News release from IMI plc

7 March 2013

IMI plc Preliminary Results

IMI plc, the global engineering group, today announces its preliminary results for the year ended 31 December 2012.

		2012	2011	% change
Revenue		**£2,190m**	£2,131m	+3%
Segmental operating margin		**17.0%**	17.5%	
Profit before tax	**- adjusted [1]**	**£366.3m**	£363.4m	+1%
	- as reported	**£317.0m**	£301.4m	+5%
Basic earnings per share	**- adjusted [2]**	**84.3p**	81.5p	+3%
	- as reported	**72.6p**	63.2p	+15%
Dividend	**- Total for year**	**32.5p**	30.0p	+8%

Highlights:

- **Organic revenue growth of 3%**
- **Dividend increased by 8%**
- **Strong balance sheet with net debt of £144m**
- **Investments for growth focused on new product development and the emerging markets**
- **Increased resources for M&A**
- **Intention to divest the majority of the Merchandising division**
- **Share buyback programme of up to £175m over the next 12 months**

Roberto Quarta, Chairman of IMI, commented:

"IMI has delivered a resilient set of results in 2012. In light of this performance, and our confidence in the future prospects for the business, we are pleased to propose an increase in the full year dividend of 8%.

Whilst the global macro-economic outlook remains mixed, we are confident of delivering further progress in 2013, supported by higher growth in the emerging markets and an improving contribution from recently introduced new products. In the longer term we are committed to a programme of accelerating the convergence of the Group's activities around our sweetspot, through increased investment in sales and engineering, and a focused programme of corporate activity, featuring both acquisitions and disposals."

1 before exceptional items (restructuring, acquired intangible amortisation, financial instruments, net credit on special pension events, other acquisition-related costs) totalling £49.3m (2011: £62.0m) and including economic hedge contract gains and losses totalling £6.8m (2011: £4.1m)

2 before the after-tax cost of exceptional items totalling £37.4m (2011: £57.9m)

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Results overview

In 2012 IMI delivered organic revenue growth of 3%, operating margins of 17%, strong cash conversion and adjusted earnings per share of 84.3p, up 3% over last year despite currency headwinds associated with stronger sterling.

This was an encouraging performance, with growth from new products and emerging markets more than offsetting the impact of weaker economic conditions in the second half; and good underlying progress on margins in a number of areas reflecting continued improvements in the quality and differentiation of our products.

Our Fluid Controls business recorded organic revenue growth of 3%, with double digit revenue growth in Severe Service offsetting second half weakness in Fluid Power and a flat year in Indoor Climate. Margins for the Fluid Controls businesses reduced from 18.7% to 17.7%, impacted primarily by the shipment of a large backlog of lower margin projects within Severe Service secured in earlier years. As indicated in the Interim Results, prospects going forward are much improved, with margins in the Severe Service order book at the year-end notably higher than 12 months ago. Margins in Fluid Power and Indoor Climate reflected pleasing resilience in the face of weaker end-markets, supporting increased investments in emerging markets and in new products which continue to improve their differentiated positions.

Within Retail Dispense we made further good progress in improving the underlying quality of the Beverage Dispense and Merchandising businesses, accelerating the development of new products at higher margins and exiting low margin or commoditised product lines. As a result operating margins for the Retail Dispense businesses increased to 14.7% from 13.7% last year. Overall revenues increased 2% on an organic basis, despite a number of low margin product exits, pointing to a reasonably healthy level of underlying demand.

Contributions from our two acquisitions during the year, Remosa and InterAtiva, were encouraging, with both businesses recording an improvement in margins and both providing scope for considerable growth over the coming years.

These results together with a strong performance on cash conversion and a high level of confidence in the future prospects of the Group lead the Board to recommend that the final dividend be increased by 9% to 20.7p. This makes a total dividend for the year of 32.5p, an increase of 8% over last year's 30.0p.

Accelerating our strategic plans

Over the last few years we have developed a very detailed understanding of the end-market niches that offer the greatest scope for IMI in terms of growth, margins and long-term resilience – our so-called 'sweetspot' of operation. For IMI this sweetspot is where we can deploy our differentiated fluid technologies in global market niches where we already have, or can aspire to, a leadership position and which benefit from a heightened exposure to the long-term mega-trends of climate change, resource scarcity, urbanisation and an ageing population.

We understand the long-term drivers for growth, the key requirements for establishing barriers to the competition and the scope for building market share. Furthermore, we have established clear customer and technology roadmaps to take full advantage of the new product opportunities arising from favourable mega-trends and to deliver market share gain. Accordingly, sweetspot convergence and the prioritisation of assets and resources is the central theme in progressing both the quality, as reflected by operating margins, and growth of the business over the medium-term.

We have set out an objective to increase the proportion of our revenues in this sweetspot of operation, which was 58% in 2012, to around 75% over five years. The pathway to that convergence requires an acceleration in output from new product development, greater participation in the higher growth emerging markets, a highly disciplined approach to the allocation of internal resources, and a step change in corporate activity, involving both acquisitions and disposals.

Over the period we expect to increase our investments in both new products, as framed by the sweetspot and technology roadmaps we have developed, and in greater penetration of the emerging markets. These investments for higher growth will be funded through a continued determination to keep winning our 'inflation equation', with a focus on value-selling techniques and on driving down manufacturing and supply chain costs. We are also targeting a significant increase in investment in acquisitions, firmly positioned in our sweetspot, and have boosted our internal M&A resource accordingly.

Retail Dispense reorganisation

As part of the convergence process, since the year-end we have concluded that the majority of the Merchandising business should be divested, and we are exploring options accordingly. The part of the Merchandising business serving the beverage market, contained within our Display Technologies subsidiary, presents a number of synergies with the Beverage Dispense business, including a shared customer base and significant potential to develop a more compelling and high impact interface between the consumer and our beverage dispense equipment. Accordingly this beverage activity has been transferred to the Beverage Dispense business with effect from the start of this year. In 2012, Display Technologies had revenues in these product areas of £36m and segmental operating profit of £8.5m.

Capital allocation priorities

As part of our strategic acceleration plans we have reviewed our capital allocation priorities. The Group continues to be very cash generative and net debt at the year-end reduced from the half-year to £144m, with net debt to EBITDA at 0.4 times, after having financed £105m for the acquisitions earlier in the year of Remosa and InterAtiva.

Our priorities for capital allocation are the acceleration of investments for growth in new product development and emerging markets, the maintenance of a progressive dividend policy, with dividend cover being maintained at above two times earnings and an increase in acquisition activity to support sweetspot convergence.

The Board remains focused on maintaining an efficient balance sheet and given the uncertainty over the timing of acquisitions, there may be periods when net debt falls below current levels which becomes inefficient. Accordingly we intend to commence a share buyback programme over the next 12 months of up to £175m to ensure that gearing remains at or above the current level.

People and organisation
In support of efforts to accelerate growth and deliver against our sweetspot convergence objectives, we are making a change to the senior leadership team. Peter Spencer, who has a track record of delivering significant growth, including a very successful period in charge of the Merchandising business, will lead the Indoor Climate Group with effect from 7 March, reporting directly to Martin Lamb. Sean Toomes, who has made an excellent contribution to the Group over a long career with IMI, stepped down from the Board on 6 March, and will be leaving the company at the end of June. We would like to thank Sean for his significant contribution to IMI over many years.

Our ongoing success is fundamentally linked to the skills, energy, initiative and commitment of our people across the world. We are again grateful to them for their continued hard work and enthusiasm which have helped to deliver another good set of results in 2012.

