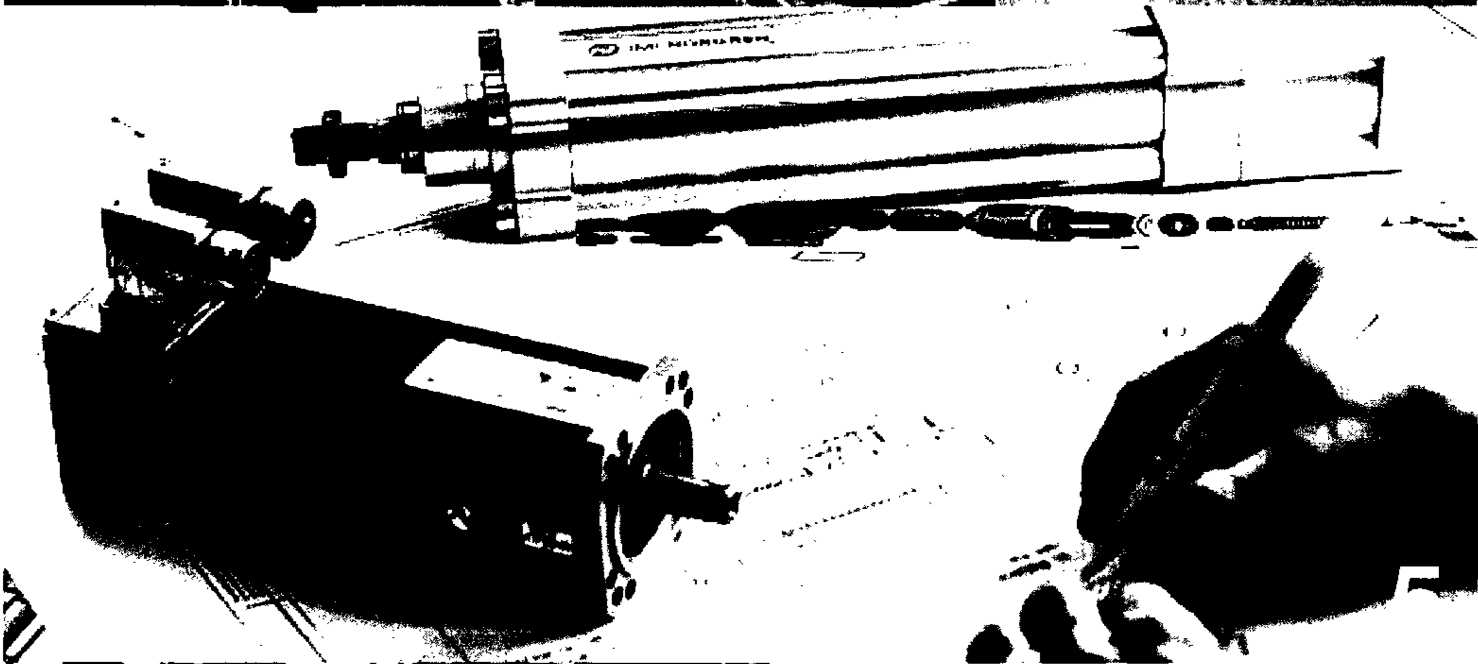

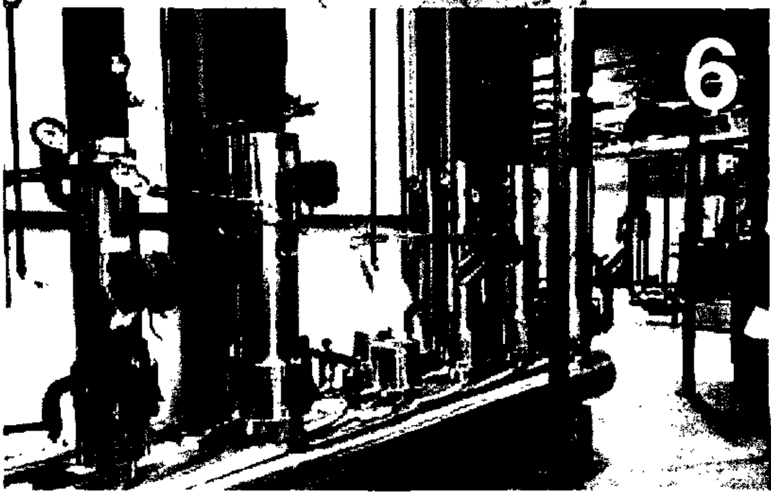

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1 Discipline in design with operator input ensures successful competitive products.

2 IMI FAS launched the new Microsol MS-E at the Medica 2018 fair in Dusseldorf.

3 IMI Critical's strong reputation means customers work with our businesses to develop products that improve their processes.

4 The extended TA-Slider digital actuator range was developed across four different sites by Hydronic Engineering R&D teams.

5 IMI Norgren's new electric actuator will be launched in 2019.

6 Since launch, TA-Sliders have been installed in hundreds of buildings world-wide.

7 The IMI Norgren Express app.

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Strategic growth priorities

Expanding our addressable markets through targeted acquisitions

Our ambition remains to supplement our organic growth with targeted acquisitions that enhance our business and market reach and leverage the process and integration capabilities developed in the last few years.

As a result, each division maintains an active but relatively short list of potential acquisition partners. We engage with these companies very early to ensure relationships are established well before any potential deal. Financial discipline is maintained throughout any process to ensure a deal has a clear integration plan that will deliver acceptable returns, including a financial return in excess of the Group's weighted average cost of capital within three years.

Our acquisition strategies for the divisions are:

IMI Critical Engineering

Within IMI Critical Engineering, focus remains on extending the division's reach into new, adjacent markets and applications to capture a greater share of customer spend. Such an expansion might include severe and semi-severe applications and could also involve extending our geographical footprint. IMI Critical Engineering's capabilities in Value Engineering and New Product Development would support value creation in any completed acquisition. Many of the potential acquisitions in this segment are small and mid-sized businesses with a specific market niche and would fit well into the IMI global network and culture.

IMI Precision Engineering

As IMI's largest division, IMI Precision Engineering is also the division that offers the greatest potential for a more significant acquisition. A number of potential partners in the market are of a larger size and match our criteria of cultural fit and combination logic. Given the size of the market and IMI's strength of process and market expertise, we are confident in our ability to successfully deliver value from an acquisition in this industry. The advancement of the Bimba integration in 2018 provides further confidence of the significant potential achievable through consolidation in this market.

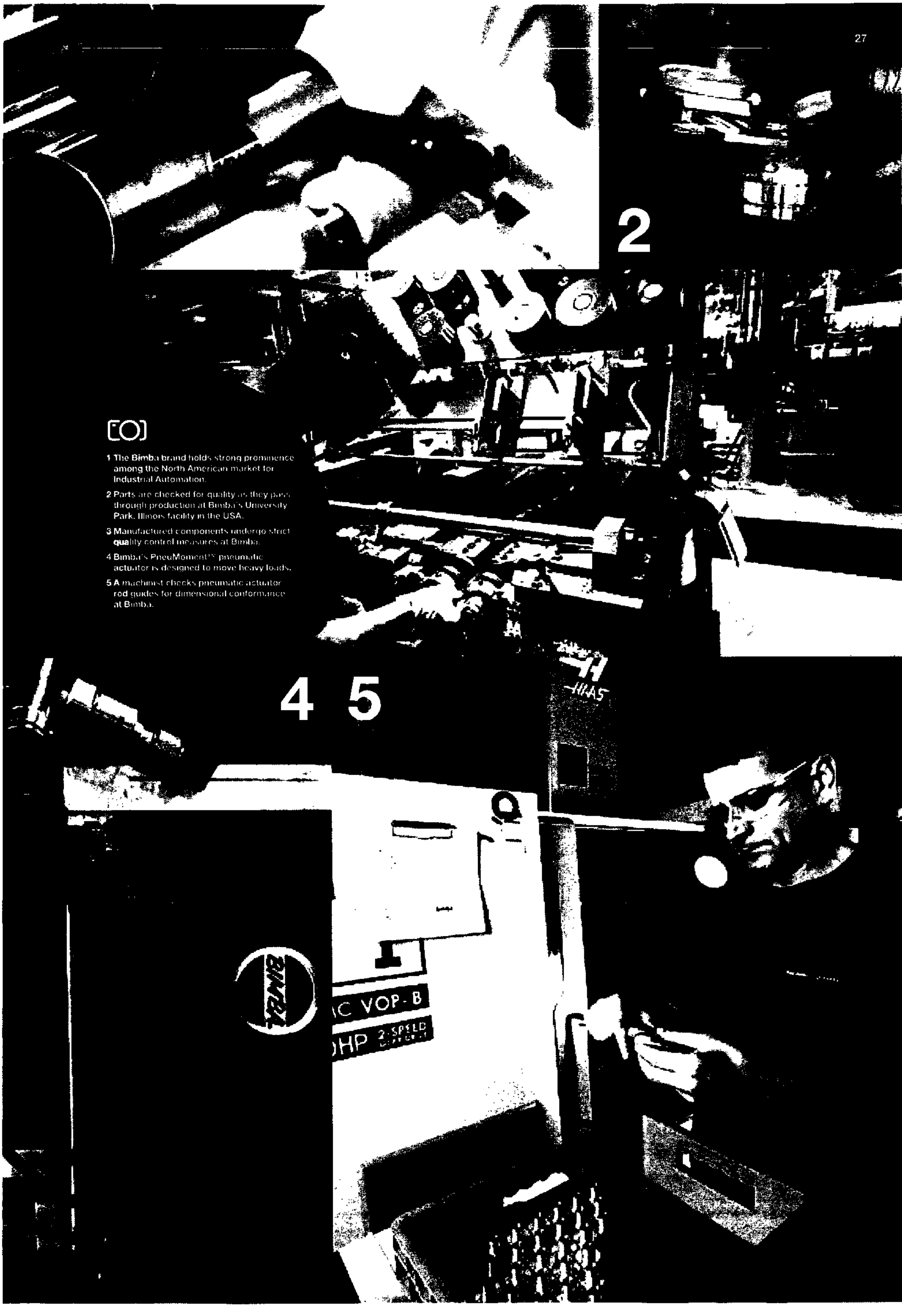
This feedback from one of our customers attests to the success of the acquisition and integration of Bimba:

"The acquisition of Bimba by IMI plc brings together two of the most recognised brands in the industry. Bimba is very well known as a leader in actuators with extensive product options and a willingness to create unique solutions for even one customer. Combining the Bimba and IMI brands solidifies IMI as a market leader in the pneumatics industry as well as in electric and hydraulic. This acquisition has put the industry on notice that IMI is serious about being a solution provider for pneumatic and overall motion products on a global level."

Brendon Connelly
Air Inc, US industrial distributor

IMI Hydronic Engineering

For IMI Hydronic Engineering, we believe that an effective way to expand the business in new geographies is to acquire businesses in our desired locations that have similar strengths to those we enjoy in our own, core regions. Those target businesses tend to be smaller, often privately-owned enterprises. The most likely value to be generated from such a combination would be derived from the synergies available by sharing complementary routes to market and product ranges.



1 The Bimba brand holds strong prominence among the North American market for Industrial Automation.

2 Parts are checked for quality as they pass through production at Bimba's University Park, Illinois facility in the USA.

3 Manufactured components undergo strict quality control measures at Bimba.

4 Bimba's PneuMoment™ pneumatic actuator is designed to move heavy loads.

5 A machinist checks pneumatic actuator rod guides for dimensional conformance at Bimba.

Operational review

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.

Adjusted revenue Up 5%
£682m

Adjusted operating profit Up 5%
£88.3m

Key achievements

- Value Engineering secured £180m of new orders and underpinned excellent order win-rates
- Further success in securing new business in adjacent markets
- Profit growth supported by successful restructuring programme
- On-time and on-budget ERP implementation across fourteen sites
- Increased average Lean score to 74%

Performance

In 2018 the division continued to experience a mixed trading environment in some of its most important markets. Value Engineering and New Product Development programmes continued to provide competitive levers which have enabled us to outpace the market. Our continuing high order win-rate indicates that we have been capturing more of the available projects than our competitors.

Full year order intake at £652m (2017: £658m) was flat on an organic basis and, as expected, included a strong second half recovery. The Value Engineering process, which is now fully embedded within the division and used on all New Construction quotes of scale, supported the delivery of £180m or 60% of New Construction orders in the year.

Strong order growth from Water contrasted with softer market conditions elsewhere. HIPPS orders were also ahead of 2017, partially offsetting lower Upstream and Midstream orders. Aftermarket orders were 11% higher and reflected a 22% increase in upgrades and a 6% increase in parts, when compared to the prior year. At the year-end, the order book was £474m (2017: £510m) with margins slightly higher, compared with 2017.

Revenues of £682m (2017: £648m) were 5% higher on an adjusted basis and, after excluding £6m of adverse foreign exchange and £3m from disposals, were 7% higher on an organic basis. Segmental operating profit of £88.3m (2017: £84.0m) was 5% higher on an adjusted basis and 6% higher on an organic basis. Margins were flat versus 2017, reflecting the division's ongoing work to counter softer markets with the benefits from restructuring and Value Engineering.

Lean scores improved significantly in the year from 70% to 74% and our core customer satisfaction metrics also showed continued progress. The division progressed its long-term footprint reorganisation which has resulted in the closure or transfer of thirteen lower growth operations. These initiatives delivered £12m of benefit in 2018 and have strengthened the division's competitive position by realigning its manufacturing footprint with customers in higher growth markets.

In addition to the product and operational investments, the division continued its programme of ERP roll-out. This system is now fully embedded in fourteen of IMI Critical Engineering's sites.

Outlook

Based on current order book phasing and the comparatively large Petrochemical deliveries in early 2018, we expect first half organic revenues and profits to be lower when compared to 2018. Results for the full year are expected to reflect a more favourable second half phasing and the benefits from restructuring.

Find out more: www.imi-critical.com

"Value [illegible] at the hear[illegible]ision's new quota[illegible] design procedures. Great new products at lower costs has increased our success rates which protect product margins."

Roy Twite
Divisional Managing Director

World-class engineering expertise, innovative technologies and reliable cost effective solutions are at the heart of IMI Critical Engineering's customer offering. During the year these key attributes were key enablers to the division's success at winning a diverse range of significant contracts.

In September, IMI Truflo Italy and IMI Critical China won a new order to supply pneumatic actuated ball valves for a petrochemical plant in Dalian, China. The plant, which is owned by Hengli Petrochemical, processes purified terephthalic acid ("PTA"), which is used to produce a range of materials including textiles and food and drink packaging.

Previously Hengli Petrochemical had awarded contracts to other businesses within the IMI Critical Engineering division including IMI Z&J and IMI Remosa. Prior knowledge and experience of IMI's technical engineering capabilities, our products and customer service, helped IMI Truflo Italy secure the Dalian contract.

Working closely with Invista, the company that licenses the PTA technology to the Dalian plant, IMI Truflo Italy developed customised ball valves capable of operating with extremely viscous and corrosive fluids. The technical specification and know-how associated with the product's design were originated at IMI Truflo Rona's plant in Belgium, and then transferred to IMI Truflo Italy.

Hengli's plant in Dalian, China, is one of the world's largest Petrochemical operations.

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.

Adjusted revenue **£916m**	Up 16% ^
Adjusted operating profit **£153.2m**	Up 15% ^

Key achievements

- On-time and on-budget completion of world-class facility in India
- Commercial Vehicle contract wins support growth
- Improved underlying margin despite cost pressures
- Increased average Lean score to 75%
- Bimba integration progressing to plan

Find out more: **www.imi-precision.com**

Performance

IMI Precision Engineering had another year of good progress and delivered solid growth across all verticals and regions. Revenues of £916m (2017: £791m) were 16% higher on an adjusted basis and, after excluding £10m of adverse foreign exchange and £88m from the Bimba acquisition, were 6% higher on an organic basis.

Strong Industrial Automation sales in the first half of 2018 slowed in the third quarter and declined slightly in the fourth, leaving the full year up 2% when compared to 2017. Commercial Vehicle related sales of £196m reflected stronger than anticipated markets and were 8% higher in the year, despite £8m of contract completions. European Commercial Vehicle revenues were slightly higher whilst North America grew by 15%. Energy sales were 16% higher than 2017 while Life Sciences and Rail were 12% and 14% higher, respectively.

Segmental operating profit of £153.2m (2017: £133.5m) was 15% higher on an adjusted basis and, after excluding £2m of adverse foreign exchange and £7m from the Bimba acquisition, was 11% higher on an organic basis. Operating margins of 16.7% (2017: 16.9%) reflect the impact of the Bimba acquisition in the year. Excluding Bimba, underlying margins compared favourably to last year at 17.7%.

Good progress has been made with the integration of Bimba into Precision Engineering's North American operations. We have also accelerated some of our plans for Bimba to improve its operations and IT infrastructure, in readiness for the opportunities for growth and margin improvement.

Operationally, the division continued to make solid progress and the combination of Lean, New Product Development and cost-reduction initiatives all contributed to a good performance in the year. We also completed the relocation of our Indian operation to a new and larger facility in New Delhi which was officially opened in October. This new plant expands Precision Engineering's low-cost, world-class manufacturing and engineering capabilities and enhances the division's ability to serve our rapidly expanding market positions across Asia.

The implementation of Lean throughout the division has continued to make excellent progress. At the end of 2018 Precision Engineering's Lean score increased to 75% compared to 70% at the end of 2017.

Our focus on New Product Development to enhance our market competitiveness gathered momentum. The addition of integrated intelligence and connectivity across our product range remains an important element of that strategy. In 2018, new products were introduced across the entire range and represented an increase in the vitality index (sales from new products introduced in the last three years) to 12%.

In-sourcing actions already completed combined with improved market conditions have helped increase utilisation in the year. Localisation and low-cost manufacturing transfers continue to reduce lead times and improve customer service and competitiveness.

In addition to product and operational investments, the division continues to implement its new ERP system and now has a world-class, fully integrated IT system which is now planned to be rolled-out in our Asian operations.

Outlook

The industrial outlook has become more volatile with leading indicators pointing to continued but slower growth in the Industrial Automation and the Commercial Vehicle markets in 2019.

Based on current market conditions, we expect first half organic revenues to be slightly higher, with broadly flat margins, when compared to the first half of 2018. The benefits of new product launches and operational improvements are expected to support improved results for the full year.

"2018 was a year of further success for IMI Precision Engineering. Great new products, improved operational performance and the addition of Bimba were all highlights in the year."

Massimo Grassi
Divisional Managing Director

The Rail industry is highly competitive. Reliability, safety and cost control are vital – and the need to maximise operational efficiency is a key priority. IMI Precision Engineering, with more than 30 years' experience in the rail sector, provides a range of products and technologies which enable rolling stock to operate effectively.

In particular the division's innovative and patented AMT air dryer system removes moisture and impurities from compressed air ensuring that pneumatically operated systems, such as doors, suspension and brakes operate reliably and safety. The AMT system offers market-leading levels of performance and reliability.

During 2018 demand for the AMT system continued to grow and IMI Precision Engineering won a number of new orders including a contract to supply Metro Trains Melbourne Pty Ltd in Australia with 270 AMT air dry systems and a major OEM order covering approximately 90 new Metro trains from Biaoding in China.

A constantly improving production process has been required to help the division meet increasing demand, efficiently. At the Leeds facility where the AMT system is manufactured, a fully engaged team and their passion for continuous improvement and Lean have delivered the required improvements. Lead times have been reduced, inventory management improved and standardisation of the build process has reduced the production cycle time.

Metro Trains Melbourne Pty Ltd in Australia will be supplied with 270 AMT air dry systems.

IMI Hydronic Engineering

Adjusted revenue	Down 1%
£309m	
Adjusted operating profit	**Up 5%**
£52.0m	

Key achievements

» Second half margins improved to 18.4% (2017: 15.9%)

» Successfully re-established foundations for sustainable and profitable growth

» New product launches continue to build sustainable competitive advantage

» Maintained excellent Lean score of 78%

» On-time on-budget implementation of divisional ERP

Find out more: **www.imi-hydronic.com**

Performance

IMI Hydronic Engineering's 2018 performance was a tale of two halves with the first half being focused on the actions necessary to deliver significant improvements in the second half of the year. The actions taken successfully recovered margins and consolidated the division's position as a market leader in our core geographies and sectors.

Recovering substantially from the decline experienced in the first half of the year, revenues on an adjusted basis of £309m (2017: £312m) were 1% lower than 2017 and, after excluding £3m of adverse foreign exchange, were flat on an organic basis. The result was affected by the actions taken to return to satisfactory margins, including the closure of a loss-making service business and the decision to avoid product and project sales that generated unacceptable margins.

Segmental operating profit of £52.0m (2017: £49.7m) was 5% higher on an adjusted basis and, after excluding £1m of adverse foreign exchange, 6% higher on an organic basis. Margins improved to 16.8% (2017: 15.9%) for the full year, with a significant improvement in the second half to 18.4% (2017: 15.9%).

In our core territories market shares have remained strong. Our key distributors, installers and specifiers have responded positively to our refreshed product offering, constantly improving customer service and ongoing commitment to customer support.

New product investment continued and contributed £69m, or 22% of sales, in the year. The division also maintained its excellent Lean score of 78%, with the Polish plant once again achieving the highest Lean score in the Group.

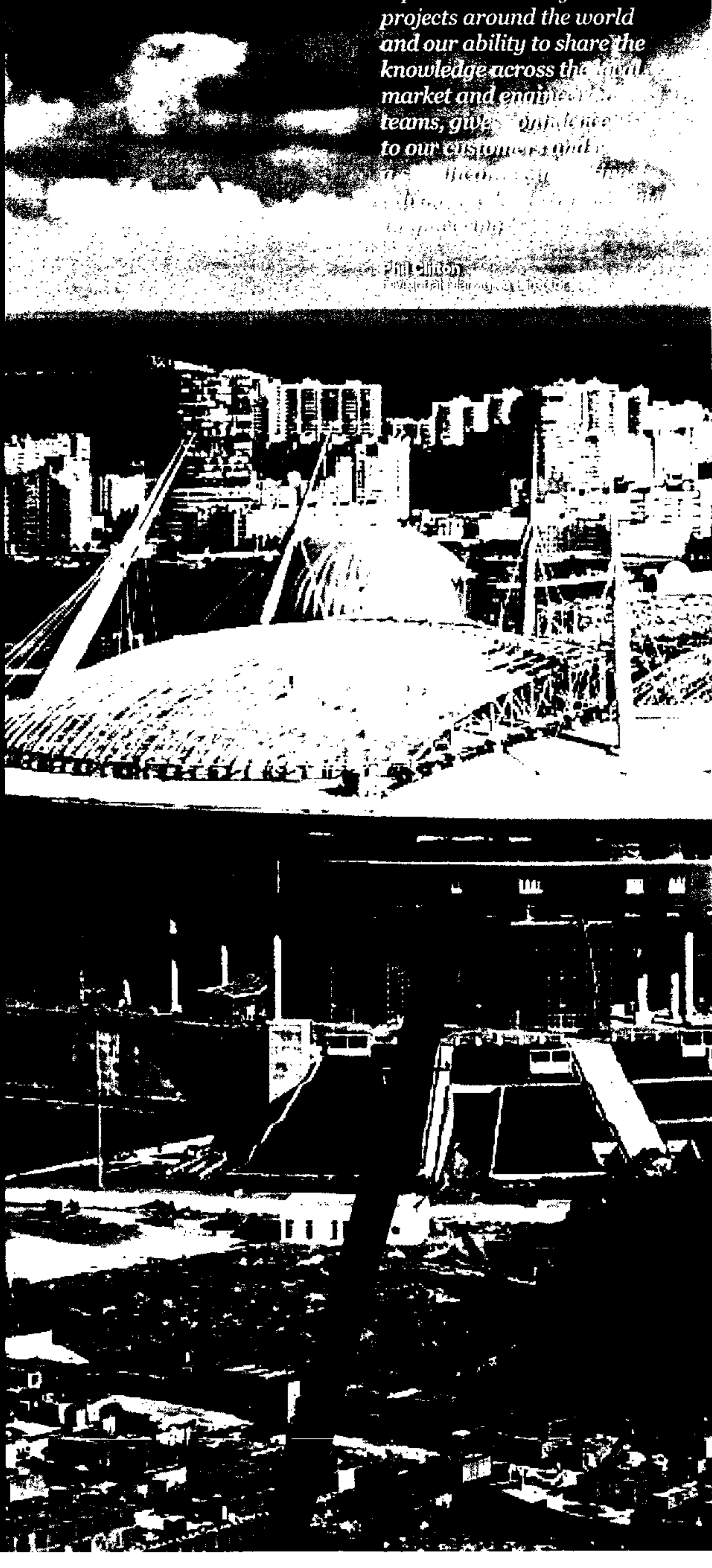
The roll-out of the new JD Edwards ERP system continued throughout 2018 with the system now live in three manufacturing businesses and thirteen of the division's sales offices.

Outlook

Based on current market conditions organic revenue is expected to grow in the first half of 2019 with margins slightly improved when compared to the first half of last year. Results for the full year are expected to reflect the benefits of our 2018 restructuring and our normal second half bias.

"Our in depth hydronic experience in many varied projects around the world and our ability to share the knowledge across the [illegible] market and engine[illegible] teams, gives confidence to our custom[illegible]

Phil Clifton
[illegible]



IMI Hydronic Engineering has a long and successful track record of working closely with designers and consultants to create some of the most energy efficient and highly successful commercial and residential developments in the world.

These credentials, including the division's work on the Maracanã Stadium in Brazil, which hosted the 2014 World Cup final, helped IMI Hydronic Engineering win contracts to design and install temperature control systems in four of the World Cup 2018 stadia. The systems installed at each stadium, including the St. Petersburg Stadium which has a seating capacity of 67,000, incorporated products from IMI Pneumatex, IMI TA and IMI Heimeier, three of the division's market leading brands. In addition, through effective cross-divisional collaboration with IMI Precision Engineering, Norgen solenoid valves were also incorporated into each temperature control system.

Four Russian 2018 World Cup stadiums were fitted with Hydronic Engineering products to provide great temperature control.

Corporate responsibility

Our ambition is for IMI to become a world-class business – a truly great company that leads its marketplace, that thinks long-term, that delivers sustainable value to all stakeholders and operates all aspects of its business in a responsible way.

To help ensure we achieve this ambition we focus on:

Creating a positive and collaborative place to work

We are committed to creating a positive and collaborative workplace where our culture is underpinned by core values and behaviours which promote fair and ethical working practices.

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Attracting the best people and developing and engaging with our employees

Our performance is dependent on developing, retaining and recruiting the best people with the most relevant skills and experience who are aligned with our values and behaviours and who can contribute to delivering our strategic ambitions.

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Members of IMI Remosa's team, where IMI's investment together with talented employees has created a world-class business.

Prioritising health and safety

The health and safety of our employees, contractors and visitors is a primary priority for the Group. Our combined Lean and Health and Safety audits underpin Group-wide rigour and continuous improvement throughout our operations.

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Ensuring that we minimise our environmental impact

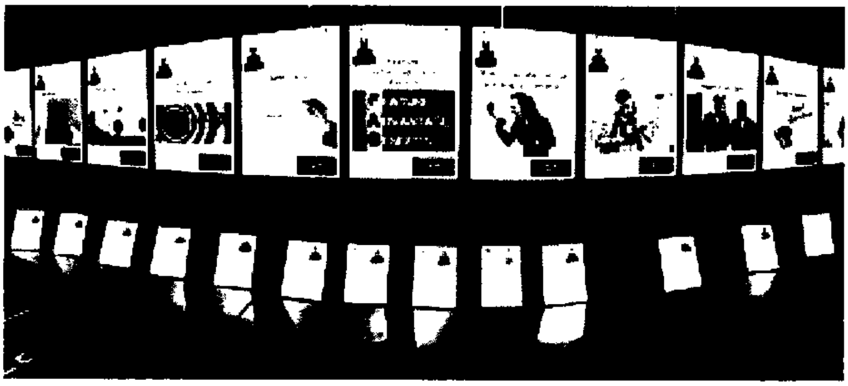
We have a responsibility to minimise the environmental impact of our day-to-day operations. Our products help our customers operate their systems and processes safely, cleanly and cost effectively.

Turn to page 42

Corporate responsibility

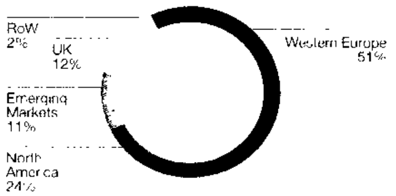
Creating a positive and collaborative workplace

We are committed to creating a positive and collaborative workplace where the culture is underpinned by core values and behaviours which promote fair and ethical working practices. Not only are we convinced that creating this culture is the right thing to do, but it also enables us to operate more effectively, while attracting and retaining great people.

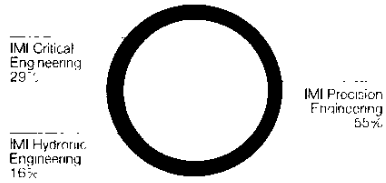


We employ around 11,000 people around the world

Breakdown of employees by geography



Breakdown of employees by division



UK Gender Pay Gap Summary for the year ending 5 April 2018*

UK Gender Pay Gap	2018	2017
Mean Gap	**32.6%**	36.5%
Median Gap	**21.7%**	25.1%

* As highlighted in the graphic above, we are a global business employing around 11,000 people around the world. The above summary only covers our 1,046 UK employees. Further information about our UK gender pay gap, together with an explanation of how these figures were calculated, is provided on our website: www.imiplc.com.

Culture

We have a clear purpose and a well-established set of values and behaviours that help shape our culture and outline the standards and conduct expected of everyone across the Group. Our values and behaviours are embedded in all our internal processes and procedures, including our Code of Conduct, and they are integral to the "The IMI Way", which defines how we do business.

Our purpose

"We deliver GREAT solutions for our customers tackling the world's most demanding engineering challenges."

Our mindset

"Engineering GREAT together."

Our values

Integrity *Excellence* *Innovation* *Collaboration*

Human rights, equality, diversity and inclusion

We are committed to creating a diverse and inclusive working environment where everyone is treated fairly and with respect.

We are a signatory to the UN Global Compact which establishes standards for human rights, labour practices and anti-corruption. We also deploy our own policies and procedures, which set out how people should be treated and how we should conduct our business.

We believe it is essential that across all parts of our business we employ people from different backgrounds and cultures to serve our global footprint and our diverse customer base.
To ensure that our workplace is inclusive and that all employees and workers are treated fairly in an environment which is free from any form of discrimination, we operate a Group-wide Diversity and Inclusion Policy. We implement this policy using a number of mechanisms including:

» the principles that underpin our Diversity and Inclusion Policy are embedded in all our human resource processes and procedures which are regularly reviewed for both appropriateness and competitiveness;

» we run diversity awareness training programmes, including an E-learning module (translated into core languages) which employees can access via our global intranet;

» when creating shortlists for internal and external vacancies, we insist that external recruiters provide diverse shortlists;

» as part of our internal management performance process, each Divisional Managing Director is set and further cascades objectives and local metrics aimed at improving diversity and inclusion in their division;

» we are committed to employing and developing local employees in our geographies to align with our customers and the communities in which we work. As a result, we have a very small and focused expatriate population, and

» we have piloted workshops to promote diversity of thought across key areas of our business including in relation to product development and innovation.

Gender mix across the Group*

	Female	Female %	Male	Male %
All employees	3,281	28%	8,617	72%
Managers	237	20%	921	80%
Senior managers	124	19%	518	81%
Board	3	33%	6	67%

* Including agency and contractors.

The WISE Campaign

Having a diverse workforce is essential to delivering our business goals. During the year the Group joined the WISE Campaign, a UK initiative that is focused on increasing the participation, contribution and success of women in science, technology, engineering and mathematics ('STEM'). Being part of WISE helps to demonstrate our commitment to encouraging gender diversity and we aim to be a preferred employer for anyone looking to build a career in engineering.

Ethical behaviour

It is essential that we run our business in an ethical way with the highest standards of integrity.

As part of their induction, every employee who joins the Group receives training in relation to the IMI Way and our Code of Conduct which covers, amongst other things, anti-bribery and anti-corruption. Refresher training on our Code of Conduct is provided regularly and is reinforced through our annual IMI Way Day, as well as face-to-face and on-line training sessions.

During the year, 7,000 employees undertook an online training module in anti-bribery and around 4,000 participated in a similar programme covering competition law. In addition, we have a series of policies and procedures including regular on-site legal and compliance reviews, which are designed to help instil the highest ethical standards and regulatory compliance. These are embedded in our risk assessment processes, further details of which are provided on page 46.

We encourage all employees to report to their manager any incident that is not in keeping with our values and behaviours. We operate a confidential independent hotline in 12 languages, which allows anonymous reporting. Hotline activity is reviewed each month by the Group's Ethics and Compliance Committee. An overview was presented to the Audit Committee in 2018 and will go to the full Board in 2019. All reports are investigated thoroughly and, where required, appropriate action is taken to resolve issues fully and quickly. During 2018, 49 cases were reported via the hotline which compared to 52 in 2017 and 48 in 2016.

We conduct advanced due diligence on our business partners including our agents and distributors. We do this using a software tool that covers a range of areas including initial and ongoing background checks, screening against sanctions lists, a compliance certification process and the signing of a formal agreement. In addition, all our businesses carry out checks (including sanctions screening) to understand potential customers and to identify risks that may be involved in supplying to them.

Managing our supply chain

Our commitment to human rights extends across our supply chain. We conduct regular audits to make sure that child or forced labour is not used in our supply chain and that suppliers' workplaces are safe. If suppliers are unable to comply with our strict responsible business requirements we terminate our relationship with them.

We use a combination of general corporate responsibility policies and specific supply chain compliance actions to avoid any potential for modern slavery in our supply chain. Our full statement on the Modern Slavery Act and detail about the steps we take to ensure that slavery and human trafficking do not take place within our supply chain or any part of our business is available on our website at: www.imiplc.com.

Community activities

We recognise our responsibility to the communities around the world in which we operate. We support a range of local charities and contribute funding to organisations who provide emergency support in crisis situations. During our annual 'IMI Way Day' our employees across the Group spend time supporting a local community charity or project. These initiatives contribute to the local community, help build trust and reinforce our team building and collaborative approach.

Some of our IMI Way Day 2018 activities

» **Planting trees in SriCity, India to coincide with World Environment day.**

» **Donating blood in India / raising funds for medical equipment for a care home for the elderly.**

» **Donating bicycles to a charity which supports neglected and disadvantaged children, (Farmington, USA).**

» **Developing an outdoor space to be used by school children and their families (Birmingham, UK).**

Promoting science, technology and engineering excellence

During 2018 we entered into partnerships with three museums located near our headquarters in the Midlands. They all have links to our engineering heritage and they are also actively promoting Science, Technology, Engineering and Manufacturing. In the year we supported:

The Derby Museum

The Derby Museum of Making's new Midland Maker Challenge Prize which will be launched in 2019. Schools and higher education providers will compete to design solutions to address environmental and societal challenges;

The redevelopment of the Ironbridge Gorge Museum Trust's Enginuity centre which is a national design and technology centre and interactive museum; and

ThinkTank in Birmingham's restoration of The Smethwick Engine, the world's oldest working steam engine.

Smethwick Engine in action

Credit Birmingham Museums Trust

Corporate responsibility

Attracting, developing and engaging the best people

The Group's continued success is dependent upon our people. We recognise the need to attract and retain great people, provide them with opportunities to make a difference in a positive work environment while supporting their personal and professional development

Recruitment

Our performance and ability to execute our strategy relies upon recruiting the best people with the most relevant skills and experience who share a passion for our values and behaviours and are aligned with our strategic ambition. We operate a robust process for selecting and integrating new employees. We follow the principles embedded in our Recruitment Policy which aims to ensure our process is fair, transparent and consistent with our ambition to develop our own talent and leaders for the future.

Development and succession planning

At IMI we have a strong talent pipeline and training and procedures which enable our employees to enhance their skills and progress their careers. We operate a wide ranging platform of training and development programmes designed to increase employee skills across a number of disciplines. During the year the internationally renowned Brandon Hall Group awarded our "Leading the Way to Engineering GREAT" programme a gold award for excellence in leadership development.

In addition to our training and development programmes, all employees are provided with on-the-job training and where appropriate, personal mentoring. We also operate a Performance Management Process to ensure that all employees are appraised in a fair and consistent way. This process provides employees with regular opportunities to discuss their objectives and personal development plans during the year.

In line with our ambition to develop our own talent for future leadership roles we set and achieved our target of 40% for our 2018 leadership group internal succession rate (32% in 2017). For 2019 we are aiming to improve this further.

Overview of our development and training programmes

"Leading the Way to Engineering GREAT" programme

Delegates: our leadership group

Objective: to ensure we have leadership skills across the Group capable of supporting our strategy and growth

Number of participants: since launch in 2015 around 230 people including 70 in 2018. Target for end of 2019 – 300.

"Being a GREAT IMI Manager"

Delegates: newly promoted and existing managers

Objective: to build a pipeline of management talent capable of supporting our strategy and growth

Number of participants: since launch in 2015 around 1,150 people including 400 in 2018. Target for end of 2019 – 1,450.

"IMI Learn" – our Group-wide E-training platform

Delegates: all employees across IMI

Objective: to provide accessible and effective on-line training to support training and development across IMI globally

Number of participants: we have 8,000 registered users on our learning management system

"IMI Lean"- the key to operational excellence

Delegates: senior organisational leaders

Objective: to equip site leaders to accelerate their lean improvements

Number of participants: 300 people have completed the training and taken the learning back to their sites. Target for end of 2019 – 480.

Our graduate programme

Each year around 30 graduates, predominantly with engineering backgrounds, join our business. Recruited from around the world, our graduates participate in a two-year structured programme which includes different rotations and involvement in live projects across the Group.

Our apprenticeship schemes

We operate our apprenticeship schemes in many of our European based businesses including in Germany, UK and Sweden. Around 50 new apprentices join us each year and for each of them we create a career development plan which covers on and off the job training across a range of relevant technical skills.

Here some of our apprentices explain how their careers have developed

NAME AND CURRENT ROLE:

Maria Collins
Apprentice, Junior Applications Engineer, IMI Precision Engineering Fradley.

WHY I JOINED:

I wanted to gain workplace skills and experience that I could put into practice while studying and my interests in science and problem solving led me to choose a career in engineering. I wanted to work at IMI for several reasons, including the continuous improvement culture which provides lots of opportunities for me to get involved in really interesting projects.

MY EXPERIENCE:

I have gained so many skills including machine operation, computer aided design, lean and ergonomics. I have also worked on a number of live assignments including several factory improvement programmes and a project to design a large-scale model for use at a trade fair in Germany. At the same time, I have gained further qualifications and have also been able to promote engineering to pupils at local schools and careers fairs.

1 Graduates from the September 2018 intake attend induction meetings at IMI HQ.
2 Investing in and developing our people is key to future IMI.

Engagement

Given how important people are to our success, maintaining an active dialogue with them is essential. We keep them informed about the Group's performance and development as well as specific matters that affect them as employees. And we listen to their feedback to identify the key issues that matter to them.

To facilitate this dialogue we operate a number of regular and ad hoc mechanisms, some of which are detailed on this page. In addition, in November 2018 Birgit Nørgaard, one of our non-executive directors, was designated as the Director responsible for undertaking Board level workforce engagement. In this role Birgit will participate in our Group management conference and our European Communications Forum as well as other events involving employees.

NAME AND CURRENT ROLE:

Nils Nesladek
Trainee Production Designer, IMI Z&J, Germany

WHY I JOINED:

IMI has a reputation for being a good employer that offers an excellent training programme. And because the Company recruits quite a number of apprentices, I knew there would be a good support network and lots of opportunities to share experiences.

MY EXPERIENCE:

I am currently a trainee production designer. My role covers both product design and production engineering. Every day we're looking to improve our customer offering which means always evolving what we do and moving forward. I am impressed by the future focus of the company and the emphasis on continuous improvement. I am pleased to feel part of a secure, yet constantly improving work environment.

