IMI plc

Press Release

27 February 2015

Preliminary results, year ended 31 December 2014

	Adjusted[1]				Statutory		
Continuing operations:	**2014**	2013	Change	**Organic[4]**	**2014**	2013	Change
Revenue[2]	**£1,686m**	£1,744m	-3%	**+2%**	**£1,692m**	£1,743m	-3%
Operating profit[2]	**£298m**	£322m	-7%	**-1%**	**£270m**	£271m	-0%
Operating margin[2]	**17.7%**	18.4%	-70bps				
Profit before tax	**£278m**	£298m	-7%		**£246m**	£249m	-1%
Total profit[3]	**£217m**	£232m	-6%		**£671m**	£227m	+196%
Basic EPS[3]	**78.0p**	72.6p	+7%		**243.4p**	71.0p	+243%
Dividend per share	**37.6p**	35.3p	+7%				
Net debt	**£200m**	£199m					

[1] Excluding the effect of items reported as exceptional in the income statement.
[2] Adjusted amounts as per segmental information – note 2 to the financial statements.
[3] Statutory amounts for Total profit and Basic EPS include both continuing and discontinued operations.
[4] Change shown on an organic basis after adjusting for exchange rate movements and excluding the results of disposals and acquisitions for the period for which there is no comparator.

Highlights

- Organic revenue growth of 2%
- Strong sterling adversely impacted revenue by £96m and operating profit by £18m
- Recommending a 7% increase in full year dividend
- Exceptional profits of over £0.5 billion on non-core disposals and £620m cash returned
- New strategy embedded across the Group
- Strategic growth initiatives beginning to deliver early benefits

Roberto Quarta, Chairman, commented:

“2014 was a year of good progress for the Group. In particular, in the first half of the year we undertook a detailed strategic review of all our activities and developed a robust growth plan to harness the Group’s full potential and deliver accelerated growth and long-term shareholder value.”

Mark Selway, Chief Executive added:

“Despite challenging economic and market conditions in a number of our key sectors, we delivered results in line with expectations while at the same time making significant investment which will drive future growth. Our new strategic plan is now being executed across the Group and I am pleased to report that we are already starting to see early signs of tangible benefits.

“In 2015, based on current market conditions and excluding the impact of exchange rate movements, we expect the Group to deliver modest organic revenue growth weighted towards the second half with margins slightly lower than in 2014 reflecting the impact of the disposal of Eley and acquisition of Bopp & Reuther by the Critical Engineering division and the ongoing investments we are making in all our businesses as we ready them for accelerated long-term growth.”

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A live webcast of the analyst meeting taking place today at 8:15am (GMT) will be available on the investor page of the Group’s website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 7 May 2015.

Engineering GREAT the IMI Way

Results overview

2014 was a year of good progress for the Group. We delivered results in line with market expectations and our new strategic plan is embedded across the organisation and we are already seeing early signs of tangible benefits.

After adjusting for the impact of adverse exchange rate movements of £96m and for acquisitions and disposals, Group revenues on an organic basis increased by 2%. Group revenues on a reported basis were down 3% to £1,692m (2013: £1,743m). On a like for like basis, after adjusting for the impact of adverse exchange rate movements of £18m, segmental operating profit decreased slightly by 1%. Segmental operating profit on a reported basis was 7% lower at £298m (2013: £322m). The Group's operating margin was 17.7% (2013: 18.4%) reflecting our investment in a range of growth initiatives. Adjusted earnings per share increased by 7% to 78.0p (2013: 72.6p) principally as a result of the share consolidation in the first quarter of the year.

Dividend

Based on these results, and reflecting continued confidence in the Group's prospects, the Board is recommending that the final dividend be increased by 7% to 24.0p (2013: 22.5p). This makes a total dividend for the year of 37.6p, an increase of 7% over last year's 35.3p.

Outlook

In 2015, based on current market conditions and excluding the impact of exchange rate movements, we expect the Group to deliver modest organic revenue growth weighted towards the second half with margins slightly lower than in 2014, reflecting the impact of the disposal of Eley and acquisition of Bopp & Reuther by the Critical Engineering division and the ongoing investments we are making in all our businesses as we ready them for accelerated long-term growth.