The IMI Way
The IMI Way is our code of responsible business which sets the very highest standards of ethical business and compliance. The Group has been reinforcing the core values and messages of the IMI Way since its launch in 2009. On 13 June 2012, we held our first global IMI Way day when the vast majority of our workforce, which encompasses over 15,000 employees, participated in interactive training and engaged in a number of worthwhile projects in their local communities.

Outlook
IMI has proved itself to be a strong and resilient business, capable of securing growth even in difficult markets. Whilst the macro-economic environment has stabilised over recent months, we expect market conditions to remain subdued in the first half of 2013, but to improve gradually as the year progresses, with increased momentum in the second half, benefitting from an improving sales mix and the commercialisation of a number of new products. Over the longer term, we remain confident of delivering organic revenue growth well in excess of global GDP, with very attractive margins, as the benefits from the execution of our strategy fully materialise.

OPERATIONS AND FINANCIAL REVIEW

Operations review

The following review of our business areas for the year ended 31 December 2012 compares the performance of our operations, as reported under IFRS8: Operating Segments, with the year ended 31 December 2011. References to organic growth exclude the results of acquisitions for the period in which they were not in the comparators and are on a constant currency basis. This section also comments on current market conditions in each of our businesses.

Severe Service

Revenue	£686m	(2011: £572m)
Operating profit	£96.3m	(2011: £88.9m)
Operating margin	14.0%	(2011: 15.5%)

Our Severe Service business delivered revenue growth of 20% on a reported basis, including the results of Remosa and InterAtiva since acquisition. Revenue, on an organic basis, increased by 14% for the full year, reflecting a strong shipment performance throughout the year. We saw good growth in shipments in Fossil Power, Oil & Gas and in the aftermarket, whilst shipments in the Petrochemical market were down. Shipments also benefitted from a catch up in backlog that existed at the end of 2011.

The order book remained unchanged from a year ago despite record shipments, and overall order intake was down 1% for the year on an organic basis. Bookings momentum has been particularly positive in the Petrochemical sector which has offset lower activity in the Nuclear sector and reduced bookings for new construction fossil power projects in China and India where we continue to exercise greater selectivity on project bids.

Operating margins of 14.0% were down on the 15.5% achieved in 2011. As we explained in our Interim Results, this reflects an adverse mix of lower margin projects secured in prior years and higher than expected costs associated with our Brno manufacturing facility in the Czech Republic. Margins in the order book continued to improve throughout the year as the backlog of lower margin projects was shipped, and was replaced by new projects at better margins. In addition we have continued to achieve improvements in productivity in the second half at the Brno facility. Whilst there remain some lower margin contracts still to ship in 2013, mainly in the first half, we continue to expect margins to show progressive improvement through 2013.

The acquisition of Remosa in February 2012 significantly strengthened our capabilities in the downstream Petrochemical sector which is enjoying renewed investment in North America on the back of the availability of low cost shale gas. The acquisition of InterAtiva, also completed in February 2012, has significantly improved our sales and service infrastructure in South America, opening up new sales opportunities across the Severe Service business.

The strong order book position at the beginning of the year gives us confidence that the business will deliver modest growth in 2013.

Fluid Power

Revenue	£717m	(2011: £767m)
Operating profit	£142.3m	(2011: £150.5m)
Operating margin	19.8%	(2011: 19.6%)

As anticipated, Fluid Power markets weakened in the second half after a flat performance in the first half. Overall revenues declined, on an organic basis, by 5% in the second half and by 3% for the full year.

Our sector business, which focuses on bespoke solutions for key original equipment manufacturer (OEM) customers in global niche markets, continued to show greater resilience. This was down 1% on an organic basis, compared to 4% down for the rest of Fluid Power. The Commercial Vehicle sector was down around 10% in the second half and 2% down for the full year. The US truck market was notably weaker in the second half after a strong performance in the first half. We saw good revenue growth in the Energy sector, more stable performances in Food & Beverage and Life Sciences and a decline in the Rail sector. Overall our sector businesses represented 46% of total Fluid Power revenues in 2012.

We continued to make good progress with the ongoing development of our internet, phone and catalogue-based aftermarket solution, Norgren Express.

Fluid Power has continued to demonstrate good underlying margin momentum, with value engineering and supplier rationalisation initiatives, together with our ongoing transfers of production to lower cost sites, delivering further cost reductions. This has resulted in a further improvement in margins, despite lower activity levels, with full year margins of 19.8% compared to 19.6% last year. Second half margins were slightly down at 19.6% compared to 20.0% in the second half of last year on the reduced volumes.

We are seeing more optimistic feedback from major customers in our regular conversations with them, although there has been a slow start to the year in the Commercial Vehicle sector as some destocking continues. Based on our latest customer insight and current order trends we expect revenues in the first half to be similar to the second half of last year with first quarter destocking in the Commercial Vehicle sector offsetting a gradually improving trend elsewhere. We expect a return to stronger growth in the second half, as Commercial Vehicle volumes normalise, and the contribution from a number of recently launched products accelerates.

Indoor Climate

Revenue	£293m	(2011: £310m)
Operating profit	£61.5m	(2011: £68.2m)
Operating margin	21.0%	(2011: 22.0%)

Indoor Climate revenues were flat on an organic basis for the full year, with growth in a number of emerging markets offsetting a decline in Western Europe, which suffered from some wholesaler destocking at the year-end after a more positive third quarter. The new construction market in Europe remained subdued, whilst refurbishment activity continued to be more resilient.

During the year we significantly increased our investments in sales resource outside of Europe, opening up four new hydronic demonstration centres and increasing the number of new seminar participants by 16%. This investment is starting to gain some traction, with strong double digit growth in Turkey, Russia, China and Brazil, but disappointing results thus far in North America. We also invested heavily in a new range of control valves with integrated balancing, which is being rolled out to the global market in the first half of 2013, opening up a new and adjacent market sector for the Indoor Climate business.

Operating margins in the second half of 22.8% were in line with our expectations, leaving full year margin at 21.0%, down from the 22.0% achieved in 2011. As previously highlighted this reflects the incremental investments for growth and some additional costs associated with the centralising of the management structure in Switzerland.

Looking at the general macro-economic background, and taking note of customer sentiment, we expect the new construction market in Europe to remain subdued but refurbishment activity to remain resilient. We do however expect an improving trend in both Asia and the Americas which, coupled with the increased sales presence we now have in these markets and a progressively improving contribution from the newly launched control valves, should mark a return to growth in 2013.

Beverage Dispense

Revenue	£313m	(2011: £317m)
Operating profit	£45.0m	(2011: £41.1m)
Operating margin	14.4%	(2011: 13.0%)

Full year revenues in Beverage Dispense were down 1% on both an organic and reported basis. The continued focus on improving the quality of the business delivered a 9% increase in operating profit to £45.0m and resulted in another strong uplift in returns with an overall operating margin for the year of 14.4% (2011: 13.0%). Operating margins in the second half were ahead of the long held target of 15%.

The important Americas market ended the year flat and we achieved a more positive performance in continental Europe. We saw good growth in Asia Pacific, with a particularly strong performance in China. The most challenging market for Beverage Dispense was in the UK where revenues were significantly below last year, reflecting in part the exit of a low margin contract at the half year. We have recently taken actions to restructure the UK business, reducing the cost base and concentrating our efforts on a more focused customer base. Our parts business, 3Wire, has continued to win new national food-service accounts in North America.