How we engage with our employees

Forum	Engagement
IMI Way Day	All employees participate in this annual event. Senior management provide a business update, and employees then have an opportunity to ask questions and discuss a range of issues. During the day employees complete an employee engagement survey which covers their views on a number of important business subjects. Survey results are recorded and the data is shared with employees. Action plans are developed and used to measure and track progress. Further and ongoing survey work is conducted where appropriate to maintain positive momentum.
Group Conference	300 senior employees from across the Group meet for an update on strategy and initiatives for the coming year. The agenda includes a Q&A session with the Executive Directors and Divisional Managing Directors and the Chairman also addresses participants. Feedback is gathered during and after the event with the conference's key messages and outputs then communicated to all employees.
European Communications Forum ("ECF")	Employee representatives from around ten European countries meet regularly with senior management to discuss strategic progress and performance compared to our key performance objectives. The discussions cover updates on key initiatives such as IT security, New Product Development, Lean and Value Engineering. Following the meeting, minutes and newsletters are produced and used by the employee representatives to share information with their colleagues.
Town hall meetings	Our Divisional Managing Directors hold quarterly online town hall meetings covering recent results and current initiatives. Employees are invited to ask questions and provide feedback on their own concerns and/or share best practice on current initiatives.
Pulse surveys	Where required we use quick and effective localised real-time surveys to gather specific insights from employees. We use the findings to inform our plans for improvement.
IMI Eye	Our cross-divisional magazine is published twice a year and covers news stories and best practice sharing from around the Group.
Group-wide and divisional intranet	Our global and divisional intranets are used to communicate key developments and share best practice across the Group quickly and effectively.

In 2018 over 8,900 employees participated in our IMI Way Day survey. Results were consistent with the encouraging feedback from previous years. In particular, 71% would recommend IMI as a good employer to family and friends and 87% are clear about the key priorities their division is focused on.

Prioritising health & safety

The health and safety of our employees, contractors and visitors to our facilities is of paramount importance and integral to our ambition to be a world-class business with a world-class health & safety record. To achieve this ambition, we take a proactive approach and strive to continuously improve our performance.

Our proactive approach

Health and safety is our key priority and monitoring and improving our performance is a core metric which is embedded in our reporting systems at multiple levels across the whole of IMI. All areas of our business continuously assess their operations and twice yearly we undertake a formal Group-wide health and safety audit at every major operation to monitor the progress against our formal improvement actions. Details of this review process are outlined below.

Our bi-annual review process

Timing	Activities	Objectives and outputs
November/ December* and May/June*	Local assessment of key operational and safety areas, focused on business performance issues and rate of improvement. Undertaken by independent IMI Group or divisional specialist health and safety experts.	» Audit current benchmark scores. » Identify business-critical issues, develop improvement actions to progress and track KPI trends. » Agree further improvement activities with local and divisional leadership. » Monitor improvement activities.
January and July	Publication of Lean - HSE benchmarking data on Group intranet.	» Identify commonly recurring Group-wide hazards. » Develop remedial plans to address. » Share best practice.

* Combined with semi-annual Lean benchmarking reviews.

In line with our established policies and procedures we strive to ensure that accidents are avoided and that our operations are risk assessed to be as safe as possible. All employees, as part of their induction, receive health and safety training relevant to their role in line with health, safety and environmental compliance principles. Further on-site training in relation to hazard identification, risk assessment and action planning is provided to employees engaged in manufacturing operations.

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

Progress during the year

During the year we improved our health and safety performance in a number of areas:

- During the year the total number of LTAs reduced more than 20% to 18 against 23 in 2017. The 2018 figure includes 3 LTAs recorded by Bimba, which was acquired in January 2018. The Precision Engineering division is currently executing a range of plans and initiatives to integrate fully Bimba into their North American operations and our key priority is to embed the IMI health and safety culture and supporting procedures across Bimba's entire business.
- There has been a slight reduction in the number of sites reporting zero LTAs (79% compared with 83% in 2017). This reflects the restructuring of IMI Critical Engineering's manufacturing footprint and the acquisition of Bimba.
- The LTA frequency rate improved considerably (26%) in 2018 and across IMI there was 0.8 LTAs for every million hours worked compared to 1.1 in 2017.
- In 2017, we launched a Group-wide campaign to prevent hand injuries which were the largest volume of injuries reported in 2017. In 2018 IMI Critical Engineering delivered a 65% reduction in hand injuries and IMI Precision Engineering and IMI Hydronic Engineering reported reductions of 35% and 56% respectively.

2018 Health & Safety initiatives

Our passion to continue to improve our health & safety performance resulted in the launch of a number of new procedures and training initiatives during the year including "Learning to See" and "Lock Out Tag Out".

"Learning to See"

In all our manufacturing operations management routinely undertake "Gemba Walks" – a Lean term used to describe the detailed observation and identification of potential hazards and risks. During 2018 we launched our "Learning to See" training programme which equips our operational management with further knowledge and skills to make their Gemba Walks even more effective. The two-day training programme takes place on site and provides practical instruction on taking the process beyond completion of health and safety checklists to a more interactive discussion with employees. This process allows questions to be asked, encourages suggestions for improvement and creates more effective and proactive engagement on health and safety issues. During the year over 600 employees based at our manufacturing sites participated in the Learning to See programme.

"Lock Out Tag Out"

Lock Out Tag Out is a safety procedure used to ensure that machines are properly shut off and not able to operate during maintenance and repair work. Prior to 2018 every IMI business operated its own Lock Out Tag Out procedure and as a result, standards of protection varied across the Group. In an effort to reduce the risk of serious injury in the high-risk shutdown procedure, we introduced a new and more stringent Lock Out Tag Out procedure which all our operations are required to adopt.

1 Bimba maintains an expansive actuator testing lab to ensure that parts meet specified performance characteristics.

2 The Group's continued focus on wearing appropriate gloves resulted in a significant reduction in hand injuries in IMI Critical.

3 Throughout 2018, Learning to See training was delivered to all Hydronic Engineering manufacturing sites.

4 Ensuring safe practices and the correct clothing protect our people.

Corporate responsibility

Ensuring that we minimise our environmental impact

Our purpose is to deliver great solutions that tackle the most demanding engineering challenges and help our customers operate their systems and processes safely, cleanly and cost effectively. We are committed to doing this in a way that minimises the impact on the environment.

Our operations

We operate globally with manufacturing facilities in more than 20 countries. We are committed to operating these facilities in a sustainable way and to minimise their impact on the environment.

We monitor and report our environmental performance at the monthly Executive meetings with a view to delivering continuous improvement and reducing our CO_2 emissions year-on-year.

Energy efficiency

Given the nature of our production processes, our main focus is energy efficiency and our Group-wide energy efficiency programme delivered a number of improvements during the year. Details of some of the key projects are set out below.

» **IMI Critical Engineering** installed a new award-winning heating system in three of the manufacturing halls at IMI Z&J's facility in Düren, Germany. As a result, gas consumption in the three halls has been reduced by 30%.

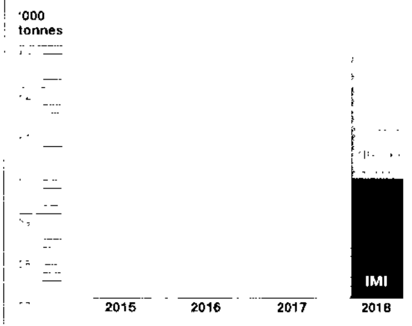
» **IMI Precision Engineering** introduced a renewable power system in parts of its facility in Alpen Germany. Following the installation of solar panels and heat pumps the facility's CO_2 emissions and energy consumption have reduced.

» **IMI Hydronic Engineering** installed new LED lighting throughout its Swedish plant in Ljung which has helped reduce CO_2 emissions and electricity consumption.

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

Since 2015, on a like for like basis (excluding Bimba), we have reduced our CO_2 emissions by over 4%. In line with our continuous improvement culture and investment in our operations, we are committed to further reducing our emissions in the future.

CO_2 emissions



Reduction in waste and scrap

As outlined on page 22, improving operational performance is one of our key strategic priorities. By running our business more efficiently we enhance our competitiveness, save costs and reduce waste and scrap levels. Each of our divisions has made significant progress in this area including.

» **IMI Critical Engineering:** at IMI Z&J's facility in Germany, Lean methodology problem solving techniques were used to identity three main areas for improvement, including welding errors. Processes in the plant have been adapted and improved and as a result scrap levels have reduced by 58% year on year.

» **IMI Precision Engineering:** since 2017, IMI Precision Engineering Fradley's scrap levels have reduced by 67%, driven by the implementation of Lean process design and the Fradley team undertaking regular problem solving and Kaizen continuous improvement activities. Lead times and inventory levels have shown radical improvement as a result.

» **IMI Hydronic Engineering:** the division's facility at Erwitte, Germany has continued to reduce its scrap. Building on the 50% reduction achieved in 2017, the plant reduced its scrap levels by a further 10% in 2018. The application of Lean methodology and problem solving to identify the root cause and implementing improvement actions underpinned the improvement.

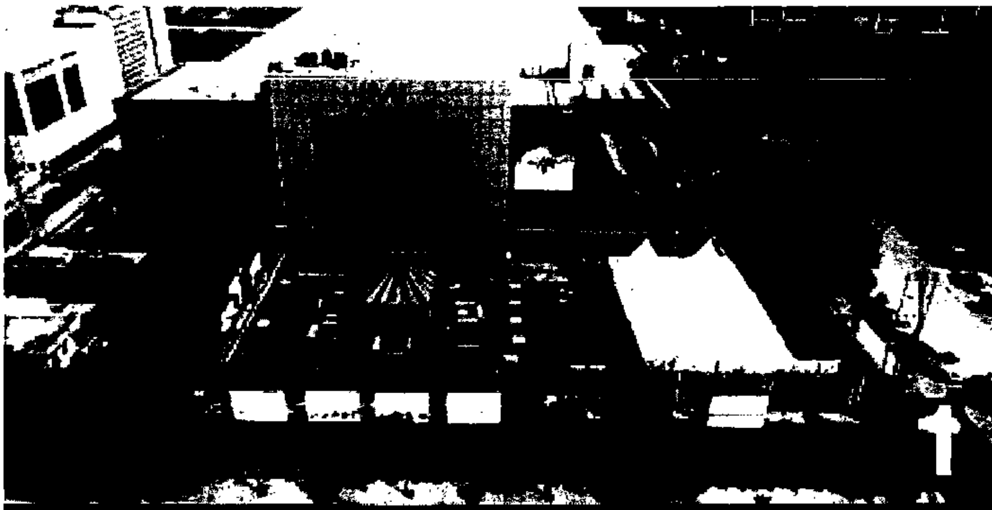
Our products

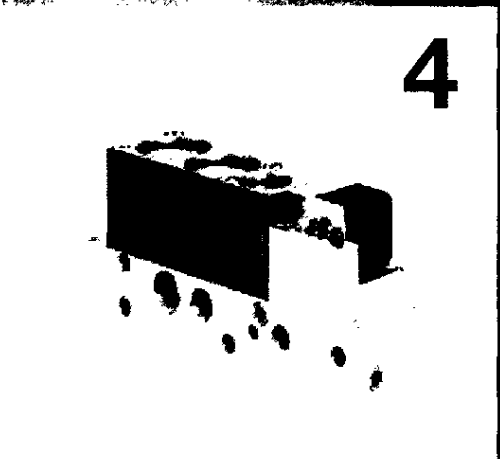
Our products and technologies help our customers operate their processes safely, cleanly and efficiently and help address some of the biggest global challenges facing the world today including climate change and resource scarcity. Below are some of our products that help reduce emissions and energy consumption.

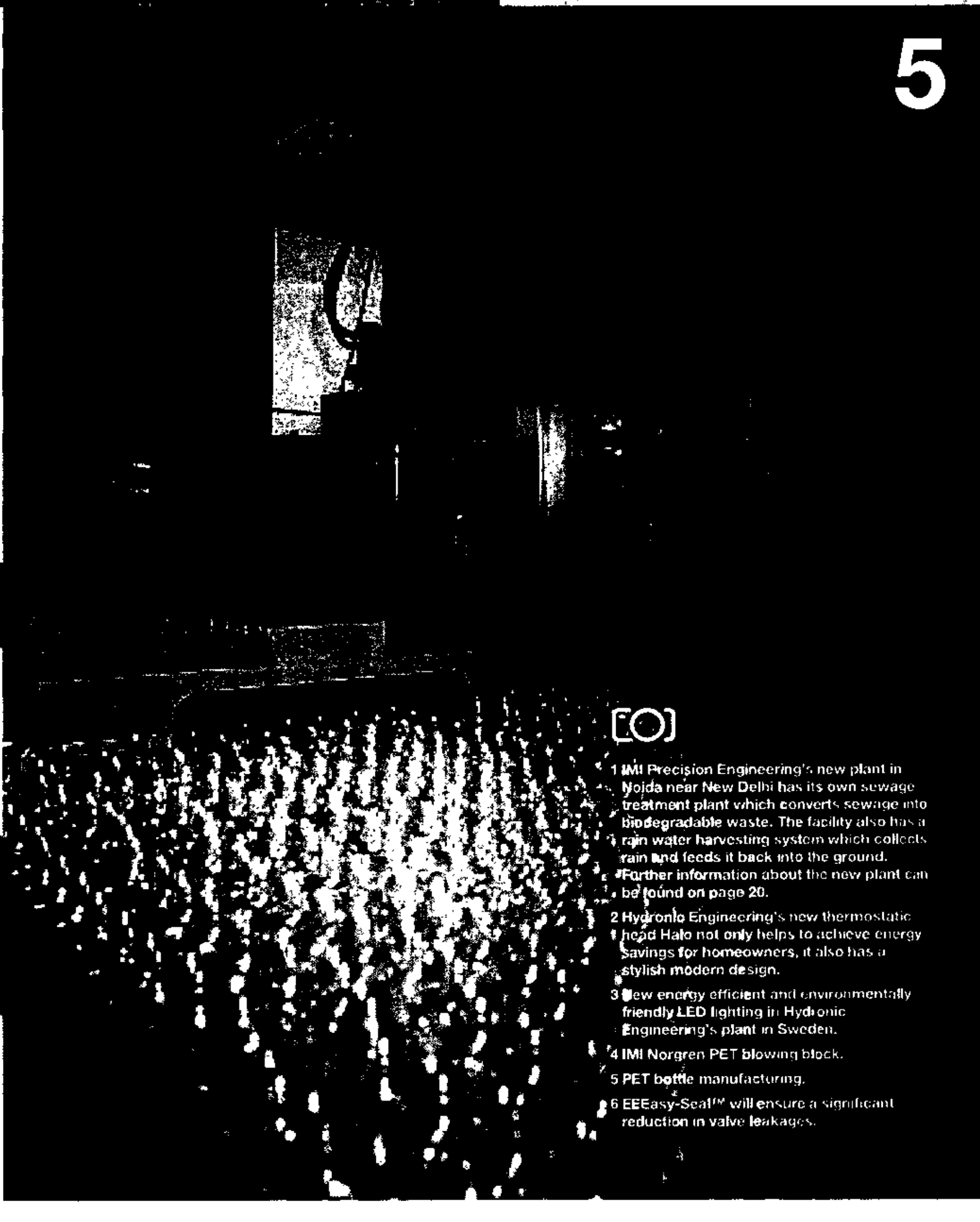
» **IMI Critical Engineering's EEEasy-Seal™:** this innovative sealing system for control valves prevents the leakage of emissions in oil refineries and petrochemical plants.

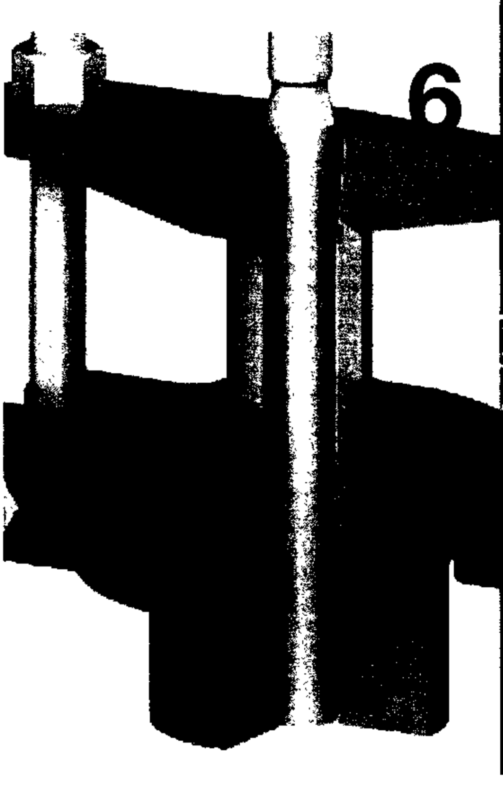
» **IMI Precision Engineering's PET blowing blocks:** this market leading product reduces the amount of air, and as a result energy, required to manufacture plastic bottles.

» **IMI Hydronic Engineering's Halo:** launched in 2018, this thermostatic radiator head, which has a built-in sensor, controls the temperature of individual rooms by automatically adjusting flows, depending on ambient temperature. Compared with a manual radiator head, it can reduce energy consumption by as much as 28%.









1 IMI Precision Engineering's new plant in Noida near New Delhi has its own sewage treatment plant which converts sewage into biodegradable waste. The facility also has a rain water harvesting system which collects rain and feeds it back into the ground. Further information about the new plant can be found on page 20.

2 Hydronic Engineering's new thermostatic head Halo not only helps to achieve energy savings for homeowners, it also has a stylish modern design.

3 New energy efficient and environmentally friendly LED lighting in Hydronic Engineering's plant in Sweden.

4 IMI Norgren PET blowing block.

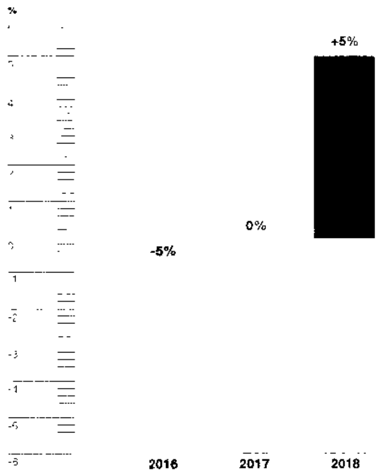
5 PET bottle manufacturing.

6 EEEasy-Seal™ will ensure a significant reduction in valve leakages.

Measurements and targets

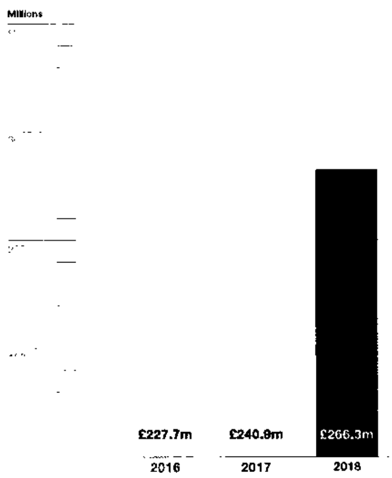
Our business performance is measured through a programme of Group-wide targets and improvement measures. Every IMI business participates in an annual round of planning meetings with the Executive Committee, during which performance and future plans for that business are reviewed and updated. The Key Performance Indicators ('KPIs') set out below represent financial and non-financial targets which are integral to the delivery of our strategy.

Organic revenue growth

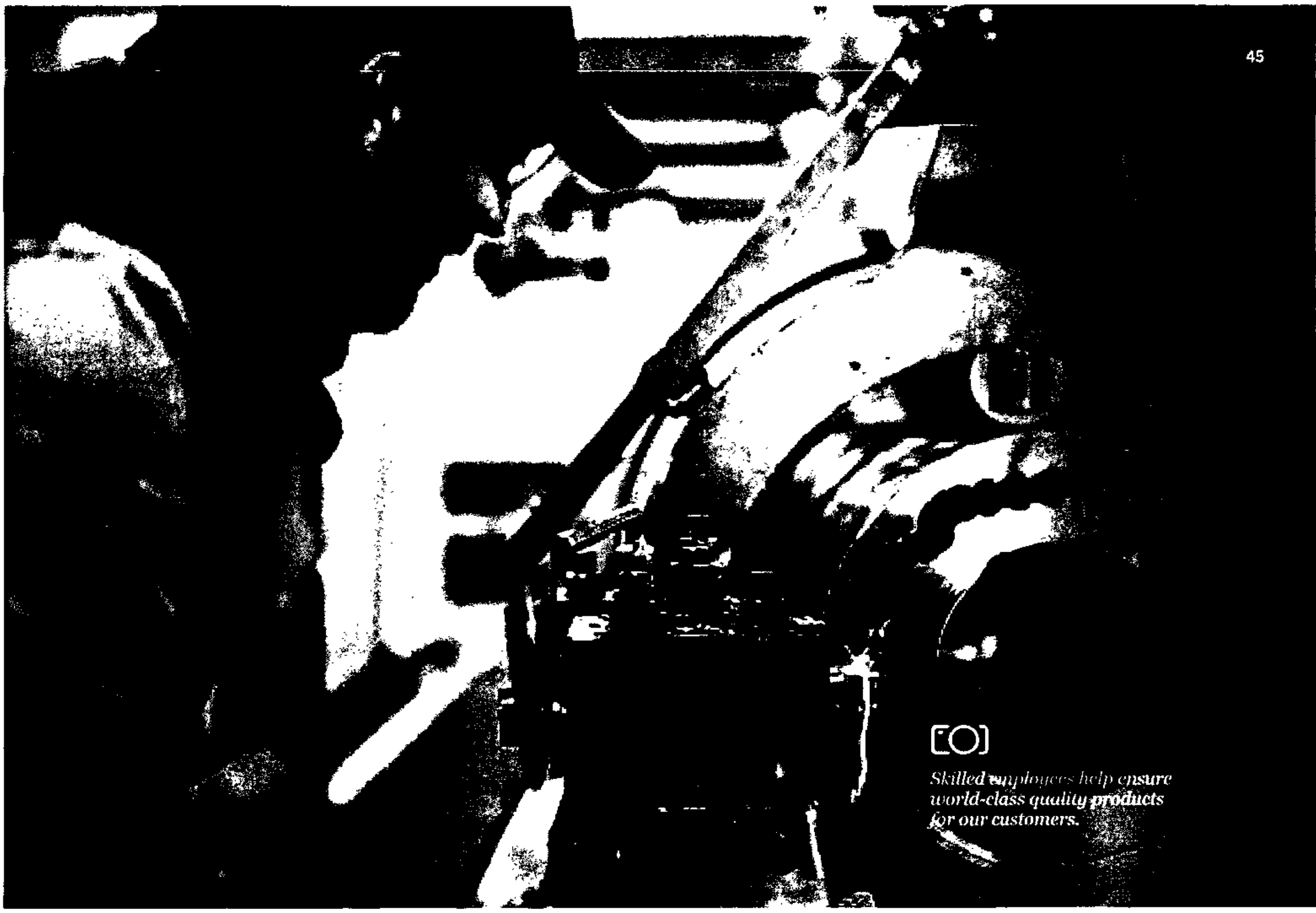


Organic revenue growth excludes the impact of acquisitions, disposals and foreign exchange movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2018 the Group's continuing businesses delivered 5% organic revenue growth.

Segmental operating profit

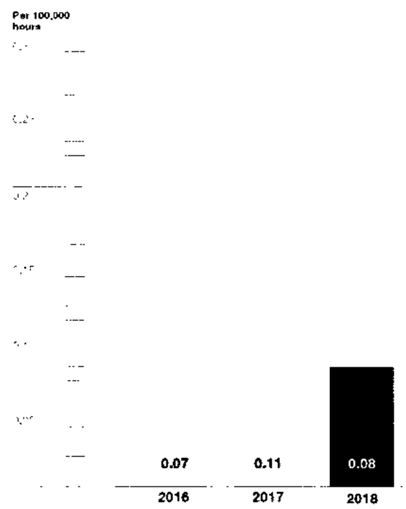


In 2018, Group segmental operating profit was £266m compared to £241m representing an increase of 11% on an adjusted basis. On an organic basis, after adjusting for the impact of exchange rates, acquisitions and disposals, segmental operating profit increased by 9%.



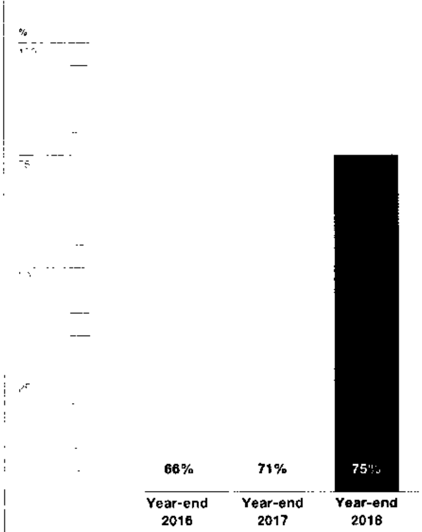
Skilled employees help ensure world-class quality products for our customers.

Health & Safety lost time accident rate



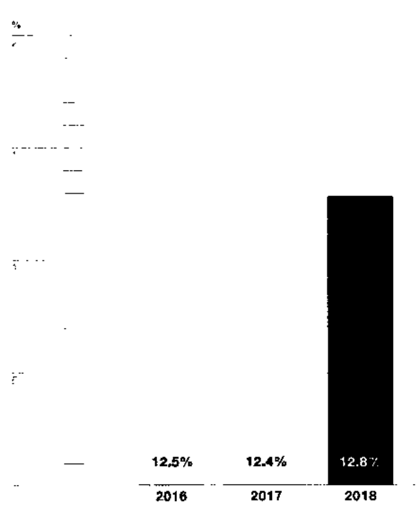
The health and safety of all our employees is paramount. We measure our progress in this area by tracking our >1 day lost time accident frequency rate ('LTA rate'). In 2018 our LTA rate reduced to 0.08, reflecting the Group's continued focus on identifying and reducing workplace hazards.

Lean assessment



During the year we continued to improve our operational performance and Lean scores. Our six monthly benchmarking process is now fully embedded, and scores continue to reflect the improvement which is being achieved across all Group operations. Our highest score is now 95% and the average has increased from 31% when we first benchmarked the business in 2014 to 75% at year-end 2018.

Return on capital employed



Return on capital employed ('ROCE') is defined as segmental operating profit after tax divided by capital employed. Capital employed is defined as net assets adjusted to remove net debt, derivative assets/liabilities, deferred tax and to reverse historical impairments of goodwill and amortisation of acquired intangible assets. In 2018, ROCE was 12.8% which compares to 12.4% in 2017 and reflects the Group's ability to deliver improved profitability despite mixed market conditions.

How we manage risk

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

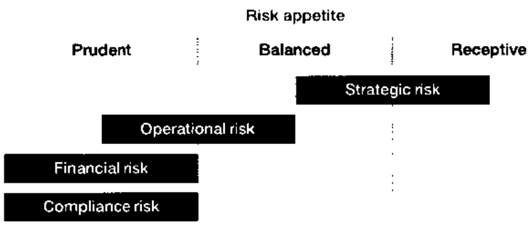
The Board determines our risk appetite and monitors and reviews the risk management processes we operate. The Board delegates responsibility for implementing and monitoring internal controls and other elements of risk management to the Chief Executive and the Executive Committee. The Board has also tasked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

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

Further information about the roles and responsibilities of the Board and each Committee is set out on pages 52 to 79.

Our risk appetite

In determining our risk appetite, the Board considers a number of factors including our strategic opportunities, the risks that could affect our business and our ability to mitigate their impact. Our risk appetite, the nature and level of risk we are prepared to accept to achieve our strategic objectives, is divided into three categories: prudent, balanced and receptive.



How we approach risk management

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

Our risk management process is embedded in all our businesses. It provides guidance on how to identify, evaluate and manage risks which could impact our performance and our ability to implement our strategy.

STRATEGIC RISK MANAGEMENT PROCESS		OPERATIONAL RISK MANAGEMENT PROCESS
» Determines risk appetite. » Reviews principal risks. » Monitors and reviews risk management processes.	**Board**	» Reviews bi-annually a detailed analysis of the Group's risk profile including supporting divisional data and the actions undertaken to ensure compliance with the UK Corporate Governance Code. » Reviews annually the effectiveness of the Group's internal controls.
» Responsible for ensuring risk management culture is integrated across their division and aligned to the Group's objectives. » Determines principal risks and mitigation strategies. » Monitors changes in the risk profile. » Monitors quality and effectiveness of business level risk management processes.	**Divisional and Executive Committee**	» Develops bi-annually a detailed Group and divisional risk profile which is based on information uploaded to the Group intranet by each manufacturing operation. This profile analyses each division's most significant risks and outlines mitigation strategies.
» Operates and monitors an active and effective risk management process. » Updates operating companies on principal risks and mitigation strategies. » Operates reporting systems that increase management ownership and accountability.	**Operating companies**	» Maintains an up-to-date risk profile which identifies the key risks facing the business, assesses mitigating processes and controls, operates key performance indicators to validate the effectiveness of those controls and identifies areas for improvement. » Publishes risk profiles for each manufacturing operation to the Group intranet twice a year. » Provides monthly updates on key risks, mitigation and controls through incorporation of risk profile data in monthly management reporting process.

Our principal risks

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

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

STRATEGIC GROWTH PRIORITIES KEY

- Capitalising on significant organic growth opportunities
- Improving operational performance
- Increasing investment in New Product Development
- Expanding our addressable markets through targeted acquisitions

PRINCIPAL RISKS – CHANGES DURING 2018	STRATEGIC GROWTH PRIORITIES THAT COULD BE AFFECTED	WHY WE THINK THIS IS IMPORTANT	HOW WE ARE MANAGING THE RISK
GLOBAL ECONOMIC OR POLITICAL INSTABILITY **RISK MOVEMENT: INCREASED** » The possibility that the UK leaves the EU with neither a transition period nor a free trade agreement in place continues to pose a risk to the supply chains, ongoing operations and profitability of the Group. » IMI Critical Engineering continued to face highly competitive markets and an ongoing slow-down in the New Construction Fossil Power sector. The impact has been managed through ongoing restructuring actions including expanding the division's Value Engineering activities and entering new less severe market areas. » Whilst remaining in a strong competitive position, IMI Precision Engineering has also experienced volatility in some geographies and sectors. » IMI Hydronic Engineering markets remained stable with steady growth in most markets, and right-sizing actions were undertaken to ensure the business could respond to market changes.		» The threat of a 'no-deal' Brexit is the risk of both EU and UK ports not coping with the additional volume of customs work which could impact our supply chain and sales delivery. » The Group operates in diverse global markets and demand for our products is dependent on economic and sector-specific environments. » A downturn in a global or regional economy or political instability could impact end market demand, negatively impacting revenue and our ability to deliver our strategy and achieve market expectations.	» Build flexibility to respond to market conditions and the potential impact associated with Brexit. » Divisional project teams formed to identify 'no-deal' Brexit risks and build mitigation contingency plans. EU-UK cross-border transaction flows have been mapped, and critical supply chain risks identified by customer and part, with specific action plans put in place. Our main objective and the focus of our contingency planning is to minimise interruptions to our supply chain and ensure our customer delivery commitments are met. » Maintain a balanced portfolio operating across a range of markets, sectors and geographies with no single dependency. » Monitor key customers and respond quickly to changes in their demands. » Utilise core forecasting processes that ensure operational output can be right-sized to market demand. » Undertake enhanced stress testing and sensitivity analysis of business plans and regularly review key market and sector metrics. » Focus on enhancing competitiveness by increasing investment in New Product Development and Value Engineering and improving operational performance. » Develop robust contingency plans to ensure agility to realign the cost base as required.
FAILURE TO DELIVER MAJOR TRANSFORMATIONAL PROJECTS ON TIME AND ON BUDGET **RISK MOVEMENT: NO CHANGE** » Successful ERP implementations across the Group in 2018 continued to demonstrate the proficiency of our system implementation teams and proven effective control. » IMI Critical Engineering has successfully managed a number of significant restructuring projects over the course of 2018 – including several plant closures – on time and to budget.		» The Group is continually evolving, both in response to external market pressures and to achieve our strategic goals. » Change projects include business reorganisations and implementations of complex new IT systems. » Failure to deliver these change projects on time and on budget, and failure to respond to changing market conditions, could adversely impact our financial performance.	» Operate robust systems and procedures to manage and monitor business projects, including clear and measurable milestones, which are reviewed regularly by Divisional Managing Directors. » Review major project progress at monthly Executive Committee meetings. » Continue to enhance risk assessment processes and mitigation action plans. » Undertake specialist IT and Group Assurance reviews of major IT projects. » Develop detailed contingency plans. » Hold monthly operational and ERP steering committee meetings which rigorously review project progress. » Post go-live audits to review progress on implementation plans.
QUALITY ISSUES LEADING TO PRODUCT FAILURE, RECALL, WARRANTY ISSUES, INJURY, DAMAGE OR DISRUPTION TO CUSTOMERS' BUSINESS **RISK MOVEMENT: NO CHANGE** » Our operational performance continued to improve over the course of 2018. Details of key developments can be found on page 22. » During the year, we successfully launched a range of new products, maintaining our high standards for quality and customer satisfaction. The level of risk has remained the same year-on-year due to the strength of the procedures and controls in the New Product Development process.		» Developing safe, innovative and technically advanced products is at the heart of what we do. » Failure to deliver the quality required could result in negative financial and reputational damage.	» Established Group-wide standard for Advanced Product Quality Planning process (APQP) which every business reports on weekly and monthly. This identifies improvements in the early phases of the development process. » Continued focus on Quality Management Systems and audits. » Test finished products and secure customer sign-off on the most critical products. » Deploy targeted Lean events to improve quality, including implementation of Obeya reviews. Reviewed every 6-months with Group-wide Lean assessment programme. » Continue to upgrade talent with a focus on quality and product development expertise and experience.

Our principal risks

PRINCIPAL RISKS – CHANGES DURING 2018 | **STRATEGIC GROWTH PRIORITIES THAT COULD BE AFFECTED** | **WHY WE THINK THIS IS IMPORTANT** | **HOW WE ARE MANAGING THE RISK**

FAILURE TO INTEGRATE ACQUISITIONS SUCCESSFULLY AND DELIVER THE REQUIRED SYNERGIES

[illegible]

- » Our post acquisition integration process, which deploys a mix of divisional and Group resources ensures that the right people across all disciplines are available to successfully project manage acquisition integration.
- » Successfully deployed the integration process to monitor and manage Bimba Manufacturing post acquisition. Progress has been tracked using a structured integration plan with key milestones and responsibilities.

Why we think this is important

- » An integral part of our strategic plan is to make value enhancing acquisitions.
- » Failure to deliver the post-acquisition strategy could reduce the value of acquired businesses.

How we are managing the risk

- » Undertake annual review to identify potential target acquisitions that align with our strategy.
- » Identify hard and soft synergies within targeted acquisition opportunities.
- » Adhere to formal acquisition approval, due diligence and post-acquisition integration processes.
- » Deploy a rigorous 100-day process to effectively monitor and manage post acquisition integration.

FAILURE TO COMPLY WITH LEGISLATION OR A BREACH OF OUR OWN HIGH STANDARDS OF ETHICAL BEHAVIOUR

[illegible]

- » We do not engage with customers, suppliers or any other third parties who are not aligned with our own code of conduct and strong ethical standards.
- » During the year we introduced internal controls and procedures to ensure compliance with the EU General Data Protection Regulation.
- » Prior to the November 2018 deadline, we closed down all trading activities with Iran following the re-imposition of US sanctions.
- » The challenging territories in which we operate make the risk of regulatory breach a continued area of focus. As such, our risk profile remains unchanged.

Why we think this is important

- » The global markets and regulatory environment demand the highest standards of conduct and adherence to compliance rules and procedures.
- » Failure to comply with legislative requirements or a breach of our Code of Conduct could result in significant financial and reputational damage.

  As we expand our operations to achieve growth it is essential that we maintain our high standards of conduct and compliance procedures.
- » Legislative requirements in relation to tax, anti-bribery, fraud and competition law include rigorous monitoring and training of new and existing employees.

How we are managing the risk

- » Committed to fostering a positive culture underpinned by core values and behaviours that promote fair and ethical working practices.
- » Continue a robust internal controls declaration process.
- » Established dedicated compliance resources at Group, divisional and local levels. Each division have specific compliance plans in place which are executed over the course of the year.
- » All employees are provided with easy access to policies, manuals, guidelines and standard operating procedures via our global intranet.
- » Undertake regular employee training focused on key risk areas such as fraud, antibribery and corruption and how to apply the IMI Way in everyday situations.
- » Operate a confidential independent hotline to report concerns.
- » Undertake rigorous due diligence and approval procedures on third party agents. Terminate all non-compliant agents.
- » Operate stringent procedures and processes for dealings with higher risk territories, including formal training for relevant employees.
- » Actively monitor and manage trade sanctions.

FAILURE TO MANAGE THE SUPPLY CHAIN

RISK MOVEMENT INCREASED

- » The possibility that the UK leaves the EU with neither a transition period nor a free trade agreement in place continues to pose a risk to the supply chains, ongoing operations and profitability of the Group.
- » Growth in our IMI Precision Engineering markets has placed pressure on our suppliers, in some cases impacting on our delivery performance in 2018. In response, the division upgraded its supplier management processes and is executing specific improvement plans for critical suppliers.

Why we think this is important

- » We depend on a significant number of suppliers who provide essential products and services.
- » Failure to manage our supply chain, especially in respect of quality or on-time delivery to our customers, could have a material impact on our financial performance and reputation.

How we are managing the risk

- » Authorise the purchase and manufacture of long lead-time components to and from our UK/EU supply base.
- » Execute our contingency plans in the case of a 'no-deal' Brexit and continue to monitor the situation and react accordingly.
- » Monitor risks on a regular basis and develop contingency plans to mitigate the impact of supplier failure, increased pricing or any other supplier associated risk.
- » Assess specific Supplier Code of Conduct risks across divisional supply chains and audit high-risk suppliers for all aspects of supply chain risk including Modern Slavery.
- » Operate preferred supplier lists for all major materials and components. Where appropriate, certain suppliers are operating under a framework agreement.
- » Regular review meetings with key suppliers and, as required, deploy escalation meetings.
- » Monitor key supplier performance using supplier scorecards.
- » Carry adequate safety stock and/or maintain dual supply sources for critical components.

STRATEGIC GROWTH PRIORITIES KEY

- Capitalising on significant organic growth opportunities
- Improving operational performance
- Increasing investment in New Product Development
- Expanding our addressable markets through targeted acquisitions

PRINCIPAL RISKS – CHANGES DURING 2018	STRATEGIC GROWTH PRIORITIES THAT COULD BE AFFECTED	WHY WE THINK THIS IS IMPORTANT	HOW WE ARE MANAGING THE RISK

UNAUTHORISED ACCESS TO OUR IT SYSTEMS

[illegible]

» The digital and security threat environment in relation to our IT systems and infrastructure is constantly and quickly evolving. We continued to invest in strengthening our IT systems and protecting our data, alongside raising awareness of cyber security across all parts of our business.

» During 2018 the Group significantly upgraded our anti-malware, intruder detection USB device control and internet filtering capabilities. In addition, we have deployed laptop encryption and completed a significant number of firewall replacements to reinforce our infrastructure against new and emerging threats.

» A security awareness campaign, 'Be Cyber Safe' commenced roll out during 2018 and will continue to run throughout 2019.

Why we think this is important

» While we have a well-developed strategy to keep abreast of new threats and continually improve the Group's IT infrastructure, we cannot guarantee that our actions are keeping pace with the constantly evolving threat environment.

» Unapproved access to our IT systems could result in loss of intellectual property, fraudulent activity theft and business interruption.

How we are managing the risk

» Continue our IT Security Improvement programme across the Group. This includes 24/7 network monitoring via a security operations centre.

» Centralised security software in place. Continued emphasis on upgrading and strengthening our existing hardware and software against new and emerging threats.

» Monthly reviews with Divisional Managing Directors to assess progress and monitor future actions and priorities.

» Continue to raise awareness of cyber security through regular employee communications.

» Instigated disaster recovery plans on all essential IT assets including stringent system back up procedures at all of our businesses.

INCREASINGLY COMPETITIVE MARKETS

RISK MOVEMENT: INCREASE

» Market dynamics continues to be a significant consideration for the Group and impacts all three divisions. We have experienced increases in material, labour and other costs which impacted our business over the course of 2018.

» Value Engineering processes enabled IMI Critical Engineering to win £180m of new orders in 2018.

» Divisional restructuring activities continue to efficiently manage our fixed cost base and will remain an ongoing focus over the course of 2019.

Why we think this is important

» Increased competition could lead to loss of customers and/or pricing pressures resulting in lost sales, reduced profits and margin deterioration.

How we are managing the risk

» Continue to embed effective New Product Development processes including competitor tear down testing benchmarking competitor products and Value Engineering.

» Active participation in international trade fairs and shows.

» Utilise our metrics to track performance and identify areas for improvement.

» Continue to review site capacity to ensure best utilisation and improve productivity.