Update on our strategic plan

During the first half of 2014 we initiated a detailed review of all aspects of the Group's business. The findings of this review together with the Group's new strategic plan were announced in August at the time of the interim results. The opportunities we have are significant and that is reflected in our ambition to double the Group's 2014 operating profits over the next five years, while retaining our financial discipline.

The review confirmed many of IMI's inherent strengths. The Group is a specialist flow control business focused on industrial end markets with good prospects and market leading expertise. We have a great team of people, strong long-term relationships with world-class customers and a robust balance sheet, which provides headroom and flexibility to support a range of both organic and acquisitive growth opportunities. The review process did however identify a number of challenges that must be addressed in order to deliver long-term accelerated growth. We need to invest in product development, which will become a critical component of our growth plan, to build sustainable competitive advantage. And because of the historically diverse make-up of the Group, and the autonomous nature of the businesses, there is also a need to invest in Group-wide IT systems and facilities. Furthermore the organisational structure that has evolved over the years is complex and in many places inefficient, and in the Precision Engineering division in particular, we have significant underutilised capacity which has caused top line margins to be absorbed by increasing levels of fixed costs.

Early signs of strategic progress

While we are in the early stages of our strategic plan, it is pleasing to report that progress is being made and that real benefits are starting to become evident in our operations and responsiveness to the market. Areas where we are already seeing progress include:

- Our operational performance is improving. In August 2014 when we announced our five year strategic plan, each division set a target to improve their lean assessment score on average by 50% within six months and to achieve world-class scores by 2018. The initial targets have largely been achieved with IMI Critical Engineering improving its benchmark results by 54%, IMI Precision Engineering by 44% and IMI Hydronic Engineering by 55%. As a result of these improvements, tangible operational benefits are evident in all divisions. In our Hydronic division, on time delivery has improved from 82% to 90% while inventory has reduced by 10%. In Critical Engineering we have achieved significant reductions in both set up times and work in progress and in Precision Engineering the early initiatives to address the complex supply chain have resulted in improvements in both quality levels and delivery times. By the middle of 2015 each division is targeting to deliver further improvements in their benchmark lean performances;

- More efficient streamlined structures and processes are being put in place across the organisation: beyond our plants, the efficiency and effectiveness of a number of our core processes, including financial forecasting and risk and control, have been enhanced. Plans to introduce a number of new systems, all of which will support IMI's future growth, including new ERP systems in each of our divisions, are well advanced. In addition, with effect from January 2015, the Precision Engineering division's European operations were restructured to provide improved line of sight to customers;

- Investment in product development has increased and our product development process is gaining significant momentum: in 2014 our Hydronic division launched 14 new products compared to five in the previous five years. These world leading new products will underpin our organic growth and help maintain our competitiveness and market leading positions. In Critical Engineering we benchmarked our project management processes and have developed new standard operating procedures, which are focused at reducing lead times and improving the rigour of managing our project costs. In Precision Engineering we embarked on an extensive review of the Industrial Automation sector which will translate into an ambitious product development roadmap;

- Group-wide collaboration is increasing and gaining momentum: in June last year we began the roll out of a Group-wide intranet accessible to all employees with an objective to facilitate collaboration and share best practice. By January 2015, over 9,000 of the Group's employees were able to access the intranet and its content and this will be extended to all IMI employees over the next 12 months. A simple unifying brand programme, centred around the IMI brand, was also developed and has already been implemented across all businesses;

- Our concentration on specialist flow control activities has been further enhanced and in October last year we sold the non-core Eley businesses for £42m to further increase IMI's focus on specialist flow control activities. The proceeds from the disposal are being utilised to exploit a number of good growth opportunities; and

- Our addressable market and product and geographic reach has been expanded. At the beginning of 2015 we acquired the power generation valve specialist Bopp & Reuther for a cash consideration of £118m. This acquisition creates a number of growth opportunities and significantly enhances our presence in the growing power sector, while extending our existing product range and current addressable market. It also increases the Group's exposure to faster growing emerging markets and the higher margin aftermarket.