During the year we remained focused on improving the quality of the overall sales mix in the business, accelerating the growth of higher margin new products and continuing to exit commoditised low margin product lines, like the UK contract referenced above. These low margin exits reduced revenues by around 2% and have resulted in an exit from around 10% of the product portfolio over the last three years. This programme is now largely complete, notwithstanding the full year impact in 2013 of actions taken partway through 2012.

We continue to focus our efforts on delivering successful new products for our customers to meet their growing demand for innovative solutions to dispense health and wellness beverages such as smoothies, water, juice and frozen beverages and also a greater variety and choice of drinks. We are working on several major new product development opportunities which have the potential to accelerate growth and drive further margin improvement over the medium term. We were recently awarded the contract to design and manufacture the next generation of automated beverage dispensers to be sited in McDonald's drive-thru restaurants on a global basis over the next few years.

Merchandising

Revenue	£183m	(2011: £169m)
Operating profit	£27.9m	(2011: £25.4m)
Operating margin	15.2%	(2011: 15.0%)

Merchandising performed strongly throughout the year with revenues up 8% on an organic basis. In the summer we commenced shipments for two large multi-year contracts secured in our European cosmetics business. We have also continued to perform well in the US automotive sector where customers are upgrading their showrooms.

We continue to focus on higher value projects where we are able to leverage our extensive consumer insight in our target end-markets to deliver valuable and compelling merchandising solutions for our customers. This focus is being supported by further investment in developing our In-Vision retail science laboratory which opened in the US in 2011.

Segmental operating profits increased by 10% to £27.9m and operating margins at 15.2% were ahead of last year.

As mentioned in the Chairman and Chief Executive's statement, with effect from January 2013 the beverage business of Display Technologies has been transferred into Beverage Dispense and we are exploring options for the divestment of the remainder of the Merchandising business.

Financial Review

Results summary
Reported revenues increased by 3% to £2,190m (2011: £2,131m). After adjusting for an exchange rate impact of £63m and the contribution from acquisitions, the organic revenue increase was also 3%.

Segmental operating profit was £373.0m, compared to £374.1m last year. At constant exchange rates and excluding acquisitions segmental operating profit rose by 1%. The segmental operating margin was 17.0% (2011: 17.5%). Operating profit was £317.9m (2011: £314.2m), after restructuring costs of £23.3m, acquired intangible amortisation of £29.6m and reversing net economic hedge contract gains of £6.8m. Other acquisition-related costs were £6.3m and there was a net credit on special pension events of £10.9m. The restructuring charge principally reflects ongoing costs associated with the moves to lower cost manufacturing centres in our Severe Service business (which were higher than expected) and the closure of one of our Merchandising sites in the US. The Group expects to continue to incur restructuring costs in 2013 of around £15m resulting from additional initiatives to move manufacturing to lower cost sites.

Interest costs on net borrowings were £17.7m (2011: £16.9m). The net pension financing credit under IAS19 was £11.0m (2011: £6.2m). After adding the net credit on derivatives of £5.8m (2011: net expense of £2.1m), the total net financing costs were £0.9m (2011: £12.8m).

Adjusted basic earnings per share (excluding the after tax impact of exceptional items) were 84.3p (2011: 81.5p), an increase of 3%. Adjusted fully diluted earnings per share were 83.2p (2011: 80.1p). Profit before tax was 5% higher at £317.0m (2011: £301.4m). Basic earnings per share increased 15% to 72.6p (2011: 63.2p).

The revision to IAS19 '*Employee Benefits'* will apply to the Group from 1 January 2013. The principal revision to this standard is to change the basis for the calculation of the return on assets reported as financial income in the Group's income statement, whereby the amount reported in the income statement is reduced and the amount reported in other comprehensive income is increased by an equivalent amount. Had this change been effective for the year ended 31 December 2012, we estimate that the net finance income reported of £11.0m would have been a net finance charge of £7.8m, which after tax, would have resulted in a 4.6p reduction in basic and adjusted earnings per share. The equivalent finance charge is estimated at £8m for 2013.

Return on invested capital
Post tax return on invested capital (ROIC) was 19.2% compared to 20.3% in 2011. We have amended our headline definition of ROIC this year to add back all accumulated amortisation of acquired intangibles to invested capital.

Mergers and acquisitions
On 16 February 2012, the Group acquired Remosa SpA and related companies (collectively Remosa), a leading engineering business specialising in valves and related flow control products for severe applications primarily in the Petrochemical market, for an enterprise value of £83.1m, being cash consideration of £68.4m and net debt assumed of approximately £14.7m. The consideration was funded out of IMI's existing resources and banking facilities. The main Remosa manufacturing facility is located in Sardinia.

On 17 February 2012, the Group acquired the InterAtiva Group (InterAtiva), a Brazilian isolation valve business located in Sorocaba, near Sao Paolo, from its founding partners for an initial cash consideration of £22.0m and contingent consideration up to a maximum of BR$55.5m (£16.7m) to be paid based on its performance over the next three years. The consideration was funded out of IMI's existing resources and banking facilities.

Exchange rates
The movement in average exchange rates between 2011 and 2012 resulted in our reported 2012 segmental revenue and segmental operating profit being 3% and 4% lower respectively. Whilst the average US Dollar rate against Sterling was similar to 2011, the Euro was 7% weaker.

If the exchange rates as at 4 March 2013 of US$1.51 and €1.16 had been applied to our 2012 results, it is estimated that segmental revenue and segmental operating profit would have been 4% and 3% higher respectively.

Cash flow
The net cash inflow from operating activities was £211m, compared to £217m last year. Capital expenditure on property, plant and equipment amounted to £39m (2011: £52m) and was 0.9 (2011: 1.3) times depreciation and impairment of £42m (2011: £41m). Other major cash outflows in the year included tax of £103m, dividends of £98m and £83m relating to the acquisitions made in Severe Service. The Group made additional contributions of £17m into the UK pension fund in line with the agreed funding recovery plan. These items were financed from current facilities and a net repayment of borrowing of £25m (2011: £16m) was also made during the year. The total cash outflow for the year was £25m (2011: inflow £44m).

Balance sheet
The balance sheet remains strong with net debt of £144m (2011: £108m). The cash outflow during the year was £25m, and £21m of debt was taken on as part of the acquisitions. There was a favourable translation impact of £10m on the revaluation of net foreign currency debt. The ratio of net debt to EBITDA was 0.4 times at the end of the year (2011: 0.3).

Intangible assets increased to £545m from £498m in the prior year, reflecting the acquired intangibles and goodwill recognised on the acquisitions which was partially offset by £30m of amortisation of acquired intangibles during the year relating to these and

previous acquisitions. Expenditure capitalised during the year on non-acquired intangible assets (development costs and software) totalled £8m.

The net book value of the Group's investment in property, plant and equipment at 31 December 2012 was £245m (2011: £248m). The decrease arose because depreciation and impairments of £42m (2011: £41m) more than offset capital expenditures of £39m (2011: £52m).

Net working capital balances increased by £31m during the year as the decrease in inventories of £29m was more than offset by a decrease in payables of £41m and an increase in receivables of £19m. The decrease in inventories reflects good reductions in stock days in both Severe Service and Beverage Dispense leading to an overall reduction of nine stock days across the Group. The reduction in creditors was somewhat greater than the reduction in inventories reflecting additional consignment stock arrangements that we have negotiated with suppliers. The increase in receivables represents two additional debtor days for the Group and was driven by both the increase in Severe Service revenues and their geographic mix.