» Developed standard costings to ensure thorough understanding of product cost and internal processes to track and manage cost increase appropriately.

» Continue to enhance operational performance quality delivery and service standards through Lean implementation.

» Undertake regular customer feedback performance surveys and implement act on plans where improvements are required.

» Continue Value Engineering activities in all three divisions to deliver better, more cost-effective products to the customer.

» Operate market specific pricing strategies to maintain margins and continually review supply chain performance to mitigate or defer input cost inflation.

NEW PRODUCT DEVELOPMENT

RISK MOVEMENT: NO CHANGE

» Our end to end Advanced Product Quality Planning (APQP) and New Product Development processes have successfully delivered competitively priced new products to market.

» During 2018, processes covering design, prototyping, testing, costing and launch to markets, were embedded across all three divisions.

» A New Product Development and Future Innovation strategy was put in place for each division in 2018.

» Further information about our New Product Development activities are detailed on page 24.

Why we think this is important

» Our sustainable long-term growth is reliant on delivering a pipeline of innovative new products.

» Failure to deliver market leading products on time and on budget will impact our ability to grow.

How we are managing the risk

» Embed New Product Development into strategic planning process with technology and product roadmaps included in each division's five-year plan.

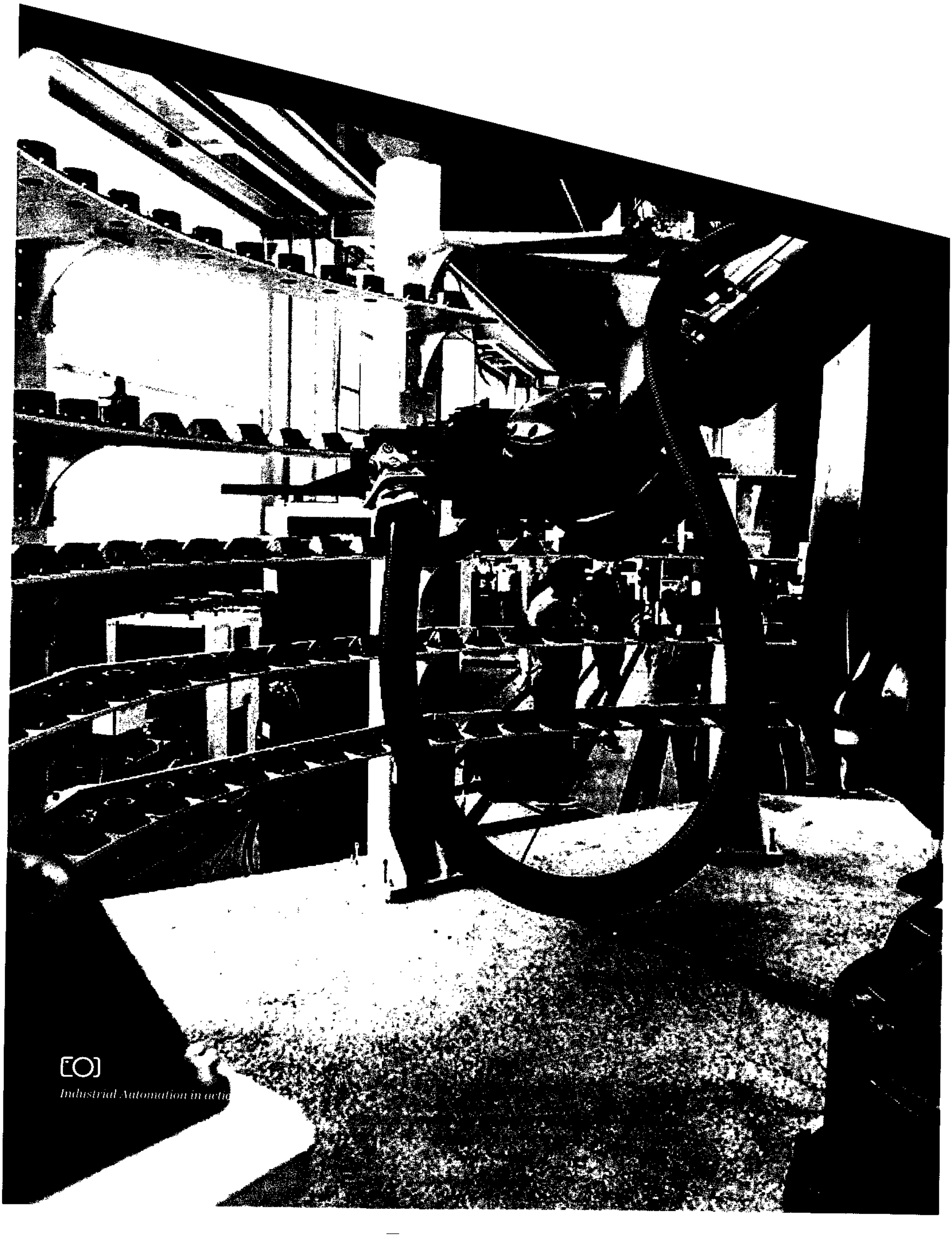
» Continue to invest in research and development to ensure we target the most profitable opportunities.

» Established centres of design and technological excellence.

» Track new product introduction plans and actions on both a weekly and monthly basis.

» Track key performance metrics including sales from new products and research and development spend against sales.

» Continue competitor product tear down and testing.



Industrial Automation in acti

Corporate Governance

Engineering GREAT the IMI Way

Board of Directors





	Lord Smith of Kelvin Chairman (74)	**Mark Selway** Chief Executive[1] (59)	**Roy Twite** Executive Director[1] (51)	**Daniel Shook** Finance Director (51)	**Carl-Peter Forster** Senior independent non-executive director (64)
Nationality	British	Australian	British	American British	German
Committee membership	Nominations Committee – Chair	Executive Committee	Executive Committee	Executive Committee	Audit Committee Nominations Committee Remuneration Committee
Date of appointment	2015	2013	2007	2015	2012
Expertise	Significant UK and international board experience Extensive knowledge of both engineering and manufacturing Strong track record in private equity, mergers and acquisitions Specialist capability in finance	Experienced and proven Chief Executive Solid track record running international engineering businesses In-depth knowledge of relevant end-markets including oil & gas, energy and automotive	Proven organisational and engineering expertise Management capability having run all of IMI's divisions Extensive knowledge of end-markets and customer base	Extensive financial management experience Extensive knowledge of complex process manufacturing across a range of industrial sectors Strong international perspective, having worked in a number of key geographies during his time with two leading global businesses	Experienced international business leader In-depth knowledge of the automotive sector Expert in operational excellence and Lean manufacturing Significant experience in technology management
Key external appointments	Non-executive Chairman of Alliance Trust plc Non-executive Chairman of the British Business Bank plc		Non-executive director of Halma plc		Non-executive director of Geely Automobile Holdings, Hong Kong Chairman of London Taxi Company Non-executive director of Volvo Cars Corporation Chairman of Chemring Group plc Member of the PWC Advisory Board

[1] Roy Twite assumes Chief Executive role from Mark Selway on 9 May 2019.

Find out more: www.imiplc.com/about-imi/leadership-and-governance/board.aspx

			
Birgit Nørgaard Independent non-executive director (60)	**Isobel Sharp** Independent non-executive director (63)	**Thomas Thune Andersen** Independent non-executive director (63)	**Katie Jackson** Independent non-executive director (45)
Nationality Danish	British	Danish	British
Committee membership Remuneration Committee – Chair Audit Committee Nominations Committee Non-executive director for employee engagement	Audit Committee – Chair Nominations Committee	Nominations Committee Remuneration Committee	Nominations Committee Remuneration Committee
Date of appointment 2012	2015	2018	2018
Expertise Experienced non-executive Held senior executive positions in engineering consultancy Wide ranging sectoral experience including energy, water, infrastructure and building industries Experience in strategy as well as finance and accounting	Considerable accounting, audit, governance and transactions experience including time as the Senior Technical Partner at Deloitte in London, President of the Institute of Chartered Accountants of Scotland and membership of the UK Accounting Standards Board and the Reporting Review Panel	Experienced international business leader in sectors including oil, energy, marine and critical infrastructure Broad experience as a non-executive director of various public companies	Senior executive experience in major oil companies and investment banking Specialist knowledge of the oil and gas sector and excellent corporate finance experience
Key external appointments Non-executive director of DSV A/S and NCC AB Non-executive director of WSP Global Inc.	Non-executive director and Audit Committee Chair of The Bankers Investment Trust PLC Non-executive director and Audit Committee Chair of Winton Group Limited Honorary Professor at Edinburgh University Business School	Chairman of Lloyds Register Group. Non-executive director of BW Offshore Limited and Chairman of Orsted A/S Member of the Danish Committee for Good Corporate Governance	Executive Vice President of Commercial and New Business Development at Royal Dutch Shell

Board experience

International business responsibility

Engineering

Public company board

Finance

Regulatory & legal

Mergers & acquisitions

Corporate Governance introduction

Chairman's Governance letter

Dear Shareholder

I am pleased to present the Corporate Governance Report for 2018. As Chairman, my focus continues to be on ensuring that the Board provides effective leadership and maintains the highest standards of corporate governance and integrity at all times. In the Corporate Governance Report on pages 56 to 79 we describe our governance arrangements and the practical workings of the Board and its committees.

Leadership

I am now in my fourth year as Chairman and very much enjoying my role. During the year two new non-executive directors joined the Board bringing considerable and relevant experience as well as fresh perspective. The Board is fully engaged, able to both support and challenge the executive team, and has the skills and experience to oversee governance, financial controls and risk management. The quality of debate at meetings is high and we get valuable input from all of our non-executive directors. I benefit from a strong working relationship with the Chief Executive and we keep in close contact on a weekly and more frequent basis as necessary.

Culture

The Board sets the tone at the top and has established clear leadership values and behaviours which are underpinned by a comprehensive Code of Conduct and governance framework. The IMI Code of Conduct is given to every employee and features in induction and other training and the annual IMI Way Day. Our values and expected behaviours are built into our leadership development programmes and performance assessment processes. Excellent leadership behaviours are a pre-requisite for satisfactory performance and career advancement in the Group. We have also embedded policies and processes to set clear standards for compliance and doing business in the right way.

During 2019 the Board will commence an increasingly formal review of the Group's culture by reference to a range of key indicators including Group-wide employee survey data and other stakeholder feedback.

Governance highlights

» Following a rigorous selection process supported by Russell Reynolds that included both internal and external candidates the Board agreed to appoint Roy Twite as IMI's next Chief Executive.

» The new chairs of the Audit and Remuneration Committees were fully inducted and have made an excellent start in their roles.

» Following wide ranging search processes led by the Nominations Committee, Thomas Thune Andersen and Katie Jackson were appointed to the Board as non-executive directors.

» A review of the Directors' Remuneration Policy was completed by the Remuneration Committee following stakeholder consultation and the resulting proposals were approved by the 2018 Annual General Meeting.

» We continued to refine the detailed plans behind the Group's strategy and to oversee progress in the implementation of the strategy at a business level.

» We completed the significant, complementary acquisition of Bimba Manufacturing Company for £138m and following the Bimba acquisition, the Board visited the principal manufacturing site near Chicago.

» An audit tender process was run by the Audit Committee which resulted in a decision to reappoint Ernst & Young LLP as auditor subject to annual shareholder approval at the Annual General Meeting.

» We continued to maintain good investor relationships and the directors met with major shareholders as part of our ongoing investor relations programme.

Compliance with the 2016 UK Corporate Governance Code (the "2016 Code")

I am pleased to report that IMI complied with the principles of the 2016 Code throughout the year. We also complied with the 2016 Code provisions save for a period when our Remuneration Committee membership was reduced to two while we brought other non-executives on board following the sad death of Bob Stack late in 2017.

We acknowledge the introduction of the 2018 UK Corporate Governance Code (the "2018 Code") and during the year we took appropriate steps to prepare for compliance with the new requirements which came into effect from 1 January 2019. In November 2018, we announced the appointment of Birgit Nørgaard as non-executive director with responsibility for workforce engagement. We have also revised our corporate governance framework and the business cycles for the Board and its committees to reflect the 2018 Code and appropriate training has been provided to the Board.

Yours faithfully

Lord Smith of Kelvin
Chairman

28 February 2019

Corporate Governance Report

Set out below is the Board's formal report on corporate governance and separate reports from the Audit, Nominations and Remuneration Committees.

2016 Code - Compliance statement

The Board is committed to maintaining good governance and confirms that throughout the year-ending 31 December 2018 the Company has applied the principles contained in the 2016 Code and complied with its best practice provisions save for a temporary shortfall in the membership of the Remuneration Committee. The 2016 Code provisions require a Remuneration Committee to have at least three members and there was a period of six months when the membership was reduced to two following the sad death of Bob Stack in December 2017. Two new non-executives joined us on 1 July 2018 and became members of the Committee.

Further details of how we have applied the 2016 Code appear below, in the Directors' Report and other cross-referenced sections of this Annual Report, all of which are incorporated by reference into this report. A description of the main features of the Company's internal control system and disclosures on other regulatory matters including statements on going concern and viability can be found in the Directors' report on pages 139 to 142. A summary of our risk management systems and information about the risks and uncertainties that relate to our business is detailed within the 'How we manage risk' section on pages 46 to 49. Information on corporate responsibility can be found in the Corporate Responsibility section on pages 34 to 43.

Board composition

Seven directors served on the Board throughout 2018: the Chairman; the Chief Executive; three independent non-executive directors; the Finance Director and one operational executive director. In addition, two new non-executive directors were appointed with effect from 1 July 2018. The Board now comprises nine directors. All continuing directors stand for re-election at each Annual General Meeting.

Independence of non-executive directors

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

Board diversity

The non-executive directors are a diverse group from different backgrounds and nationalities and bring with them a wide range of skills and experience in commerce, finance and industry from around the world. More than half the Board are non-British and there are five different nationalities on the Board. Three of the nine directors are female (i.e. 33%). Our approach to diversity is set out in more detail in the Corporate Responsibility section on pages 34 to 43 and in the Nominations Committee Report on pages 64 and 65.

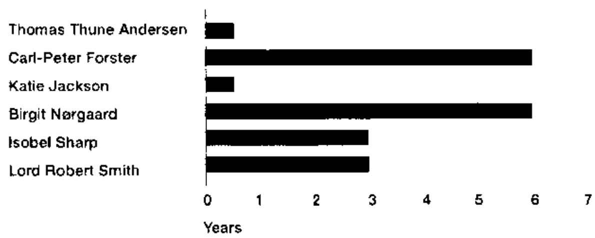
Non-executive / executive directors*

Gender

Nationality

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

Dates of appointment for the Chairman and non-executive directors



	Date of appointment	Date of current letter of appointment
Thomas Thune Andersen	1 July 2018	12 December 2018
Carl-Peter Forster	1 October 2012	12 December 2018
Katie Jackson	1 July 2018	12 December 2018
Birgit Nørgaard	6 November 2012	12 December 2018
Isobel Sharp	1 September 2015	12 December 2018
Lord Robert Smith	7 May 2015	12 December 2018

Share ownership for the Chairman and non-executive directors

The Chairman and non-executive directors are encouraged to hold some shares in IMI within a reasonable period after their appointment. As at 31 December 2018, the Chairman and non-executive directors all held IMI shares as set out in the table on page 77.

Introduction
Strategic Review
Corporate Governance
Financial Statements

Corporate Governance Report

Meetings and use of Board time

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

2018 Board cycle

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

February
- Approval of the preliminary results announcement and Annual Report
- Approval of the final dividend recommendation
- Approval of the notice of Annual General Meeting
- Review of the first monthly phased forecast (the "Q1 Forecast")
- Review of a significant possible acquisition

May
- Review of trading and other updates
- Approval of the interim management statement
- Preparation for the Annual General Meeting
- Strategy update
- Review of the Q2 Forecast
- Bimba integration update
- Bopp & Reuther post-acquisition review
- IT update

July
- Approval of the half year results announcement
- Approval of the interim dividend
- Interim risk review
- Review of the Q3 Forecast

September
- Strategy review
- Five year business plan review

October
- Site visit to US operations
- Corporate Governance Update
- Review of the Q4 Forecast
- Approval of the interim management statement

December
- Budget for 2019
- Annual risk review
- Board evaluation
- Strategy update
- Board evaluation report
- Post-investment reviews

Board attendance

Director	Board meetings	% attended where eligible
Thomas Thune Andersen[1]	4/4	100
Carl-Peter Forster	6/6	100
Katie Jackson[1]	4/4	100
Birgit Nørgaard	6/6	100
Isobel Sharp	6/6	100
Lord Smith	6/6	100
Mark Selway	6/6	100
Daniel Shook	6/6	100
Roy Twite	6/6	100

[1] Joined the Board on 1 July 2018.

In 2019 to date the Board has met once with all members in attendance.

Board roles and reserved matters

A description of Board roles and reserved matters is included in the IMI Corporate Governance Framework (which can be found on the Company website) and is summarised in the Directors' Report on pages 139 to 142.

Induction and continuing development programme

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

Business familiarisation is at the core of induction and continuing development for non-executive directors at IMI and is centred around gaining an understanding of the business and getting to know the wider management team. The two new non-executive directors appointed in July 2018 have had induction meetings with all of the members of the Executive Committee and the auditor. In addition, all new non-executive directors will attend a corporate induction day for senior managers held at head office. There is also a committee induction process designed to brief new committee members on the relevant committee and the issues it faces.

Non-executive directors are required to visit business units around the Group and to meet face-to-face with senior operating management and key corporate staff. There is regular contact between management and non-executive directors during site visits, formal meetings and other company events.

During 2018 all of the non-executive directors made site visits and the whole Board visited US operations including IMI CCI in IMI Critical Engineering and Bimba in IMI Precision Engineering. Feedback on Board and individual site visits is discussed by the Board.

Appropriate training and other continuing professional development is available to all non-executive directors and regular updates are given during the year where relevant to the business arising at Board and committee meetings. For example, appropriate best practice updates were provided to the Remuneration Committee and to the Board during 2018 including training on the 2018 Code. Non-executive directors are encouraged to undertake additional training and several did attend external training during the year.

Board visit to US operations

Site visits are an important, regular feature of the Board calendar. In October 2018 the Board visited IMI CCI in California and Bimba in Illinois where it held meetings and toured the manufacturing sites. IMI's core processes were seen to be well embedded at IMI CCI and the business has made excellent progress with its Value Engineering programme. Bimba is progressing well as a business and has achieved the integration milestones as planned.

IMI has a substantial presence in the USA which is home to business units in all three divisions. In particular, IMI Critical Engineering has four business units in the country including, IMI CCI in California, and IMI Precision Engineering has 10 business units including Bimba in Illinois. IMI CCI is a powerful brand for IMI Critical Engineering and offers a range of valves for power plants and other severe service applications. Bimba is a key player in the US Precision Engineering Industrial Automation market which joined the Group from January 2018.

During the factory tours, management and staff had the opportunity to showcase a wide range of improvements and local management made business presentations. Senior managers from US businesses joined the Board for discussions over dinner. Each visit provided an excellent opportunity for the Board to meet a wider group of employees and gain a more in-depth understanding of the businesses.

IMI CCI RSM, California

Bimba University Park, Illinois

Board evaluation

The Chairman arranged an internally facilitated evaluation process in 2018. An externally facilitated evaluation was last conducted in 2017 with Egon Zehnder. Based on that review Egon Zehnder's overriding conclusion was that the Board is run in an effective manner. Following discussion of the report by Egon Zehnder the Board noted some areas for development including routine feedback on site visits, continuing development of strong relationships among Board members and regular strategic progress updates for the Board to be expanded. All of these development areas have received appropriate attention during the year.

The 2018 internal evaluation exercise was carried out through a questionnaire process run by the Company Secretary and by the Chairman canvassing the views of directors individually. While the findings of the internal evaluation were overwhelmingly positive, in keeping with the Group's commitment to continuous improvement, the Board agreed that it will make it a priority to allocate a generous proportion of time to strategy. In addition, external training opportunities for directors will be expanded and participation encouraged.

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

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

IMI's Board visit Bimba's University Park site in October 2018.

Corporate Governance Report

Standing committees of the Board

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

Separate reports from the committees appear in this Annual Report as follows: Audit Committee Report on pages 60 to 63; Nominations Committee Report on pages 64 and 65 and Remuneration Committee Report on pages 66 to 79.

Audit Committee

Isobel Sharp
Chair

Membership

Carl-Peter Forster
Birgit Nørgaard

Main responsibilities

Financial reporting

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

Financial control and risk

- 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 the audit tender process
- Reviewing the system for confidential whistleblowing and the treatment of reports received (this became a Board responsibility from 2019)

Nominations Committee

Lord Smith of Kelvin
Chair

Membership

Thomas Thune Andersen
Carl-Peter Forster
Katie Jackson
Birgit Nørgaard
Isobel Sharp

Main responsibilities

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

Remuneration Committee

Birgit Nørgaard
Chair

Membership

Thomas Thune Andersen
Carl-Peter Forster
Katie Jackson

Main responsibilities

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

Executive Committee

The Executive Committee is chaired by the Chief Executive and the other members are shown on page 15. The Committee meets monthly and more often as may be required. Regular attendees at its meetings include the Group Financial Controller, Director of Risk and Compliance, and the Head of Investor Relations.

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

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

Investor relations

The Board oversees shareholder engagement and maintains a balanced understanding of the issues and concerns of major shareholders. The Chief Executive and Finance Director have primary responsibility at Board level for investor relations and they, and the Head of Investor Relations, report to the Board on shareholder issues at every Board meeting during the year. Financial analysts' notes are circulated to the directors and the Board receives regular feedback reports from the Company's brokers and public relations advisers as well as from management. Dialogue is maintained with the principal shareholders and the executive directors meet regularly with institutional investors. During 2018 there were over 130 such meetings with institutional shareholders. The Chairman and the senior independent director also are available to shareholders as needed and both have had contact with investors during the year.

The 2018 Annual General Meeting was presided over by the Chairman and attended by all of the serving directors. The Chairman and the other directors met shareholders informally afterwards. Each substantively separate issue was put to the Annual General Meeting as an individual motion. Notice of the Annual General Meeting was issued more than twenty working days in advance of the meeting and the level of votes lodged for and against each resolution, together with details of abstentions, are shown on the IMI website. The Board values the support of shareholders and the poll results for all resolutions proposed at the Annual General Meeting were well above 80% in favour in each case.

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

The Company has arranged a dealing service for the convenience of shareholders with Equiniti (details are shown on page 164). A sponsored Level 1 American Depositary Receipt programme has been established for which Citibank, N.A. acts as depositary (details can be found on page 164).

By order of the Board

John O'Shea
Group Legal Director and Company Secretary

28 February 2019

Audit Committee Report

Dear Shareholder

This report covers the Audit Committee's composition and our main areas of activity and focus over the last year. Our role is to monitor the integrity of the Group's financial reporting, to review internal financial controls and the effectiveness of internal audit, and to make recommendations to the Board on the appointment of our external auditor whose independence, objectivity and effectiveness is reviewed by us. The full terms of reference of the Committee can be found in the IMI Corporate Governance Framework on the Company's website and was revised with effect from 1 January 2019 to take account of the 2018 Code.

Two particular areas of activity for the Committee in 2018 have been the acquisition of Bimba and the audit tender process, details on which are given below.

Composition of the Audit Committee

Birgit Nørgaard, Carl-Peter Forster and I were members of the Audit Committee throughout the year. All of the Committee members are regarded by the Board as independent non-executive directors. I have chaired the Audit Committee since 1 October 2017 and became a member on 1 September 2015. I spent my earlier career in the accounting and audit profession and the Committee is satisfied that I have significant recent and relevant financial experience. I also currently chair the audit committee at The Bankers Investment Trust PLC and Winton Group Limited. In my role as Chair I have had significant interactions with key senior executives and reviewed in advance selected papers and agendas for meetings of the Committee. I also have met with our external auditor prior to Committee meetings.

My colleagues on the Committee also have experience at audit committee level and collectively the Committee has the skills, experience and objectivity to be an effective Audit Committee and to challenge constructively. During the year, Committee members received updates covering changes in accounting standards, best practice guidance and other key topics. Furthermore, we each attend as appropriate external training sessions to update our knowledge.

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

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

Main areas of activity

The Audit Committee met four times in 2018. For two meetings the focus was on the forthcoming results reporting and for the other two the focus was on planning and review matters.

The effectiveness of internal financial controls continues to be a key area for the Committee which welcomes management's continuing commitment to improve the Group's internal financial controls. Based on its review of selected key controls, EY agreed with management's assessment that the level of control effectiveness at the locations assessed as full or specific in the audit remains high at 95%. Nonetheless, the Committee continues to assess with management opportunities for improvement, which has resulted in a number of further control initiatives being identified for 2019. The IT investment and infrastructure programme is continuing and its implementation facilitates improvements in the audit efficiency as well as in internal controls.

The Committee has reviewed reports on the six-monthly Internal Control Declarations which are submitted by each business unit and cover internal controls on financial affairs, IT, human resources and other key areas. The process is managed by Group Assurance, which follows up declarations with on-site visits to review scores and track appropriate improvement actions. During the year, the Committee has sought information on the accounting systems and internal controls at Bimba and has been pleased to note the progress achieved to date and the way in which its staff have responded to the additional financial reporting requirements which come with being part of a public company.

A presentation on tax policy and compliance from the Head of Group Tax was received by the Committee. Treasury matters were discussed with the Group Treasurer.

The Committee approved the proposed external audit approach and its scope based on the size and level of risk of the entities concerned. The Group and EY take a risk based approach to audit and other assurance activity. The key audit matters identified by EY are set out in its report on pages 145 to 147 and were reviewed by the Committee in approving the audit scope and plan.

The Committee reviewed and approved for submission to the Board the statements on going concern and viability, which are in the Directors' Report on pages 139 to 142.

The Committee advises the Board on the fair, balanced and understandable requirements for the Annual Report and half year results statement. The Committee has made positive reports to the Board against these criteria. The Committee's review included consideration by the Committee of alternative performance measures and the presentation of adjusting items in accordance with the Group accounting policy. In respect of the Annual Report, the fair, balanced and understandable criteria are also a review area for the external auditor, in relation to which it did not report any exceptions. The statement of Directors' responsibilities on page 143 includes confirmation by the Board that it considers the Annual Report, taken as a whole, to be fair, balanced and understandable.

Oversight of financial reporting

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

Significant judgements related to the financial statements

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

Acquisition accounting for Bimba

Bimba was acquired on 31 January 2018 for a cash consideration of £138m. The Group had a 12-month measurement period after the acquisition date to finalise the accounting for the acquisition of Bimba. Management exercises judgement on the types of intangible assets acquired and estimates were made of the fair value of all assets and liabilities. The provisional fair value amounts recognised at the half-year in respect of the identifiable assets acquired and liabilities assumed were included in the notes to the half-year financial statements. As set out in note 3.4 to the financial statements on page 108, one change in these provisional values was made at the year end totalling £1.9m. The external auditor provided confirmation that the judgements made in this connection, including the assumptions used to value the acquired customer relationships and the Bimba brand, were considered to be acceptable.

Impairment of goodwill and intangibles arising from acquisitions

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

The year end balance sheet includes goodwill of £437m and intangible assets arising on acquisitions of £79m. The Committee reviewed the assumptions and calculations used by management in the assessment of any impairment of goodwill and intangible assets and agreed that an impairment of the £2m goodwill held relating to the IMI Hydronic Engineering service companies CGU was required. Impairment was also a key audit matter for EY which reported its findings to the Committee. Section 3.2 to the financial statements on page 105 provides details regarding the Group's intangible assets and goodwill.

Revenue and profit recognition

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

Having reviewed management's process and EY's report, the Committee concluded that revenues and profits were appropriately reflected in the financial statements. Section 5.4 note C to the financial statements on page 135 provides further information.

The Committee also reviewed management's assessment of the impact of IFRS 15 'Revenue from Contracts with Customers' which came into effect from January 2018 and is discussed further in Section 1 on page 92.

Inventory valuation

The year end balance sheet includes inventories of £273m after £33m 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. This was a key audit matter for EY, in respect of which it reported to the Committee that inventory valuation across the Group is considered appropriate. Section 3.1.1 to the financial statements on page 104 provides details of inventory valuation.

Audit Committee Report

Other judgement areas

The Committee reviewed the appropriateness of the accounting treatment in respect of pension scheme liabilities, including the actuarial assumptions used and the impact of one-off special pension events. The Committee also reviewed reporting from the external auditor, which concurred with the accounting for pensions proposed by management. The Committee supported management's on-going efforts to de-risk the Group's pension obligations which in 2018 included the buy-out by an insurance company of £409m of UK defined benefit obligations. Further details can be found in Section 4.9 on page 122.

In addition the Committee reviewed the appropriateness of restructuring costs disclosed as adjusting items, leasing arrangements and the impact of IFRS changes, property sales and the adequacy of taxation provisions. Further details on these matters can be found in Sections 2.2 and 2.4 respectively, on pages 98 and 100.

Internal audit

The Committee received reports from and monitored the work of the Group's internal audit function, known as Group Assurance. Group Assurance reports through the Director of Risk and Compliance to the Chief Executive. Group Assurance also has a direct reporting line to the Committee. Group Assurance work is primarily directed towards financial control audits but also covers other selected areas including project planning and implementation for major business changes and internal control declarations. The principal projects reviewed in 2018 were major computer systems implementations in each of the three divisions and a review of the Bimba integration process.

During the year 46 internal audit reviews were completed with 42 of these supported by divisional finance managers. Centrally the Group Assurance team is led by experienced, senior internal audit professionals and across the Group there are over 70 staff trained to conduct internal financial control audits. Locations to be reviewed each year are selected on a risk assessed basis, discussed with the Audit Committee and co-ordinated with the external auditor. The completion of actions arising from internal audits and reviews is monitored by the Committee and the track record is excellent.

Group Assurance works closely with the divisions to implement monitoring and review processes to complement the internal and external audit coverage. The annual plan and resourcing for internal audit were approved by the Committee and take account of the enhanced monitoring and review activity within the divisions. From 2017 the scope of internal audits has been extended to cover certain other operational and commercial risks. To achieve this a co-sourcing model has been adopted, where experienced financial managers from the divisions work with the Group Assurance team on combined audits covering financial, operational and commercial matters. Group Assurance has also trained divisional finance managers in financial control auditing skills and provided a toolkit to enable them to carry out financial control audits at selected sites in the internal audit plan. Financial control evidence binders have been introduced across the Group in 2018. These binders help internal audits become more efficient and support transition and continuity in the event of the changes in finance staff. The Committee welcomed management's decision to introduce the binders as a further step to ensure robust financial controls.

The Committee reviewed the effectiveness of Group Assurance with management and received input from the external auditor. The Committee was pleased with the further development of the co-sourcing model with the Group Assurance Team and experienced financial managers from the divisions working together to enhance the effectiveness of assurance processes. An area for improvement which was identified is for Group Assurance to do more to share best practice around the Group.

External audit independence and performance review

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

The policy on the use of the auditor for non-audit work was reviewed and updated by the Committee in 2016 to take account of developments in regulatory requirements and ethical guidelines for the audit profession. The policy requires approval by the Committee Chair for any non-audit engagement which is more than trivial. The Finance Director monitors any proposed non-audit engagements of EY and refers to the Committee Chair for approval as appropriate. The policy does not allow work to be placed with the auditor if it could compromise auditor independence, such as functioning in the role of management or auditing its own work. Non-audit fees paid to the auditor were £0.1m (2017: £0.1m), which represents 3% of the audit fee and demonstrates the tight control which is maintained in this area. One non-audit engagement involved fees above £30,000 and the main areas of activity were the interim results review and an operating risk assessment. The Committee considers the level and nature of non-audit work to be modest and not to compromise the independence of the external auditor. We are satisfied that EY is fully independent from the management and free of conflicts of interest.

Benchmarking of the audit fee was conducted in the context of the full audit tender process described below and the fee is considered by the Committee to be appropriate. The Committee reviewed and approved the proposed audit fee payable to EY.

To maintain the objectivity of the audit process, the external audit partner responsible for the Group is rotated within the audit firm at least every five years and the current Senior Statutory Auditor, Simon O'Neill, was appointed following completion of the 2017 audit.

We formally reviewed the effectiveness of the external audit process. As in other years, a questionnaire was used to review the external auditor's performance. In 2018 the Committee also received feedback on EY through the audit tender process (discussed further below). As a result of the questionnaire and audit tender feedback, the Committee believes the external auditor's performance has been good and effective. To enhance further the external audit process, certain improvement actions were identified and plans have been put in place by EY to address these. These included action to improve continuity of junior level staff on the audit and more rigorous structure in the audit process, especially in relation to audit deliverable requests and progress meetings.

The audit tender process

Pursuant to the statutory requirement for audit tendering after ten years (i.e. in time for the 31 December 2019 audit) and as signalled in the 2017 Annual Report, the Committee led an audit tender process during the year, the result of which was our recommendation to the Board to select EY as auditor for the 2019 year. The Board approved the recommendation and is seeking shareholders' approval to re-appoint EY as the external auditor at the forthcoming Annual General Meeting. The term of appointment is annual and there are no contractual restrictions on the Committee's choice of external auditor.

The audit tender process involved the following main steps:

Considering how the tender should be conducted and agreeing how the firms should be assessed

The Committee agreed that three firms should be invited to tender. This decision was reached after considering the needs of the Group, the existing substantial relationship with one firm which currently provides tax services to the Group and initial soundings taken from other first and second tier international audit firms.

To support the Committee, the day-to-day running of the tender process was managed by a panel which consisted of the Audit Committee Chair, the Chief Executive Officer, the Group Finance Director, the Group Financial Controller the Chief Financial Accountant and the Global Head of Procurement.

To assist in evaluating overall audit quality, the key assessment criteria were the capability and competence of the audit team; the approach to, and management of, the audit; relationships and cultural fit with the Group; and quality of the proposal and management of fees. Throughout the process, all relevant staff were provided with the detailed assessment criteria and asked to provide their feedback to the tender panel.

Running the process

The tender panel issued the Request for Proposal to the three firms and made available, in a data room, information on the Group and its divisions to assist the firms. After receipt of the proposals, meetings were held with Group representatives in our major geographies and the firms' staff. This was followed by individual meetings with divisional heads and with Group representatives, including the Chief Executive, Finance Director and Audit Committee Chair. The results were then collated and made available to the Committee.

In May 2018, the three firms were invited to meet with representatives of the Audit Committee and the Group Executive to present their proposals for the audit.

Selecting the firm

At its meeting in June 2018, the Audit Committee reviewed the process and the information and views gathered therein and agreed to recommend to the Board that, subject to shareholders' approval, EY should be appointed auditors for the year to 31 December 2019. The Committee believes that a robust audit tender process was executed and that EY has the skill and experience to ensure that a rigorous and challenging audit, led by EY's Simon O'Neill who has just completed his first year as Senior Statutory Auditor, is carried out.

Compliance hotline

During 2018 the Committee 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 Committee believes that the hotline process and investigations are effective and that proportionate action is taken by management in response. In line with the 2018 Code, this responsibility has been transferred to the Board from the start of 2019.

Committee attendance and evaluation

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

The Committee reviewed its own performance and terms of reference and received positive feedback from the evaluation exercise carried out in relation to the Board and each of its standing committees. As a result of the evaluation, the meeting cycle for future years been adjusted to improve efficiency.

The Committee approved this report on its work.

Yours faithfully

Isobel Sharp
Chair of the Audit Committee

28 February 2019

Nominations Committee Report

Dear Shareholder

I am pleased to make my report as Chair of the Nominations Committee. This report is intended to give an account of the Committee and its activity. The core responsibilities of the Committee are succession planning and appointments at Board level and oversight of appointments to the Executive Committee. The full terms of reference of the Committee can be found in the IMI Corporate Governance Framework on the Company's website and was revised with effect from 1 January 2019 to take account of the 2018 Code.

Composition

Carl-Peter Forster, Birgit Nørgaard, Isobel Sharp and I were members of the Committee throughout the year. Thomas Thune Andersen and Katie Jackson joined the Committee on 1 July 2018. For the purposes of the 2018 Code, all of the non-executive directors on the Committee are regarded as independent non-executive directors.

Attendance

Director	Nominations Committee meetings	% attended where eligible
Thomas Thune Andersen[1]	3/3	100
Carl-Peter Forster	4/4	100
Katie Jackson[1]	2/3	67
Birgit Nørgaard	4/4	100
Isobel Sharp	4/4	100
Lord Smith	4/4	100

[1] Joined the Committee on 1 July 2018. Katie Jackson had a prior commitment on appointment which prevented her attendance at one of the three meetings held since her appointment.

Main areas of activity

Chief Executive succession

Following a rigorous selection process supported by Russell Reynolds that included both internal and external candidates, the Board agreed to appoint Roy Twite as IMI's next Chief Executive. He is a strong and experienced successor who has been pivotal to the Group's continued success. He has extensive operational experience, deep knowledge of our core markets and outstanding leadership qualities.

The Committee is also reviewing the succession choices for a new Divisional Managing Director in the IMI Critical Engineering division. An announcement on that appointment will be made in due course.

Board changes and recommendations for election and re-election

The Committee commissioned Zygos Partnership to undertake a full search process to recruit two new non-executive directors and recommended to the Board the appointment of Thomas Thune Andersen and Katie Jackson. The Committee also recommended the appointment of Birgit Nørgaard as non-executive director with responsibility for employee engagement. All of the directors standing are recommended for re-election at the Annual General Meeting. The Board approved all of the recommendations made by the Committee for the renewals of appointment for continuing directors.

Succession planning

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

As already highlighted, during the year Thomas Thune Andersen and Katie Jackson joined the Board. Originally it was envisaged that they would join all three Board committees, but in the interests of better balance of overall committee memberships, it was decided that they would serve on two, the Nominations and Remuneration Committees.

During the year we reviewed talent development and succession planning for the top 220 roles in the Group with the support of the Chief Executive and Group Human Resources Director. We were encouraged to see that significant progress continues to be made in terms of cultivating a stronger pipeline of high-calibre talent as demonstrated by the internal appointment of the new Chief Executive and the strong list of internal candidates for the Critical Engineering, Divisional Managing Director role. Further details of our leadership development and succession planning processes are set out in the Corporate Responsibility section on pages 34 to 43.

Review of time commitments and contributions

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

Diversity

The Board recognises the benefits a diverse pool of talent can bring to a boardroom and remains committed to increasing diversity across IMI by voluntary measures. We will continue to review the composition of our management teams and the Board to ensure that we have the right mix of skills and experience while maintaining our effectiveness and execution capabilities.

At Board level, more than half the Board are non-British and there are five nationalities. Three of the non-executive directors are female, representing 33% of the Board, and there is a broad mix of backgrounds and experience. We are supportive of the need to improve gender diverse representation at Board and senior executive levels and are working hard to this end. Further information on workforce diversity matters is given in the Corporate Responsibility section on pages 34 to 43.

The Committee welcomes its responsibility under the 2018 Code for promoting broader diversity at Board and senior management level.

Committee evaluation

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

The Committee approved this report on its work.

Yours faithfully

Lord Smith of Kelvin
Chair of the Nominations Committee

28 February 2019

Annual Statement from the Chair of the Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. In May 2018 the Directors' Remuneration Policy (the "Policy") was put to shareholders for a binding vote at the Annual General Meeting. The Policy, and the annual remuneration report, were both approved by almost 90% of votes cast at the meeting.

During the year we refreshed the composition of the Committee. In July 2018 Thomas Thune Andersen and Katie Jackson joined IMI as non-executive directors and became members of the Remuneration Committee at the same time. Information about Thomas and Katie is set out on page 53.

Pay for performance in 2018

Our focus this year has been twofold: to ensure consistent application of our Policy and to ensure our remuneration arrangements remain appropriate in the context of the challenging economic and market conditions we are continuing to face in a number of our key markets.

At the heart of our Policy is pay for performance and a high proportion of our executive directors' remuneration is closely tied to business performance. The Committee select performance measures that align to strategy and when setting stretching performance targets take into account a number of factors, including the strategic plan, annual budget, analysts' forecasts and economic conditions. Our objective is always to set stretching targets while at the same time ensuring that 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 71.

2018 has been a year of good progress for IMI despite continued mixed economic and market conditions. Group adjusted profit before tax has increased by 12% to £251.2m while organic revenue growth increased 5% to £1,907m on a constant currency basis. Cash conversion was 83% in 2018. Subject to their approval at the forthcoming Annual General Meeting, shareholders will receive a total dividend of 40.6p – an increase of 3% from last year.