Shareholders' equity at the end of December was £636m, an increase of £71m since the end of 2011, which includes the profit attributable to the shareholders for the year of £231m, less an after-tax actuarial loss on the defined benefit pension plans of £64m and the 2011 final and 2012 interim dividends totalling £98m.

Tax

The effective tax rate for the Group before exceptional items reduced to 26% (2011: 28%) during the year as a result of further business reorganisation, a strong focus on global tax incentives, tax compliance management and the reduction in the UK corporation tax rate. In addition, exceptional tax relief of £11.9m (2011: £4.1m) arose in connection with business restructuring and other exceptional costs. The total tax charge for the year was therefore £83.3m (2011: £97.7m) and profit after tax was £233.7m (2011: £203.7m). Taxes of £102.9m (2011: £90.9m) were paid in the year.

Pensions

The IAS19 net pension deficit was £232m which compares to the deficits of £208m at June 2012 and £204m at December 2011. Of this amount, the main UK fund represents our largest employee benefit obligation which had a year-end net accounting liability of £109m (2011: £98m). This fund was closed to new entrants at the end of 2005 and to future accrual on 31 December 2010. The increase in the UK defined benefit obligation arose as the strong asset returns, liability management initiatives and cash contributions did not quite offset our adoption of a slightly lower long-term inflation assumption and a lower discount rate.

In accordance with the latest recovery plan agreed in 2011, a payment of £16.8m was made to the UK fund in July 2012. These contributions will continue until 2016 or full funding if sooner. The next actuarial valuation is scheduled to take place as at March 2014.

The deficit relating to the overseas obligations rose by £19m in the year principally as a result of falls in the discount rates applied.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	**2012**			2011		
		Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2	**2,192**	**(2)**	**2,190**	2,135	(4)	2,131
Segmental operating profit	2	**373.0**		**373.0**	374.1		374.1
Reversal of net economic hedge contract gains	2, 7		**(6.8)**	**(6.8)**		(4.1)	(4.1)
Net credit on special pension events	7		**10.9**	**10.9**		-	-
Restructuring costs	7		**(23.3)**	**(23.3)**		(23.5)	(23.5)
Acquired intangible amortisation			**(29.6)**	**(29.6)**		(32.3)	(32.3)
Other acquisition-related costs	3, 7		**(6.3)**	**(6.3)**		-	-
Operating profit	2	**373.0**	**(55.1)**	**317.9**	374.1	(59.9)	314.2
Financial income	4	**3.7**	**13.9**	**17.6**	3.3	13.9	17.2
Financial expense	4	**(21.4)**	**(8.1)**	**(29.5)**	(20.2)	(16.0)	(36.2)
Net finance credit relating to defined benefit pension schemes	4	**11.0**		**11.0**	6.2		6.2
Net financial (expense)/income	4	**(6.7)**	**5.8**	**(0.9)**	(10.7)	(2.1)	(12.8)
Profit before tax	5	**366.3**	**(49.3)**	**317.0**	363.4	(62.0)	301.4
Taxation	5	**(95.2)**	**11.9**	**(83.3)**	(101.8)	4.1	(97.7)
Total profit for the year		**271.1**	**(37.4)**	**233.7**	261.6	(57.9)	203.7
Attributable to:							
Owners of the parent				**230.6**			200.4
Non-controlling interests				**3.1**			3.3
Profit for the year				**233.7**			203.7
Earnings per share	6						
Basic - from profit for the year				**72.6p**			63.2p
Diluted - from profit for the year				**71.6p**			62.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012		Restated (Note 1) 2011	
	£m	**£m**	£m	£m
Profit for the year		**233.7**		203.7
Other comprehensive income/(expense)				
Change in fair value of effective net investment hedge derivatives	**1.3**		1.9	
Related tax effect	**(0.3)**		(0.5)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(14.1)**		(9.7)	
Related tax effect	**(0.1)**		0.1	
		(13.2)		(8.2)
Fair value gain on available for sale financial assets	**0.2**		1.2	
Related tax effect	**(0.1)**		(0.5)	
		0.1		0.7
Actuarial loss on defined benefit plans	**(75.2)**		(84.8)	
Related tax effect in current year	**17.2**		20.5	
Effect of rate change on previously recognised items	**(5.6)**		(4.3)	
		(63.6)		(68.6)
Other comprehensive expense for the year, net of tax		**(76.7)**		(76.1)
Total comprehensive income for the year, net of tax		**157.0**		127.6
Attributable to:				
Owners of the parent		**153.9**		123.9
Non-controlling interests		**3.1**		3.7
Total comprehensive income for the year, net of tax		**157.0**		127.6

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012

	2012 £m	Restated (Note 1) 2011 £m
Assets		
Intangible assets	**544.5**	498.1
Property, plant and equipment	**245.3**	248.3
Employee benefit assets	**-**	1.9
Deferred tax assets	**65.6**	75.7
Other receivables	**6.0**	5.5
Other financial assets	**1.8**	4.9
Total non-current assets	**863.2**	834.4
Inventories	**301.3**	323.6
Trade and other receivables	**407.3**	387.2
Other current financial assets	**6.3**	7.2
Current tax	**23.1**	12.1
Investments	**20.4**	20.4
Cash and cash equivalents	**102.8**	147.9
Total current assets	**861.2**	898.4
Total assets	**1,724.4**	1,732.8
Liabilities		
Bank overdraft	**(6.3)**	(0.4)
Interest-bearing loans and borrowings	**(3.1)**	(13.3)
Provisions	**(19.3)**	(21.6)
Current tax	**(7.4)**	(31.4)
Trade and other payables	**(430.1)**	(475.7)
Other current financial liabilities	**(2.7)**	(7.1)
Total current liabilities	**(468.9)**	(549.5)
Interest-bearing loans and borrowings	**(237.2)**	(242.4)
Employee benefit obligations	**(232.2)**	(205.7)
Provisions	**(19.8)**	(33.2)
Deferred tax liabilities	**(36.7)**	(39.6)
Other payables	**(46.1)**	(48.2)
Total non-current liabilities	**(572.0)**	(569.1)
Total liabilities	**(1,040.9)**	(1,118.6)
Net assets	**683.5**	614.2
Equity		
Share capital	**85.2**	85.0
Share premium	**170.3**	169.3
Other reserves	**45.6**	58.8
Retained earnings	**334.4**	251.7
Equity attributable to owners of the parent	**635.5**	564.8
Non-controlling interests	**48.0**	49.4
Total equity	**683.5**	614.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Share premium account	Capital redemption reserve	Hedging reserve	Translation reserve	Retained earnings	Total parent equity	Non-controlling interests	Total equity
					Restated (Note 1)	Restated (Note 1)			
	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2011	85.0	168.1	7.9	2.7	56.8	205.2	525.7	50.1	575.8
Profit for the year						200.4	200.4	3.3	203.7
Other comprehensive income				1.4	(10.0)	(67.9)	(76.5)	0.4	(76.1)
Total comprehensive income				1.4	(10.0)	132.5	123.9	3.7	127.6
Issue of share capital	-	1.2					1.2		1.2
Dividends paid						(88.8)	(88.8)		(88.8)
Share based payments (net of tax)						10.6	10.6		10.6
Shares acquired for employee share scheme trust						(7.8)	(7.8)		(7.8)
Income earned by partnership								(4.4)	(4.4)
At 31 December 2011	85.0	169.3	7.9	4.1	46.8	251.7	564.8	49.4	614.2
Changes in equity in 2012									
Profit for the year						**230.6**	**230.6**	**3.1**	**233.7**
Other comprehensive income				**1.0**	**(14.2)**	**(63.5)**	**(76.7)**	**-**	**(76.7)**
Total comprehensive income				**1.0**	**(14.2)**	**167.1**	**153.9**	**3.1**	**157.0**
Issue of share capital	**0.2**	**1.0**					**1.2**		**1.2**
Dividends paid						**(97.8)**	**(97.8)**	**(0.1)**	**(97.9)**
Share based payments (net of tax)						**16.0**	**16.0**		**16.0**
Shares acquired for employee share scheme trust						**(2.6)**	**(2.6)**		**(2.6)**
Income earned by partnership								**(4.4)**	**(4.4)**
At 31 December 2012	**85.2**	**170.3**	**7.9**	**5.1**	**32.6**	**334.4**	**635.5**	**48.0**	**683.5**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 **£m**	2011 £m
Cash flows from operating activities		
Profit for the year from continuing operations	**233.7**	203.7
Adjustments for:		
Depreciation	**41.3**	43.6
Impairment/(reversal) of impairment of property, plant and equipment	**0.7**	(2.5)
Amortisation	**34.0**	36.4
Loss on sale of property, plant and equipment	**2.0**	0.2
Financial income	**(17.6)**	(17.2)
Financial expense	**29.5**	36.2
Net finance income relating to defined benefit pension scheme	**(11.0)**	(6.2)
Equity-settled share-based payment expense	**10.1**	8.9
Income tax expense	**83.3**	97.7
Increase in trade and other receivables	**(19.4)**	(45.1)
Decrease/(increase) in inventories	**29.4**	(35.7)
(Decrease)/increase in trade and other payables	**(40.6)**	67.8
Decrease in provisions and employee benefits	**(31.9)**	(25.3)
Cash generated from the operations	**343.5**	362.5
Income taxes paid	**(102.9)**	(90.9)
	240.6	271.6
CCI investigation costs	**(2.8)**	(2.1)
Additional pension scheme funding	**(16.8)**	(52.9)
Pension transfer incentive payments	**(9.6)**	-
Net cash from operating activities	**211.4**	216.6
Cash flows from investing activities		
Interest received	**3.7**	3.3
Proceeds from sale of property, plant and equipment	**1.7**	2.8
Sale of investments	**0.6**	1.1
Purchase of investments	**(1.4)**	(0.7)
Settlement of transactional derivatives	**5.5**	3.0
Settlement of currency derivatives hedging balance sheet	**8.4**	5.6
Acquisitions of controlling interests	**(83.1)**	(8.9)
Acquisition of property, plant and equipment	**(39.1)**	(52.1)
Capitalised non-acquired intangibles	**(7.8)**	(6.8)
Net cash from investing activities	**(111.5)**	(52.7)
Cash flows from financing activities		
Interest paid	**(21.4)**	(20.2)
Payment to non-controlling interest	**(4.4)**	(4.4)
Net purchase of own shares	**(2.6)**	(7.8)
Proceeds from the issue of share capital for employee share schemes	**1.2**	1.2
Net repayment of borrowings	**(25.1)**	(16.0)
Dividend paid to non-controlling interest	**(0.1)**	-
Dividends paid to equity shareholders	**(97.8)**	(88.8)
Net cash from financing activities	**(150.2)**	(136.0)
Net (decrease)/increase in cash and cash equivalents	**(50.3)**	27.9
Cash and cash equivalents at the start of the year	**147.5**	120.4
Effect of exchange rate fluctuations on cash held	**(0.7)**	(0.8)
Cash and cash equivalents at the end of the year*	**96.5**	147.5

* Net of bank overdrafts of £6.3m (2011: £0.4m)

Reconciliation of net cash to movement in net borrowings appears in note 10.

NOTES RELATING TO THE FINANCIAL STATEMENTS

1. Restatements and changes in accounting estimates

i) Restatement relating to TH Jansen Armaturen GmbH (THJ) acquisition

In accordance with IFRS 3 (revised), following the finalisation of the balances relating to the THJ acquisition reported in the 2011 consolidated financial statements, the 2011 balance sheet has been restated. The details of this restatement are set out in note 3.2.

ii) Restatement relating to taxation on items included in other comprehensive income

Following a review of the allocation of taxation to items of other comprehensive income, comparative amounts for the year ended 31 December 2011 have been revised. There is no net effect on equity and total comprehensive income for the period net of tax.

In the 2011 comparatives the income tax effect on exchange differences on translation of foreign operations net of hedge settlements and funding revaluations has been restated from a £0.3m credit to a £0.1m credit, the income tax effect on the fair value gain on available for sale financial assets has been restated from £nil to a £0.5m charge and the income tax effect on the actuarial loss has been restated from a £15.5m credit to a £16.2m credit. This change also resulted in a decrease of £0.2m in the translation reserve and a corresponding increase in retained earnings.

iii) The IMI Pension Fund's interest in the IMI Scottish Limited Partnership

Following discussions with the Financial Reporting Review Panel during 2012, as at 31 December 2012 we re-assessed the valuation of the IMI Pension Fund's interest in the IMI Scottish Limited Partnership for the purpose of this asset's inclusion within the net defined benefit obligation reported in our balance sheet under IAS19. The effect of the re-assessment was to reduce the value of this plan asset by £22.6m, recognised as an actuarial loss in the period, thereby increasing the reported defined benefit obligation by the same amount. The deferred taxation asset relating to the defined benefit obligation increased by £5.2m. The effect of this change on the comparative period would have been significantly lower and is not sufficiently material to require a prior year adjustment.

iv) Change of accounting estimate for the amortisation of customer relationships

During the period, the Group amended its estimate for the phasing of the future consumption of the economic benefits associated with its customer relationships, by changing the amortisation of these assets to a sum of digits approach from a straight-line approach. This change was made because the Group's experience with recent acquisitions has been that the economic benefits of these assets are demonstrably consumed to a greater extent in the periods more directly following the acquisition. The effect of this change of accounting estimate on the period was to increase the amortisation charge relating to acquisition intangibles by approximately £10m. The estimated effect for the year ending 31 December 2013 is an increase of £5m in the charge compared to the charge on a straight-line basis.

2. Segmental analysis

Information regarding the operations of each reporting segment is included below on the current basis of segmentation. Additional information is presented at the end of this note indicating the effect of the transfer of Display Technologies to the Beverage Dispense segment in 2013. Performance is measured based on segmental operating profit which is the profit reported by the business, stated before exceptional items including the reversal of economic hedge contract gains and losses, the net credit on special pension events, restructuring costs, acquired intangible amortisation and other acquisition-related costs. 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 IAS39, these contracts do not meet the technical provisions required for hedge accounting and gains and losses are reversed out of segmental profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

	Segmental revenue		**Segmental operating profit**		**Segmental operating margin**	
	2012	2011	**2012**	2011	**2012**	2011
BY SEGMENT	**£m**	£m	**£m**	£m	**%**	%
Fluid Controls	**1,696**	1,649	**300.1**	307.6	**17.7**	18.7
Severe Service	***686***	*572*	***96.3***	*88.9*	***14.0***	*15.5*
Fluid Power	***717***	*767*	***142.3***	*150.5*	***19.8***	*19.6*
Indoor Climate	***293***	*310*	***61.5***	*68.2*	***21.0***	*22.0*
Retail Dispense	**496**	486	**72.9**	66.5	**14.7**	13.7
Beverage Dispense	***313***	*317*	***45.0***	*41.1*	***14.4***	*13.0*
Merchandising	***183***	*169*	***27.9***	*25.4*	***15.2***	*15.0*
Segmental result	**2,192**	2,135	**373.0**	374.1	**17.0**	17.5