Our various strategic initiatives, which are aimed at harnessing the Group's full potential, are progressing well. In particular we remain focused on building both competitive advantage and shareholder value by continuing to invest in new product development and improving our operational performance. Our cost reduction initiatives have been successfully implemented and our integration plan for Bimba, the business we acquired in January 2018, is now being executed.

How were pay outcomes linked to performance in 2018?

Annual incentives paid to executive directors in respect of performance in 2018 were based on strong financial performance and achievement of stretching targets relating to Group adjusted profit before tax, organic revenue growth, cash conversion and strategic and personal objectives. Further information about these incentive arrangements is set out on page 71. The Committee is confident that the annual incentive outcomes, which range between 56.8% and 75.0% of maximum, fairly reflect business and individual performance in the context of our ongoing challenging operating environment.

2019 marks only the second year of vesting under the IMI Incentive Plan ('IIP'). Mark Selway, Roy Twite and Daniel Shook were granted a performance share award under the IIP in 2016 and the awards will vest at 29.2% in March 2019.

What decisions were made during the year?

The Committee reviewed the base salary levels for executive directors taking into account a number of factors including individual performance, 2018 business performance, prevailing economic conditions and wider circumstances, the Group's financial performance, and salary increases for other employees. The Committee concluded that an increase of 2.2% for Roy Twite and Daniel Shook effective 1 January 2019 was appropriate and in line with the wider employee workforce. The Committee concluded that Mark Selway would not receive a base salary increase for 2019.

The Chairman and non-executive director fees were also reviewed and were increased by 2.2%, with effect from 1 January 2019.

Looking forward

Chief Executive, Mark Selway, has given notice to the Board of his wish to retire. Mark will step down as Chief Executive at the 2019 Annual General Meeting before retiring from the Board on 31 July 2019. Remuneration arrangements relating to his retirement will be in line with his service contract and the shareholder approved remuneration policy. In respect of 2019, Mark will be eligible for a pro-rated bonus for time served paid wholly in cash in accordance with the IIP rules. Full retrospective disclosure of performance against targets set will be made in the 2019 Annual Report. All IIP deferred bonus share awards will vest in accordance with policy. Mark will not be eligible for a base salary increase or an IIP performance share award in 2019. Taking into account Mark's performance in the five years he has been Chief Executive, and his departure being for reason of retirement, the Committee have agreed that all outstanding IIP performance share awards shall continue to their ordinary vesting date when performance will be assessed against the targets set and any vesting will be pro-rated.

Roy Twite will succeed Mark Selway as Chief Executive at the 2019 Annual General Meeting. Roy will be appointed on a base salary of £720,000. Additionally, the pension opportunity for Roy will reduce from the current level of 35% of base salary to 11%[1]. Roy Twite will participate in the annual incentive bonus and IIP on the same terms as the previous Chief Executive.

[1] In order to align with the pension contributions of the majority of the global workforce.

Finally, the Committee welcomes the changes introduced by the 2018 UK Corporate Governance Code and updated remuneration reporting regulations published in the Summer of 2018. Supporting our strategy, promoting long-term sustainable success, transparency and independent judgment are already at the core of our remuneration policy but alongside the Board led review of the new Code requirements, the Committee has discussed at length the implications for remuneration and taken steps in readiness for their application from 1 January 2019. I look forward to reporting next year on how the Committee has complied with the new Code obligations.

Birgit Nørgaard
Chair of the Remuneration Committee on behalf of the Board

28 February 2019

Annual Remuneration Report

The Remuneration Committee (the "Committee") presents the Directors' Remuneration Report, which will be put to shareholders for an advisory (non-binding) vote at the Annual General Meeting to be held on 9 May 2019. The report includes details of the Committee, the pay received during the year in accordance with our current remuneration policy as it was approved on 3 May 2018 and comparative internal and external data. A copy of the approved directors' remuneration policy is included in the 2017 annual report which can be found on the IMI website.

The Committee

Composition

The members of the Committee throughout the year were Birgit Nørgaard (Chair) Carl-Peter Forster, and from 1 July 2018 Thomas Thune Andersen and Katie Jackson. In accordance with the UK Corporate Governance Code, all of the non-executive directors are regarded by the Board as independent.

Responsibility

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

Internal advisers to the Committee

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

External advisers to the Committee

Independent remuneration consultant, Willis Towers Watson, is formally appointed by the Committee and provided advice on executive remuneration to the Committee in 2018. The Committee noted that the firm are actuaries and administrators for the IMI Pension Fund. The Committee is comfortable that these activities do not represent a conflict of interest and that objective and independent advice continues to be received by the Committee from the dedicated team servicing it at Willis Towers Watson.

During 2018, Willis Towers Watson has also supported management on some broader reward and human resource matters. The fees charged by Willis Towers Watson in respect of advice and services to the Committee totalled £79,594 in 2018. Willis Towers Watson are signatories to the Remuneration Consultants' Code of Conduct in the UK.

A summary of the Committee's activities during 2018

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

- consideration of shareholder feedback and engagement with major shareholders in relation to the proposed remuneration policy
- final approval of the new Directors' Remuneration Policy ('the Policy') for submission to the Annual General Meeting in May 2018;
- a review of total compensation packages of the executive directors and the most senior management of the Group as well as a review of workforce remuneration and related policies to ensure alignment with IMI's strategic growth plan;
- approval of achievements and outcomes under the incentive plans;
- consideration of the fees for the Chairman;
- setting the framework and target levels for the 2018 incentive cycle;
- approval of the granting of 2018 share awards to executive directors and certain other levels of management including a review of the Total Shareholder Return comparator group to ensure it remains appropriate;
- review of the performance targets in respect of the 2019 long term incentive plan awards;
- review of IMI's gender pay gap results for the year ended 5 April 2018 and ensured compliance with legislation (see page 36);
- review of the UK corporate governance and regulatory environment following issuance of the 2018 UK Corporate Governance Code and updated reporting regulations;
- review of the engagement of the independent remuneration consultants to the Committee; and
- review of the Committee's own performance, constitution and terms of reference.

Attendance

Director	Remuneration Committee meetings	% attended where eligible
Birgit Nørgaard	3	100
Carl-Peter Forster	3	100
Thomas Thune Andersen[1]	2	100
Katie Jackson[1,2]	1	50

[1] Joined the Committee on 1 July 2018.

[2] Katie Jackson had a prior commitment on appointment which prevented her from attending one of the two meetings held since her appointment.

Annual General Meeting voting outcomes

The following table summarises the details of votes cast for and against the 2018 directors' remuneration policy, and the 2017 annual remuneration report resolutions 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 outcome	Votes for	Votes against	Votes withheld
Directors Remuneration Policy 2018	89.1%	10.9%	0.1%
Annual Remuneration Report 2017	94.6%	5.4%	0.7%

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	Pension	Taxable benefits	Annual incentive bonus	IMI Incentive Plan (IIP)	All-employee share plans	Dividend equivalent payments	Total (£000)
See page		Page 70	Page 70	Page 70	Pages 71 to 73	Page 74		Page 75	
Mark Selway	2018	822	247	67	1,232	673	4	2	**3,047**
	2017	801	240	63	1,525	138	5	1	**2,773**
Roy Twite	2018	475	166	30	405	312	4	-	**1,392**
	2017	463	162	27	541	64	4	-	**1,261**
Daniel Shook	2018	439	88	40	409	211	3	-	**1,190**
	2017	418	84	39	506	43	3	-	**1,093**

Roy Twite served on the Board of Halma plc during the year and received fees of £55,750 in respect of this appointment which he retained.

These figures have been calculated as follows:

Base salary:	the actual salary receivable for the year.
Pension:	the cash allowance paid in lieu of pension.
Taxable benefits:	the gross value of all taxable benefits (or benefits that would be taxable for a person tax resident in the UK) received in the year.
Annual incentive bonus:	the value of the annual incentive payable for performance in respect of the relevant financial year (half of this is automatically delivered in the form of deferred bonus share awards when the executive does not meet the share ownership requirement).
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).
Share price assumptions:	for shares vesting in 2019, that related to performance in the three years to 31 December 2018, the average share price over the final three months of 2018 (971.20 pence) is used to estimate the value of shares on vesting.
All-employee share plans:	the value of free shares at award and dividends under the Employee Share Ownership Plan in the relevant financial year and the intrinsic value of Save As You Earn share options on the date of grant in the relevant financial year (applying a 10% discount as permitted under the Save As You Earn Share Plan).
Dividend payments:	For the IIP an additional number of shares proportional to the dividends paid between the date of the award and the date of vesting are delivered on the vesting date (no further dividends are accrued after the vesting date). This applies to both the performance share awards and deferred bonus share awards under the IIP. Dividend equivalent payments arise from unexercised awards under the legacy PSP.

Directors' Remuneration Report
Annual Remuneration Report

Executive remuneration received in respect of 2018

Base salary

Salaries effective 1 January 2018 were agreed taking into account a range of factors including the prevailing economic conditions, the financial performance of the Group and comparative salary increases awarded from other relevant employee benchmarks. The average increase for employees in 2018 was 3.0%, compared to 2.6% for the executive directors. Mark Selway's and Roy Twite's salaries were increased by 2.6% to £822,000 and £475,000 respectively. As noted in last year's report, taking into account the progress made during his three year tenure and taking into account relevant financial director benchmarks Daniel Shook's salary was increased by 5.0% effective 1 January 2018 to £439,000.

Pension

The 'Policy' reduced the current maximum pension related allowance for new hires from 30% to 25% of base salary for a Chief Executive and 20% for any other executive director. The Committee considers this to be more closely aligned with the wider employee pension provision at senior management level within the Group and comparable with norms.

Under existing service agreements, executive directors received a taxable cash allowance instead of pension benefits. Mark Selway receives a cash allowance of 30% of salary and Daniel Shook receives a cash allowance of 20% of salary. Roy Twite receives a cash allowance of 35% of salary as a legacy obligation from his appointment as an executive director in 2007 which continues to be honoured.

Pension benefits for past service

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

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

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

	Accrued pension in the Fund as at 31 December 2018	Accrued pension in the Fund as at 31 December 2017
	£000pa	£000pa
Roy Twite	74	71

Benefits

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

	Mark Selway		Roy Twite		Daniel Shook	
	2018	2017	2018	2017	2018	2017
Non-cash benefits (£000)	22	14	13	10	26	21
Company car and fuel allowance (£000)	20	20	17	17	14	14
Allowances and reimbursement (£000)	25	29	-	-	-	4
Total	67	63	30	27	40	39

In addition to the above benefits and allowances that are included in the single figure table (refer to table on page 69), 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 Incentive Bonus

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

1. Set performance measures aligned with strategy and budget
2. Set stretching performance targets
3. Assess performance
4. Take account of wider circumstances
5. Apply discretion if required

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 that were fully aligned to the business strategy and the annual budget. These remain unchanged from prior year. The 2018 annual incentive bonus focused on a number of financial metrics and non-financial metrics considered central to strategy. These included:

» Group adjusted profit before tax (40%).

» Organic revenue growth (20%).

» Cash conversion (20%).

» Strategic and personal objectives (20%).

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

2. Set stretching performance targets

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

The performance target range was established based on the annual budget, which required true outperformance for Executive Directors to achieve the maximum. The Remuneration Committee has a history of setting challenging targets, evidenced by the average Annual Incentive Plan pay-out over the previous five years of 59% of the established target maximum.

3. Assess performance

2018 has been a year of good progress for IMI despite continued mixed economic and market conditions:

» Group adjusted profit before tax increased to £251.2m in 2018 from £224.1m in 2017, representing a 12% increase;

» Group revenue increased to £1,907m in 2018 from £1,751m in 2017;

» Cash conversion was 83% in 2018, compared with 92% in 2017;

» Adjusted Basic EPS increased 12% from 65.3p to 73.2p;

» The total dividend for the year increased by 3% compared to 2017; and

» Good health and safety performance and delivery of measurable benefits from Lean and other health, safety and environmental initiatives.

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, without due focus on a single metric which could be achieved at the expense of wider initiatives. Given the performance noted above and wider operational achievements noted the Committee is comfortable that the 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 nature of the measure e.g. health and safety, the Committee may exercise judgement in assessing performance and determining the level of achievement. The Committee has full discretion to override formulaic outcomes. As per the Policy, the Committee also has the power to operate malus and/or clawback provisions in the event that the Company misstated financial results. The Committee also has the authority to give such permission for recovery of awards in cases of serious reputational damage, corporate failure and other circumstances. No such discretion has been applied in respect of the financial metric outcomes to the 2018 annual bonus plan awards.

Directors' Remuneration Report
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Summarised in the table below is the achievement against Group targets for Mark Selway and Daniel Shook and a combination of Group adjusted profit before tax and Divisional targets for Roy Twite.

Director	Measure	Maximum opportunity (% of salary)	Performance Targets			Actual performance[1]	Actual performance (as % of salary)
			Threshold	Target	Maximum		
Mark Selway	Group adjusted profit before tax[2]	80%	£211.0m	£248.2m	£273.0m	£257.7m	55.3%
	Group organic revenue growth[3]	40%	£1,713.9m	£1,778.5m	£1,843.5m	£1,844.4m	40.0%
	Group cash conversion[4]	40%	70.7%	83.2%	91.6%	84%	19.7%
	Strategic personal objectives	40%	See table on page 73			87%	34.8%
		200%					149.9%
Daniel Shook	Group profit before tax[2]	50%	£211.0m	£248.2m	£273.0m	£257.7m	34.6%
	Group organic revenue growth[3]	25%	£1,713.9m	£1,778.5m	£1,843.5m	£1,844.4m	25.0%
	Group cash conversion[4]	25%	70.7%	83.2%	91.6%	84%	12.3%
	Strategic personal objectives	25%	See table on page 73			85%	21.3%
		125%					93.2%
Roy Twite	Group profit before tax[2]	52.5%	£211.0m	£248.2m	£273.0m	£257.7m	36.3%
	Divisional operating profit	22.5%	£84.1m	£99.0m	£108.9m	£88.7m	3.5%
	Divisional organic revenue[6]	22.5%	£645.9m	£672.3m	£698.5m	£689.6m	18.7%
	Divisional cash conversion[4]	22.5%	81.2%	95.5%	105.1%	84%	1.4%
	Strategic personal objectives	30.0%	See table on page 73			84%	25.3%
		150%					85.2%

[1] Actual performance is stated at the exchange rates used in the targets.
[2] Adjusted Group profit before tax, as set out in Section 2.1.1 page 94, adjusted for the impact of foreign exchange and acquisitions.
[3] Growth of organic revenue, as set out in Section 2.1.1 page 94, adjusted for the impact of foreign exchange.
[4] This is calculated as management operating cash flow divided by management operating profit at the stated exchange rates used in the targets.
[5] Management divisional operating profit adjusted for the impact of foreign exchange
[6] This is as set out in Section 2.1.1 page 94, adjusted for the impact of foreign exchange.

Strategic personal objectives

As part of the strategic growth plan, the Committee sets each executive director a number of strategic 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 personal objectives with a full review undertaken by the Committee at the end of the performance period. As well as performance against strategic personal objectives the Committee considers the wider performance of the Group. A summary of the strategic personal objectives set for 2018 and the performance against them is provided in the table below.

Director	Strategic personal objectives	Commentary
Mark Selway	**Strengthen organisation:** Transition of IMI Hydronic Engineering leadership and strengthen organisational structure; continue to improve operational performance through Lean with addition of Policy Deployment across the Group; and actively sponsor and support the Group's diversity agenda.	Secured the appointment of Phil Clifton as Managing Director of IMI Hydronic Engineering and strengthened the management team. Lean improvements continue to positively impact the performance of all areas of the Group, and Policy Deployment now embedded throughout the organisation. Group and Divisions actively engaged with Diversity plans.
	Strategic growth: refine acquisition targets against clearly defined and disciplined criteria and build strong relationships with acquisition targets; continue to build strong relationships with investors; and ensure successful execution of 2018 growth strategies.	Acquisition target list is fully developed and relationships with key targets continue to develop. Significant progress made to continue to build strong investor relationships with some notable successes.
	Deliver projects: strengthen IMI capabilities through enhanced IT improvement plans; revised go-to-market strategies, new product portfolios and compelling customer solutions.	Continued successful rollout of enhanced IT systems in all three divisions, and a significant upgrade of the Group's firewall, authentication and third party providers completed on time and on budget. Supply chain improvement plans in Precision Engineering now fully developed with additional resources embedded across the regions. All three divisions have now established strong sales and marketing plans to support go-to-market strategies.
Daniel Shook	**Strengthen finance organisation:** execute strong succession planning, robust transition arrangements with clear visibility of resources and capabilities around the Group; support the achievement of best practice documentation for the divisional audit teams; and deliver agreed outcomes for Group Finance Control, Treasury and Tax.	Strong succession planning in place at senior levels, with robust transition plans established across the organisation. Divisional audit teams' controls processes further enhanced through best practice documentation processes. Inventory and fixed assets controls processes further enhanced. Strong performance from treasury and tax functions.
	Deliver projects: strengthen IMI capabilities through enhanced IT improvement plans e.g. ERP; IT IoT advancements; desktop collaboration standards; and the security enhancement programme.	Successful delivery of IT projects including ERP, Security Enhancement Programme and IoT advancement, ensuring that divisions continue to effectively develop focused initiatives to advance IMI's connected products.
Roy Twite	**Strengthen division:** deliver rationalisation projects in line with the approved business cases; further enhance team diversity when opportunities arise; improve Lean scores by the end of the year; collaborate with other Divisional Managing Directors to drive growth and technology agenda; and build strong relationships with acquisition targets.	Rationalisation projects delivered on time and on budget in line with approved business cases. All divisional diversity targets (including recruitment targets) met. Lean scores across the Critical Engineering division have increased significantly to an average 74% from 70% in 2017. Strong relationships have been developed with key acquisition targets.
	Deliver projects: develop plan to support continued margin growth in 2019; deliver 2018 ERP milestones; and develop artificial intelligence strategy.	Scenario plans have been developed to support budgeted margin growth in 2019. New ERP installations delivered on time and on budget. New artificial intelligence strategy now fully developed to support growth agenda.

Based on the performance described above, the annual incentive bonus outcomes for 2018 are set out below:

	2018 maximum bonus opportunity (% of salary)	Total bonus awarded (£000)	Total bonus awarded (% of salary)	Achievement of share ownership guidelines at 31 Dec 2018[1]	Bonus delivered in form of cash (£000)	Bonus delivered in form of share awards (£000)
Mark Selway	200%	1,232	149.9%	114%	616	616
Roy Twite	150%	405	85.2%	253%	405	
Daniel Shook	125%	409	93.2%	65%	204.5	204.5

[1] Details of the share ownership guidelines for Mark Selway, Roy Twite and Daniel Shook can be found on page 74.

Directors' Remuneration Report
Annual Remuneration Report

Awards vesting under the IIP

In March 2016, performance share awards were made to the executive directors under the IIP. The vesting of the awards was subject to the achievement of three independent performance conditions as described below, measured over the three-years ending 31 December 2018. The 2016 IIP award will vest in March 2019 at 29.2% of maximum.

	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)
Mark Selway	213,007	1,962	62,198	7,152	69,350	673
Roy Twite	98,553	908	28,777	3,309	32,086	312
Daniel Shook	66,751	615	19,491	2,241	21,732	211

[1] The three day average mid-market price on the date of award was 921.33 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 2018 (971.20 pence).

Return on capital employed (ROCE)

25% of the award was subject to the achievement of ROCE. This measure is defined as segmental operating profit as a percentage of the capital employed during the financial year ended 31 December 2018. Capital employed being Intangible Assets (excluding Acquired Intangibles and Goodwill), Property Plant and Equipment and Working capital. It compares the earnings of the Company with the capital invested. ROCE was chosen as a measure as it represents how well the Company has used its investment made by shareholders and capital from creditors to generate a profit.

The portion of the share award that will vest related to ROCE depends on ROCE in the final year of the performance period. For ROCE of less than 40% no award under this element will vest. 25% of the award will vest for ROCE of 40%, rising on a straight-line basis to full vesting for ROCE employed of 50%. At the end of the performance period return on capital employed was 38.4% resulting in this element vesting at nil.

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 Company ranked in the lower quartile of the peer group. The resultant vesting outcome for this element of the award is nil.

Group adjusted profit before tax growth

50% of the award was subject to the achievement of the Group adjusted profit before tax growth measure. This measure is defined as the profit before tax before adjusted items as shown in the audited accounts of the Group, adjusted to reflect changes in the Company's capital structure and any adjusted items, at the Remuneration Committee's discretion.

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

Over the three year performance period ending 31 December 2018 IMI delivered a compound annual growth rate of 4.7%. The resultant vesting outcome for this element of the award is 29.2%.

Deferred bonus share awards

In March 2016, deferred bonus share awards were also made under the IIP which vest in March 2019. 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 shareholding guideline.

Discretion to override formulaic outcomes and to apply malus and clawback

The Committee has the discretion to override formulaic outcomes and may apply discretion to adjust the number of shares which would otherwise vest to effect recovery in circumstances where it sees fit, and it has the authority to give permission for recovery of awards in cases of serious reputational damage, corporate failure and other circumstances. No such discretion has been applied to the 2016 IIP award outcome for executive directors.

Share ownership guideline

It is a requirement of remuneration policy that executive directors are subject to guidelines which require them to build a shareholding in IMI worth at least 250% of salary for Mark Selway, 150% of salary for Daniel Shook and 200% of salary for Roy Twite. The Policy permits the Committee discretion to determine that 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. Although Mark Selway and Daniel Shook continue to make progress towards this guideline, and have a material interest in the Company's shares, the Committee has determined that half of the annual bonus payable to Mark Selway and Daniel Shook as outlined on page 73 will be delivered in the form of deferred bonus share awards which must be held for a period of at least three years and until the share ownership guideline has been met. Further, the Committee has determined that half of the performance share awards made to Mark Selway and Daniel Shook in March 2016 and due to vest in March 2019 must also be retained until such time as the share ownership requirement is met. At the end of the year Roy Twite significantly exceeded the share ownership guideline.

Share interests granted to executive directors during 2018 (audited)

Grants made under the IIP

Performance share award grants under the IIP were made on 12 March 2018 in the form of nil-cost options. Awards are due to vest on 12 March 2021, subject to performance in three core areas aligned to our longer-term strategic priorities: ROCE (25%), relative TSR (25%) and Group adjusted profit before tax (50%).

The performance targets and vesting scale that apply to the 2018 IIP awards are as follows:

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

[1] Annualised Compound Annual Growth Rate over 3 years.

Further details of the above performance targets can be found in the awards vesting under the IIP section on page 74.

The following performance share award grants were approved and made in 2018:

	IIP shares awarded	Value on date of award[1] (£000)	Award as a percentage of salary
Mark Selway	181,644	2,055	250%
Roy Twite	83,971	950	200%
Daniel Shook	58,205	658	150%

[1] The three day average mid-market price on the date of award was 1,131.33 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 2018 are shown in the table on page 77 under the 'without performance conditions' column. No performance conditions apply to these awards.

For share awards granted in 2018 the TSR group included 17 companies to ensure complete alignment with our peers and comparison to companies with similar products, customers and global spread. The 2018 peer group includes the following companies and these have been adjusted to take into account merger and acquisition activity during the performance period in line with the Committee's guidelines.

TSR comparator group companies

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

GKN has been removed from the TSR comparator group following its acquisition by Melrose Industries PLC in May 2018.

All-employee share plans

Executive directors are eligible to participate in the all-employee share plans on the same terms as other eligible employees at IMI. In 2018, Mark Selway, Roy Twite and Daniel Shook received free share awards under the Employee Share Ownership Plan.

		All Employee Share Ownership Plan		SAYE			
		Number of shares awarded	Value of free share award[1] (£000)	Number of options awarded	Value of SAYE options (£000)	**Dividends (£000)**	**Total value under the all-employee share plans (£000)**
Mark Selway	**2018**	336	4	-	-	-	4
	2017	278	4	813	1	-	5
Roy Twite	**2018**	336	4	-	-	-	4
	2017	278	4	-	-	-	4
Daniel Shook	**2018**	304	3	-	-	-	3
	2017	235	3	-	-	-	3

[1] In 2018 free shares were awarded at a share price of 1,071.00 pence (1,292.00 pence in 2017).

Directors' Remuneration Report
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Payments to past directors (audited)

It is the Committee's intention to disclose any payments to past directors, including the vesting of share-based awards post departure on a basis consistent with the continuing executive directors. There were no payments to past directors during the year.

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

The following table summarises the total fees and benefits paid to the Chairman and non-executive directors in respect of the financial years ending 31 December 2018 and 31 December 2017.

Director	2018 (£000)				2017 (£000)			
	Base fees	Additional fees	Taxable benefits[7]	Total	Base fees	Additional fees	Taxable benefits[7]	Total
Lord Smith of Kelvin	320	-	5	**325**	312	-	5	317
Carl-Peter Forster[4]	64	11	8	**83**	62	1	3	66
Birgit Nørgaard[5]	64	16	8	**88**	62	1	8	71
Robert Stack[1]	-	-	-	**-**	62	26	3	91
Ross McInnes[3]	-	-	-	**-**	47	12	5	64
Isobel Sharp[2]	64	16	5	**85**	62	4	2	68
Thomas Thune Andersen[6]	32	-	5	**37**	-	-	-	-
Katie Jackson[6]	32	-	1	**33**	-	-	-	-

[1] Includes fees for being Chair of the Remuneration Committee and Senior Independent Director until 7 December 2017.
[2] Includes fee for being Chair of the Audit Committee.
[3] Resigned as Director effective 30 September 2017.
[4] Includes fee for Senior Independent Director effective from 11 December 2017.
[5] Includes fee for being Chair of the Remuneration Committee effective from 11 December 2017.
[6] Pro-rata fee from date of appointment on 1 July 2018.
[7] Taxable benefits includes travel and hotel expenses plus tax costs associated with Board meetings held at IMI HQ.

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 2018 or at the date of leaving the Board.

During the period 31 December 2018 to 28 February 2019 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 8 January 2019 of 13 shares each on behalf of Mark Selway, Roy Twite and Daniel Shook at 965.00 pence per share, and 12 February 2019 of 13 shares on behalf of each of Mark Selway, Roy Twite and Daniel Shook at 963.50 pence per share.

Director	Total interests	Beneficial interests	Scheme interests				
			Nil-cost options				All-employee share plans
			With performance conditions		Without performance conditions		
			Unvested[1]	Vested but unexercised	Unvested	Vested but unexercised	
Mark Selway	784,787	9,900	593,573	15,271	139,581	24,334	2,128
Roy Twite	405,316	123,107	274,514	-	-	-	7,695
Daniel Shook	241,524	7,507	187,295	-	45,424	-	1,298
Lord Smith of Kelvin	14,300	14,300	-	-	-	-	-
Carl-Peter Forster	2,625	2,625	-	-	-	-	-
Birgit Nørgaard	2,625	2,625	-	-	-	-	-
Isobel Sharp	3,000	3,000	-	-	-	-	-
Thomas Thune Andersen	2,625	2,625	-	-	-	-	-
Katie Jackson	2,618	2,618	-	-	-	-	-

[1] Vesting dates of share awards are shown in Section 4.11 on page 130.

Directors' Remuneration Report
Annual Remuneration Report

Relative importance of spend on pay

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

	2018 (£m)	2017 (£m)	Change
Dividends	107.9	105.5	2%
Total employment costs for Group (see Section 2.1.3.1 on page 97)	615.8	578.7	6%

In 2018, the total dividend for the year of 40.6 pence represented an increase of 3% over last year's 39.4 pence.

Relative percentage change in remuneration for Chief Executive

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

	Chief Executive	Employees[1]
Base salary	2.6%	3%
Benefits	6%	4%
Annual bonus	-19%	-24%

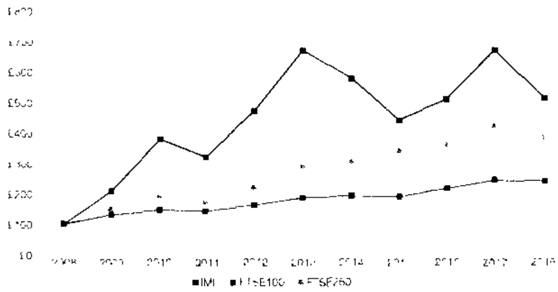
[1] All UK head office employees. This comparison excludes our international workforce which we believe would not provide a true comparison given differing local market factors.

Historical performance and remuneration

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

The graph below compares IMI's total shareholder return (TSR) to the FTSE100 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: DataStream), with data averaged over the final 30 days of each financial year. As the graph below illustrates, IMI's absolute and relative TSR performance has been strong over the last ten years.

Value of a hypothetical £100 investment



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	2009[1]	2010[1]	2011[1]	2012[1]	2013[1]	2014[2]	2015[2]	2016[2]	2017[2]	2018[2]
Total remuneration (single figure, £000)	2,547	4,439	12,289	7,954	6,688	1,567	1,667	1,901	2,773	3,047
Annual variable pay (% of maximum)	91%	95%	85%	47%	62%	36%	40%	50%	95%	75%
Long-term variable pay (% of maximum) - Share Matching Plan	64%	97%	95%	100%	100%	-	-	-	-	-
Long-term variable pay (% of maximum) - Performance Share Plan	45%	100%	100%	100%	82.6%	-	-	3.5%	-	-
Long-term variable pay (% of maximum) - IMI Incentive Plan	-	-	-	-	-	-	-	-	6.55%	29.2%

[1] Represents remuneration for Martin Lamb who was Chief Executive from before 2009 until 31 December 2013.
[2] Represents remuneration for Mark Selway who was appointed Chief Executive on 1 January 2014.

Application of the Policy in 2019

Executive director fixed pay

Mark Selway will retire from the Board effective 31 July 2019 and will not receive a base salary increase for 2019. Mark will receive a payment in lieu of notice, representing two months' basic salary. Roy Twite is appointed Chief Executive from the conclusion of the 2019 Annual General Meeting, from which date his salary will increase to £720,000.

The base salary for the Finance Director was increased by 2.2% consistent with the average increase for 2019 awarded to employees.

To align with the pension contributions of the majority of the global workforce, the pension opportunity for Roy Twite will be reduced from the current level of 35% of salary to 11% from the date of his appointment as Chief Executive.

Incentive pay

Annual bonus

In accordance with the Policy, the annual bonus plan will be operated as follows in 2019:

» As in 2018, the 2019 maximum bonus opportunity is set at 200% of salary for Mark Selway and will be pro-rated for time served and paid wholly in cash.

» Roy Twite will be eligible for a maximum bonus opportunity of 200% as Chief Executive and pro-rated in respect of 2019. The maximum bonus opportunity for Daniel Shook is 125%.

» Target bonus is set at 50% of maximum bonus opportunity.

» As in 2018, the annual bonus for Mark Selway and Daniel Shook will be subject to performance in Group adjusted profit before tax (40%), organic revenue (20%), cash conversion (20%) and strategic and personal objectives (20%). Health and safety will serve as an underpin to ensure bonuses are only paid out when minimum standards are achieved.

» As in 2018, the annual bonus for the Chief Executive (both outgoing and incoming) and Finance Director will be subject to performance in Group adjusted profit before tax (35%), IMI Critical Engineering operating profit (15%), IMI Critical Engineering organic revenue (15%), IMI Critical Engineering cash conversion (15%) and strategic and personal objectives (20%).

» The Committee has determined that the targets associated with the performance measures will be disclosed retrospectively on the same basis and to the same extent as for 2018 targets (see annual bonus metrics table on page 72).

Performance share awards under the IIP

In accordance with the new remuneration policy, the IIP will be operated as follows in 2019:

» No award to be made to Mark Selway in 2019.

» As Chief Executive, Roy Twite will be eligible for a maximum opportunity of 250% of salary. The maximum opportunity for Daniel Shook will be set at 150%.

» Awards will vest subject to performance in three core areas aligned to our longer-term strategic priorities: ROCE (25%), relative TSR (25%) and Group adjusted profit before tax growth (50%).

» Awards will be subject to a two year post-vesting holding period, extending the total time horizon to five years. As per the Policy vested awards which are subject to a holding period will not normally be forfeited on termination and the holding period will continue to apply to such awards (although the Committee may release awards early from the holding period in appropriate cases).

» The performance targets that will apply to the 2019 IIP awards are as follows:

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

[1] Annualised Compound Annual Growth Rate over 3 years.

Service contracts

The unexpired terms of the non-executive directors' service contracts can be reviewed in the Board's Corporate Governance Report on page 55.

Fees for the Chairman and non-executive directors

The Chairman and non-executive directors' remuneration increased by 2.2%, with effect from 1 January 2019. This is in line with the executive directors and compares with an 3.0% increase across the wider workforce.

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

28 February 2019

IMI Hydronic Engineering products can be found in any type of building, helping to optimise heating and cooling systems for the best performance and comfort.

Financial Statements

Engineering
GREAT the
IMI Way

Financial Statements
Finance Director's Introduction

Introduction from Daniel Shook

Dear Shareholder,

Welcome to the financial statements section of our Annual Report.

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

Despite mixed market conditions, IMI delivered solid results for the year, with revenue, profits and operating cash flow all growing in 2018.

The company has further mitigated the risks associated with the defined benefit pension schemes through the buy-out of £409m of liabilities during the year. IMI continues to improve its overall control environment and risk management procedures in 2018 through the implementation of a co-sourcing model for internal audits between Group Assurance and the divisions.

In 2018 IMI completed the acquisition of Bimba Manufacturing Company, which is contributing in line with expectations.

Daniel Shook
Finance Director

Notes to the financial statements provide additional information required by statute, accounting standards or the Listing Rules to explain a particular feature of the financial statements. The notes that follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the Annual Report and the financial statements.

Financial statements
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Consolidated income statement

For the year ended 31 December 2018

		2018			2017		
	Notes	Adjusted £m	Adjusting items £m	Statutory £m	Adjusted £m	Adjusting items £m	Statutory £m
Revenue	[illegible]	**1,907**		**1,907**	[illegible]		[illegible]
[illegible]	[illegible]	**266.3**		**266.3**	[illegible]		[illegible]
[illegible]	[illegible]		**1.9**	**1.9**		[illegible]	[illegible]
[illegible]	[illegible]	**(0.8)**	**(12.4)**	**(13.2)**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		**6.8**	**6.8**		[illegible]	[illegible]
[illegible]	[illegible]		**(28.8)**	**(28.8)**		[illegible]	[illegible]
[illegible]	[illegible]		**0.6**	**0.6**		[illegible]	[illegible]
[illegible]	[illegible]		**3.2**	**3.2**		-	-
[illegible]	[illegible]		**(2.0)**	**(2.0)**			
[illegible]	[illegible]		**(3.2)**	**(3.2)**			-
Operating profit		**265.5**	**(33.9)**	**231.6**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	**5.8**	**16.1**	**21.9**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	**(18.7)**	**(20.5)**	**(39.2)**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	**(1.4)**		**(1.4)**	[illegible]		[illegible]
[illegible]		**(14.3)**	**(4.4)**	**(18.7)**	[illegible]	[illegible]	[illegible]
Profit before tax		**251.2**	**(38.3)**	**212.9**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	**(52.8)**	**9.3**	**(43.5)**	[illegible]	[illegible]	[illegible]
Profit from continuing operations after tax		**198.4**	**(29.0)**	**169.4**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]		**-**	**-**		[illegible]	[illegible]
Total profit for the year		**198.4**	**(29.0)**	**169.4**	[illegible]	[illegible]	[illegible]
Attributable to:							
[illegible]		**198.4**		**169.4**	[illegible]		[illegible]
[illegible]					[illegible]		[illegible]
Profit for the year		**198.4**		**169.4**	[illegible]		[illegible]
Earnings per share	[illegible]						
[illegible]				**62.5p**			[illegible]
[illegible]				**62.4p**			[illegible]
[illegible]				**62.5p**			[illegible]
[illegible]				**62.4p**			[illegible]

Finance Director's commentary on the consolidated income statement

Results summary

[illegible]

[illegible]

[illegible] before interest, tax, depreciation, amortisation [illegible] IAS 19 [illegible]

Adjusted profit before taxation was [illegible] the previous year of 12 [illegible]

The adjusted effective tax rate for the Group remained constant at 21 [illegible] 21 [illegible]. The total adjusted tax charge for the year on continuing operations [illegible] continuing adjusted profit after tax was [illegible] The Group [illegible] to manage its tax affairs with [illegible] of compliance [illegible] values and transparency in accordance with the Group's Tax Policy, which is explained further in Section [illegible].

Adjusting items

Statutory operating profit was [illegible] (2017: [illegible]). We consider that the presentation of adjusted results, in addition to statutory results, allows for [illegible] to the [illegible] performance of the Group (see Section [illegible]). Adjusting items are discussed below.

Restructuring costs
Restructuring costs presented as adjusting items in 2018 [illegible] (2017: [illegible]) [illegible] of a number of significant restructuring projects across the Group, in particular within Critical Engineering and Hydronic Engineering. This restructuring is explained in more detail in Section 2.2.1. Restructuring costs of [illegible] (2017: [illegible]) that arose from normal recurring cost reduction exercises are included in the adjusted financial performance of the Group.

Gains on special pension events
During 2018 [illegible] activities relating to our defined benefit schemes continued, including the conversion of certain pension benefits to non-inflation linked [illegible] in the UK, which resulted in net gains of [illegible]. Regulatory changes and the completion of a buy-out in Switzerland resulted in gains totalling £3.0m. The completion of the transfer of [illegible] of liabilities [illegible] by [illegible] policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £2.8m. An expense of [illegible] arising from the equalisation of the UK defined benefit schemes [illegible] recognised following the ruling on the test case on Guaranteed Minimum Pensions.

Loss on disposal of subsidiaries
No subsidiaries have been disposed of in 2018. A gain of £1m has been recognised following the expiry of an indemnity provision on a historical disposal. In 2017, the Group disposed of Stainless Steel Fasteners Limited resulting in a loss of £2m.

Reversal of net economic hedge contract gains/losses
For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlement, are included in the adjusted revenues and operating profit of the relevant business segment. The adjusting item at the operating level reverses this treatment with the net loss of £2m (2017: reversal of a gain of £1m) and records a charge within interest (see Section 2.2.4).

Financing costs
A net loss arose on the revaluation of financial instruments and derivatives under IFRS 9 of £4m (2017: £3m gain), principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

[illegible]
For [illegible] purposes [illegible]

[illegible]
A gain of [illegible] (2017: [illegible]) was recognised in 2018 following the disposal of the [illegible] The proceeds from the sale will be used to construct a purpose-built facility [illegible] allow Critical Engineering to better meet customer demand in the region.

[illegible]
The Group [illegible] adjusting [illegible] See Section [illegible] for further details.

[illegible]
Following [illegible] European tax [illegible] a provision of £3m to reflect the probable exposure has been recognised. The provision is recognised as an adjusting item in operating profit as it relates to [illegible] taxes.

Taxation
A tax credit of [illegible] (2017: [illegible]) arose in connection with the [illegible] adjusting items.

Statutory profit from continuing operations after tax

Statutory profit after taxation was £169m (2017: £115m).

Earnings per share ('EPS')

The Board considers that a more meaningful indication of the performance of the Group is provided by adjusted earnings per share. Details of the calculation are given in Section 2.3 to the Group financial statements on page 99. Adjusted basic EPS was 73.2p, an increase of 12 [illegible] on last year's 65.3p. Statutory basic EPS increased by 5 [illegible] at 62.5p (2017: 59.8p) and statutory diluted EPS increased by 5 [illegible] at 62.4p (2017: 59.7p).

Exchange rates

The most important foreign currencies for the Group remain the Euro and the US dollar and the relevant average rates of exchange for the consolidated income statement were:

	2018	2017
Euro	**1.13**	1.14
US dollar	**1.33**	1.29

The movement in average exchange rates between 2017 and 2018 resulted in our adjusted 2018 revenue being 1 [illegible] lower and adjusted operating profit being 1 [illegible] lower as the average Euro rate was 1 [illegible] stronger and the US dollar rate was 3 [illegible] weaker.

If the average exchange rates for January 2019 of US$1.30 and €1.14 were projected for the full year and applied to our 2018 results, it is estimated that adjusted revenue would be [illegible] and profits before corporate costs would have been approximately 0.1 [illegible] higher.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018		2017	
	£m	£m	£m	£m
Profit for the year		169.4		[illegible]
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	1.9		[illegible]	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	(4.5)		[illegible]	
Fair value gain/loss on available for sale financial assets	0.2		[illegible]	
Related tax effect on items that may subsequently be reclassified to profit and loss	(0.3)		[illegible]	
		(2.7)		[illegible]
Items that will not subsequently be reclassified to profit and loss				
Re-measurement gain/loss on defined benefit plans	11.6		[illegible]	
Fair value loss on equity instruments not held for trading	(9.8)		-	
Related taxation effect	(3.5)		[illegible]	
Effect of taxation rate change on previously recognised items	-		[illegible]	
		(1.7)		[illegible]
Other comprehensive expense for the year, net of taxation		(4.4)		[illegible]
Total comprehensive income for the year, net of taxation		165.0		[illegible]
Attributable to:				
Owners of the parent		165.0		[illegible]
Non-controlling interests				[illegible]
Total comprehensive income for the year, net of taxation		165.0		[illegible]

Finance Director's commentary on the consolidated statement of comprehensive income and the consolidated statement of changes in equity

Movements in shareholders' equity

Shareholders' equity at the end of 2018 was £666m (2017: £[illegible]m). Movements in shareholders' equity can be split into three categories:

- the profit for the year attributable to the equity shareholders of £169m (2017: £162m). This is discussed in the commentary to the income statement.
- other comprehensive income movements in the year decreased shareholders' equity by £[illegible] (2017: £19m decrease). These are discussed below.
- movements taken directly to equity in the year reduced shareholders' equity by £[illegible]m (2017: £79m). These are discussed overleaf.

Other comprehensive income

When the Group makes unrealised gains or losses on assets and liabilities, instead of being recorded in the income statement, they are credited or charged to reserves and recorded in the statement of comprehensive income. In accordance with the amendment to IAS 1, these items are allocated between those items that have been reclassified to the income statement, those that may be reclassified to the income statement and those items that will not subsequently be reclassified to the income statement.

Any net investment hedge derivatives which have not been settled by the year end are marked to market on the balance sheet at the year-end and the movements are recorded in the hedging reserve. This movement is also included in other comprehensive income and in 2018 amounted to a gain of £2m (2017: £[illegible]m) including the related taxation effect.

The Group's foreign denominated net assets are translated into sterling using exchange rates prevailing at the year end. To the extent that these differ from the rates used at the previous year-end to translate net assets at that date and from the average exchange rate used to translate foreign denominated income during the year, a difference on reserves arises, which is included in other comprehensive income, along with the settlement of net investment hedge derivatives and revaluations of foreign debt, which are used to protect the Group from this exposure. These items (including the related taxation effect) amounted to a loss of £5m in 2018 (2017: £11m loss).

Actuarial movements in the Group's defined benefit pension obligations are also recorded in other comprehensive income. These movements are explained in detail in Section 4.9 on page 122. Together with the taxation effect, the gain in the year was £8m (2017: £11m loss).

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	81.8	12.1	174.4	(1.6)	40.8	235.7	543.2	40.0	583.2
Profit for the year						162.1	162.1	0.1	162.2
Other comprehensive income/(expense)				2.6	(11.0)	(10.9)	(19.3)		(19.3)
Total comprehensive income/(expense)				2.6	(11.0)	151.2	142.8	0.1	142.9
Issue of share capital	-	0.6					0.6		0.6
Dividends paid						(105.5)	(105.5)		(105.5)
Share-based payments (net of tax)						8.0	8.0		8.0
Shares acquired for:									
employee share scheme trust						(2.7)	(2.7)		(2.7)
Derecognition of interest in IMI Scottish Limited Partnership						21.3	21.3	(39.3)	(18.0)
Derecognition of interest in IMI CCI SPLC						(0.3)	(0.3)	(0.8)	(1.1)
As at 31 December 2017	81.8	12.7	174.4	1.0	29.8	307.7	607.4	-	607.4
Changes in equity in 2018									
Profit for the year						**169.4**	**169.4**		**169.4**
Other comprehensive income/(expense)				**1.8**	**(4.5)**	**(1.7)**	**(4.4)**		**(4.4)**
Total comprehensive income/(expense)				**1.8**	**(4.5)**	**167.7**	**165.0**	**-**	**165.0**
Issue of share capital	**-**	**0.6**					**0.6**		**0.6**
Dividends paid						**(107.9)**	**(107.9)**		**(107.9)**
Share-based payments (net of tax)						**7.0**	**7.0**		**7.0**
Shares acquired for:									
employee share scheme trust						**(5.9)**	**(5.9)**		**(5.9)**
As at 31 December 2018	**81.8**	**13.3**	**174.4**	**2.8**	**25.3**	**368.6**	**666.2**	**-**	**666.2**

On adoption of IFRS 9 an election was made to designate an external investment held as not for trading at a fair value of £10m. The fair value of the investment has been assessed by management on 31 December 2018 resulting in an impairment totalling £10m being recognised in other comprehensive income.

Items recognised directly in equity

Movements in reserves which represent transactions with the shareholders of the Group are recognised directly in equity rather than in the income statement or through other comprehensive income.

0.1m (2017: 0.1m) shares were issued during the year, realising £0.6m (2017: £0.6m) in the share capital and share premium account.

The 2017 final dividend of 25.2p per share and the 2018 interim dividend of 14.6p per share were paid during the year (2017: 2016 final dividend of 24.7p and 2017 interim dividend of 14.2p) which reduced equity by £108m (2017: £106m).

The credit for share-based payments, which reverses the £8m (2017: £8m) charged through the income statement in the year, thereby deferring the reduction in reserves until such time as the options are exercised, is also recognised here, together with the reversal of the associated £1m tax credit (2017: nil).

The charge to reserves relating to the purchase of shares by the employee trust to satisfy share options, net of amounts received from employees representing the price on exercise for those options was £6m (2017: £3m charge), refer to Section 4.10 for more information.

Derecognition of minority interest

On 31 January 2017, the terms of the conditional entitlement for the IMI 2014 Deferred and Pensioner Funds to receive income of £1.4m per annum from the Group was altered. This resulted in the Scottish Limited Partnership and its associated non-controlling interest being derecognised from the Group's balance sheet from this date.

On 23 November 2017, the Group acquired the remaining 30% of shareholding in Shanghai CCI Power Control Equipment Co Limited for £1.1m. Following this transaction the associated minority interest was derecognised from the Group's balance sheet from this date.

Consolidated balance sheet

At 31 December 2018

	Notes	2018 £m	2017 £m
Assets			
Intangible assets	3.2	606.7	[illegible]
Property, plant and equipment	[illegible]	284.4	[illegible]
Employee benefit assets	[illegible]	27.8	[illegible]
Deferred tax assets	[illegible]	17.0	[illegible]
Other receivables		3.2	[illegible]
Total non-current assets		**939.1**	[illegible]
Inventories	[illegible]	272.5	251.3
Trade and other receivables	[illegible]	450.3	[illegible]
Other current financial assets	[illegible]	1.0	[illegible]
Current tax		4.0	8.3
Investments	[illegible]	3.7	13.8
Cash and cash equivalents	[illegible]	132.2	[illegible]
Total current assets		**863.7**	[illegible]
Total assets		**1,802.8**	[illegible]
Liabilities			
Bank overdraft	4.1	(82.6)	[illegible]
Interest-bearing loans and borrowings	[illegible]	(78.8)	[illegible]
Provisions	3.6	(12.5)	[illegible]
Current tax		(62.5)	[illegible]
Trade and other payables	[illegible]	(390.9)	[illegible]
Other current financial liabilities	4.7	(4.0)	[illegible]
Total current liabilities		**(631.3)**	[illegible]
Interest-bearing loans and borrowings	[illegible]	(375.3)	[illegible]
Employee benefit obligations	4.9	(80.1)	[illegible]
Provisions	3.6	(14.6)	[illegible]
Deferred tax liabilities	[illegible]	(29.8)	[illegible]
Other payables	3.1.3	(5.5)	[illegible]
Total non-current liabilities		**(505.3)**	[illegible]
Total liabilities		**(1,136.6)**	[illegible]
Net assets		**666.2**	[illegible]
Equity			
Share capital	[illegible]	81.8	[illegible]
Share premium		13.3	[illegible]
Other reserves		202.5	[illegible]
Retained earnings		368.6	[illegible]
Equity attributable to owners of the parent		**666.2**	[illegible]
Total equity		**666.2**	[illegible]

Approved by the Board of Directors on 28 February 2019 and signed on its behalf by:

Lord Smith of Kelvin
Chairman

Finance Director's commentary on the consolidated balance sheet

Net debt

[illegible]

[illegible]

Intangible assets

[illegible]

Property, plant and equipment ('PPE')

[illegible]

Working capital

[illegible]

[illegible]

[illegible]

[illegible]

Taxation

[illegible]

[illegible]

Pensions

[illegible]

[illegible]

[illegible]

Foreign exchange and interest rate risk

[illegible]

	As at 31 December 2018	2017
Euro	**1.11**	[illegible]
US Dollar	**1.28**	[illegible]

Return on capital employed

[illegible]

Dividend

[illegible]

[illegible]

Share price and shareholder return

[illegible]

Consolidated statement of cash flows

For the year ended 31 December 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	231.6	[illegible]
Operating profit for the year from discontinued operation	-	2.2
Adjustments for:		
Depreciation and amortisation	79.7	[illegible]
Impairment of property, plant and equipment and intangible assets	3.2	[illegible]
(Gain)/loss on disposal of subsidiaries	(0.6)	1.7
Other acquisition items	3.7	
Gain on special pension event	(6.8)	[illegible]
(Profit)/loss on sale of property, plant and equipment	(3.0)	1.5
Equity-settled share-based payment expense	8.2	[illegible]
Decrease in inventories	5.5	5.9
Increase in trade and other receivables	(8.4)	[illegible]
(Decrease)/increase in trade and other payables	(47.3)	[illegible]
Decrease in provisions and employee benefits	(7.6)	[illegible]
Cash generated from operations	**258.2**	[illegible]
Income taxes paid	(41.1)	[illegible]
Cash generated from operations after tax	**217.1**	[illegible]
Additional pension scheme funding	(10.1)	[illegible]
Net cash from operating activities	**207.0**	[illegible]
Cash flows from investing activities		
Interest received	5.8	[illegible]
Proceeds from sale of property, plant and equipment	12.8	[illegible]
Net sale of investments	0.1	[illegible]
Settlement of transactional derivatives	(1.3)	[illegible]
Settlement of currency derivatives hedging balance sheet	(17.1)	[illegible]
Acquisitions of subsidiaries, net of cash	(137.6)	-
Acquisition of property, plant and equipment and non-acquired intangibles	(58.4)	[illegible]
Net cash from investing activities	**(195.7)**	[illegible]
Cash flows from financing activities		
Interest paid	(18.7)	(19.8)
Payment to non-controlling interest	-	(2.2)
Shares acquired for employee share scheme trust	(5.9)	(2.7)
Proceeds from the issue of share capital for employee share schemes	0.6	5.6
Net drawdown/(repayment) of borrowings	100.9	[illegible]
Dividends paid to equity shareholders and non-controlling interest	(107.9)	[illegible]
Net cash from financing activities	**(31.0)**	[illegible]
Net (decrease)/increase in cash and cash equivalents	(19.7)	[illegible]
Cash and cash equivalents at the start of the year	67.6	67.5
Effect of exchange rate fluctuations on cash held	1.7	[illegible]
Cash and cash equivalents at the end of the year*	**49.6**	67.6

* Net of bank overdrafts of £82.6m (2017: £31.0m).

Finance Director's commentary on the consolidated statement of cash flows

Movement in net debt	2018 £m	2017 £m
Adjusted EBITDA* from continuing operations	**320.1**	**287.5**
[illegible]	(50.3)	[illegible]
[illegible]	(58.4)	[illegible]
[illegible]	2.3	[illegible]
[illegible]	7.8	[illegible]
Adjusted operating cash flow***	**221.5**	**217.9**
[illegible]	(8.9)	[illegible]
Operating cash flow	**212.6**	**188.7**
Interest	(12.9)	[illegible]
[illegible]	(18.4)	[illegible]
Tax paid	(41.1)	[illegible]
Cash generation	**140.2**	**115.4**
Additional pension [illegible] funding	(10.1)	[illegible]
Free cash flow before corporate activity	**130.1**	**112.1**
[illegible]	(107.9)	[illegible]
[illegible]	(122.6)	-
[illegible]	-	[illegible]
[illegible]	(5.3)	[illegible]
Net cash flow (excluding debt movements)	**(105.7)**	**2.3**
Opening net debt	(265.2)	[illegible]
Net debt acquired	(15.0)	-
Foreign exchange translation	(18.6)	15.1
Closing net debt	**(404.5)**	**(265.2)**

* [illegible]

** [illegible]

*** [illegible]

**** Cash impact of adjusting items.

Reconciliation of Adjusted EBITDA to movement in net debt

The Group's consolidated statement of cash flows is shown on the opposite page, which reconciles the operating profit for the year to the change in cash and overdrafts in the balance sheet as required for financial reporting purposes.

However, because the Group's debt financing also includes other interest-bearing liabilities, to aid understanding, an analysis of the effect of the transactions in the year on net debt has been provided. Accordingly, a reconciliation between adjusted EBITDA and net debt is shown in the table above upon which this section provides commentary.

Operating cash flow

[illegible]

Free cash flow before corporate activity

[illegible]

Net cash outflow (excluding debt movements)

[illegible]

Closing net debt

[illegible]

Section 1 – basis of preparation

1.1 Introduction

IMI plc (the Company) is a company incorporated in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group"). The Company financial statements present information about the Company as a separate entity and not about the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRS). The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and these are presented on pages 152 to 164. The financial statements were approved by the Board of Directors on 28 February 2019.

Alternative Performance Measures (APMs) are used in discussions with the investment analyst community and by the Board and management to monitor the trading performance of the Group. We consider that the presentation of APMs allows for improved insight to the trading performance of the Group. We have reviewed the APMs presented as part of the continuous improvement in narrative reporting and consider that the term Adjusted, together with an adjusting items category, best reflects the trading performance of the Group. The APMs presented in the Annual Report and Accounts for 31 December 2018 are defined in Section 1.4.

1.2 Basis of accounting

The financial statements are presented in Pounds Sterling (which is the Company's functional currency) rounded to the nearest hundred thousand, except revenues, which are rounded to the nearest hundred million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets classified at fair value through profit and loss or other comprehensive income and assets and liabilities acquired through business combinations. Non-current assets and liabilities held for sale are stated at the lower of their carrying amounts and their fair values less costs to sell.

The policies described in this section and in the accompanying sections have been applied consistently throughout the Group for the purposes of these consolidated financial statements except as discussed below. Refer to Section 6.1 for the Group's significant accounting policies.

i) New or amended EU Endorsed Accounting Standards adopted by the Group during 2018

Stated below are the amended and new International Financial Reporting Standards which became effective for the Group as of 1 January 2018, none of which had a material impact on the financial statements.

- IFRS 1 *'First Time Adoption of International Financial Reporting Standards'*
- IFRS 2 *'Share Based Payment'*
- IAS 28 *'Investments in Associates'*
- IAS 40 *'Investment Property'*
- IFRIC 22 *'Foreign Currency Transactions and Advance Consideration'*

The impact of the new International Financial Reporting Standards effective for the Group as of 1 January 2018 is set out below.

- IFRS 9 *'Financial Instruments'* – an election was made to recognise movement in the fair value of the investments historically held at amortised cost in other comprehensive income. At the date of adoption (1 January 2018) judgement was applied in determining that the difference between the historical amortised cost and the fair value was not material. The effect of adopting the remainder of this standard was not material and no further accounting policies have been amended following the adoption of the standard.
- IFRS 15 *'Revenue from Contracts with Customers'* – this standard was adopted from the date of initial application – 1 January 2018. The five-step model for revenue recognition has been applied to each significant revenue stream for each operating segment which are described in Section 2.1.1. The accounting policy for revenue recognition has been updated in Section 2.1.1 to recognise revenue when each performance obligation has been completed for each revenue stream. No material impact on the financial statements following adoption of the standard has been identified.

ii) Issued Accounting Standards which are not effective for the year ended 31 December 2018

The IASB and IFRIC have issued a number of new accounting standards and amendments to those effective in periods after the date of these financial statements. These which will have a material impact on the Group are set out below.

IFRS 16 'Leases' – this standard provides a single lessee accounting model, requiring the lessee to recognise assets and liabilities for all leases unless the underlying lease term is 12 months or less or the leased asset has a low value.

The standard will be implemented on 1 January 2019. On adoption, the Group will apply the modified retrospective approach and the following exemptions will be taken and as a result the leases identified below will not be recognised on the balance sheet:

- Short-term leases – leases which have an original maximum committed lease period which is less than 12 months; and
- Low value leases – leases where the leased asset has an initial value of less than £5,000.

Judgements will be made as to the appropriate length of the minimum committed lease period and the incremental borrowing rate used by each subsidiary to discount the lease payments in order to calculate the right of use asset on adoption.

The Group has computed the IFRS 16 impact for each element of all leases held by the Group. The likely effect on adoption of the new standard on the financial statements and relevant KPIs as at 31 December 2018 is outlined in the table below.

Financial Statement	Item	2018 £m	Impact £m	2018 (IFRS 16) £m
Income Statement	Critical Engineering	88.3	0.7	**89.0**
	Precision Engineering	153.2	0.6	**153.8**
	Hydronic Engineering	52.0	0.1	**52.1**
	Corporate Cost	(27.2)	0.1	**(27.1)**
	Segmental Operating Profit	**266.3**	**1.5**	**267.8**
	Statutory net financial expense	(18.7)	(2.1)	**(20.8)**
	Statutory profit before tax	212.9	(0.6)	**212.3**
	Adjusted EBITDA	321.1	31.5	**352.6**
Balance sheet	Property, Plant and Equipment	284.4	113.2	397.6
	Net debt	(404.5)	(113.2)	(517.7)
Statement of cash flows	Cash generated from operations	258.2	32.5	290.7
	Net cash from financing activities	(31.0)	(32.5)	(63.5)
	Net decrease in cash and cash equivalents	(19.4)	-	(19.4)
Key ratios	Net debt to EBITDA ratio	1.3x	0.2x	1.5x
	Return on capital employed	12.8%	(0.6)%	12.2%

Following the adoption of IFRS 16, management have reviewed its practice of making intercompany property recharges to equalise the impact of rent and depreciation at a division and site level and concluded that the recharge will no longer be required from 2019 onwards. This will have the effect of increasing divisional profits (Critical Engineering - £1.0m, Precision Engineering - £1.5m, Hydronic Engineering - £0.8m) with a corresponding increase in corporate costs by £3.3m.

Section 2 – results for the year

What you will find in this section

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, including segmental information, adjusting items, taxation and earnings per share. You will also find a summary of the Group's alternative performance measures, including the definition of each and the rationale for their use.

2.1 Segmental information and alternative performance measures

Organic revenue growth and operating profit are the two short-term key performance indicators or measures that reflect the way the performance of the Group is managed and monitored by the Executive Committee. In this section the key constituents of these two KPI's, being the Group's adjusted revenues and segmental operating profits, are analysed by reference to the performance and activities of the Group's segments and their operating costs.

2.1.1 Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. As described on page 4 each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

IMI Critical Engineering
IMI Critical Engineering is a world-leading provider of 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 liquid in harsh environments and are designed to withstand temperature and pressure extremes as well as intensely abrasive or corrosive cyclical operations.

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 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 based on adjusted segmental operating profit which is defined in the table to the right. Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. In accordance with 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.

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

APM	Definition	Reconciliation to statutory measure
Adjusted revenue Adjusted profit before tax Adjusted net interest cost	These measures are as reported to management and do not reflect the impact of adjusting items described in Section 2.2	See income statement on page 84
Adjusted earnings per share		See Section 2.3
Adjusted effective tax rate		See Section 2.4.
Adjusted EBITDA	This measure reflects adjusted profit after tax before interest, tax, depreciation and amortisation.	See cash flow commentary on page 91.
Adjusted segmental operating profit and margin	These measures are as reported to management and do not reflect the impact of adjusting items described in Section 2.2.	See income statement on page 84 and segmental reporting note in Section 2.1.1
Organic growth	This measure removes the impact of adjusting items, acquisitions, disposals and movements in exchange rates.	
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 and the sale of investments, excluding the cash impact of adjusting items.	See cash flow commentary on page 91
Operating cash flow Free cash flow before corporate activity	These measures are sub totals in the reconciliation of adjusted EBITDA to Net Debt and are presented to assist the reader to understand the nature of the current year's cash flows.	See cash flow commentary on page 91.

Section 2 – results for the year

(continued)

[illegible]

	Revenue 2018 £m	Revenue 2017 £m	Operating profit 2018 £m	Operating profit 2017 £m	Operating margin 2018 %	Operating margin 2017 %
Continuing operations						
IMI Critical Engineering	682	648	88.3	[illegible]	12.9%	[illegible]
IMI Precision Engineering	916	791	153.2	[illegible]	16.7%	[illegible]
IMI Hydronic Engineering	309	312	52.0	[illegible]	16.8%	[illegible]
Corporate costs			(27.2)	[illegible]		
Total adjusted revenue/segmental operating profit and margin	1,907	[illegible]	266.3	[illegible]	14.0%	[illegible]
[illegible]			(0.8)	[illegible]		
Total adjusted revenue/operating profit and margin	1,907	[illegible]	265.5	[illegible]	13.9%	[illegible]
[illegible]			1.9	[illegible]		
[illegible]			(12.4)	[illegible]		
[illegible]			6.8	[illegible]		
[illegible]			(28.8)	[illegible]		
[illegible]			0.6	[illegible]		
[illegible]			3.2			
[illegible]			(2.0)			
[illegible]			(3.2)	-		
Statutory revenue/operating profit	1,907	[illegible]	231.6	[illegible]		
[illegible]			(18.7)	[illegible]		
Statutory profit before tax from continuing operations			212.9	[illegible]		

[illegible]

	Year ended 31 December 2017 As adjusted	Movement in foreign exchange	Disposals	Organic	Year ended 31 December 2018 As adjusted	Acquisitions	Organic	Adjusted growth (%)	Organic growth (%)
Adjusted revenue									
IMI Critical Engineering	648	[illegible]	[illegible]	[illegible]	682	-	682	5%	7%
IMI Precision Engineering	791	[illegible]		[illegible]	916	(88)	828	16%	6%
IMI Hydronic Engineering	312	[illegible]	-	[illegible]	309	-	309	-1%	0%
Total	[illegible]	[illegible]	[illegible]	[illegible]	1,907	(88)	1,819	9%	5%
Segmental operating profit									
IMI Critical Engineering	84.0	[illegible]	[illegible]	[illegible]	88.3	-	88.3	5%	6%
IMI Precision Engineering	133.5	(1.5)	-	[illegible]	153.2	(6.7)	146.5	15%	11%
IMI Hydronic Engineering	[illegible]	(0.5)		[illegible]	52.0	-	52.0	5%	6%
Corporate costs	(26.3)			(26.3)	(27.2)	-	(27.2)		
Total	[illegible]	(3.3)	0.6	[illegible]	266.3	(6.7)	259.6	11%	9%
Segmental operating profit margin (%)	[illegible]			[illegible]	14.0%		14.3%		

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	
	2018 £m	2017 £m	2018 £m	2017 £m
IMI Critical Engineering	723.7	[illegible]	186.6	[illegible]
IMI Precision Engineering	669.7	[illegible]	135.8	[illegible]
IMI Hydronic Engineering	215.8	[illegible]	66.8	[illegible]
Total segmental assets/liabilities	1,609.2	[illegible]	389.2	[illegible]
Corporate items	11.4	[illegible]	43.3	[illegible]
Employee benefits	27.8	[illegible]	80.1	[illegible]
Investments	3.7	13.6	-	-
Net debt items	132.2	[illegible]	536.7	[illegible]
Net taxation and others	18.5	[illegible]	87.3	[illegible]
Total assets and liabilities in Group balance sheet	1,802.8	[illegible]	1,136.6	[illegible]

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

	Restructuring costs*		Capital expenditure		Amortisation**		Depreciation	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
IMI Critical Engineering	9.2	[illegible]	18.5	24.2	16.7	21.6	13.5	13.9
IMI Precision Engineering	1.5	5.6	28.6	[illegible]	16.4	3.1	20.6	15.7
IMI Hydronic Engineering	2.5	3.0	11.2	18.1	3.3	[illegible]	8.2	8.5
	13.2	36.3	58.3	[illegible]	36.4	[illegible]	42.3	38.1
Corporate costs	-	-	0.2	0.1	0.5	[illegible]	0.5	[illegible]
Total	13.2	36.3	58.5	69.8	36.9	27.2	42.8	38.6

* Restructuring costs include both adjusting and non-adjusting items.

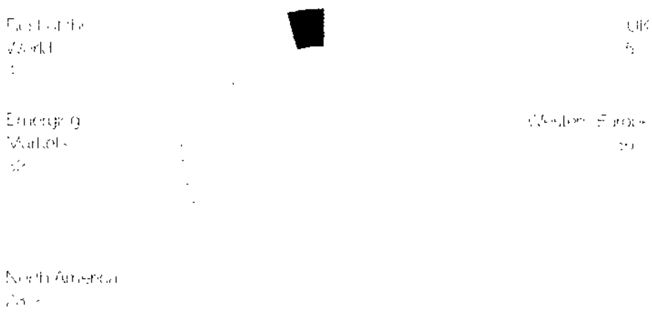
** The amortisation figures above include the amortisation of acquired intangibles: £11.9m (2017: £16.9m) is included in respect of Critical Engineering, £13.2m (2017: [illegible]) is included in respect of Precision Engineering and £nil (2017: £0.1m) is included in respect of Hydronic Engineering.

Section 2 – results for the year
(continued)

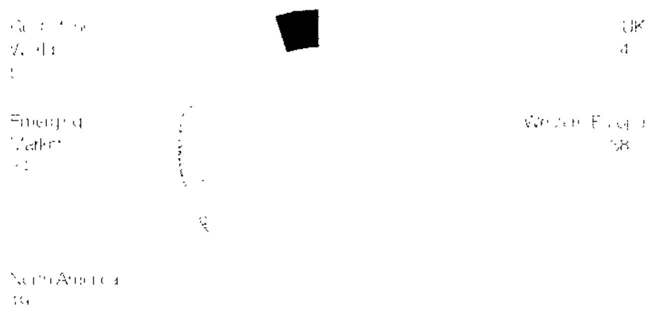
[illegible]

	2018 Revenue £m	2017 Revenue £m
UK	90	[illegible]
Germany	289	[illegible]
Other Western Europe	392	395
Western Europe	681	654
USA	427	318
Canada	24	[illegible]
North America	451	358
Emerging Markets	608	595
Rest of World	77	85
Total statutory revenue	1,907	1,751

Adjusted revenue by destination (2018)



Adjusted revenue by destination (2017)



[illegible]

Sector	2018 Revenue £m	2017 Revenue £m
New Construction	361	337
Aftermarket	321	311
Critical Engineering	682	648
Industrial Automation	525	440
Commercial Vehicle	196	163
Energy	77	67
Life Sciences	77	64
Rail	41	[illegible]
Precision Engineering	916	791
TA	151	[illegible]
Heimeier	98	104
Pneumatex	43	41
Other	17	20
Hydronic Engineering	309	312
Total revenue	1,907	1,751

2.1.2
Operating costs by function

The following table is included to show how much of the operating costs deducted from revenue to arrive at the Group's statutory operating profit, relate to cost of sales, selling and distribution costs, administrative expenses and adjusting items.

	2018 £m	2017 £m
Adjusted revenue	**1,907**	[illegible]
Cost of sales	(1,089.4)	[illegible]
Segmental gross profit	**817.6**	[illegible]
Selling and distribution costs	(242.2)	[illegible]
Administrative expenses	(309.1)	[illegible]
Restructuring costs	(0.8)	[illegible]
Adjusted operating profit	**265.5**	[illegible]
Adjusting items	(33.9)	[illegible]
Statutory operating profit	**231.6**	[illegible]

The adjusting items are analysed in detail in Section 2.2.

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

	2018 £m	2017 £m
UK	76.6	[illegible]
Germany	251.1	[illegible]
Rest of Europe	219.7	[illegible]
USA	263.5	[illegible]
Asia Pacific	60.4	[illegible]
Rest of World	19.8	[illegible]
Total	**891.1**	[illegible]

2.1.3
Specific elements of operating costs

Certain specific items of operating expenses are disclosed to provide the reader of financial statements with more information regarding these costs. This section provides this analysis.

2.1.3.1 Employee information

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

	2018	2017
IMI Critical Engineering	3,274	3,473
IMI Precision Engineering	5,933	5,272
IMI Hydronic Engineering	1,790	1,820
Corporate	109	105
Total Group	**11,106**	10,670

The increase in 2018 was due to the acquisition of Bimba in Precision Engineering.

The aggregate [illegible] charged to operating profit [illegible] was:

	2018 £m	2017 £m
Wages and salaries	519.4	[illegible]
Share-based payments	8.2	[illegible]
Social security costs	87.7	[illegible]
Pension costs	0.5	[illegible]
Total	**615.8**	[illegible]

[illegible] Section [illegible]

2.1.3.2 Operating lease charges and operating lease commitments

The Group enters into leases for property, plant and equipment assets when doing so represents a more cost-effective or lower risk option than purchasing them. This leads to an income statement charge for the year and future commitments for the Group in respect of these leases.

[illegible] relating to the lease of property [illegible] relating to the lease of plant and machinery. The outstanding commitments in respect of non-cancellable operating leases are shown in the following table by time period:

	2018 Land and buildings £m	2018 Others £m	2017 Land and buildings £m	2017 Others £m
Within one year	21.6	13.6	18.2	[illegible]
In the second to fifth year	54.2	24.3	48.6	8.6
After five years	12.3	-	15.6	-
	88.1	**37.9**	[illegible]	19.5

2.1.3.3 Research and development expenditure

The continuing cost of research and development expenditure charged directly to the income statement was £11.2m (2017: £18.0m) included within this is amortisation of capitalised intangible development costs which amounted to £3.5m (2017: £3.4m) and across the Group a further £7.1m (2017: £9.0m) was capitalised in the year.

2.1.3.4 Exchange on operating activities net of hedging arrangements

The transactional foreign exchange gains in the Group were £2.2m (2017: gains of £3.5m).

2.1.3.5 Audit fees

The Group engages its auditor, EY, to perform other assurance assignments in addition to their statutory audit duties where their expertise, experience and knowledge of the Group should enable them to perform these assignments more efficiently than other similar service providers.

The Group's policy on such assignments is set out in the Audit Committee report on page 62. Fees earned by EY and its associates during the year are set out below.

	2018 £m	2017 £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	2.6	2.5
Other assurance services	0.1	0.1
Total	**2.9**	2.8

Section 2 – results for the year
(continued)

2.2
Adjusting items

The adjusting items category in the income statement includes those items which are removed from statutory measures to provide insight as to the performance of the Group. Accordingly, adjusting items are included in a separate column on the face of the income statement.

They include restructuring costs, special pension events, gains/losses on disposals of subsidiaries and properties, impairment losses, the reversal of gains/losses on economic hedges, acquisition costs, the release of inventory uplifts recognised on acquisition and acquired intangible amortisation.

2.2.1
Restructuring costs

[illegible] Group. [illegible] Critical Engineering [illegible] Hydronic Engineering [illegible] Critical Engineering [illegible] Engineering [illegible]

Adjusting restructuring costs [illegible] Critical Engineering [illegible] Belgium [illegible] Critical Engineering [illegible] European [illegible] Engineering [illegible] restructuring undertaken in the Hydronic [illegible]

Other restructuring costs of [illegible] are not included in the measure [illegible] Executive Committee. These costs [illegible] arose from normal recurring cost reduction exercises and are included in the adjusted financial performance of the Group.

2.2.2
Gains on special pension events

During 2018 [illegible] continued including the conversion of certain pension benefits to being non-inflation linked, [illegible] in the UK which resulted in net gains of £1.4m. Regulatory changes and the completion of [illegible] Switzerland resulted in gains totalling £3.0m. The completion of the transfer of £47.9m of liabilities covered by insurance policies to the insurance companies through a formal buy-out transaction resulted in a net gain of £2.8m. An expense of £0.4m arising from the equalisation of the UK defined benefit schemes has been recognised following the ruling on the test case on Guaranteed Minimum Pensions. Gains on special pension events in the UK and Switzerland of £10.8m were recognised in 2017.

2.2.3
Losses on disposal of subsidiaries

No subsidiaries have been disposed of in 2018. A gain of £0.6m has been recognised following the expiry of an indemnity provided on a historical disposal. In 2017, the Group disposed of Stainless Steel Fasteners Limited resulting in a loss of £2.3m.

2.2.4
Reversal of net economic hedge contract losses/gains

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlement, are included in the adjusted revenues and operating profit of the relevant business segment. The adjusting items at the operating level reverse this treatment. [illegible]

2.2.5
Acquired intangible amortisation and other acquisition items

[illegible] Bimba [illegible]

[illegible] Bimba acquisition [illegible] IFRS 3 Business Combinations [illegible] Bimba Manufacturing Company [illegible] completed on 31 January 2018 [illegible]

2.2.6
Gain on disposal of properties

A gain of [illegible] in 2018 following the disposal of the Critical Engineering site in [illegible]. The proceeds of the sale will be used to construct a purpose-built facility [illegible] Critical Engineering to better meet customer demand in the region.

2.2.7
Impairment losses

As reported on page 106, the Group recorded an adjusting impairment charge of £2.1m against the goodwill associated with the Hydronic [illegible] CGU. The carrying value of the goodwill was reassessed after a sales plan for the CGU was cancelled.

2.2.8
Indirect taxes arising on reorganisation

Following a retrospective change to European tax law on the transfer of assets, a provision of £3.2m to reflect the probable exposure has been recognised. The provision is recognised as an adjusting item in operating profit as it relates to indirect taxes.

2.2.9
Taxation

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

2.3
Earnings per ordinary share

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company). Basic EPS measures are calculated as the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation.

Both of these measures are also presented on an adjusted basis, to assist the reader of the financial statements to get a better understanding of the performance of the Group. The note below demonstrates how this calculation has been performed.

	Key	2018 million	2017 million
Weighted average number of shares for the purpose of basic earnings per share	A	271.0	271.1
Dilutive effect of employee share options		0.3	0.5
Weighted average number of shares for the purpose of diluted earnings per share	B	271.3	271.6

	Key	£m	£m
Statutory profit for the year		**169.4**	162.2
Non-controlling interests		-	(0.1)
Statutory profit for the year attributable to owners of the parent	C	**169.4**	162.1
Statutory profit from discontinued operations net of tax		-	(16.9)
Continuing statutory profit for the year attributable to owners of the parent	D	**169.4**	145.2
Total adjusting items charges included in profit before tax		**38.3**	43.2
Total adjusting items credits included in taxation		**(9.3)**	(11.5)
Earnings for adjusted EPS	E	**198.4**	176.9

	Key	2018	2017
Statutory EPS measures			
Statutory basic EPS	C/A	**62.5p**	59.8p
Statutory diluted EPS	C/B	**62.4p**	59.7p
Statutory basic continuing EPS	D/A	**62.5p**	53.6p
Statutory diluted continuing EPS	D/B	**62.4p**	53.5p
Adjusted EPS measures			
Adjusted basic EPS	E/A	**73.2p**	65.3p
Adjusted diluted EPS	E/B	**73.1p**	65.1p

Discontinued earnings per share

Statutory basic discontinued earnings per share were nil (2017: 6.2p). Statutory diluted discontinued earnings per share were nil (2017: 6.2p).

Section 2 – results for the year
(continued)

2.4
Taxation

IMI operates through subsidiary companies all around the world that pay many different taxes such as corporate income taxes, VAT, payroll withholdings, social security contributions, customs import and excise duties. This note aggregates only those corporate income taxes that are or will be levied on the individual profits of IMI plc and its subsidiary companies for periods leading up to and including the balance sheet date. The profits of each company are subject to certain adjustments as specified by applicable tax laws in each country to arrive at the tax liability that is expected to result on their tax returns. Where these adjustments have future tax impact then deferred taxes may also be recorded.

2.4.1
Tax governance, risk and strategy

[illegible]

[illegible]

Compliance: IMI seeks to manage its taxation obligations [illegible] in compliance with all applicable tax laws and regulations, [illegible] with the Group's Code of Conduct. Accordingly, the tax compliance [illegible] business [illegible] standard tax compliance [illegible] 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 related taxes paid on time.

Recently enacted UK legislation regarding third party tax evasion has also been incorporated into the Group's prevention procedures including employee training. Furthermore, the preparation and filing of the corporate income tax returns for IMI subsidiary companies [illegible] have been largely outsourced to one tax advisory firm.

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

Fairness: IMI seeks to record its profits across the subsidiary companies around the world on an arm's length basis in accordance with internationally accepted best practices, recognising the relative contributions of people, assets, intellectual property and risks borne by the various businesses. The resulting allocation of profits is regularly tested for compliance with this standard.

IMI has taken action to ensure that it meets the enhanced transfer pricing disclosures and documentation requirements by tax authorities as a result of the Base Erosion & Profit Shifting (commonly referred to as BEPS) initiative by the OECD.

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

Transparency: [illegible]

Risk: [illegible]

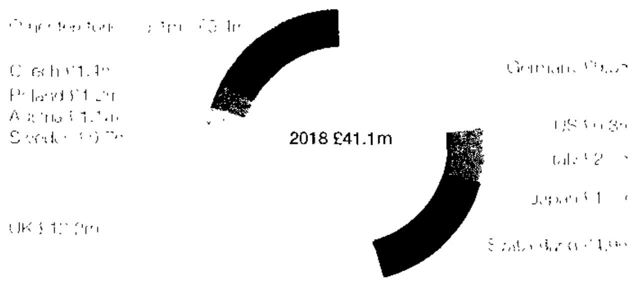
2.4.2
UK corporation tax

[illegible]

2.4.3
Tax payments

[illegible]

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 [illegible] impact [illegible] cash flow level, which may take time to be reflected in the tax cash flow.