Reconciliation of reported segmental revenue and operating profit

	Revenue		Profit	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Segmental result	**2,192**	2,135	**373.0**	374.1
Reversal of net economic hedge contract gains	**(2)**	(4)	**(6.8)**	(4.1)
Net credit on special pension events			**10.9**	-
Restructuring costs			**(23.3)**	(23.5)
Acquired intangible amortisation			**(29.6)**	(32.3)
Other acquisition-related costs			**(6.3)**	-
Total revenue/operating profit reported	**2,190**	2,131	**317.9**	314.2
Net financial expense			**(0.9)**	(12.8)
Profit before tax			**317.0**	301.4

Revenue by geographical destination

	2012	2011
	£m	£m
UK	**143**	136
Germany	**282**	296
Rest of Europe	**551**	577
USA	**589**	580
Asia Pacific	**398**	319
Rest of World	**229**	227
Total segmental revenue	**2,192**	2,135
Reversal of economic hedge contract gains	**(2)**	(4)
Total	**2,190**	2,131

Proforma disclosures following the segmental reorganisation on 1 January 2013

	2012			
	As reported		**Post reorganisation***	
	Beverage Dispense	**Merchandising**	**Beverage Dispense**	**Merchandising**
	£m	**£m**	**£m**	**£m**
Segmental revenue	**313**	**183**	**349**	**147**
Segmental operating profit	**45.0**	**27.9**	**53.5**	**19.4**
Segmental assets	**125.7**	**138.7**	**164.8**	**99.6**
Segmental liabilities	**44.8**	**30.8**	**47.4**	**28.2**
Restructuring costs	**1.4**	**3.0**	**1.7**	**2.7**
Capital expenditure	**4.1**	**2.7**	**4.7**	**2.1**
Depreciation and amortisation	**5.1**	**2.4**	**6.0**	**1.5**

*This note demonstrates the segmental disclosures that would have been reported had the segmental reorganisation of the business, which resulted in the Display Technology business moving to the Beverage Dispense segment from the Merchandising segment, taken place on 1 January 2012 rather than in early 2013.

3. Acquisitions

3.1 Acquisitions in the period

Remosa

On 16 February 2012, the Group acquired the entire share capital of Remosa SpA and related companies (collectively Remosa), a leading engineering business specialising in the manufacture and service of valves and related flow control products for severe applications in the downstream Petrochemical sector, for an enterprise value of £83.1m (€100m), being cash consideration of £68.4m and net debt assumed of £14.7m.

Remosa joined IMI's Severe Service division and is highly complementary with Zimmermann & Jansen, which IMI acquired at the end of 2010, strengthening the Group's presence in the downstream Petrochemical market. The use of IMI's global sales and aftermarket infrastructure is expected to improve Remosa's geographic penetration, notably in North America, and develop its aftermarket offering. Remosa already has a strong presence in emerging markets, including South America and Asia, with over 50% of sales coming from those markets.

Segmental revenue of £32m and segmental operating profit of £5.4m for the period since acquisition has been reported for Remosa within the Severe Service segment.

InterAtiva

On 17 February 2012, the Group acquired the entire share capital of the InterAtiva Group (InterAtiva), a Brazilian isolation valve business, from its founding partners. Founded in 1992 by Wilson Gabriel and Mauro Bilbao, InterAtiva was privately owned and designs, assembles and distributes isolation valves to various end-markets including oil and gas, sugar and ethanol production, and water treatment. All of the 2011 sales were in the fast-growing South American markets.

InterAtiva joined IMI's Severe Service division and actively engages with major engineering, procurement and construction firms and also with the major oil and gas companies in Brazil. With an experienced management team, and capacity for final assembly, it represents a strong platform for IMI's existing Severe Service isolation valve brands, including Orton and TruFlo Rona, to enter this market.

Initial cash consideration of £22.0m was paid and further consideration up to BR$55.5m (£16.7m at 31 December 2012 rates) may be paid on a deferred basis dependent upon the achievement of targets for earnings before interest, tax, depreciation and amortisation for the three years ending 31 December 2014.

Because these contingent payments might be forfeited in some of the instances in which the vendors' post-acquisition employment contracts may be terminated, in accordance with IFRS 3 (revised), the whole of the amount accrued to date for their payment has been expensed to the income statement. In order to provide a clearer understanding of the underlying performance of the business, these costs, which amount to £4.0m in the period to 31 December 2012, are separately disclosed within other acquisition-related costs in the income statement, together with the £2.3m transaction costs discussed below.

Segmental revenue of £11m and segmental operating profit of £2.4m for the period since acquisition has been reported for InterAtiva within the Severe Service segment.

Disclosures for both Remosa and InterAtiva

Assuming that the acquisitions of Remosa and InterAtiva had both been completed on 1 January 2012, it is estimated that the Group segmental revenue and segmental operating profit would have been £2,198m and £374m respectively.

The methodologies for arriving at the fair values of assets acquired, intangible asset values and residual goodwill are described in the accounting policies note of the Group financial statements. The aggregate goodwill of £50.8m recognised on the two acquisitions principally relates to skills present within the assembled workforce, customer service capability and the synergies available to the combined business from its geographical and sector presence.

The fair value adjustments consist of the harmonisation with Group IFRS compliant accounting policies, the recognition of intangible assets (non-contractual customer relationships, order book and patents) and adjustments to move the carrying value of the identifiable net assets from cost to fair value.

Transaction costs of £2.3m have been expensed in administrative expenses in 2012 and are included as exceptional charges within other acquisition-related costs together with the remuneration payment of £4.0m discussed above in accordance with our accounting policy for exceptional items.

A further £1.3m and £0.4m was included in administrative costs in the prior year for Remosa and InterAtiva respectively, but this amount was not included in exceptional costs in the 2011 Annual Report, because at 31 December 2011, the successful outcome of the acquisitions had not been determined.

The provisional fair values of the assets and liabilities reported as at 30 June 2012 were subsequently finalised to reflect a lower valuation of the customer relationships and associated deferred taxation attributable to the Remosa acquisition. The final fair values of the assets acquired and liabilities assumed are summarised below:

	Remosa £m	InterAtiva £m	Total £m
Customer relationships	28.6	9.7	38.3
Order book	3.3	0.7	4.0
Patents and licences	0.2	-	0.2
Property, plant and equipment	10.8	0.9	11.7
Inventories	11.3	5.1	16.4
Trade and other receivables	11.8	2.2	14.0
Cash and short-term deposits	6.1	-	6.1
Bank overdraft	-	(0.1)	(0.1)
Interest-bearing liabilities	(20.8)	-	(20.8)
Trade and other payables	(11.6)	(2.5)	(14.1)
Taxation balances	(12.4)	(2.7)	(15.1)
Retirement benefit obligations	(1.3)	-	(1.3)
Other assets	0.3	-	0.3
Total identifiable net assets	**26.3**	**13.3**	**39.6**
Goodwill arising on acquisition*	42.1	8.7	50.8
Total purchase consideration	**68.4**	**22.0**	**90.4**

Cash flows from the acquisition of controlling interests are shown below:

	Remosa £m	InterAtiva £m	THJ £m	Total £m
Cash consideration	**68.4**	**22.0**	**-**	**90.4**
(Cash)/overdraft acquired	(6.1)	0.1	-	(6.0)
Net cash paid on 2012 acquisitions	**62.3**	**22.1**	**-**	**84.4**
Finalisation of consideration on acquisition of THJ	**-**	**-**	(1.3)	(1.3)
Acquisition of controlling interests in the cash flow statement	**62.3**	**22.1**	**(1.3)**	**83.1**
Transaction costs (included in cash flows from operating activities)	1.0	1.3	-	2.3
Total cash flow on acquisition of controlling interests	**63.3**	**23.4**	**(1.3)**	**85.4**

* The goodwill arising on the Remosa acquisition is not tax deductible. The goodwill arising on the InterAtiva acquisition, in addition to the contingent consideration amounts payable to the vendors described earlier in this note, may be tax deductible in the future.