[illegible]

[illegible]

2.4.4
Recognised in the income statement

[illegible]

	2018 £m	2017 £m
Current tax charge		
Current year charge	**46.1**	40.6
Adjustments in respect of prior years	**(4.3)**	(20.1)
	41.8	20.5
Deferred taxation		
Origination and reversal of temporary differences	**1.7**	0.4
Total income tax charge	**43.5**	20.9

The income tax charge is apportioned between [illegible] operations in the income statement as follows:

	2018 £m	2017 £m
Current tax charge		
Continuing operations	**41.8**	35.2
Discontinued operations	**-**	(14.7)
	41.8	20.5
Deferred tax charge		
Continuing operations	**1.7**	0.4

	2018 £m	2017 £m
Total income tax charge		
Continuing operations	**43.5**	35.6
Discontinued operations	**-**	(14.7)
	43.5	20.9

2.4.5
Reconciliation of effective tax rate

As IMI's head office and parent company is domiciled in the UK, the Group references its effective tax rate to the UK corporation tax rate, despite only a small portion of the Group's business being in the UK. Therefore, the following tax reconciliation applies the UK corporation tax rate to the year's 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:

		2018			2017		
	Section	Adjusted £m	Adjusting items £m	Statutory £m	Adjusted £m	Adjusting items £m	Statutory £m
Profit before tax from continuing operations		**251.2**	**(38.3)**	**212.9**	221.1	(43.2)	180.9
Profit before tax from discontinued operations	2.5					2.2	2.2
Profit before tax		**251.2**	**(38.3)**	**212.9**	224.1	(41.0)	183.1
Income tax using the Company's domestic rate of tax of 19.00% (2017: 19.25%)		**47.7**	**(7.3)**	**40.4**	43.1	(7.9)	35.2
Effects of:							
Non-deductible items		**0.7**	**0.7**	**1.4**	1.8	3.7	5.5
Non-taxable impairment / loss on disposal of businesses		**-**	**0.3**	**0.3**		0.1	0.1
Utilisation of losses on which no deferred tax had been recognised		**(0.4)**	**-**	**(0.4)**	(2.6)	-	(2.6)
Current year losses for which no deferred tax asset has been recognised		**3.0**	**-**	**3.0**	6.5	0.4	6.9
Change in future tax rate on deferred tax		**-**	**-**	**-**	(5.0)	-	(5.0)
Differing tax rates		**5.2**	**(3.0)**	**2.2**	5.5	(4.4)	1.1
Over provided in prior years		**(3.4)**	**-**	**(3.4)**	(2.2)	(18.4)	(20.6)
Total tax in income statement		**52.8**	**(9.3)**	**43.5**	47.1	(26.2)	20.9
Income tax expense reported in the consolidated income statement		**52.8**	**(9.3)**	**43.5**	47.1	(11.5)	35.6
Effective rate of tax - continuing operations:		**21.0%**		**20.4%**	21.0%		19.5%
Income tax attributable to discontinued operations	2.5					(14.7)	(14.7)
Effective rate of tax - discontinued operations:							
Total tax in income statement		**52.8**	**(9.3)**	**43.5**	47.1	(26.2)	20.9
Effective rate of tax - total Group:		**21.0%**			21.0%		11.5%

The US Tax Cuts and Jobs Act became law on 22 December 2017 and lowered the rate of Federal Income tax from 35% to 21% from 1 January 2018. Given that the rate change was substantively enacted by the balance sheet date, US deferred tax balances were remeasured and resulted in a one off credit in 2017 to the Income Statement of £5m and a charge to the Consolidated Statement of Comprehensive Income of £[illegible]m

Section 2 – results for the year
(continued)

2.4.6
Recognised outside of the income statement

[illegible]

	2018 £m	2017 £m
Deferred tax:		
[illegible]	0.1	[illegible]
[illegible]	3.5	(1.5)
	3.6	[illegible]
Current tax:		
[illegible]	0.3	[illegible]
[illegible]	1.1	
	5.0	[illegible]
[illegible]		
[illegible]	3.8	[illegible]
[illegible]	1.2	[illegible]
	5.0	[illegible]

2.4.7
Recognised deferred tax assets and liabilities

[illegible]

	Assets		Liabilities		Net	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Non-current assets	0.9	1.1	(34.8)	[illegible]	(33.9)	[illegible]
Inventories	3.9	4.2	(2.8)	(3.5)	1.1	0.7
[illegible] derivatives	0.2	0.5	(3.1)	[illegible]	(2.9)	(3.1)
Employee benefits and provisions	30.3	[illegible]	(8.6)	[illegible]	21.7	[illegible]
Other tax assets	1.2	2.0	-		1.2	2.0
	36.5	[illegible]	(49.3)	[illegible]	(12.8)	(6.8)
Offsetting within tax jurisdictions	(19.5)	[illegible]	19.5	[illegible]	-	-
Total deferred tax assets and liabilities	17.0	20.9	(29.8)	[illegible]	(12.8)	(6.8)

[illegible]

	Balance at 1 Jan 18 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Balance at 31 Dec 18 £m
[illegible]	[illegible]	0.2	-	(1.1)	(33.9)
Inventories	[illegible]	0.6	-	(0.2)	1.1
[illegible]	[illegible]	0.2	-	-	(2.9)
Employee benefits and provisions	[illegible]	(1.8)	(3.6)	0.5	21.7
Other tax assets	[illegible]	(0.9)	-	0.1	1.2
Net deferred tax liability	(6.8)	(1.7)	(3.6)	(0.7)	(12.8)

	Balance at 1 Jan 17 £m	Recognised in the income statement £m	Recognised outside the income statement £m	Exchange £m	Balance at 31 Dec 17 £m
Non-current assets	[illegible]	[illegible]		[illegible]	[illegible]
Inventories	[illegible]	[illegible]		[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	-	-	[illegible]
Employee benefits and provisions	[illegible]	[illegible]	1.8	[illegible]	26.6
Other tax assets	[illegible]	1.6		[illegible]	2.0
Net deferred tax liability	[illegible]	(0.4)	1.8	[illegible]	(6.8)

All exchange movements are taken through the [illegible] reserve.

2.4.8
Unrecognised deferred tax assets and liabilities

Deferred tax assets of [illegible] have not been recognised in respect of tax losses [illegible] and capital losses of [illegible]. 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. [illegible] 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 [illegible] 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 [illegible] of which [illegible] has been provided on the basis that the Group expects to remit these amounts.

2.5
Discontinued operations

When the Group has assets and liabilities that have been sold in the year or are likely to be sold rather than being held for continuing use, these assets and liabilities are included in current assets and liabilities and denoted 'held for sale' rather than in their usual categories. They are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on the initial classification of assets as held for sale are included in the Income Statement, even for assets measured at fair value, as are impairment losses on subsequent remeasurement and any reversal thereof. Once classified as held for sale, assets are no longer depreciated or amortised.

If they represent a significant enough proportion of the Group, they are also treated as discontinued operations. A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of, is held for sale or is a subsidiary acquired exclusively with a view to re-sale. This means that their trading performance, i.e. their revenues, costs and other items of income and expense, are no longer reported within the headline figures in the Income Statement and are instead reported in a separate line, net of tax, called 'discontinued operations'. These amounts no longer form part of continuing earnings per share. Comparative figures are restated to be shown on the same basis.

This enables the Income Statement for the current and prior year to be presented on a consistent basis and to convey a more forward-looking version of the results for the year.

There was no profit or loss from discontinued operations in 2018.

A pre-tax gain of £2.2m and post-tax gain of [illegible] was recognised in 2017 as a result of the finalisation of a number of matters relating to historical discontinued operations.

Section 3 – operating assets and liabilities

What you will find in this section

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in Section 2.4.7. On the following pages there are sections covering working capital, non-current assets, acquisitions, other payables due after more than one year, provisions and pensions.

3.1 Working capital

Working capital represents the assets and liabilities the Group generates through its trading activities. The Group therefore defines working capital as trade and other receivables, inventory and trade and other payables. Working capital is managed very carefully to ensure that the Group can meet its trading and financing obligations within its ordinary operating cycle.

To provide the Executive Committee with insight into the management of working capital, an important measure monitored is cash conversion. Cash conversion is defined as the operating cash flow (as defined in the commentary on the cash flow statement) divided by the segmental operating profit which therefore represents the proportion of segmental operating profit generated during the year that has been converted into cash.

3.1.1 Inventories

	2018 £m	2017 £m
Raw materials and consumables	**101.6**	[illegible]
Work in progress	**104.6**	[illegible]
Finished goods	**66.3**	55.2
	272.5	251.3
Inventories are stated after:		
Allowance for impairment	**33.3**	38.2

In 2018 the cost of inventories recognised as an expense [illegible] amounted to [illegible] (2017: [illegible]). The Group's inventories [illegible] due to increase in inventory held in [illegible] relating to the acquisition of Bimba and Adamant Engineering.

In 2018 the write-down of inventories to net realisable value amounted to [illegible] (2017: [illegible]). The reversal of write-downs amounted to [illegible] (2017: [illegible]). Write-downs and reversals in both years relate to on-going assessments of inventory obsolescence, excess inventory holding and inventory resale values across all of the Group's businesses.

3.1.2 Trade and other receivables

	2018 £m	2017 £m
Current		
Trade receivables	**370.2**	[illegible]
Other receivables	**58.1**	[illegible]
Prepayments and accrued income	**22.0**	[illegible]
	450.3	418.8
Receivables are stated after:		
Allowance for impairment	**13.2**	[illegible]

[illegible] following the Bimba acquisition.

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

3.1.3 Trade and other payables

	2018 £m	2017 £m
Current		
Trade payables	**198.4**	[illegible]
Social security and other taxation	**28.4**	26.8
Other payables	**8.2**	7.8
Accruals and deferred income	**155.9**	159.9
	390.9	[illegible]
Non-current		
Other payables	**5.5**	6.0
	396.4	[illegible]

The Group's trade and other payables [illegible] due to foreign exchange movements of [illegible] and an increase of [illegible] following the Bimba acquisition offset by trading movements of [illegible].

3.2
Intangible assets

The following section shows the non-physical assets used by the Group to generate revenues and profits. These assets include goodwill, customer relationships, order books, patents, development costs and software development costs. The cost of these assets is the amount that the Group has paid for them or, when they have arisen due to a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights.

In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets net of the liabilities acquired. The value of the goodwill can arise from a number of sources, but in relation to our more recent acquisitions, it has been represented by post-acquisition synergies and the skills and knowledge of the workforce. The value of the Group's intangible assets, with the exception of goodwill, reduces over the number of years over which the Group expects to use the asset, the useful life, via an annual amortisation charge to the income statement.

The Group splits its intangible assets between those arising on acquisitions and those which do not, because the amortisation of acquired intangibles is recognised as an adjusting item in the income statement.

Where there are indications that the value of intangible assets is no longer representative of their value to the Group, for example where there is a customer relationship recognised but revenues from that customer are reducing, or where goodwill was recognised on an acquisition but the performance of the business acquired is below expectations, the directors review the value of the assets to ensure they have not fallen below their amortised values. If this has happened, a one-off impairment charge is recognised. This section explains the overall carrying values of the intangible assets within the Group and the specific judgements and estimates made by the directors in arriving at these values.

3.2.1
Analysis of intangible assets

	Goodwill £m	Acquired customer relationships £m	Other acquired intangibles £m	Total acquired intangibles £m	Other non-acquired intangibles £m	Non-acquired intangibles under construction £m	Total £m
Cost							
As at 1 January 2017	426.9	193.1	99.9	[illegible]	95.9	11.1	830.2
Exchange adjustments	(6.5)	2.0	0.1	(4.1)	0.2	(0.5)	(3.7)
Disposals of subsidiaries	-	-	(0.1)	(0.1)	(0.1)	-	(0.2)
Additions	-		-	-	[illegible]	11.6	[illegible]
Transfers from assets in the course of construction	-	-	-	-	15.0	[illegible]	-
Disposals	-	-	-		(5.2)	(0.1)	(5.3)
As at 31 December 2017	420.4	195.4	99.9	[illegible]	111.1	25.1	852.2
Exchange adjustments	**16.0**	**7.0**	**4.6**	**27.6**	**2.6**	**(0.1)**	**30.1**
Acquisitions	**39.1**	**34.2**	**20.0**	**93.3**	**3.4**	**-**	**96.7**
Additions	**-**	**-**	**-**	**-**	**6.7**	**13.7**	**20.4**
Transfers from assets in the course of construction	**-**	**-**	**-**	**-**	**21.4**	**(21.4)**	**-**
Disposals	**-**	**-**	**(2.2)**	**(2.2)**	**(1.9)**	**-**	**(4.1)**
As at 31 December 2018	**475.5**	**236.6**	**122.3**	**834.4**	**143.6**	**17.3**	**995.3**
Amortisation							
As at 1 January 2017	31.7	145.1	87.8	[illegible]	51.4	-	[illegible]
Exchange adjustments	1.4	0.9	(0.3)	[illegible]	0.3	-	2.3
Disposals of subsidiaries			(0.1)	(0.1)	(0.1)		(0.2)
Disposals	-	-	-	-	(5.1)	-	(5.1)
Amortisation for year	-	15.0	[illegible]	[illegible]	9.7	-	[illegible]
As at 31 December 2017	36.1	161.0	89.9	[illegible]	56.2		[illegible]
Exchange adjustments	**0.2**	**3.3**	**2.8**	**6.3**	**3.0**	**-**	**9.3**
Disposals	**-**	**-**	**(2.2)**	**(2.2)**	**(1.8)**	**-**	**(4.0)**
Impairment	**2.0**	**-**	**-**	**2.0**	**1.2**	**-**	**3.2**
Amortisation for year	**-**	**16.2**	**8.9**	**25.1**	**11.8**	**-**	**36.9**
As at 31 December 2018	**38.3**	**180.5**	**99.4**	**318.2**	**70.4**	**-**	**388.6**
Net book value at 31 December 2017	384.3	34.4	10.0	428.7	55.2	25.1	509.0
Net book value at 31 December 2018	**437.2**	**56.1**	**22.9**	**516.2**	**73.2**	**17.3**	**606.7**

Section 3 – operating assets and liabilities
(continued)

3.2.2
Goodwill impairment testing

Goodwill is not subject to an annual amortisation charge. Instead, its carrying value is assessed annually by comparison to the future cash flows of the business to which it relates (the cash generating unit, or 'CGU'). These cash flows are discounted to reflect the time value of money and this discount rate, together with the growth rates assumed in the cash flow forecasts, are the key assumptions in this impairment testing process.

[illegible]

[illegible]

[illegible]

[illegible]

	2018 %	2017 %
Pre-tax discount rate	8.9 - 14.8	8.1 - 13.4
Long-term growth rate	0.8 - 3.1	0.8 - 2.1

[illegible]

[illegible]

[illegible]

3.3
Property, plant and equipment

The following section concerns the physical assets used by the Group to generate revenues and profits. These assets include manufacturing, distribution and office sites, as well as equipment used in the manufacture of the Group's products. The cost of these assets represents the amount initially paid for them.

With the exception of the Group's land and assets under construction which have not yet been brought into use, a depreciation expense is charged to the income statement to reflect the annual wear and tear and the reduction in the value of the asset over time. For details on the periods over which assets are depreciated, see Section 5. Depreciation is calculated by reference to the assets' useful lives, by estimating the number of years over which the Group expects the asset to be used. As we do for our intangible assets (see Section 3.2), if there has been a technological change or decline in business performance the directors review the value of the assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value, a one-off impairment charge is made against profit.

	Land & buildings £m	Plant & equipment £m	Assets in the course of construction £m	Total £m
Cost				
As at 1 January 2017	[illegible]	[illegible]	[illegible]	[illegible]
Exchange adjustments	[illegible]	[illegible]	[illegible]	[illegible]
Disposals of subsidiaries	[illegible]	[illegible]	[illegible]	[illegible]
Additions	[illegible]	13.2	[illegible]	[illegible]
Transfers from assets in the course of construction	[illegible]	25.0	[illegible]	
Disposals	[illegible]	[illegible]	[illegible]	[illegible]
As at 31 December 2017	184.9	632.5	21.1	838.5
Exchange adjustments	**14.4**	**34.7**	**(1.7)**	**47.4**
Acquisitions	**7.4**	**11.0**	**0.4**	**18.8**
Additions	**0.7**	**16.3**	**21.1**	**38.1**
Transfers from assets in the course of construction	**1.6**	**20.0**	**(21.6)**	**-**
Disposals	**(15.0)**	**(27.0)**	**(0.1)**	**(42.1)**
As at 31 December 2018	**194.0**	**687.5**	**19.2**	**900.7**
Depreciation				
As at 1 January 2017	95.8	468.7	-	564.0
Exchange adjustments	-	0.2	-	0.2
Disposals of subsidiaries	(0.2)	(1.4)	-	(1.6)
Disposals	(3.4)	(33.5)	-	(36.9)
Impairment charge	0.4	2.9	-	3.3
Depreciation	3.6	35.0	-	38.6
As at 31 December 2017	96.2	471.9	-	568.1
Exchange adjustments	**12.9**	**24.8**	**-**	**37.7**
Disposals	**(6.2)**	**(26.1)**	**-**	**(32.3)**
Depreciation	**2.9**	**39.9**	**-**	**42.8**
As at 31 December 2018	**105.8**	**510.5**	**-**	**616.3**
NBV at 31 December 2017	88.7	160.6	21.1	270.4
NBV at 31 December 2018	**88.2**	**177.0**	**19.2**	**284.4**

An impairment charge of £nil relating to continuing operations was recognised during the year (2017: £3.3m). The recoverable amount of these assets has been determined using their fair value less costs to sell, estimated by both internal and external valuation specialists.

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date relating to the continuing business amounted to £[illegible]m (2017: £4.9m).

Included in the total net book value of plant and equipment is £0.6m (2017: £0.4m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.2m (2017: £0.2m).

Section 3 – operating assets and liabilities
(continued)

3.4
Acquisitions

The following section discusses businesses acquired by the Group, which have given rise to the additions to the acquired intangible assets (including goodwill) reported in Section 3.2 and which contributed to the Group's profits, working capital and other balance sheet asset and liabilities.

On 31 January 2018 the Group acquired [illegible] of the share capital and associated voting rights of Bimba Manufacturing Company ('Bimba') [illegible] consideration of [illegible]. Bimba is a [illegible] manufacturer of [illegible] pneumatic, hydraulic and electric motion [illegible] North America.

[illegible] table below.

	Fair value at 31 January 2018 £m
Intangible assets	[illegible]
Property, plant and equipment	[illegible]
Inventories	[illegible]
Trade and other receivables	[illegible]
Cash and cash equivalents	[illegible]
Trade and other payables	[illegible]
Provisions	[illegible]
Total identifiable net assets	[illegible]
Goodwill arising on acquisition	[illegible]
Total purchase consideration	[illegible]

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, [illegible] synergies and the future growth opportunities that the business provides to the Group's operations. The goodwill and all intangible assets recognised are amortisable for tax purposes. Acquisition costs of [illegible] were recognised as an adjusting item in the income statement in 2017.

The revenue and operating profit included in the Consolidated Income Statement in 2018 contributed by Bimba were [illegible] and [illegible] respectively. There is no difference between adjusted and statutory operating profit for Bimba.

If the acquisitions had taken place on 1 January 2018 they would have contributed adjusted revenue of [illegible] and adjusted operating profit of [illegible] to the Group results.

There were no acquisitions during 2017.

3.5
Disposals

There were no disposals of subsidiaries during 2018.

On 1 September 2017 the Group disposed of [illegible] Steel Fasteners [illegible] (SSF) resulting in a loss of [illegible] which is presented in the income statement [illegible] operations at SSF [illegible] summary of the [illegible] in the table below.

	SSF 1 September 2017 £m
Sale consideration	[illegible]
Net assets disposed	[illegible]
Costs of disposal	[illegible]
Loss on disposal	**(2.3)**
Net cash flow arising on disposal	
Cash disposed	[illegible]
Cash costs of disposal	[illegible]
Net cash flow arising on disposal of operations	**(0.6)**

3.6 Provisions

A provision is recorded instead of a payable (see Section 3.1.3) when there is less certainty over how much cash will be paid and when the payment might be made. Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are valued at management's best estimate of the amount required to settle the present obligation at the balance sheet date.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

The recognition of a provision requires estimation. The principal estimates made in respect of the Group's provisions concern the timing and amount of payments required to:

- cover the costs of known restructuring projects;
- reimburse customers for potential product warranty claims;
- ensure that current and former manufacturing sites meet relevant environmental standards;
- reflect the estimated outcome of ongoing legal disputes; and
- provide against indemnities following the disposal of subsidiaries.

Analysis of the Group's provisions:

	Restructuring £m	Trade warranties £m	Environmental legal & indemnity £m	Total £m
Current	13.0	6.2	-	19.2
Non-current	1.5	6.6	7.3	15.4
At 1 January 2018	14.5	12.8	7.3	34.6
Arising during the year	**3.6**	**0.9**	**3.4**	**7.9**
Utilised during the year	**(13.5)**	**(1.8)**	**(0.4)**	**(15.7)**
Exchange adjustment	**0.1**	**0.2**	**-**	**0.3**
At 31 December 2018	**4.7**	**12.1**	**10.3**	**27.1**
Current	**4.3**	**5.0**	**3.2**	**12.5**
Non-current	**0.4**	**7.1**	**7.1**	**14.6**
	4.7	**12.1**	**10.3**	**27.1**

The restructuring provision reflects residual amounts committed but not spent in relation to a number of specific projects.

Trade warranties are given in the normal course of business and cover a range of periods, typically one to two years, with the expected amounts falling due in less than and greater than one year separately analysed above. Amounts set aside represent the directors' best estimate regarding the amount of the settlements and the timing of resolution with customers.

Environmental and legal provisions recognise the Group's obligation to remediate contaminated land at a number of current and former sites, together with current legal cases for which a settlement is considered probable. Because of the long-term nature of the liabilities, the timescales are uncertain and the provisions represent the directors' best estimates of these costs.

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

Section 4 – capital structure and financing costs

What you will find in this section

This section outlines how the Group manages its capital and related financing costs. The directors determine the appropriate capital structure for the Group, specifically, how much cash is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future. The directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan.

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

4.1
Net debt

Net debt is the Group's key measure used to evaluate total outstanding debt, net of the current cash resources. Some of the Group's borrowings (and cash) are held in foreign currencies. Movements in foreign exchange rates affect the sterling value of the net debt. 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.

a) Reconciliation of cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents in current assets	132.2	98.6
Bank overdrafts in current liabilities	(82.6)	(31.0)
Cash and cash equivalents	49.6	67.6

b) Reconciliation of net cash to movement in net borrowings

	2018 £m	2017 £m
Net (decrease)/increase in cash and cash equivalents excluding foreign exchange	(19.7)	[illegible]
Net drawdown of/repayment of borrowings excluding foreign exchange and net debt disposed/acquired	(86.0)	[illegible]
(Increase)/decrease in net debt before acquisitions, disposals and foreign exchange	(105.7)	[illegible]
Net debt acquired	(15.0)	-
Currency translation differences	(18.6)	15.1
Movement in net borrowings in the year	(139.3)	17.4
Net borrowings at the start of the year	(265.2)	(282.6)
Net borrowings at the end of the year	(404.5)	(265.2)

c) Analysis of net debt

	Cash and cash equivalents £m	Borrowings and finance leases due within one year £m	Borrowings and finance leases due after more than one year £m	Total net debt £m
At 1 January 2018	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	(3.4)	36.6	(121.8)	(88.6)
Net debt acquired	0.8	-	(15.8)	(15.0)
[illegible]	(17.1)	-	-	(17.1)
Currency translation differences	1.7	(1.6)	(18.7)	(18.6)
At 31 December 2018	49.6	(78.8)	(375.3)	(404.5)

4.2
Interest-bearing loans and borrowings

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term or are drawn from committed borrowing facilities that generally have floating interest rates.

This section provides information about the terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see Section 4.1.3.

	2018 £m	2017 £m
Current liabilities		
Unsecured loan notes and other loans	78.6	113.8
Finance lease liabilities	0.2	-
	78.8	113.8
Non-current liabilities		
Unsecured loan notes and other loans	375.2	[illegible]
Finance lease liabilities	0.1	[illegible]
	375.3	219.0

On 21 February 2018, the Group repaid unsecured loan notes of £108.7m and agreed new unsecured loan notes totaling £[illegible].8m. The new loan notes have a ten-year term and an effective interest rate of 1.53%.

On 31 January 2018, following the acquisition of Bimba Manufacturing Company, the Group repaid £15.8m of unsecured loans held by the entity prior to acquisition. On 5 April 2018, the Group entered in to new unsecured loan notes for £[illegible]m and £53.2m which have terms of 8 and 9 years respectively. These new loan notes have effective interest rates of 3.86% and 3.92% respectively. The new loan notes were used to repay the short term borrowings used to fund the acquisition of Bimba Manufacturing Company.

Section 4 – capital structure and financing costs
(continued)

4.3
Net financing costs

This section details the income generated on the Group's financial assets and the expense incurred on borrowings and other financial assets and liabilities. The finance income and expense taken into account in arriving at adjusted earnings only includes the income and expense arising on cash balances, borrowings and retirement benefit obligations. The finance income or expense on mark-to-market movements on interest and foreign exchange derivatives and other financing costs are excluded from adjusted earnings.

Recognised in the income statement

	2018			2017		
	Interest £m	Financial instruments £m	Total £m	Interest £m	Financial instruments £m	Total £m
Interest income on bank deposits	5.8		5.8	5.5		5.5
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		13.9	13.9		6.9	6.9
- future year transactions		2.2	2.2		[illegible]	[illegible]
Financial income	5.8	16.1	21.9	[illegible]	[illegible]	[illegible]
Interest expense on interest-bearing loans and borrowings	(18.7)		(18.7)	(15.8)		(15.8)
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		(15.9)	(15.9)		(6.8)	(6.8)
- future year transactions		(4.6)	(4.6)		(2.4)	(2.4)
Financial expense	(18.7)	(20.5)	(39.2)	(15.8)	[illegible]	[illegible]
Net financial income relating to defined benefit pension schemes	(1.4)		(1.4)	(0.6)		(0.6)
Net financial expense	(14.3)	(4.4)	(18.7)	[illegible]	3.2	(11.8)

Includes financial instruments' current year trading gains and losses on economically effective transactions which for management reporting purposes are included in adjusted revenue and operating profit (see Section 2.1). For statutory purposes these are required to be shown within net financial income and expense above. Gains or losses for future year transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

Recognised in other comprehensive income

	2018 £m	2017 £m
Change in fair value of effective portion of net investment hedges	1.9	3.1
Foreign currency translation differences	(4.5)	(11.0)
Change in fair value of other financial assets	0.2	(0.2)
Income tax on items recognised in other comprehensive income	(0.3)	(0.6)
Total items recognised in other comprehensive income (net of tax)	(2.7)	(8.4)
Recognised in:		
Hedging reserve	1.8	2.6
Translation reserve	(4.5)	(11.0)
	(2.7)	(8.4)

4.4
Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate, foreign exchange and base metal price movements in addition to funding and liquidity risks. The financial instruments used to manage these risks themselves introduce exposure to credit risk, market risk and liquidity risk.

This section presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risks, including each of the above risks; and the Group's management of capital.

4.4.1
Overview

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. As [illegible] in the Corporate Governance report on page [illegible], the Executive Committee monitors risk and internal controls and the Audit Committee [illegible] financial risks, while the other Board committees [illegible] play a part in contributing to the oversight of risk.

The Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the financial risks faced by the Group. The Group Assurance department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following sections discuss the management of specific financial risk factors in detail, including credit risk, foreign exchange risk, cash-flow and interest rate risk, commodity risk and liquidity risk.

4.4.2
Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents held by the Group's banks and other financial assets. At the end of 2018 these totalled £503.4m (2017: £442.5m).

4.4.2.1
Managing credit risk arising from customers

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. Our largest single customer accounted for 2[illegible] of our 2018 revenue (2017: 2[illegible]).

Geographically there is no unusual concentration of credit risk. The Group's contract approval procedure ensures that large contracts are signed off at executive director level at which time the risk profile of the contract, including potential credit and foreign exchange risks, is reviewed. Credit risk is minimised through due diligence on potential customers, appropriate credit limits, cash flow management and the use of documentary credits where appropriate.

4.4.2.2
Exposure to credit risk in respect of financial assets

The maximum exposure to credit risk [illegible]

	Carrying amount 2018 £m	2017 £m
Cash and cash equivalents	132.2	[illegible]
Investments	3.7	[illegible]
	135.9	[illegible]

4.4.2.3
Exposure to credit risk in respect of trade receivables

	Carrying amount 2018 £m	2017 £m
UK	16.2	14.5
Germany	26.1	[illegible]
Rest of Europe	109.5	[illegible]
USA	66.0	[illegible]
Asia Pacific	84.9	61.6
Rest of World	67.5	[illegible]
	370.2	[illegible]

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

	Carrying amount 2018 £m	2017 £m
IMI Critical Engineering	188.5	[illegible]
IMI Precision Engineering	135.8	115.3
IMI Hydronic Engineering	45.9	[illegible]
	370.2	339.9

Section 4 – capital structure and financing costs
(continued)

4.4.2.4
Impairment provisions for trade receivables

[illegible]

	2018		2017	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	299.9	(0.1)	[illegible]	[illegible]
Past due 1-30 days	36.0	(0.5)	[illegible]	[illegible]
Past due 31-90 days	22.7	(0.9)	[illegible]	[illegible]
Past due over 90 days	24.8	(11.7)	[illegible]	[illegible]
Total	**383.4**	**(13.2)**	[illegible]	[illegible]

[illegible]

	2018 £m	2017 £m
Net balance at 1 January	12.5	[illegible]
Acquisitions	0.1	-
Utilised during the year	(1.7)	[illegible]
Charged to the income statement	2.6	[illegible]
Released	(0.3)	[illegible]
Exchange	-	[illegible]
Net balance at 31 December	**13.2**	[illegible]

[illegible]

4.4.2.5
Managing credit risk arising from counterparties

[illegible]

4.4.3
Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's income and cash flows or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Under the management of the central treasury function, the Group enters into derivatives in the ordinary course of business and also manages financial liabilities in order to mitigate market risks. All such transactions are carried out within the guidelines set by the Board and are undertaken only if they relate to underlying exposures.

4.4.3.1
Foreign exchange risk

The Group publishes consolidated accounts in sterling but conducts much of its global business in other currencies. As a result it is subject to the risks associated with foreign exchange movements affecting transaction costs ('transactional risk'), translation of foreign profits ('profit translation risk') and translation of the underlying net assets of foreign operations ('asset translation risk').

a) Management of transactional risk

[illegible]

b) Management of profit translation risk

[illegible]

c) Management of asset translation risk

[illegible]

[illegible]

d) Currency profile of assets and liabilities

	Cash* 2018 £m	Debt 2018 £m	Exchange contracts 2018 £m	Assets subject to interest rate risk 2018 £m	Other net assets 2018 £m	Total net assets 2018 £m	Total net assets 2017 £m
Sterling	41	-	485	526	(11)	515	[illegible]
US dollar	-	(248)	(11)	(259)	318	59	[illegible]
Euro	(11)	(207)	(216)	(434)	520	86	[illegible]
Other	20	-	(258)	(238)	244	6	[illegible]
Total	50	(455)	-	(405)	1,071	666	[illegible]

* Cash net of bank overdrafts.

[illegible]

4.4.3.2 Interest rate risk

The Group is exposed to a number of global interest rates through assets and liabilities denominated in jurisdictions to which these rates are applied, most notably US, Eurozone and UK rates. The Group is exposed to these because market movements in these rates will increase or decrease the interest charge recognised in the Group income statement.

a) Management of interest rate risk

The Group adopts a policy of maintaining a portion of its liabilities at fixed interest rates and reviewing the balance of the floating rate exposure to ensure that if interest rates rise globally the effect on the Group's income statement is manageable.

Interest rates are managed using fixed and floating rate debt and financial instruments including interest rate swaps. Floating rate liabilities comprise short-term debt which bears interest at short-term bank rates and the liability side of exchange contracts where the interest element is based primarily on three-month inter-bank rate.

All cash surpluses are invested for short periods and are treated as floating rate investments.

Non-interest bearing financial assets and liabilities including short-term trade receivables and payables have been excluded from the following analysis.

Section 4 – capital structure and financing costs
(continued)

b) Interest rate risk profile

The following table shows how much of our cash, interest-bearing liabilities and exchange contracts attract both fixed and floating rate interest charges, and how this is analysed between currencies.

	Debt and exchange contracts 2018 £m	Cash and exchange contracts 2018 £m	Assets subject to interest rate risk 2018 £m	Floating rate 2018 £m	Fixed rate 2018 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	-	526	526	526	-		
US dollar	(259)	-	(259)	(12)	(248)	5.2	5.2
Euro	(423)	(11)	(434)	(226)	(207)	1.4	7.3
Other	(258)	20	(238)	(238)	-		
Total	**(940)**	**535**	**(405)**	**50**	**(455)**		

	Debt and exchange contracts 2017 £m	Cash and exchange contracts 2017 £m	Assets subject to interest rate risk 2017 £m	Floating rate 2017 £m	Fixed rate 2017 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling		522	522	522			
US dollar	(219)	36	(183)	15	(198)	[illegible]	[illegible]
Euro	(336)	9	(327)	(194)	(133)	1.4	7.3
Other	[illegible]	26	[illegible]	[illegible]			
Total	(856)	593	(263)	64	(329)		

4.4.3.3 Commodity risk

The commodity inputs to the Group's production process typically consist of base metals. Commodity risk for the Group is the risk that the prices of these inputs could rise, thus reducing Group profits.

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

Management of commodity risk

The Group manages this exposure through a centralised process hedging copper, zinc and aluminium using a combination of financial contracts and local supply agreements designed to minimise the volatility of short-term margins.

4.4.4 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

a) Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have adequate resources to meet its liabilities when they fall due, with sufficient headroom to cope with abnormal market conditions. This position is reviewed on a quarterly basis.

Funding for the Group is co-ordinated centrally by the treasury function and comprises committed bilateral facilities with a core group of banks, and a series of US loan notes. 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 2018 the Group had undrawn committed facilities totalling £300m (2017: £302m) and was holding cash and cash equivalents of £[illegible]m (2017: £[illegible]m). There are no significant seasonal funding requirements or capital intensive investment areas for the Group.

4.5 Capital management

Capital management concerns the decision as to how the Group's activities are financed and specifically, how much of the Group capital is provided by borrowings (or debt) and how much of it is financed with equity raised from the issue of share capital.

The Board's policy is to maintain a balance sheet with a broad capital base and the strength to sustain the future development of the business including acquisitions. This section discusses how the Board views the capital base of the Group and the impact on leverage, distribution policy and investment policy.

4.5.1
Overview

[illegible]

4.5.2
Capital base

	2018 £m	2017 £m
Total equity	666	667
Gross debt including overdraft	537	361
Gross cash	(132)	[illegible]
Capital base	1,071	872
Employee benefits and deferred tax assets	45	27
Extended capital base	1,116	899
Undrawn funding facilities	300	302
Available capital base	1,416	1,201

Part of the capital base is held in currencies to broadly match the currency base of the assets being funded as described in the asset translation risk section.

4.5.3
Debt or equity

The balance between debt and equity in the capital base of the Group is considered regularly by the Board in light of market conditions, business forecasts, growth opportunities and the ratio of net debt to continuing 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 2018 was 1.3 times (2017: 0.9 times). Through the life of our five-year plan, the Board would consider appropriate acquisitions that could take net debt up to 2.5 times EBITDA on acquisition, provided that a clear plan exists to reduce this ratio back to under 2.0 times. It is expected that at these levels our debt would continue to be perceived as investment grade. The potential benefits to equity shareholders of greater leverage are offset by higher risk and the cost and availability of funding. The Board will consider raising additional equity in the event that it is required to support the capital base of the Group.

4.5.4
Dividend policy and share buy-backs

[illegible]

[illegible] the Group [illegible] 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 buy-backs 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 [illegible] shown in Section [illegible].10.2 to the financial statements.

4.5.5
Weighted average cost of capital

The Group currently uses a post-tax weighted average cost of capital (WACC) of [illegible] (2017: [illegible]) as a benchmark for investment returns. This is reviewed regularly in the light of changes in market rates. The Board tracks the Group's return on invested capital and seeks to ensure that it consistently delivers returns in excess of the WACC.

4.6
Debt and credit facilities

This section provides details regarding the specific borrowings that the Group has in place to satisfy the debt elements of the capital management policy discussed above.

4.6.1
Undrawn committed facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 31 December in respect of which all conditions precedent had been met were as follows:

	2018 £m	2017 £m
Expiring within one year	50.0	51.5
Expiring between one and two years	125.0	50.0
Expiring after more than two years	125.0	200.0
	300.0	301.5

The weighted average life of these facilities is 1.8 years (2017: 2.0 years).

Section 4 – capital structure and financing costs
(continued)

4.6.2
Terms and debt repayment schedule

The terms and conditions of cash and cash equivalents and outstanding loans were as follows:

	Effective interest rate %	Carrying value £m	Contractual cash flows £m	0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	5 years and over £m
2018									
Cash and cash equivalents	Floating	132.2	132.2	132.2					
US loan notes 2019	7.61%	(78.6)	(84.1)	(84.1)					
US loan notes 2022	7.17%	(11.7)	(15.1)	(0.8)	(0.8)	(0.8)	(12.6)		
US loan notes 2025	1.39%	(135.1)	(147.3)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(138.0)
US loan notes 2026	3.86%	(97.7)	(125.9)	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)	(107.1)
US loan notes 2027	3.92%	(58.6)	(78.1)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(66.6)
US loan notes 2028	1.53%	(72.1)	(82.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(77.0)
Finance leases	Various	(0.3)	(0.4)	(0.2)	(0.2)				
Bank overdrafts	Floating	(82.6)	(82.6)	(82.6)					
Total		(404.5)	(483.8)	(44.6)	(10.1)	(9.9)	(21.7)	(9.1)	(388.7)
2017									
Cash and cash equivalents	Floating	[illegible]	[illegible]	[illegible]					
US loan notes 2018	5.98%	[illegible]	[illegible]	[illegible]					
US loan notes 2019	7.61%	[illegible]	[illegible]	[illegible]	[illegible]				
US loan notes 2022	[illegible]	(11.1)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
US loan notes 2025	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance leases	Various	[illegible]	[illegible]		[illegible]				
Bank overdraft	Floating	[illegible]	[illegible]	[illegible]					
Unsecured bank loans	Floating	(3.4)	[illegible]	[illegible]	[illegible]				
Total		[illegible]	(292.1)	(55.4)	(81.0)	(2.6)	(2.6)	(13.6)	[illegible]

Contractual cash flows include undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

4.7
Fair value

Financial instruments included in the financial statements are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. The Group generally calculates its own fair values using comparable observed market prices and a valuation model using the respective and relevant market data for the instrument being valued.

4.7.1
Total financial assets and liabilities

The table below sets out the Group's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2018 and 31 December 2017. Under IFRS 9, all derivatives [illegible] 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					
	Designated at fair value £m	Other derivatives at fair value £m	Financial assets at fair value* £m	At amortised cost £m	Total carrying value £m	Fair value if different £m
2018						
Cash and cash equivalents			**132.2**		**132.2**	
Bank overdrafts				**(82.6)**	**(82.6)**	
Borrowings due within one year				**(78.8)**	**(78.8)**	**(79.8)**
Borrowings due after one year				**(375.3)**	**(375.3)**	**(379.9)**
Trade and other payables**				**(396.4)**	**(396.4)**	
Trade receivables				**370.2**	**370.2**	
Investments			**2.9**	**0.8**	**3.7**	
Other current financial assets/(liabilities)						
Derivative assets***		**1.0**			**1.0**	
Derivative liabilities****	**(3.5)**	**(0.5)**			**(4.0)**	
Total	**(3.5)**	**(0.5)**	**136.1**	**(562.1)**	**(430.0)**	
2017						
Cash and cash equivalents			98.6		98.6	
Bank overdrafts				(31.0)	(31.0)	
Borrowings due within one year				(113.8)	(113.8)	(111.0)
Borrowings due after one year				(219.0)	(219.0)	(22[illegible])
Trade and other payables**				(423.1)	(423.1)	
Trade receivables				339.9	339.9	
Investments*****			13.0	0.8	13.8	
Other current financial assets/(liabilities)						
Derivative assets***		4.1			4.1	
Derivative liabilities****	(2.3)	(1.6)			(3.9)	
Total	(2.3)	2.5	111.6	(446.2)	(331.4)	

* 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 other tax liabilities and include liabilities of £5.5m (2017: £6.8m) falling due after more than one year.

*** Includes £nil (2017: £0.1m) falling due after more than one year.

**** Derivative liabilities include liabilities of £0.4m (2017: £0.1m) falling due after more than one year: £0.4m in 1-2 years and £nil in 2-5 years (2017: £0.1m in 1-2 years and £nil in 2-5 years). Derivative liabilities designated at fair value represent the fair value of net investment hedge derivatives. The increase in value of net investment hedge derivative liabilities in the year of £1.9m is shown in the consolidated statement of comprehensive income (net of tax).

***** On adoption of IFRS 9 an election was made to designate an external investment of £9.8m held as not for trading at fair value through other comprehensive income.

There are no other financial liabilities included within payables disclosed above and finance leases disclosed in section 4.6.2.

Section 4 – capital structure and financing costs
(continued)

[illegible]

	Quoted prices in active market 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 2018				
Financial assets measured at fair value				
Equity instruments*	2.9			2.9
Cash and cash equivalents	132.2			132.2
[illegible]		1.0		1.0
	135.1	1.0	-	136.1
Financial liabilities measured at fair value				
[illegible]		(4.0)		(4.0)
	-	(4.0)	-	(4.0)
As at 31 December [illegible]				
Financial assets measured at fair value				
Equity instruments*	3.2		[illegible]	[illegible]
Cash and cash equivalents	98.6			[illegible]
Foreign currency forward contracts		3.1		[illegible]
	[illegible]	4.1	[illegible]	[illegible]
Financial liabilities measured at fair value				
Foreign currency forward contracts		(3.9)		(3.9)
	-	(3.9)	-	(3.9)

* [illegible]

Valuation techniques for level 2 inputs

[illegible]

Valuation techniques for level 3 inputs

[illegible]

4.7.2
Valuation methodology

[illegible]

[illegible]

[illegible]

[illegible]

4.7.3
Fair value hierarchy

[illegible]

[illegible]

[illegible]

[illegible]

4.8
Market risk sensitivity analysis on financial instruments

This section shows how the fair value of financial instruments presented can change for a given change in market rates.

The values shown in the table below are estimates of the impact on financial instruments only. The risks that these financial instruments have been acquired to hedge will move in an opposite direction.

4.8.1
Overview

[illegible]

[illegible]

4.8.2
Financial derivatives sensitivity table

[illegible]

	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 2018						
Impact on income statement (loss)/gain	**-**	**-**	**(7.1)**	**7.1**	**(0.4)**	**0.4**
Impact on equity (loss)/gain	**-**	**-**	**(92.5)**	**92.5**	**-**	**-**
At 31 December 2017						
Impact on income statement (loss)/gain	-		[illegible]	[illegible]	[illegible]	[illegible]
Impact on equity (loss)/gain	-	-	(77.9)	77.9	-	-

Section 4 – capital structure and financing costs
(continued)

4.9
Retirement Benefits

IMI offers a number of defined benefit arrangements to employees that will not be paid until more than a year after the period in which they are earned, for example pension benefits, jubilee plans, post-employment and other long-term employee benefit arrangements.

There is a significant degree of estimation involved in predicting the ultimate benefits payable under these defined benefit arrangements in respect of which the Group holds net liabilities on its balance sheet. This section explains how the value of these benefits payable and any assets funding the arrangements are accounted for in the Group financial statements and gives details of the key assumptions upon which the estimations are based.

Assets and liabilities for defined contribution arrangements are minimal as they relate solely to short-term timing differences between the period during which benefits have accrued and when contributions are paid into schemes.

Defined contribution ('DC'): Arrangements where the employer pays fixed contributions into an external fund on behalf of the employee (who is responsible for making the investment decision and therefore assumes the risks and rewards of fund performance). Contributions to these arrangements are recognised in the income statement as incurred.

Defined benefit ('DB'): A defined benefit pension plan is a pension arrangement in which the employer promises a specified annual benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. In some cases, this benefit is paid as a lump sum on leaving the Company or while in the service of the Company rather than as a pension. The Group underwrites one or more risks in meeting these obligations and therefore any net liability or surplus in these arrangements is shown on the Group balance sheet.

4.9.1
Summary information

Net pension deficit: £52.3m (2017: deficit of £77.9m)

The assets and liabilities of the defined benefit schemes are aggregated, recognised in the consolidated balance sheet and shown within non-current liabilities or non-current assets if a scheme is in surplus and it is deemed recoverable.

Number of defined benefit arrangements: 67 (2017: 69)

The number of defined benefit arrangements decreased due to the wind-up of a pension scheme in the UK.

The following table shows a summary of the geographical profile of the Group's defined benefit schemes.

	Quantity 2018	Quantity 2017	Assets £m	Liability £m	Net Surplus/ (deficit) £m
Australia	2	2	-	0.4	(0.4)
Austria	6	6	-	3.4	(3.4)
France	3	3	0.2	1.0	(0.8)
Germany	28	28	6.9	57.6	(50.7)
India	6	6	-	0.8	(0.8)
Italy	5	5	-	2.8	(2.8)
Mexico	6	6	-	0.4	(0.4)
Spain	2	2	-	0.1	(0.1)
Switzerland	5	5	64.1	77.6	(13.5)
UAE	1	1	-	1.4	(1.4)
US	2	2	-	5.8	(5.8)
UK	1	3	473.3	445.5	27.8
	67	69	544.5	596.8	(52.3)

* The US deficit above excludes £2.9m of assets relating to unqualified plans classified as investments (see Section 4.7).

[illegible]

Type of scheme	Qty No	Assets £m	% of total assets %	Liability £m	% of total liabilities %
2018					
Final salary*	**25**	**473.5**	**87%**	**494.9**	**83%**
Cash balance**	**10**	**64.3**	**12%**	**80.4**	**14%**
Jubilee***	**14**	**-**	**0%**	**3.2**	**0%**
Other	**18**	**6.9**	**1%**	**18.3**	**3%**
Total	**67**	**544.7**	**100%**	**596.8**	**100%**
Asset ceiling		**(0.2)**			
Revised assets		**544.5**			
2017					
Final salary	27	[illegible]	[illegible]	[illegible]	89%
Cash balance**	[illegible]	[illegible]	8%	91.9	9%
Jubilee***	[illegible]	-	0%	3.0	0%
Other	18	[illegible]	[illegible]	[illegible]	2%
Total	69	1,002.1	100%	1,079.8	100%
Asset ceiling		(0.2)			
Revised assets		1,001.9			

* **Final salary scheme:** The pension available to a member of a final salary arrangement will be a proportion of the member's salary at or around their retirement date. The proportion will be determined by the member's length of pensionable service, the accrual rate and, in 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 in cash balance plans, they have minimum guaranteed rates of return on pension contributions; the amount of pension to which that lump sum may be converted is determined by the annuity rates prevailing at the time of conversion.

*** **Jubilee:** Jubilee plans provide for cash award payments which are based on completed length of service. These payments are often made on cessation of service with the Company subject to a minimum period of service.

Asset profile of schemes

[illegible]

	2018 £m	2017 £m
Quoted equities	**21.0**	[illegible]
Quoted bonds	**299.2**	[illegible]
Total quoted assets	**320.2**	[illegible]
Private equities	**113.9**	[illegible]
Insurance policies*	**17.9**	[illegible]
Hedge fund	**0.8**	[illegible]
Property	**17.8**	[illegible]
Other**	**74.1**	[illegible]
Total unquoted assets	**224.5**	[illegible]
Fair value of assets	**544.7**	1,002.1
Restriction due to asset ceiling	**(0.2)**	(0.2)
DBOs for funded schemes	**(532.8)**	[illegible]
DBOs for unfunded schemes	**(64.0)**	[illegible]
Net surplus/(deficit) for DBOs	**(52.3)**	[illegible]
Schemes in net pension deficit	**(80.1)**	(83.6)
Schemes in net pension surplus	**27.8**	[illegible]

* The values assigned to the insurance policies were calculated by an independent third party actuary having regard to the liabilities insured and in particular the IAS 19 discount rate, the expected pension increases and the actual mortality experience of the members covered.

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

The overseas assets of £[illegible] (2017: £[illegible]) comprise equities of £23.3m (2017: £53.7m), bonds of £[illegible] (2017: £24.9m), insurance of £[illegible] (2017: £[illegible]), property of £[illegible] (2017: £[illegible]) and other assets of £[illegible] (2017: £[illegible]).

Funded: The majority of the Group's 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	2018	2017
UK	**21.5**	18.7
Switzerland	**17.4**	16.3
US	**6.5**	6.9
Eurozone	**15.5**	15.8

Section 4 – capital structure and financing costs
(continued)

4.9.2
The UK and overseas pension funds

4.9.2.1
The UK Funds

[illegible]

[illegible]

Asset allocation

[illegible]

Liability management

[illegible]

Contributions

[illegible]

4.9.2.2
Overseas pension funds

[illegible]

4.9.3
Specific effect on financial statements

[illegible]

- **Cash flow statement:** [illegible]
- **Income statement:** [illegible]
- **Other comprehensive income (OCI):** [illegible]

[illegible]

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) at 1 January 2018	1.6	(79.5)	(77.9)
Movement recognised in:			
Income statement	3.9	(4.4)	(0.5)
OCI	12.2	(0.6)	11.6
Cash flow statement	10.1	6.4	16.5
Other movements	-	(2.0)	(2.0)
Net defined benefit surplus/(obligation) at 31 December 2018	27.8	(80.1)	(52.3)

4.9.3.1
Cash flow impacts

	2018			2017		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
[illegible]	-	2.1	2.1	-	[illegible]	[illegible]
[illegible]	10.1	2.3	12.4	[illegible]	[illegible]	[illegible]
Benefits and settlements paid directly by the Group	-	4.1	4.1		[illegible]	[illegible]
Total	**10.1**	**8.5**	**18.6**	[illegible]	[illegible]	[illegible]

[illegible]

4.9.3.2
Other comprehensive income

[illegible]

	2018				2017			
	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	43.3	2.3	-	45.6	[illegible]	1.7		[illegible]
Change in inflation	(3.1)	(0.5)	-	(3.6)	6.2		-	6.2
Change in other assumptions	(6.8)	1.4	-	(5.4)	21.5	1.8	-	23.6
Actuarial experience	1.9	0.2	-	2.1	10.1	0.6	-	10.7
Asset experience	(23.1)	(4.0)	-	(27.1)	[illegible]	1.1	-	[illegible]
Actuarial gains/(losses) in the year	**12.2**	**(0.6)**	**-**	**11.6**	[illegible]	5.5	-	[illegible]
Change in the asset ceiling	-	-	-	-		(0.2)	-	(0.2)
Exchange losses/gains	-	(1.9)	(0.2)	(2.1)			0.3	0.3
Gains/(losses) recognised through equity	**12.2**	**(2.5)**	**(0.2)**	**9.5**	[illegible]	5.3	0.3	[illegible]

[illegible]

	Weighted Averages					
	31 Dec 2018		31 Dec 2017		31 Dec 2016	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Inflation - RPI	3.3	n/a	3.3	n/a	3.4	n/a
Inflation - CPI	2.3	1.4	2.3	1.3	2.4	1.2
Discount rate	2.7	1.5	2.4	1.3	2.6	1.1
Expected salary increases	n/a	1.8	n/a	1.4	2.2	1.4
Rate of pension increases	3.3	0.6	3.3	0.5	3.4	0.4

Section 4 – capital structure and financing costs
(continued)

	2018 Years	2017 Years	2016 Years
Life expectancy at age 65 (UK Funds only)			
Current male pensioners	21.3	[illegible]	[illegible]
Current female pensioners	24.3	[illegible]	24.1
Future male pensioners	23.0	[illegible]	23.3
Future female pensioners	26.2	[illegible]	26.1

[illegible]

[illegible]

UK	
Discount rate (0.1% decrease)	[illegible]
Inflation-linked pension increases (0.1% increase)	[illegible]
Increase of one year in life expectancy from age 65	[illegible]
10% fall in non-bond-like assets	£11.8m

[illegible]

[illegible]

[illegible]

Non-UK	
Discount rate (0.1% decrease)	[illegible]
Salary increases (0.1% increase)	[illegible]
Increase of one year in life expectancy at age 65	[illegible]

In each case all other assumptions are unchanged.

4.9.3.3
Income statement

[illegible]

	2018 UK £m	2018 Overseas post employment £m	2018 Overseas non-post employment £m	2018 Total £m	2017 UK £m	2017 Overseas post employment £m	2017 Overseas non-post employment £m	2017 Total £m
Current service cost	-	4.3	0.8	5.1	-	5.1	1.0	6.1
Past service cost/(credit)	0.4	(1.0)	-	(0.6)	(0.8)	1.7	0.1	1.0
Settlement/curtailment gain	(4.2)	(2.0)	-	(6.2)	(8.7)	(7.8)		(16.5)
Recognition of losses	-	-	0.8	0.8	-	-	0.2	0.2
DC employer contributions	-	-	-	-	-	-	-	-
Pension (income)/expense - operating costs	(3.8)	1.3	1.6	(0.9)	(9.5)	(1.0)	1.3	(9.2)
Interest on DBO	20.4	1.9	0.2	22.5	25.3	2.0	0.3	27.6
Interest on assets	(20.5)	(0.6)	-	(21.1)	(26.2)	(0.6)	-	(26.8)
Interest (income)/expense - financing costs	(0.1)	1.3	0.2	1.4	(0.9)	1.4	0.3	0.8

4.9.4
Overall reconciliation of changes in the net surplus/(liability) for defined benefit obligations

	2018				2017			
	Defined benefit obligation £m	Assets £m	Asset ceiling £m	Net defined benefit asset/ (liability) £m	Defined benefit obligation £m	Assets £m	Asset ceiling £m	Net defined benefit asset/ (liability) £m
Brought forward at start of year	(1,079.8)	1,002.1	(0.2)	(77.9)	[illegible]	[illegible]		[illegible]
Income Statement (charges)/credits								
Current service cost	(5.1)	-	-	(5.1)	(6.1)	-	-	(6.1)
Past service cost - plan amendments	0.6	-	-	0.6	(1.0)	-	-	(1.0)
Past service cost - curtailment*	-	-	-	-	5.3	-	-	5.3
Settlement	436.9	(430.7)	-	6.2	162.9	(151.7)		11.2
Net Interest (Cost)/Income on Net Defined Benefit (Liability)/Asset	(22.5)	21.1	-	(1.4)	[illegible]	26.9		[illegible]
Immediate Recognition of Long-term - Other Long-term Benefits	(0.8)	-	-	(0.8)	(0.2)	-	-	(0.2)
Total charged to income statement	409.1	(409.6)	-	(0.5)	133.3	(124.8)		8.5
Remeasurements recognised in other comprehensive income								
Actuarial gain due to Actuarial Experience	2.2	-	-	2.2	[illegible]	-	-	10.7
Actuarial Gain/(Loss) due to Financial Assumption Changes	44.1	-	-	44.1	(24.0)	-	-	(24.0)
Actuarial (loss)/gain due to Demographic Assumption Changes	(7.5)	-	-	(7.5)	23.6	-	-	23.6
Return on Plan Assets* less than Discount Rate	-	(27.1)	-	(27.1)	-	(22.4)	-	(22.4)
Change in Effect of Asset Ceiling	-	-	-	-			(0.2)	(0.2)
Total remeasurements recognised in other comprehensive income	38.8	(27.1)	-	11.7	10.3	(22.4)	(0.2)	(12.3)
Derecognition of Scottish Limited Partnership	-	-	-	-		(18.0)	-	(18.0)
Total recognised directly in equity	-	-	-	-	-	(18.0)	-	(18.0)
Cash flows in the year								
Employer contributions	-	12.4	-	12.4		6.6		6.6
Employee contributions	(2.1)	2.1	-	-	(2.5)	2.5	-	-
Benefits and settlements paid directly by the company	4.1	-	-	4.1	18.2	-	-	18.2
Benefits paid from plan assets	38.4	(38.4)	-	-	47.8	(47.8)		-
Net Cash Inflow/Outflow	40.4	(23.9)	-	16.5	63.5	(38.7)	-	24.8
Other movements								
Changes in exchange rates	(5.3)	3.2	-	(2.1)	4.5	(4.2)	-	0.3
New material plans	-	-	-	-	(1.4)	-	-	(1.4)
Total other movements	(5.3)	3.2	-	(2.1)	3.1	(4.2)	-	(1.1)
Carried forward at end of year	(596.8)	544.7	(0.2)	(52.3)	(1,079.8)	1,002.1	(0.2)	(77.9)

* Net of management costs

Section 4 – capital structure and financing costs
(continued)

4.10
Share capital

The ordinary shareholders of the Group own the Company. This section shows how the total number of ordinary shares in issue has changed during the year and how many of these ordinary shares are held as treasury shares or in Employee Benefit Trusts, to be used to satisfy share options and awards to directors and employees of the Company, as part of employee share ownership programmes. This section also sets out the dividends paid or proposed to be paid to shareholders.

4.10.1
Number and value of shares

	2018		2017	
	Ordinary Shares 28 4/7p per share Number (m)	Value (£m)	Ordinary Shares 28 4/7p per share Number (m)	Value (£m)
In issue at the start of the year	286.2	81.8	286.2	81.8
Issued to satisfy employee share schemes	0.1	-	-	-
In issue at the end of the year	286.3	81.8	286.2	81.8

All issued share capital at 31 December 2018 is fully paid and conveys the same rights.

4.10.2
Share movements in the year

Movements in shares due to share issues and purchases during the year were as follows:

	Number of ordinary shares of 28 4/7p each (million)			
	Employee Benefit Trust	Treasury	Other	Total
In issue at 31 December 2017	[illegible]	14.3	270.9	286.2
New issues to satisfy employee share scheme awards	-	-	0.1	0.1
Market purchases	0.6	-	(0.6)	-
Shares allocated under employee share schemes	(0.2)	-	0.2	-
At 31 December 2018	**1.4**	**14.3**	**270.6**	**286.3**

During the year [illegible] (2017: nil) shares were issued under employee share schemes realising £[illegible] (2017: £[illegible]).

Employee Benefit Trust

The Employee Benefit Trust made market purchases of a total of 0.6m (2017: [illegible]) shares with an aggregate market value of £[illegible] (2017: £[illegible]) and a nominal value of £0.2m (2017: £0.1m). Associated transaction costs amounted to £nil (2017: £nil).

Share options exercised in 2018 were settled using the shares in the Group's Employee Benefit Trust. In 2018, [illegible] (2017: [illegible]) shares were issued for cash of £[illegible] (2017: £1.3m).

Of the 15.7m (2017: 15.3m) shares held within retained earnings, 1.4m (2017: [illegible]) shares with an aggregate market value of £[illegible] (2017: £[illegible]) are held in trust to satisfy employee share scheme vesting.

4.10.3 Dividends

[illegible]

	2018 £m	[illegible] £m
[illegible]	**70.4**	[illegible]

[illegible]

	2018 £m	2017 £m
[illegible]	**68.3**	[illegible]
[illegible]	**39.6**	[illegible]
	107.9	[illegible]

Section 4 – capital structure and financing costs
(continued)

4.11
Share-based payments

The Group uses share option schemes to reward and retain its employees. The estimated cost of awarding these share options is charged to the income statement over the period that the Group benefits from the employees' services. This cost is then added back to retained earnings, to reflect that there is no overall impact on the Group's balance sheet until the shares are issued to the employees when the options are exercised.

The individual share option schemes, the number of options outstanding under each of them, the estimated cost of these options recognised in the income statement and the assumptions used in arriving at this estimated cost are described in this section.

4.11.1
Outstanding share options

At 31 December 2018, options to purchase [illegible] shares had been granted to, and not yet exercised by, participants of IMI's share option schemes as follows:

	Date of grant	Number of shares	Price	Dates from which exercisable
IMI Sharesave Scheme	[illegible]	[illegible]	[illegible]	[illegible] or [illegible]
	[illegible]	[illegible]	[illegible]	01.08.18 or 01.08.20
	[illegible]	[illegible]	[illegible]	01.08.19 or 01.08.21
	[illegible]	41,[illegible]	[illegible]	01.08.20 or 01.08.22
	[illegible]	[illegible]	[illegible]	01.08.21 or 01.08.23
		335,830		
Global Employee Share	[illegible].03.17	[illegible]	[illegible]	11.03.19
Purchase Plan	[illegible]	[illegible]	[illegible]	[illegible]
		77,230		
IMI Incentive Plan	[illegible].05.15	[illegible]	-	[illegible] or 07.05.18
	[illegible].05.16	[illegible]	-	[illegible]
	[illegible]	[illegible]	-	[illegible]
	[illegible]	[illegible],988	-	[illegible]
		2,461,794		
IMI Share Option Plan	22.03.10	19,500	645.0[illegible]	22.03.13
	23.03.11	141,500	[illegible]	23.03.14
	04.05.12	278,[illegible]	[illegible]	04.05.15
	[illegible].11.12	[illegible],200	[illegible]	[illegible].11.15
	12.03.13	[illegible]	[illegible]	12.03.16
	22.10.13	[illegible]	[illegible]	22.10.16
	11.03.14	[illegible]	[illegible]	11.03.17
		1,135,950		
Incentive Plan (also known as Performance Share Plan)	22.10.13	3,418	-	22.10.16
Share Matching Plan	28.03.11	1,[illegible]		28.03.14
Share Matching Plan	10.05.12	[illegible],264	-	10.05.15
Share Matching Plan	09.04.13	1,296	-	09.04.16
		40,720		
Total		**4,054,524**		

4.11.2
Schemes under which options are outstanding

[illegible]

IMI Sharesave Scheme ('SAYE')

[illegible]

Global Employee Share Purchase Plans ('GESPP')

[illegible]

IMI Share Option Plan ('SOP')

[illegible]

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

[illegible]

4.11.3
Other share-based payment arrangements

[illegible]

Share Matching Plan ('SMP')

[illegible]

[illegible]

[illegible]

Share Incentive Plan ('SIP')

[illegible]

- [illegible]
- [illegible]

[illegible]

The IMI Incentive Plan ('IIP')

[illegible]

Section 4 – capital structure and financing costs
(continued)

4.11.4
Options granted during the year

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
SAYE			
2017	[illegible]	1106p	[illegible]
2018	**100**	**1013p**	**2021-2024**
GESPP			
2017	[illegible]	[illegible]	2019
2018	**54**	**1409p**	**2020**
IIP			
2017	942	-	[illegible]
2018	**835**	**-**	**2020-2021**

4.11.5
Movement in outstanding options in the year

	Options not granted at nil cost[1]			Options granted at nil cost	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 2017	2,099	441-1514p	1156p	2,462	4,561
Exercisable at 1 January 2017	1,235	441-1518p	1138p	105	1,341
Granted	81	[illegible]	1031p	942	1,023
Exercised	195	645-1384p	955p	82	277
Lapsed	267	845-1467p	1242p	520	787
Outstanding at 31 December 2017	1,718	441-1514p	1162p	2,802	4,520
Exercisable at 31 December 2017	1,340	441-1518p	1218p	118	1,458
Granted	**153**	**1013-1049p**	**1026p**	**1,222**	**1,375**
Exercised	**164**	**441-1322p**	**989p**	**68**	**232**
Lapsed	**153**	**845-1467p**	**1208p**	**699**	**852**
Outstanding at 31 December 2018	**1,555**	**645-1518p**	**1162p**	**3,257**	**4,812**
Exercisable at 31 December 2018	**1,156**	**645-1518p**	**1229p**	**128**	**1,284**

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

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

4.11.6
Share-based payment charge for the year

[illegible]

[illegible]

4.11.7
Share-based payment valuation methodology

[illegible]

4.11.8
Other share-based payment disclosures

[illegible]

[illegible]

Section 5 – other notes

5.1 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision because significant subjectivity exists regarding its outcome.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £132m (2017: £[illegible]m).

5.2 Related party transactions

Related parties are solely the key management personnel. The Board is considered to be the key management personnel of the Group.

	2018 £m	2017 £m
Short-term employee benefits[1]	5.1	6.2
Share-based payments[2]	2.4	2.[illegible]
Total	**7.5**	8.[illegible]

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

[2] For details of the share-based payment charge for key management personnel see Section 3.11.6.

There are no other related party transactions.

5.3 Subsequent events

Events that occur in the period between 31 December and the date of approval of the annual report can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December. If the event is an adjusting event, then an adjustment to the results is made. If a non-adjusting event after the year end is material, non-disclosure could influence decisions that readers of the financial statements make. Accordingly, for each material non-adjusting event after the reporting period we disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

There were no adjusting subsequent events after the balance sheet date of 31 December 2018.

5.4 Significant accounting policies

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. The Group has no significant interests which are accounted for as [illegible] 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 a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Taxation on the above accounting entries would also be recognised where applicable.

B. Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

i. Key judgements

Classification of adjusting items

Management has applied judgement in the selection of the Alternative Performance Measures ('APMs') used in the Annual Report and Accounts. The APMs presented are used in discussions with the investment analyst community and by the Board and management to monitor the trading performance of the Group. We consider that the presentation of APMs allows for improved insight to the trading performance of the Group. The adjusting items in the income statement include restructuring costs, special pension events, gains/losses on disposals of subsidiaries, impairment losses, the reversal of gains/losses on economic hedges, gains on property disposals, acquisition costs, acquired intangible amortisation and other acquisition items. See Section 2.[illegible] for further details of the items that are classified as adjusting items.

ii. Key estimates and assumptions

The key estimates and assumptions concerning the future and other sources of estimation uncertainty at the reporting date are described below. The Group bases its assumptions and estimates on information available when the consolidated financial statements are prepared. Market changes or circumstances arising beyond the control of the Group are reflected in the assumptions and estimates when they occur. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs [illegible] value in use. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the Group's long-term forecasts for the next three to five years. [illegible] The recoverable amount is sensitive to the discount rate used for the [illegible] model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. [illegible] These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are disclosed and further explained in Section 3.2.

Trading provisions

The Group sells a wide range of high-technical products, many of which are designed and engineered to a high degree of precision and to specific customer requirements. This gives rise to risks in relation to warranty claims, excess or obsolete inventory, and collection risk regarding receivables. Management makes estimates based on:

- past experience of warranty claims and the associated cost of settling similar claims;
- historical sales trends and management's expectations of future sales [illegible];
- forecast costs to complete; and
- the identification of customers and territories for which there is a current heightened collection risk or where receivables are [illegible].

The degree of dependence on future events makes these estimates inherently subjective. The amount of the trading provisions recognised for inventory, trade receivables and other provisions are disclosed in Sections 3.1, Section 3.1.2 and Section 3.6 respectively.

Employee benefits

The present value of the Group's defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation, future salary increases, mortality rates and future pension increases. The assumptions used and analysis of their sensitivity is included in Section 4.5. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

iii. Changes in judgements, estimates and assumptions

Management have reassessed the key judgements and estimates presented in the 2017 Annual Report and Accounts and concluded that, in the current year, the only change required relates to the estimates and judgements applied in the valuation of intangible assets arising from the Bimba acquisition which was completed during 2018.

Valuation of acquired Intangible Assets

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. Details concerning acquisitions and business combinations are outlined in section 3.4.

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.
- [illegible] total contract value and is [illegible] basis. [illegible] revenue is recognised when the [illegible] complete.

As a result of the above, the majority of the Group's revenue is recognised on a sale of goods basis. [illegible] Section 2.1 [illegible] of the Group's [illegible] delivered [illegible].

i. Sale of goods

Revenue from the sale of goods [illegible] when control [illegible] to the customer. [illegible] is not probable [illegible] the goods [illegible] revenue recognised [illegible] customers and the customer [illegible].

The timing of the transfer of control to our customers varies depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms (Incoterms 2010) are recognised as revenue when the Group has completed the physical duties required to transfer control as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside Incoterms 2010 are generally recognised on delivery to the customer. In limited instances, a customer may request that the Group retain 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 the revenue is recognised prior to delivery of the asset.

ii. Rendering of services

As noted above, revenue from the rendering of services is usually insignificant in relation to 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 the [illegible] 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 of the installation unless they are incidental to the sale of the goods, in which case they are recognised when the goods are sold.

iii. Combined services and goods

When a transaction combines a supply of goods with the provision of a significant service, distinct performance obligations are identified and recognised in line with the applicable policy. If the service is essential to the functionality of the goods supplied then combined performance obligations, including the provision of goods and services, are identified at the lowest level and the transaction price is allocated to each performance obligation on an appropriate basis. Revenue from a service that is incidental to the supply of goods is recognised at the same time as the revenue from the supply of goods.

D. 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.

Section 5 – other notes
(continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

E. Intangible assets

Intangible assets are stated at cost less accumulated amortisation. They comprise internally generated and other acquired intangible assets. Amortisation of acquired intangible assets is shown as a reconciling item, as defined in Section 2.2 of the accounting policies, below segmental operating profit. The accounting policy for goodwill is described in accounting policy D.

i. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the future economic benefits are probable, costs can be reliably measured and if, and only if, the product or process is technically and commercially feasible and the Group has sufficient resources and intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and directly attributable overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 'Impairment') and is included in the other acquired or other non-acquired category of intangible assets depending on its origin.

ii. Software development costs

Software applications and systems that are not an integral part of the host computer equipment are capitalised on initial recognition as intangible assets at cost. Cost comprises the purchase price plus directly attributable costs incurred on development of the asset to bring it into use. Following initial recognition, software development costs are carried at cost less any accumulated amortisation (see below) and accumulated impairment losses (see accounting policy 'Impairment') and are included in the other acquired or other non-acquired category of intangible assets depending on their origin.

iii. Customer relationships and other acquired intangible assets

Customer relationships and other intangible assets that are acquired by the Group as part of a business combination are stated at their fair value calculated by reference to the net present value of future benefits accruing to the Group from utilisation of the asset, discounted at an appropriate discount rate. Expenditure on other internally generated intangible assets is recognised in the income statement as an expense as incurred.

iv. Amortisation of intangible assets other than goodwill

Amortisation is charged to the income statement on a straight-line basis (other than for customer relationships and order books which are charged on a sum of digits basis) over the estimated useful lives of the intangible assets. Amortisation commences from the date the intangible asset becomes available for use. The estimated useful lives for:

- Capitalised development costs are the life of the intangible asset (usually a maximum of 10 years).
- Software development costs are the life of the intangible asset (up to 10 years).
- Customer relationships are the life of the intangible asset (up to 10 years).
- Other intangible assets (including order books, brands and software) are the life of the intangible asset (up to 10 years).

F. Financial income and expense

Financial income comprises interest receivable on funds invested, income from investments and gains on hedging instruments that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

Financial expense comprises interest payable on borrowings, calculated using the effective interest rate method, the interest-related element of derivatives and losses on financial instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

Net finance costs relating to defined benefit pension schemes represent the assumed interest on the difference between employee benefit plan liabilities and the employee benefit plan assets.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

G. Income tax

Current tax payable/recoverable represents the expected tax payable/recoverable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments in respect of prior years.

Deferred tax is provided using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the timing of the reversal of the differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

H. Foreign currencies

i. Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translating transactions at the exchange rate ruling on the transaction date are reflected in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the balance sheet date.

ii. Foreign operations

The [illegible] and liabilities of [illegible] undertakings are translated at the appropriate [illegible] rates [illegible] taken directly to [illegible].

The results and [illegible] of foreign operations, [illegible] arising on [illegible] value [illegible] are translated at foreign exchange rates [illegible] the balance sheet date.

Foreign exchange [illegible] are recognised directly in a separate component of equity. Since 1 January 20[illegible] the Group [illegible] of transition to IFRS [illegible] 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.

I. Financial instruments and fair value hedging

Financial instruments are initially recognised 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 [illegible] IFRS 9.

- Fixed deposits, [illegible] comprising [illegible] held with banks and other financial institutions, are classified as 'loans and receivables' under IFRS 9, and held at fair value. Short term borrowings and overdrafts are classified as financial liabilities at amortised cost.
- Derivatives, [illegible] 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 amount.
- Trade payables are stated at cost.
- Financial assets and liabilities are recognised on the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.
- Available for sale financial assets are carried at fair value with gains and losses being recognised in equity, except for impairment losses which are recognised in the income statement.

J. Other hedging

i. Hedge of monetary assets and liabilities, financial commitments or forecast transactions

Where a derivative financial instrument is used as an economic hedge of the foreign exchange or metals commodity price exposure of a recognised monetary asset or liability, financial commitment or forecast transaction, but does not meet the criteria to qualify for hedge accounting under IFRS 9, no hedge accounting is applied and any gain or loss resulting from changes in fair value of the hedging instrument is recognised in net financial income or expense.

Where such a derivative is a formally designated hedge of a forecast transaction for accounting purposes, movements in the value of the derivative are recognised directly in other comprehensive income to the extent the hedge is effective. The Company assesses the effectiveness of the hedge based on the expected fair value of the amount to be received and the movement in the fair value of the derivative designated as the hedge.

[illegible] hedge that [illegible] designated [illegible] together with the gains and [illegible] designated [illegible].

ii. Hedge of net investment in foreign operation

[illegible] foreign operation [illegible] exchange differences [illegible] fair value [illegible] the extent the hedge is effective. The Group assesses [illegible] fair value changes [illegible] foreign currency [illegible] hedge [illegible] and the relevant [illegible].

K. Property, plant and equipment

Freehold land and [illegible] are not depreciated.

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy Impairment).

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Costs in respect of tooling owned by the Group for clearly identifiable new products are capitalised net of any contribution received from customers and are included in plant and equipment.

Depreciation is charged to the income statement on a straight-line basis (unless such a basis is not aligned with the anticipated benefit) so as to write down the cost of assets to residual values over the period of their estimated useful lives within the following ranges:

- Freehold buildings – 25 to 50 years
- Plant and equipment – 3 to 20 years

L. Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see above) and impairment losses (see accounting policy 'Impairment').

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Lease incentives received are recognised in the income statement over the period of the lease unless a different systematic method is more appropriate under the terms of the lease. The majority of leasing transactions entered into by the Group are operating leases.

M. Inventories

Inventories are valued at the lower of cost and net realisable value. Due to the varying nature of the Group's operations, both first in, first out ('FIFO') and weighted average methodologies are employed. In respect of work in progress and finished goods, cost includes all direct costs of production and the appropriate proportion of production overheads.

N. Impairment

The carrying values of the Group's non-financial assets other than inventories (see accounting policy Inventories) and deferred tax assets (see accounting policy Income tax) are reviewed at each balance sheet date to determine whether there is any indication of impairment.

Section 5 – other notes
(continued)

If any such indication exists, the recoverable amount of the asset is estimated [illegible]. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

For goodwill, assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

i. Calculation of recoverable amount

The recoverable amount of the Group's [illegible] held [illegible] 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 are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. [illegible] cash flows generated for each cash-generating unit [illegible] long-term growth rate [illegible] 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. [illegible] the fair value of investment property [illegible]. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash-generating unit to which the asset belongs.

ii. Reversals of impairment

As required by IAS 36 [illegible], an impairment loss [illegible] available-for-sale [illegible]. In respect of other assets, an impairment loss is reversed if there has been 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.

O. Dividends

Final dividends payable are recognised as a liability at the date at which they are approved by the Company's shareholders or by the subsidiary's shareholders in respect of dividends to non-controlling interests. Interim dividends payable are recognised on the date they are declared.

P. 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 investments is reassessed at each balance sheet date with movements in the fair value recognised in other comprehensive income.

Q. Employee benefits

i. Defined contribution pension plans

Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

ii. Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. Past service costs are recognised in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Group recognises restructuring-related costs. The discount rate is the yield at the balance sheet date on high quality corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit 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 [illegible]. [illegible] in the event of a return of a surplus [illegible] the Group [illegible].

When the benefits of a plan are improved, [illegible] immediately in the income statement [illegible] are recognised immediately in equity and disclosed in the statement of comprehensive income.

iii. Long-term service and other post-employment benefits

The Group's net obligation in respect of long-term service and other post-employment benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on high quality bonds of the appropriate currency that have durations approximating those of the Group's obligations.

iv. Equity and equity-related compensation benefits

The Group operates a number of equity and equity-related compensation benefits as set out in Section [illegible]. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement.

For newly issued shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Directors' Report

The directors present their report, together with the audited financial statements, for the year ended 31 December 2018.

Strategic report

The [illegible] report [illegible] the following [illegible]

Strategic Review	Pages 1 to 39
Commentary provided on the consolidated income statement	Page 85
Commentary provided on the consolidated statement of comprehensive income	Page 86 to 87
Commentary provided on the consolidated statement of changes in equity	Pages 86 to 87
Commentary provided on the consolidated balance sheet and the consolidated statement of cash flows	Pages 89 and 91

Results and dividend

The Group's [illegible] results [illegible] shown on page 81. Segmental operating profit [illegible] to $286.3m (2017: $[illegible]m) and profit before taxation and discontinued operations [illegible] (2017: $180.9m).

The directors recommend a final dividend of 26.0p per share (2017: 25.2p per share) on the ordinary share capital payable, subject to shareholder approval at the Annual General Meeting to be held on 9 May 2019, on 17 May 2019 to shareholders on the register at the close of business on 5 April 2019. Together with the interim dividend of 14.6p per share paid on 14 September 2018, the final dividend will bring the total distribution for the year to 41.6p per share (2017: 39.4p per share).

Research and development

See Section 2.1.3 to the financial statements at page 9[illegible].

Shareholders' funds

Shareholders' funds increased from $[illegible] at the end of 2017 to $6,66[illegible]m at 31 December 2018.

Share capital

As at 31 December 2018, the Company's share capital comprised a single class of share capital which was divided into ordinary shares of 28 4/7p each. Details of the share capital of the Company are set out in Section 4.10 to the financial statements on page 164. The Company's ordinary shares are listed on the London Stock Exchange.

The Company has a Level 1 American Depositary Receipt ('ADR') programme for which Citibank, N.A. acts as depositary. See page 164 for further details.

As at 31 December 2018, 1,368,194 shares were held in an employee trust for use in relation to certain executive incentive plans representing 0.15% 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 EBT 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 2018, 63,152 new ordinary shares were issued under employee share schemes: 63,152 under save as you earn plans and nil under executive share plans. Shares acquired through Company share schemes and plans rank equally with the shares in issue and have no special rights.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK, from the Company's website or by writing to the Company's Secretary. Changes to the articles [illegible] must be approved by a special resolution of the shareholders (75% majority required) in accordance with the Companies Act [illegible]. 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 as 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 and speak at general meetings of the Company, and to appoint proxies to exercise their rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company.

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

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

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

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

Treasury shares

The Company was granted authority at the Annual General Meeting held on 3 May 2018 to purchase up to 87,201,2[illegible] of its ordinary shares of 28 4/7p each. This authority will expire at the conclusion of the next Annual General Meeting to be held on 9 May 2019, where shareholders will be asked to give a similar authority, details of which will be given in the Notice of Annual General Meeting.

As at 31 December 2018, 14,248,836 ordinary shares (nominal value $[illegible]) were held in treasury representing [illegible] of the issued share capital (excluding treasury shares) at that time. The maximum number of shares held in treasury during the year ended 31 December 2018 was 14,248,836.

Substantial shareholdings

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules is published on a regulatory information service and on the Company's website. As at 31 December 2018, the following voting interests in the ordinary share capital of the Company, disclosable under the Disclosure Guidance and Transparency Rules, had been notified to the Company:

	% Held [1]
Massachusetts Financial Services Company	13.03%
Ameriprise Financial Inc	5.9[illegible]%
Standard Life Investments (Holdings) Limited	4.9[illegible]
Legal & General Group plc	3.0[illegible]%

[1] As of the date of the notification to the Company.

Directors' Report
(continued)

Subsequent to 31 December 2018 and up to the date of this Report, two changes in the voting interests have been notified to the Company [illegible] with the [illegible] Company [illegible] holding to [illegible] Limited Partnership [illegible] holding to [illegible].

As far as the Company is aware, there are no persons with significant holdings in the Company other than those noted above.

Statement on corporate governance

[illegible]

Employee engagement and diversity

Every effort is made to ensure that applications for employment from disabled employees are fully and fairly considered and that disabled employees have equal opportunity in training, career development and promotion. Further disclosures relating to employee diversity, employee engagement and relevant policies are set out on pages [illegible] to [illegible].

Details of employee share schemes are set out in the Remuneration Report on pages [illegible] and in note [illegible] of the financial statements on pages 130 to 153.

Health, safety and the environment

It is Group policy to improve continuously safe and healthy working conditions and to operate always in an environmentally responsible manner.

Our carbon reporting [illegible] 2018 by the acquisition of Bimba [illegible] 2017: 58,500; 2016: [illegible]. On a like for like basis excluding Bimba our 2018 [illegible] in line with 2017. Of the 2018 total, our direct (Scope 1) emissions of CO_2 [illegible] gas, oil and fuel oil consumed amounted to [illegible] tonnes. Our indirect (Scope 2) emissions of CO_2 (essentially the emissions generated on our behalf to provide our electricity) amounted to [illegible] tonnes.

In addition to gross tonnes of CO_2 we report CO_2 intensity relative to £ million sales; our result for 2018 is [illegible]. On a like for like basis excluding Bimba, CO_2 intensity was 32.3 for 2018 which is an improvement relative to the 33.9 we achieved in 2017 when restated on a constant currency basis (2017 reported figure of 33.4).

We plan to drive further reductions in our CO_2 emissions by improving continuously the condition of our sites and ensuring our processes are [illegible].

Our CO_2 accounting methodology follows DEFRA guidelines and includes all material emission sources across IMI. See page 42 for further CO_2 and energy efficiency details.

Political donations

No political donations were made during the year.

Directors

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

The rules for the appointment and replacement of directors are set out in the Company's articles of association. Each new appointee to the Board is required to stand for election at the next Annual General Meeting following their appointment. In addition, the Company's articles of association require each director to stand for re-election at least once every three years. However, in accordance with the UK Corporate Governance Code 2018 (the 'Code'), all directors wishing to serve again will submit themselves for re-election at the next Annual General Meeting and are recommended for re-election.

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 [illegible] 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 2018 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 [illegible] section [illegible] of the Companies Act 2006 [illegible] employees who act as directors [illegible] companies and these indemnities [illegible].

Role of the Board

The roles of the Board:

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

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

In the IMI Corporate Governance Framework (revised in 2018), 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 performance reviews of performance.

Division of responsibilities amongst directors

Chairman:

- setting the Board agenda and shaping the culture in the boardroom
- [illegible] engagement of all Board members
- building a Board with the right people, skills, knowledge and experience [illegible] ensuring the quality of corporate governance [illegible]
- [illegible] with the Chief Executive
- [illegible]
- [illegible]

There is a clear division of responsibility between the Chairman and Chief Executive, which is reflected in the IMI Corporate Governance Framework approved by the Board. In summary, the Chairman is responsible for the leadership and effectiveness of the Board but has no other executive powers or responsibilities. The Chief Executive leads the Executive Committee in running the business and implementing operational and strategic plans under authority delegated by the Board.