Remosa trade and other receivables of £11.8m are stated net of a provision for bad debts of £0.3m. InterAtiva trade and other receivables of £2.2m are stated net of a provision for bad debts of £0.7m. The net amounts are all expected to be collected within 12 months.

3.2 Acquisitions in the previous period

On 17 October 2011 the Group acquired THJ for a total purchase consideration of £9.0m, net of a £2.2m receivable from the vendor for amounts to be finalised in the completion accounts. Total identifiable net assets were £7.7m, resulting in goodwill of £1.3m. These amounts were deemed provisional at 31 December 2011. During the first half of 2012, these provisional amounts were finalised, resulting in a £0.9m reduction in the receivable due from the vendor, a final cash inflow of £1.3m and an increase to goodwill of £0.9m. The 2011 balance sheet has been restated accordingly.

4. Net financial income and expense

Recognised in the income statement	2012 Interest £m	2012 Financial Instru-ments £m	2012 Total £m	2011 Interest £m	2011 Financial Instru-ments £m	2011 Total £m
Interest income on bank deposits	**3.7**		**3.7**	3.3		3.3
Financial instruments at fair value through profit or loss:						
Designated hedges		**1.0**	**1.0**		0.7	0.7
Other economic hedges						
- current year trading		**10.2**	**10.2**		8.1	8.1
- future year transactions		**2.7**	**2.7**		5.1	5.1
Financial income	**3.7**	**13.9**	**17.6**	3.3	13.9	17.2
Interest expense on interest-bearing loans and borrowings	**(21.4)**		**(21.4)**	(20.4)		(20.4)
Interest cost capitalised	**-**		**-**	0.2		0.2
Financial instruments at fair value through profit or loss:						
Designated hedges		**(1.0)**	**(1.0)**		(0.8)	(0.8)
Other economic hedges						
- current year trading		**(4.5)**	**(4.5)**		(9.0)	(9.0)
- future year transactions		**(2.6)**	**(2.6)**		(6.2)	(6.2)
Financial expense	**(21.4)**	**(8.1)**	**(29.5)**	(20.2)	(16.0)	(36.2)
Net finance income relating to defined benefit pension schemes	**11.0**		**11.0**	6.2		6.2
Net financial (expense)/income	**(6.7)**	**5.8**	**(0.9)**	(10.7)	(2.1)	(12.8)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in segmental operating profit (see note 2). 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.

5. Taxation

The total tax charge for the year was £83.3m (2011: £97.7m). This comprised a tax charge of £95.2m (2011: £101.8m) on profit before tax and exceptional items of £366.3m (2011: £363.4m) representing an effective tax rate of 26% (2011: 28%) and a tax credit on exceptional items of £11.9m (2011: £4.1m), which in the prior year included a tax credit of £15.1m on the exceptional costs of £49.3m together with a tax charge of £11.0m in connection with certain of the restructuring activities.

6. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares held as treasury shares or held in trust to satisfy employee share schemes, was 317.8m, 322.1m diluted for the effect of outstanding share options (2011: 317.0m, 322.5m diluted). Basic and diluted earnings per share have been calculated on earnings of £230.6m (2011: £200.4m).

The directors consider that the adjusted earnings per share measure, which uses adjusted earnings as calculated below, gives a more meaningful indication of the underlying performance because the quantum, one-off nature, or volatility of the items adjusted would otherwise distort it.

	2012	2011
	£m	£m
Profit for the year from continuing operations	**233.7**	203.7
Non-controlling interests	**(3.1)**	(3.3)
	230.6	200.4
Charges/(credits) included in profit for the year:		
Financial instruments excluding economic hedge contract gains and losses	**1.0**	6.2
Net credit on special pension events	**(10.9)**	-
Restructuring costs	**23.3**	23.5
Acquired intangible amortisation	**29.6**	32.3
Other acquisition-related costs	**6.3**	-
	279.9	262.4
Taxation credit on exceptional items	**(11.9)**	(4.1)
Earnings for adjusted EPS	**268.0**	258.3
Weighted average number of shares (million)	**317.8**	317.0
Fully diluted average number of shares (million)	**322.1**	322.5
Adjusted EPS	**84.3p**	81.5p
Diluted adjusted EPS	**83.2p**	80.1p
Basic EPS	**72.6p**	63.2p
Diluted Basic EPS	**71.6p**	62.1p

7. Exceptional items

As explained in note 2, items are disclosed separately on the face of the income statement and added back in arriving at adjusted earnings when their quantum, one-off nature or volatility would otherwise distort the Group's underlying trading performance. The financial effect of the items added back to adjusted earnings is disclosed in the earnings per share note above. The following items are considered to be exceptional in these financial statements.

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated hedges for accounting purposes, together with the gains and losses on their settlements, are included in the segmental revenues and operating profit of the relevant business segment. The operating exceptional item reverses the effect of this treatment. The financing exceptional items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.

The net credit on special pension events comprises:
- A £9.0m past service credit arising on a pension increase exchange exercise relating to the UK pension scheme.
- A £3.2m past service credit in two of our Swiss schemes, resulting from a change in the plans' rules during the year.
- A £1.3m cost arising in Japan relating to the exit of a state sponsored scheme during the year.

The restructuring costs arising in the year principally relate to ongoing costs associated with the move to lower cost manufacturing sites in our severe service business in addition to the closure of one of our merchandising sites.

Other acquisition-related costs comprise the following, both of which are explained in note 3:
- The accrual of £4.0m additional consideration payable to the vendors of InterAtiva.
- Acquisition costs of £2.3m relating to Remosa and InterAtiva, which both completed during 2012.

8. Dividend

The directors recommend a final dividend of 20.7p per share (2011: 19.0p) payable on 20 May 2013 to shareholders on the register at close of business on 12 April 2013, which will absorb around £66.1m (2011: £60.3m) cash. Together with the interim dividend of 11.8p per share paid on 12 October 2012, this makes a total distribution of 32.5p per share (2011: 30.0p per share). In accordance with IAS10 *'Events after the Balance Sheet date'*, this final proposed dividend has not been reflected in the 31 December 2012 balance sheet.

9. Employee Benefits

The Group's strategy is to move away from defined benefit arrangements towards defined contribution arrangements wherever possible and to minimise the liability of the Group. The Group has 79 (2011: 75) different defined benefit arrangements worldwide. The increase in the number of schemes during the year resulted from the acquisition activity.