The Chairman is responsible for ensuring that the Board's activities operate to an appropriate agenda and that adequate information is provided sufficiently in advance of meetings to allow proper consideration. He is supported by the Company Secretary, who takes responsibility for 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 agreed a procedure for any director to obtain independent professional advice at the Company's expense and all directors have access to the Company Secretary who is a solicitor.

Chief Executive:

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

Directors' powers

The powers of the directors are determined by UK legislation and the articles of association of the Company in force from time to time. The directors were authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares by resolutions of the Company passed at its Annual General Meeting held on 3 May 2018 by the passing of new resolutions in respect of the new ordinary shares of 28 4/7p each. The current authorities will expire at the conclusion of the next Annual General Meeting to be held on 9 May 2019, at which new authorities will be sought.

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

Directors' interests

The interests of the persons (including the interests of any connected persons) who were directors at the end of the year in the share capital of the Company and their interests under share plans and incentive schemes are shown on pages 69 to 7[illegible].

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 IMI 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 2018.

Each director has a statutory duty under the Companies Act 2006 (the Act) to avoid a situation in which they have, or can 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, they must inform the rest of the Board and the Board is [illegible] permitted under the Articles to authorise [illegible]. The information is recorded in the Company's register of conflicts [illegible].

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 their 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 resulting from a takeover, although the provisions of the Company's share schemes include a discretion to allow awards granted to directors and employees under such schemes to vest in those circumstances.

Information to be disclosed under Listing Rules 9.8.4R

Listing Rule	Detail	Section reference of financial statement
9.8.4R (1-2)(5-14)	Not applicable	-
9.8.4R (4)	Long-term incentive schemes	4.11

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. During the year, internal audits have been carried out in conjunction with finance experts from each division through the audit transition project. This has enabled us to review a wider range of business risks and facilitated a greater sharing of best practice across the businesses. Additionally, visits to operations are carried out by senior Group finance personnel. These internal assurance processes are co-ordinated with the activity of the Company's external auditor.

Capital investments are subject to a clear process for investment appraisal, authorisation and post-investment review, with major investment proposals referred for consideration by the Executive Committee and, according to their materiality, to the Board. In addition, the Executive Committee regularly reviews the operation of corporate policies and controls including those relating to ethics and compliance matters, treasury activities, environmental issues, health and safety, human

Directors' Report
(continued)

responsibilities, tax, health and safety, compliance and internal audit. These summaries are made available to the Board, the Audit Committee and the Executive Committee to ensure control issues and developments are monitored.

Control processes are designed so that continuous improvements are made to respond to the changing risk profile of operations and to implement proportionate measures to address any identified weaknesses in the internal control system. More information is taken to mitigating actions on page 46 and in the risk management agenda. The internal audit function is a successfully embedded process that enables monitoring of the control framework and all audit findings from all operating units. Action plans to improve controls as a result of these assessments are closely monitored and reported to the Audit Committee.

Through the procedures outlined above, the Board has considered the effectiveness of all significant aspects of internal control for the year 2018 and up to the date of the Annual Report. The Board believes that the Group's system of internal control, which is designed to manage rather than eliminate risk, provides reasonable but not absolute assurance against material misstatement or loss.

Financial reporting processes

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

Viability statement

In accordance with the UK Corporate Governance Code, the directors have assessed the viability of the Company over a three-year period, taking into account the Group's financial and funding position as summarised in the Annual Report, the principal risks and uncertainties set out on pages 46 to 49 and the five-year business plan reviewed by the Board in September 2018. 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 2023.

The directors have determined that the period to 31 December 2023 constitutes an appropriate period over which to make an assessment of viability. While the directors have no reason to believe the Company will not be viable over a longer timeframe, the five-year period to 31 December 2023 was chosen as it aligns with the Company's business and strategic planning timeline horizon and is a reasonable period for such an assessment. It is believed this period provides readers of the Annual Report with an appropriate, long-term view with which to assess the Company's prospects, although future outcomes cannot be predicted with certainty.

In making this 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 46 to 49.

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

The directors also recognised a number of key features of the Company's operations. The Company's wide geographical and sector diversification, and the lack of a single major product line, helps minimise the risk of serious business interruption. Furthermore, our business model is structured so that the Company is not overly reliant on a few large customers. Our largest customer constitutes only 2% of Group revenue, and our top 20 customers account for just over 15% of Group revenues. In addition, our ability to flex our cost base reduces our exposure to sudden and severe economic conditions.

Going concern

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 59. Principal risks are discussed on pages 46 to 49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, Section 4.7 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk. Section 4.9 to the financial statements addresses the management of the funding risks of the Group's employee benefit obligations.

The Group has considerable financial resources together with longstanding relationships with a number of customers and suppliers and financial providers across different geographic areas and industries. The Group's forecasts and projections, taking account of potential and realistic changes in trading performance, indicate that the Group is able to operate within the level of facilities either in place on 31 December 2018 or at the date of this report without the need to renew any further facilities until March 2020. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook, in particular the Brexit risk highlighted on page 46. Such uncertainties as have been identified are not regarded as material uncertainties for the purposes of the going concern assessment.

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

Disclosure of information to the auditor

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

Annual General Meeting

The Annual General Meeting will be held at Crowne Plaza Hotel, Pendigo Way, Marston Green, Birmingham B40 1NT, on 9 May 2019 at 10am.
Notice of the Annual General Meeting will be published on the Company's website.

By order of the Board

John O'Shea
Company Secretary

28 February 2019

IMI plc is registered in England No. 714275

Statement of Directors' Responsibilities

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

The directors are responsible for preparing the Annual Report, including 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 Group and parent company 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 by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable;
- prepare them on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business;
- state that the Group financial statements have complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- state for the parent company financial statements whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

Directors' responsibility statement under the Disclosure and Transparency Rules

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

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

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

By order of the Board

John O'Shea
Company Secretary

28 February 2019

Independent Auditor's Report to the Members of IMI plc

In our opinion:

- IMI plc's Group financial statements and Parent Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent Company
Consolidated income statement for the year ended 31 December 2018	Balance sheet as at 31 December 2018
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes C1 to C11 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Consolidated balance sheet as at 31 December 2018	
Related notes 1 to 24 to the financial statements including a summary of significant accounting policies	

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

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages [illegible] to 49 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 142 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 142 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 142 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

[illegible]

Key audit matters

[illegible]

Risk	Our response to the risk
Revenue recognition (£1,907m, PY comparative £1,751m) [illegible] [illegible] [illegible]	**Cut-off** [illegible] **Management override** [illegible] **Cut off and management override** [illegible]

Key observations communicated to the Audit Committee:

[illegible]

Independent Auditor's Report to the Members of IMI plc

(continued)

Risk

Profit recognition

Refer to the Audit Committee Report (page 6[illegible]), Accounting policies (page 1[illegible]) and Section 2 [illegible] of the Consolidated Financial Statements (page [illegible])

There is a risk of inappropriate profit recognition on contract [illegible] in the Critical Engineering division [illegible].

Our response to the risk

We performed the following audit procedures at the full and specific scope Critical Engineering locations where the risk of error in profit recognition exists.

[illegible] New Co[illegible] in the Critical Engineering division [illegible] management's assessment of forecast costs to complete [illegible] underlying [illegible] future production plans to determine any contract loss [illegible] appropriately [illegible].

We [illegible] journal entries [illegible] by management to record a provision [illegible] investigated any unusual or large movements in loss provisions. [illegible] focused on loss making and low margin contracts [illegible] contract loss provisions.

For the components considered as not significant to the Group we obtained the forecast margin on significant open contracts at year end in the Critical Engineering division and investigated any low margin contracts. We analysed the movements in the total loss contract provision balance and investigated any significant movement [illegible] relating to the full scope or specific scope components.

Key observations communicated to the Audit Committee:

Our audit procedures did not [illegible] regarding profit recognition.

Risk

Inventory valuation (£273m, PY comparative £251m)

Refer to the Audit Committee Report (page 6[illegible]), Accounting policies (page 134) and Section 3.[illegible] of the Consolidated Financial Statements (page 1[illegible])

The valuation of inventory across the Group is dependent on establishing appropriate valuation processes. This includes the effective operations of controls. Management judgement is applied to formulaic calculations for standard costing and excess and obsolete inventory provisions. If these judgements are not appropriate then this increases the risk that inventory is incorrectly valued.

Our response to the risk

We performed the following audit procedures at [illegible] full and specific scope locations where inventory [illegible] inventory at these locations represented [illegible] of the total inventory balance.

We carried out testing of controls over inventory valuation.

We performed tests of detail for a sample of inventory items to check the accumulation of cost within inventory, confirming the valuation reflected the product's stage of completion including agreement to the physical inventory counts which we attended.

We obtained evidence to support the standard costs used and performed procedures to assess whether only normal production variances had been capitalised in the year end inventory balance and material abnormal inefficiencies had been appropriately expensed. This included comparing actual production rates to budget.

We obtained evidence to support inventory is held at the lower of cost and net realisable value by auditing the adequacy of excess and obsolete provisions held against inventory. This included comparing forecast product usage to customer orders, considering historical usage, historical accuracy of provisioning and understanding management's future plans to utilise the inventory.

We performed clerical procedures on the formulaic calculations to evaluate the accuracy of the inventory provisioning.

For the components we considered as not significant to the Group we:

- investigated any significant standard to actual cost variances posted to the income statement or recorded within inventory and obtained supporting evidence for the adjustments; and
- we analysed the management judgement applied to the excess and obsolete provision and obtained supporting evidence where this was significant.

Key observations communicated to the Audit Committee:

Inventory valuation across the Group is considered appropriate including the adequacy of the excess and obsolete provision. Our audit procedures confirmed variances between standard and actual costs and the overheads absorbed in the inventory valuation had been appropriately calculated and accounted for.

Risk	Our response to the risk
Carrying value of goodwill and acquired intangible assets (£517m, PY comparative £429m) *[illegible]* [illegible]	[illegible] [illegible] [illegible] • [illegible] • [illegible] • [illegible] [illegible] The audit procedures performed to address this risk have been performed by the Group audit team.

Key observations communicated to the Audit Committee:

Our year end audit procedures did not identify evidence of material misstatement regarding the carrying value of goodwill and acquired intangible assets in the Group.

Risk	Our response to the risk
Accounting for the acquisition of Bimba Manufacturing *Refer to the Audit Committee Report (page [illegible]), Accounting policies (page [illegible]) and Note [illegible] of the Consolidated Financial Statements (page [illegible])* Management are required to fair value the assets and liabilities to account for the acquisition of Bimba Manufacturing. This includes identifying and valuing any intangible assets, which is an inherently judgemental exercise. In particular judgement is required in determining the appropriate assumptions to use to value the acquired customer relationships, order book and the Bimba Manufacturing brand.	We performed procedures over key contracts associated with the acquisition, including the sale and purchase agreement, to confirm that significant terms and conditions have been appropriately accounted for. With support of EY business valuations specialists, we evaluated management's determination of the fair values of the assets and liabilities acquired and in particular the valuation of intangible assets. We assessed the key assumptions made by management such as the useful economic lives, discount rates applied and the forecast future cash flows. We worked with EY tax specialists and audited the accuracy and completeness of the current and deferred tax balances included in the acquisition balance sheet including the impact on the tax balances of the fair value adjustments applied in the acquisition accounting. We audited the disclosures made in respect of the acquisition of Bimba Manufacturing with reference to the requirements of IFRS 3 Business Combinations. The audit procedures performed to address this risk have been performed by the Group audit team.

Key observations communicated to the Audit Committee:

We confirmed management has used appropriate valuation techniques to determine the fair value of the identified assets and liabilities acquired. Our audit procedures did not identify evidence of material misstatement regarding the accounting for the acquisition of Bimba Manufacturing.

Independent Auditor's Report to the Members of IMI plc
(continued)

An overview of the scope of our audit

Tailoring the scope

[illegible]

[illegible]

[illegible]

[illegible]

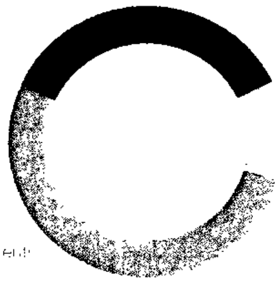
[illegible]

[illegible]

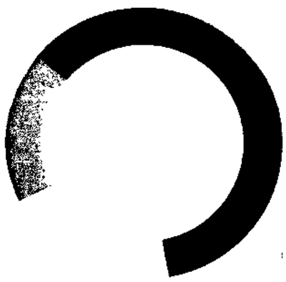
[illegible]

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

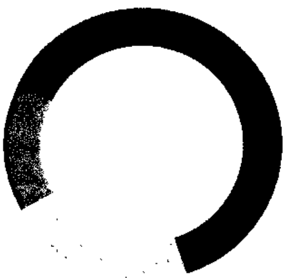
Group Adjusted profit before tax



Group Revenue



Group Total assets



Changes from the prior year

[illegible]

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the [illegible] components [illegible] the Parent Company [illegible] by the primary audit team [illegible] were audited directly by the Group audit team. For the [illegible] full or specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. [illegible] significant and higher risk component audit working papers.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or his delegate visit the majority of full and specific scope locations at least once every three years. During 2018 visits were undertaken by the primary audit team to the component teams in USA and Mexico, Italy, Germany, India and China. These visits involved meeting with the local component team to discuss and direct their audit approach, reviewing and understanding the significant audit findings in response to the key audit matters, including [illegible] revenue recognition and inventory valuation, holding meetings with local management, undertaking factory tours and obtaining updates on local regulatory matters including tax, pensions and legal. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be $11.6 million (2017: $10.[illegible] million), which is 5% of Adjusted profit before tax in 2018. In 2017 materiality was set as 5% of profit before tax adjusted for certain non-recurring items. We believe that adjusted profit before tax is the most relevant performance measure to the stakeholders of the entity and therefore have determined materiality based on this number.

We determined materiality for the Parent Company to be $11.8 million (2017: $9.2 million), which is 2% (2017: 2%) of equity shareholders' funds.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% [illegible] of our planning materiality, namely [illegible] (2017: [illegible]). [illegible]

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $[illegible]m to $[illegible]m (2017: $[illegible]m to $[illegible]m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.5m (2017: $0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 79, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Independent Auditor's Report to the Members of IMI plc

(continued)

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

- **Fair, balanced and understandable set out on page 143**
  – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 60 to 63**
  – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 55**
  – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 143, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code). In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amount and disclosures in the financial statements, being the Listing Rules of the UK Listing Authority and those laws and regulations relating to health and safety and employee matters.
- We understood how IMI plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perception of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business, enquiries of legal counsel, Group management, internal audit, divisional management and full and specific scope management, and focused testing, as referred to in the key audit matters section above.

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

Other matters we are required to address

[illegible]

[illegible]

[illegible]

Use of our report

[illegible]

Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
26 February 2019

Notes:

1. [illegible]
2. [illegible]

Company balance sheet

at 31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investments	[illegible]	173.2	[illegible]
Current assets			
Debtors	[illegible]	418.1	[illegible]
Deferred tax assets	[illegible]	2.2	[illegible]
Cash at bank and in hand		0.3	3.8
		420.6	[illegible]
Creditors: amounts falling due within one year			
Other creditors	[illegible]	(4.3)	[illegible]
Net current assets		416.3	[illegible]
Total assets less current liabilities		589.5	[illegible]
Net assets		589.5	[illegible]
Capital and reserves			
Called up share capital	29	81.8	81.5
Share premium account		13.3	[illegible]
Capital redemption reserve		174.4	[illegible]
Profit and loss account		320.0	[illegible]
Equity shareholders' funds		589.5	[illegible]

Approved by the Board of Directors on 28 February 2019 and signed on its behalf by:

Lord Smith of Kelvin

Chairman

Company statement of changes in equity

for the year ended 31 December 2018

	Share capital £m	Share premium £m	Redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2017	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Retained profit for the year				[illegible]	[illegible]
Dividends paid on ordinary shares*				[illegible]	[illegible]
Shares issued in the year	-	[illegible]			[illegible]
Share-based payments				[illegible]	[illegible]
Shares acquired for*:					
employee share scheme trust				[illegible]	[illegible]
At 31 December 2017	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Retained profit for the year				237.5	237.5
Dividends paid on ordinary shares*				(107.9)	(107.9)
Shares issued in the year	-	0.6			0.6
Share-based payments				7.0	7.0
Shares acquired for*:					
employee share scheme trust				(6.0)	(6.0)
At 31 December 2018	81.8	13.3	174.4	320.0	589.5

* [illegible]

[illegible]

Company notes to the financial statements

C1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except where otherwise noted below.

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The Company has taken advantage of the exemption from presenting a 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: Disclosures;
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), 16, 38A and 111 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 a 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 68 to 79 and in Section 5.2 on page 134 of the Group financial statements.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Foreign currencies

The Company's functional currency and presentation currency is sterling. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments

Investments in subsidiaries are accounted for at cost less any provision for impairment. The Company's cost of investments in subsidiary undertakings is stated at the aggregate of (a) the cash consideration and either (b)(i) the nominal value of the shares issued as consideration when Section 612 of the Companies Act 2006 applies or (b)(ii) 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 differences can be utilised.

Equity and equity-related compensation benefits

The Company operates a number of equity and equity-related compensation benefits as set out in Section 4.11 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 short-term debtor payable within one year.

The total amount recharged over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Black-Scholes option pricing model.

At each balance sheet date, the Company revises its 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 amount recharged to the 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 68 to 79, Section 5.2 and Section 2.1.3 of the Group financial statements.

C3. Staff numbers and costs

The number of people employed by the Company, including directors, during the year was 26 (2017: 26) all of whom were employed in administrative roles. The costs associated with them were borne by a subsidiary undertaking.

The Company participates in the IMI UK Funds, which are defined benefit schemes in which the assets are held independently. The total net defined benefit costs of these Funds are borne by a subsidiary undertaking and therefore in accordance with IAS 19, no net defined benefit costs are recognised in the Company's financial statements. Section 4.11 to the Group financial statements provides further details regarding the defined benefit schemes.

C4. Dividends

[illegible]

	2018 £m	2017 £m
[illegible]	68.3	[illegible]
[illegible]	39.6	[illegible]
[illegible]	107.9	[illegible]

[illegible]

[illegible]

	2018 £m	2017 £m
[illegible]	70.4	[illegible]

[illegible]

C5. Fixed assets - investments

	Subsidiary undertakings 2018 £m	2017 £m
At 1 January 2018 and 31 December 2018 cost and net book value	173.2	[illegible]

[illegible]

C6. Debtors

	2018 £m	2017 £m
Falling due for payment after more than one year:		
Amounts owed by subsidiary undertakings	313.9	[illegible]
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	104.2	[illegible]
	418.1	[illegible]

C7. Deferred tax

	2018 £m	2017 £m
The deferred tax included in the balance sheet is as follows:		
Employee benefits and share based payments	2.2	2.7
Deferred tax asset included in the balance sheet	2.2	[illegible]
Reconciliation of movement in deferred tax asset:		
At 1 January 2018	2.7	1.1
Deferred tax credit in the profit and loss account	(0.4)	1.3
Deferred tax credit in equity	(0.1)	0.3
At 31 December 2018	2.2	2.7

Changes to the rate of UK corporation tax were substantively enacted in 2016 to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. The deferred tax balance has been calculated based on the rates applicable when the balances are expected to reverse, which is mainly 17% (2017: 17%).

Company notes to the financial statements
(continued)

C8. Other creditors falling due within one year

	2018 £m	2017 £m
[illegible]	2.8	[illegible]
Other payables	1.5	1.1
	4.3	4.3

C9. Share capital

	2018 £m	2017 £m
Issued and fully paid		
[illegible]	81.8	81.8

C10. Contingencies

[illegible]

[illegible]

[illegible]

Subsidiary undertakings

[illegible]

[illegible]

[illegible] Netherlands BV [illegible] Pension Trustees Limited [illegible] Estates Limited IMI [illegible] Trustee Limited IMI Deutschland Limited IMI Euro Finance Limited IMI Fluid Controls Finance Limited IMI Germany Limited IMI Group Limited IMI Kynoch Limited IMI Marston Limited IMI Overseas Investments Limited IMI Pensions Trust Limited IMI plc IMI Precision Engineering Limited IMI Property Investments Limited IMI Refiners Limited IMI Retirement Savings Trust Limited IMI Sc[illegible] Finance Limited IMI Vision Limited [illegible] 21 Limited Truflo Group Limited Truflo International Limited Truflo Investments Limited	Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, [illegible], United Kingdom
IMI Critical Engineering Holding GmbH IMI Deutschland II GmbH & Co KG. IMI Deutschland Verwaltungs GmbH IMI Germany Holding Limited & Co. KG. Norgren GmbH	Bruckstrasse 93, 46519 Alpen, Germany
IMI Americas Inc IMI Fluid Controls Holdings Inc Norgren Inc	5400 South Delaware Street, Littleton, CO 80120, United States
IMI Australia Pty Ltd IMI Lakeside Australia Pty Ltd Tube Fittings Sales Pty Limited	[illegible] South Corporate Avenue, Rowville VIC 3178, Australia
IMI Holding Italy S.R.L. Orton S.R.L. Truflo Rona S.R.L.	Via Stendhal, 65, 20144 Milano, Italy
Bimba Manufacturing Company Bimba Properties Inc.	25150 S. Governors Hwy, University Park, IL 60484, United States
Heimeier GmbH IMI Hydronic Engineering Deutschland GmbH	Völlinghauser Weg 2, 59597 Erwitte, Germany
IMI Aero-Dynamiek BVBA IMI Hydronic Engineering NV	Boomsesteenweg 28, B-2627 Schelle, Belgium
IMI Components Limited Truflo Marine Limited	Westwood Road, Birmingham, B6 7JF, United Kingdom
IMI Finance SA IMI Hydronic Engineering International SA	Route de Crassier 19, Lake Geneva Business Park, 1262 Eysins, Switzerland
IMI Hydronic Engineering A/S, Norgren A/S	Vestre Hedevej 18, DK-2730 Herlev, Denmark
IMI Hydronic Engineering BV, IMI Netherlands Holdings BV	Röntgenweg 20, Alphen aan den Rijn, NL-2408 AB, Netherlands

Subsidiary undertakings
(continued)

IMI Scotland Limited The IMI Scottish Limited Partnership	15 Atholl Crescent, Edinburgh, EH3 8HA, United Kingdom
Lakeside Finance Unlimited Company Lakeside Treasury Unlimited Company	4 Stokes Place, St Stephen's Green, Dublin 2, Ireland
Norgren Co. Limited Norgren Manufacturing Co. Ltd	Building 4, No. 1885 Duhui Road, Minhang District, Shanghai, China
Norgren Manufacturing de Mexico SA DE CV Norgren SA de CV	Avenida Mañana 120, Parque Industrial Queretaro, Santa Rosa de Jauregui, Queretaro, 76220, Mexico
Valves Holding GmbH Z & J Technologies GmbH	Bahnstrasse 52, 52355 Düren, Germany
Aero Associates Inc.	[illegible] Rd, Ste A Concord CA 94520, United States
AFA Controls LLC	C/O Corporation Trust Centre 1209 Orange Street, Wilmington DE 19801, 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	[illegible]strasse 16, [illegible], Switzerland
CCI América do Sul Comércio de Equipamentos Industriais Ltda	Rua Itapeva, 86 [illegible] 95 96 97, São Paulo [illegible], Brazil
CCI Asia Pacific Pte Ltd	29 International Business Park, ACER Building, Tower A, #04-01, Singapore 609923, Singapore
CCI Czech Republic s.r.o.	K [illegible] 1264/3, Šlapanice 664 51, Czech Republic
CCI Flow Control (Shanghai) Co Ltd	Room 106, Unit 15, 159 Tian Zhou Road, Cao He Jing Development Zone, Shanghai 200233, China
CCI International Limited	Unit A4 Brookside Business Park, Greengate, Middleton, Manchester M24 1GS, United Kingdom
CCI Italy S.R.L.	[illegible] 35, 20124 Milan, Italy
CCI Limited	11 Dangdong 2-ro, Munsan-eup, Paju-si, Gyeonggi-do [illegible], Republic of Korea
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 Bonmont? 21, 1607, Palézieux, Switzerland
Fluid Automation Systems GmbH	Stuttgarter Straße 120, 70736 Fellbach, Germany
Heiron Systemtechnik GmbH	Untere Talstrasse 65, 71263 Weil der Stadt, Germany
IMI Aero-Dynamiek BV	Fazantstraat 9, 3861 VS, Nijkerk, Netherlands
IMI CCI South Africa (Pty) Ltd	18 Van Rensburg North Avenue Ext 66, Witbank, 1035, South Africa
IMI Consulting (Shanghai) Co Limited	Units 05/06 9 Floor, No. 500 Fushan Road, Pudong New Area, Shanghai, 200122, China
IMI Critical Engineering (Shanghai) Company Limited	B5-2, No. 303, Xinke Road, Qingpu District, Shanghai, 201707, China
IMI Critical FZE	Office No. FZJOA1308, FZJOA1310, FZJOA1307A, Jebel Ali Free Zone, Dubai, United Arab Emirates
IMI Energi & VVS Utveckling AB	Annedalsvagen 9, 22764, Lund, Sweden
IMI Engineering Sdn. Bhd	Level 22, Axiata Tower, No. 9, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia
IMI France SARL	52 Boulevard de Sebastopol, 75003 Paris, France
IMI Hidronik Muhendislik Iklimlendirme Sistemleri Ltd Sti	Ataşehir Bulvarı Ata Çarşı no. 50-58, Ataşehir, Istanbul, Turkey
IMI Holdings LLC	101 Broadway Street West, Suite 204, Osseo, MN 55369, United States
IMI Hydronic Engineering AB	Annelund, SE-524 80, Ljung, Sweden
IMI Hydronic Engineering AS	Olav Ingstads vei 5?, Ski, N-1400, Norway
IMI Hydronic Engineering China	Room 360, Xin Mao Building, No 2 Tai Zhong Nan Road, Pilot Free Trade Zone, Shanghai 200131 China

IMI Hydronic Engineering [illegible] SA	[illegible] France
IMI Hydronic Engineering FZE	Office [illegible] JAFZA, PO Box [illegible] Dubai, United Arab Emirates
IMI Hydronic Engineering [illegible]	[illegible] China
IMI Hydronic Engineering Inc	[illegible] Dallas [illegible] TX [illegible] United States
IMI Hydronic Engineering Limited	[illegible] Bedford [illegible] United Kingdom
IMI Hydronic Engineering Limited	[illegible] New Zealand
IMI Hydronic Engineering Oy	[illegible] Finland
IMI Hydronic Engineering Pte. Ltd	223 Mountbatten Road [illegible] Singapore [illegible] Singapore
IMI Hydronic Engineering S.A.	9 [illegible] Gare [illegible] 5899 [illegible] Luxembourg
IMI Hydronic Engineering Spain SAU	[illegible] Madrid, Spain
IMI Hydronic Engineering S.R.L.	Strada [illegible] 20146 Milan, Italy
IMI Hydronic Engineering Switzerland AG	Mühlerainstrasse 26, 4414 Füllinsdorf, Switzerland
IMI Hydronic Engineering UAB	A. Juozapaviciaus [illegible] Kaunas LT-45[illegible] Lithuania
IMI International Co Srl	[illegible] Romania
IMI International d.o.o.	[illegible] 1000 [illegible] Slovenia
IMI International d.o.o.	Savska [illegible] Zagreb 10000, Croatia
IMI International d.o.o. Beograd	Milutina Milankovica 1b, Novi Beograd 11070, Serbia
IMI International Kft	[illegible] Budapest [illegible] Hungary
IMI International LLC	[illegible] Shabolovka Street 19 [illegible] Moscow, Russian Federation
IMI International s.r.o.	Central Trade Park D1 [illegible] Humpolec 396 01, Czech Republic
IMI International Sp. z o.o.	[illegible] 50 A, [illegible] Poland
IMI Japan KK	6-2-2 Takatsukadai, Nishi-ku, Kobe 651-2271, Japan
IMI Lakeside Ireland Limited	[illegible] City Quay, Dublin 2, [illegible] Ireland
IMI Norgren Herion Pvt Limited	B-30A Sector 85, Noida, Uttar Pradesh 201305, India
IMI Norgren Limited	[illegible] Dublin Industrial Estate, Glasnevin, Dublin 11, Ireland
IMI Norgren Pneumatic (Shanghai) Co Limited	1st Floor, No. 1 Building, [illegible] North Road, Caohejing Hi-Tech Park, Shanghai [illegible] China
IMI Norgren SA (Sociedad Unipersonal)	Calle Colon [illegible] Terrassa, Spain
IMI Webber Limited	City Business Park, Easton Road, Easton, Bristol BS5 0SP, United Kingdom
Industrie Mécanique Pour Les Fluides SA	15 Avenue des Gares, 95580 Andilly, France
Intek Products Inc	[illegible] Executive Drive, Suite 127, Cranberry Township, PA 16066, United States
Interativa Industria Comercio e Representações Ltda	Avenida Carabelli [illegible] Sorocaba, São Paulo, [illegible] Brazil
[illegible] Sweden Holding AB	c/o IMI Hydronic Engineering AB, [illegible] Ljung, Sweden
[illegible] 213 Limited	2 Cornwall Street, Birmingham, West Midlands, B3 2DL, United Kingdom
Mead Fluid Dynamics Inc	4114 North Knox Avenue, Chicago IL 60641, United States
Newman Hattersley Limited	151 Superior Blvd, Mississauga ON L5T 2L1, Canada
Norgren AG	[illegible] 10, 8583 Sulgen, Switzerland
Norgren AS	Karihaugveien 89, Oslo, 1086, Norway
Norgren Automation Solutions LLC	2871 Bond Street, Rochester Hills, MI 48309, United States
Norgren BV	Versterkerstraat 6, 1322 AP Almere, Netherlands
Norgren Co Limited	120/34 M.12, [illegible] Bangplee, Samutprakarn, 10540, Thailand
Norgren Finland OY	Huopalahdentie 24, A-talo, [illegible] Helsinki, Finland
Norgren GesmbH	Industriezentrum No Süd, Strasse 2, Wiener Neudorf, 2355, Austria
Norgren GT Development Corporation	325 C Street NW, Suite 100, Auburn, WA 98001, United State

Subsidiary undertakings
(continued)

Norgren Kloehn Inc	10000 Banburry Cross Drive, Las Vegas, NV 89144, United States
Norgren Limited	[illegible] F Benson Tower, 74 Hung To Road, Kwun Tong, Kowloon, Hong Kong
Norgren Limited	15A Vestey Drive, Auckland 1060, New Zealand
Norgren Limited	Blenheim Way, Fradley Park, Lichfield, Staffordshire, WS13 8SY, United Kingdom
Norgren Ltda	Av. Eng. Alberto de Zagottis 696, B. São Paulo SP [illegible], Brazil
Norgren NV	[illegible] 84, B-1651 Lot, Belgium
Norgren Pte Ltd	[illegible] Tuas Street, Singapore [illegible], Singapore
Norgren SAS	[illegible] 77090 Collégien, France
Norgren Srl	Via Trieste 16, Vimercate 20[illegible], Milan, Italy
Norgren Sweden AB	Box 14011, [illegible] 6, S-200 24 Malmo, Sweden
Norgren Taiwan Co Limited	8F, No. 54 Sec. 1, Minsheng N. Rd., Guishan Dist., Taoyuan City 333, Taiwan
Pneumadyne Inc.	11425 23rd Ave North, Plymouth, MN 55441, United States
[illegible] S.R.L.	[illegible], Italy
SAIC [illegible] Co Ltd (44%)[1]	Block B, [illegible] Road, [illegible], Shanghai [illegible], China
Shanghai CCI Power Control Equipment Co Ltd	[illegible] Road, [illegible] District, Shanghai 20[illegible], China
STI S.r.l.	Via dei Caravaggi 15, 24040 Levate (BG), Italy
TA Regulator d.o.o.	[illegible], Slovenia
TH Jansen Armaturen GmbH	Otto-[illegible] Str. 6, 66386 St. Ingbert, Germany
THJ Holding GmbH	Planiger Str. 34, 55543 Bad Kreuznach, Germany
Thompson Valves Limited	17 Balena Close, Creekmoor, Poole, Dorset BH17 7EF, United Kingdom
TRD Manufacturing Company Inc	[illegible] North 2nd Street, Machesney Park, IL 61115, United States
Truflo Rona S.A.	[illegible] avenue, 16, Parc Industriel des Hauts Sart, 4040 Herstal, Belgium
Vacon Company Inc.	9 Industrial Park Road, Medway, MA 02053, United States
Z & J High Temperature Equipment Shanghai Co Ltd	639 Yuchun Road, Minhang District, Shanghai 201108, China
Zimmermann & Jansen Inc	4525 Kennedy Commerce Drive, Houston, TX 77032, United States

[1] Treated as external investments.

Subsidiary audit exemptions

IMI plc has issued guarantees over the liabilities over the following companies at 31 December 2018 under Section 479C of the Companies Act 2006 and the entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act.

Company name	Company number	Company name	Company number
Holford Estates Limited	01181406	IMI Scotland Limited	SC378421
IMI Deutschland Limited	07843551	IMI Sweden Finance Limited	07272731
IMI Euro Finance Limited	03929434	IMI Vision Limited	04421176
IMI Fluid Controls (Finance) Limited	08526502	Truflo Group Limited	04139646
IMI Germany Limited	07843576	Truflo International Limited	00164822
IMI Marston Limited	00155987	Truflo Investments Limited	04139627
IMI Refiners Limited	00148305		

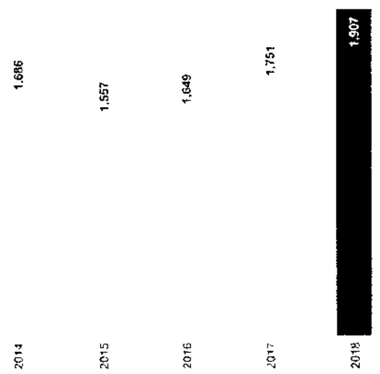
Geographic distribution of employees

[illegible]

[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
Total	10,967

Five year summary

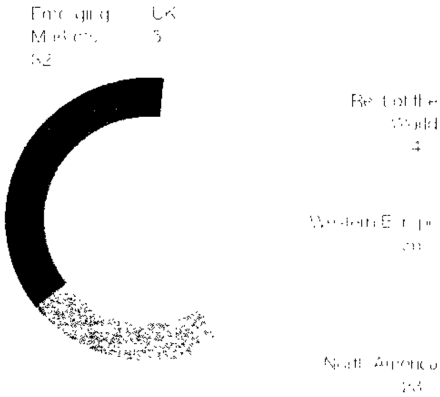
Adjusted revenue £m



Adjusted profit before tax* £m

* Before adjusting items

Adjusted Group revenue by geography 2018



Income statement

	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Statutory revenue	1,692	1,567	1,657	1,751	**1,907**
Adjusted revenue	1,686	1,557	1,649	1,751	**1,907**
Adjusted operating profit	295.5	235.9	[illegible]	[illegible]	**265.5**
Adjusted profit before tax	[illegible]	[illegible]	[illegible]	[illegible]	**251.2**
Special pension events	[illegible]	6.1	2.8	[illegible]	**6.8**
Restructuring costs	(8.6)	(27.1)	[illegible]	[illegible]	**(12.4)**
Acquired intangible amortisation and impairment	[illegible]	[illegible]	[illegible]	[illegible]	**(27.1)**
Other acquisition items	(1.8)	-	-	[illegible]	**(3.7)**
Gain/(loss) on disposal of subsidiaries	34.2	[illegible]	-	[illegible]	**0.6**
Financial instruments excluding economic hedge contract gains/losses	(2.8)	2.6	(1.2)	2.4	**(2.5)**
Profit before tax from continuing operations	[illegible]	[illegible]	[illegible]	[illegible]	**212.9**
Adjusted EBITDA	[illegible]	263	[illegible]	265	**320**

Group sales by destination

	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
UK	98	90	75	79	90
Western Europe*	614	563	[illegible]	653	681
North America	318	334	314	336	451
Emerging Markets	544	505	[illegible]	595	608
Rest of World	82	65	[illegible]	86	77
Adjusted Revenue	1 686	1 557	1 649	1 751	1,907
Reversal of net economic hedge contract losses/(gains)	6	10	8	-	-
Statutory Revenue	1 692	1,567	1 657	1 751	1,907

* Defined as Germany, France, Holland, Italy, Spain, Denmark, Greece, Belgium, Republic of Ireland, Portugal, Luxembourg, Sweden, Finland, Austria, Cyprus, Switzerland and Norway.

Earnings and dividends

	2014	2015	2016	2017	2018
Adjusted basic earnings per share	[illegible]	[illegible]	[illegible]	[illegible]	73.2p
Statutory basic earnings per share	[illegible]	[illegible]	[illegible]	[illegible]	62.5p
Ordinary dividend per share	[illegible]	[illegible]	[illegible]	[illegible]	40.6p

Balance sheet

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Segmental net assets	[illegible]	926	[illegible]	[illegible]	1,220
Other net non-operating liabilities excluding borrowings	[illegible]	[illegible]	[illegible]	[illegible]	(149)
Net debt	[illegible]	[illegible]	[illegible]	[illegible]	(405)
Net assets	[illegible]	589	[illegible]	[illegible]	666

Statistics

	2014	2015	2016	2017	2018
Segmental operating profit as a percentage of segmental revenue	17.5	[illegible]	13.8	13.8	14.0%
Segmental operating profit as a percentage of segmental net assets	[illegible]	25.9	[illegible]	[illegible]	21.8%
Effective tax rate on adjusted profit before tax	[illegible]	[illegible]	[illegible]	[illegible]	21.0%
Net assets per share (excluding treasury and EBT shares)	[illegible]	[illegible]	[illegible]	[illegible]	245.8p
Net debt as a percentage of shareholders' funds	56.1	[illegible]	48.5	[illegible]	60.7%
Net debt/Adjusted EBITDA	[illegible]	0.9	[illegible]	[illegible]	1.3
Adjusted EBITDA/Interest	23	15	[illegible]	[illegible]	25

Shareholder and general information

Announcement of trading results

The trading results for the Group for the first half of 2019 will be announced on [illegible] July 2019.

The trading results for the full year ending 31 December 2019 will be announced in February 2020.

Interim management statements will be issued in May and November 2019.

Dividend payments

Final: [illegible] May 2019

Interim: September 2019

Share prices and capital gains tax

The closing price of the Company's ordinary shares on the London Stock Exchange on 31 December 2018 was 944.0p (2017: 1,332.0p). The market value of the Company's ordinary shares on 31 March 1982, as calculated for capital gains tax purposes, was [illegible]p per share.

The Company's SEAQ number is [illegible].

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings, please contact the Company's Registrar, Equiniti (contact details appear to the right).

Please remember to tell Equiniti if you move house, change bank details or if there is any other change to your account information.

Managing your shares on-line

Shareholders can manage their holdings on-line by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- help us to reduce print, paper and postage costs and the associated environmental impact of these;
- cast your AGM vote electronically;
- receive an email alert when important shareholder documents are available on-line such as Annual Reports and Notices of General Meetings;
- access details of your individual shareholding quickly and securely;
- set up a dividend mandate on-line; and
- change your registered postal address or your dividend mandate details.

To find out more information about the services offered by Shareview and to register, please visit www.shareview.co.uk

Corporate website

The IMI website provides a wealth of useful information for shareholders and is an ideal way to find answers to 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 register to receive news alerts via email as they are released. [illegible] 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 2019

This year's AGM will be held at the [illegible] Plaza, NEC, Pendigo Way, Birmingham B40 1NN on Thursday 9 May 2019 at 11am. For further information please refer to the Notice of Meeting which is on the corporate website.

Individual Savings Account (ISA)

IMI 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 Depository Receipts

IMI sponsors an American Depository Receipt (ADR) programme that trades in the Over-The-Counter market in the USA using the symbol IMIAY. ADR enquiries should be directed to Citibank Shareholder Services, PO Box [illegible], Providence, RI [illegible], USA. Toll-free number in the USA is 1-877-[illegible] and from outside the USA [illegible]. You can also email citiadr@shareholders-online.com

Headquarters and registered office

Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham
B37 7XZ

Telephone: +44 (0)121 717 3700

IMI plc is registered in England No. 714275

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2916 or from overseas +44 121 415 7047

Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Stockbrokers

JPMorgan Cazenove
Bank of America Merrill Lynch

Auditor

Ernst & Young LLP

Cautionary statement

This Annual Report may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this Annual Report. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.

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IMI

IMI plc
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham B37 7XZ
United Kingdom

www.imiplc.com