The largest defined benefit arrangement is the IMI Pension Fund in the UK ("the Fund"). This constitutes 82% of the total defined benefit liabilities and 89% of the total defined benefit assets. The last formal triennial actuarial valuation of the Fund was carried out as at 31 March 2011. The statement of funding principles agreed with the Trustee resulted in an actuarial deficit of £120m. The Group agreed to pay a special contribution of £36.1m in December 2011 and further contributions of £16.8m each July from 2012 to 2016 inclusive as part of the recovery plan to close the deficit by 2016.

The Fund was closed to future accrual on 31 December 2010. The Trustee also purchased approximately £325m of annuities to match certain benefit payments due from the Fund. The purchase price of these annuities was greater than the value, measured using the underlying IAS19 assumptions, of the insured benefits. The Trustee also rearranged the remaining Fund assets with the objective of preserving the expected return on the total Fund assets (including the annuity policies). This was achieved, with a reduction in the funding volatility of the Fund, as measured by the Trustee's value at risk model, of approximately 25%. The purchase of the annuities also reduced the mortality risk by around 20%.

Also during 2010, the difference between the cost of the annuities and the underlying IAS19 liability was financed by a special contribution to the Fund of £48.6m which the Trustee agreed to invest in a special purpose vehicle giving them conditional rights to receive income of £4.4m a year for twenty years, or until the Fund becomes fully funded, provided the Group paid dividends to its shareholders in the previous year. As at 31 December 2012, the valuation of this asset for the purpose of its inclusion in the Group's net liability for defined benefit obligations under IAS19 was £27.1m.

The Group recognises there is a risk inherent within defined benefit arrangements that the assets do not match the liabilities at any given point in time. In advance of the IMI Pension Fund 2011 triennial actuarial valuation, the Group continued to work with the Trustee to mitigate the risk of a volatile funding position. A number of important initiatives were implemented in line with this objective.

During 2011 certain Fund members accepted the Group's enhanced transfer value offer. The 31 December 2011 defined benefit obligation in respect of the Fund reflected the liability to pay transfer values in early 2012. The transfer values payable were less than the value of the liabilities measured using the underlying IAS19 assumptions, which resulted in a curtailment gain. As part of the Group's offer, in addition to paying transfer values from the Fund (which reduced the IAS19 assets and liabilities by £27.4m each), in 2012, the Group made payments of £8.5m to the individuals in addition to paying employers' national insurance thereon of £1.1m. The curtailment gain of £11.7m reported for the year ended 31 December 2011 was therefore partially offset by £9.6m additional pension costs accrued at this date, which resulted in a net gain of £2.1m, reflected in segmental operating profit.

An exercise was also carried out whereby Fund pensioners were given the option, with effect from 1 January 2012, to exchange future increases on their pensions for a higher current pension. This resulted in a reduction in the Fund's IAS19 defined benefit obligation of £9.0m as at 1 January 2012, and is reflected as an exceptional past service credit in the income statement for 2012.

Also included in the exceptional net credit on special pension events of £10.9m is a credit of £3.2m related to a change in the scheme rules of two of our Swiss plans and a charge of £1.3m relating to the exit from a state sponsored scheme in Japan.

10. Cash flow reconciliation

Reconciliation of net cash to movement in net borrowings

	2012	2011
	£m	£m
Net (decrease)/increase in cash and cash equivalents	**(50.3)**	27.9
Net repayment of borrowings	**25.1**	16.0
Cash (outflow)/inflow	**(25.2)**	43.9
Debt acquired	**(20.8)**	(2.5)
Currency translation differences	**10.4**	(4.2)
Movement in net borrowings in the year	**(35.6)**	37.2
Net borrowings at the start of the year	**(108.2)**	(145.4)
Net borrowings at the end of the year	**(143.8)**	(108.2)

11. Contingent liabilities

In May 2012 companies belonging to a British builders' merchant served damages claims against IMI plc and others relating to alleged financial losses incurred in the UK as a result of anti-competitive behaviour undertaken by a number of manufacturers of copper plumbing tubes and copper plumbing fittings. An investigation by the European Commission was commenced in 2001 and found cartel activity for which it imposed fines in 2004 (tubes) and 2006 (fittings). IMI plc disposed of its former copper plumbing tubes and fittings businesses in 2002. There are separate tubes and fittings cases in the English High Court and, whilst both are at a very early stage, IMI is defending both claims robustly and has brought in all other appropriate parties as contributors. It is not possible for IMI to assess properly whether any losses can be established by the claimants and, if so, the potential quantum or timing of such losses and if necessary, the contributions recoverable from other parties, including IMI's former tubes and fittings subsidiaries.

12. Exchange rates

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

	Average Rates		**Balance Sheet Rates**	
	2012	2011	**2012**	2011
Euro	**1.23**	1.15	**1.23**	1.20
US Dollar	**1.59**	1.60	**1.62**	1.55

The movement in average exchange rates between 2011 and 2012 resulted in our reported 2012 segmental revenue and segmental operating profit being 3% and 4% lower respectively. Whilst the average US Dollar rate against Sterling was similar to 2011, the Euro was 7% weaker. If the exchange rates as at 4 March 2013 of US$1.51 and €1.16 had been applied to our 2012 results, it is estimated that segmental revenue and segmental operating profit would have been 4% and 3% higher respectively.

13. Financial information

The preliminary statement of results was approved by the Board on 6 March 2013. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 2011 but is derived from the 2012 accounts. Statutory accounts for 2011 have been delivered to the registrar of companies and those for 2012 will be delivered in due course. Ernst & Young LLP has reported on both the 2011 and 2012 accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and (iii) did not contain statements under section S498(2) or S498(3) of the Companies Act 2006.

This announcement contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of the preparation of this announcement and the Company undertakes no obligation to update these forward-looking statements. Nothing in this preliminary announcement should be construed as a profit forecast.

This preliminary statement has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to IMI plc and its subsidiaries when viewed as a whole.

References in the commentary to segmental operating profit, operating margins and profit before tax, unless otherwise stated, relate to reported numbers after adjustment for exceptional items. Segmental operating profit is reported as if economic currency and metals hedges were effective for financial reporting purposes. Business segments 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. Business segmental operating profits are therefore charged/credited with the impact of those settled contracts. In accordance with IAS39 '*Financial Instruments: Recognition and Measurement*', these contracts do not meet the technical provisions required for hedge accounting and gains and losses are reversed out of segmental profit and are recorded in net financial income and expense for the purposes of the statutory consolidated income statement. References to EPS, unless otherwise stated, relate to reported EPS adjusted for the per share after-tax impact of exceptional items. The directors consider that the quantum, one-off nature or volatility of these adjustments can distort the underlying performance of the Group and for this reason the commentary discusses these adjusted amounts.

References to organic growth are to like-for-like or underlying growth and exclude the impact of exchange rate translation and acquisitions or disposals that are included in headline reported growth figures. The organic growth is derived from excluding any contribution from acquired companies to revenues or profits in the current period until the first anniversary of their acquisition. It also excludes the contribution to revenues or profits in both the current and comparative period from any business that has been disposed of or sold. This adjusted growth in revenues or profits will then be compared to the adjusted prior period after its re-translation at the average exchange rates of the current period to provide the organic growth rate.

Cash conversion is the ratio of operating cash flow to segmental operating profit after restructuring costs. Operating cash flow is the cash generated from the operations shown in the consolidated statement of cash flows less cash spent acquiring property,

plant and equipment, other non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments.

The Company's 2012 Annual Report and notice of the forthcoming annual general meeting will be posted to shareholders on 8 April 2013.

- ends -

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