Divisional review

The following review relates to our continuing businesses: IMI Critical Engineering, IMI Precision Engineering and IMI Hydronic Engineering. It compares their performance, as reported under IFRS8: Operating Segments, during the year ended 31 December 2014 with their performance in the year ended 31 December 2013. References to organic growth are on a constant currency basis and exclude the results of disposals and acquisitions for the period for which there is no comparator. An analysis by division of organic growth, foreign exchange movements and the impact of acquisitions and disposals is set out in note 2 to the financial statements below. This section also comments on current market conditions and the outlook for each of our continuing businesses.

IMI Critical Engineering

IMI Critical Engineering provides 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.

Revenue	£692m	(2013: £716m)
Operating profit	£120m	(2013: £117m)
Operating margin	17.3%	(2013: 16.3%)

Performance

Full year order intake at £686m (2013: £742m) was flat on an organic basis (after adjusting for disposals and exchange rate movements). In the second half order intake increased 16% on an organic basis. The Oil & Gas sector, where we have a significant position in the LNG market, continued to be strong with orders up 3% despite order intake in the prior year including a £40m contract for a high integrity pressure protection system (HIPPS). Despite slower new order activity in China, Fossil Power orders were up 4% on the prior year. In the Petrochemical sector, orders were down 12% mainly due to lower project activity in China. As anticipated, Nuclear orders were down 27% reflecting ongoing weakness in the market post Fukushima. As previously announced, as a result of a material drop in demand in the nuclear fuel enrichment market, we took the decision to close the IMI Components manufacturing site in Birmingham, UK which supplied non-valve components.

Aftermarket orders were up 9% compared to 2013 and excluding the nuclear aftermarket were up 16%.

After adjusting for the impact of adverse exchange rate movements of £37m and for disposals, revenues increased 2% on an organic basis. Revenues of £692m (2013: £716m) were down 3% on a reported basis. Segmental operating profit of £120m (2013: £117m) grew 3% on a reported basis and 10% on an organic basis while margins increased to 17.3% from 16.3% in 2013. This growth in profitability and margins reflects the benefits of ongoing improvements in project execution.

During the second half the division made good progress on a number of its growth initiatives including the acquisition of Bopp & Reuther, the division wide adoption of lean manufacturing and the start of a project to introduce a new ERP system across the IMI CCI business.

Key Achievements

- Delivered the HIPPS solution to the Middle East customer, the largest single order in IMI Critical Engineering's history
- Increased Oil & Gas orders by 3% and Power orders by 4%
- Increased Aftermarket orders by 9%
- Improved the operational effectiveness of our factories through the initial phase of lean implementation
- Relocated IMI Z&J's US business into new expanded facilities in Houston
- Relocated and expanded IMI CCI facility in South Korea
- Relocated the IMI STI actuator business into larger premises in Northern Italy
- Opened two new service centres in Beijing and Shanghai
- Significantly enhanced the division's growth prospects in the power sector through the acquisition in January 2015 of Bopp & Reuther

Market Review

The recent oil price declines are causing uncertainty in the industry and investment is being postponed in the regions where the cost of oil and gas production is high. In the short to medium term, the Nuclear market is expected to continue to be subdued post-Fukushima, but longer term prospects remain good. In the Fossil Power sector new build activity remains concentrated in the emerging markets with the slowdown in China likely to continue.

Outlook

Based on the current order book, on an organic basis, revenues are expected to be broadly flat for the full year 2015 but slightly down in the first half. While the division will continue to improve its project execution capabilities, operating margins are expected to be lower, impacted by the acquisition of the lower margin Bopp & Reuther business, the disposal of the higher margin, but non-core, Eley businesses and the ongoing investment in the division's strategic growth initiatives. First half margins will be impacted further by the mix of product shipments, but this will correct itself in the full year.

IMI Precision Engineering

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

Revenue	£710m	(2013: £723m)
Operating profit	£126m	(2013: £141m)
Operating margin	17.8%	(2013: 19.4%)

Performance

After adjusting for the impact of adverse exchange rate movements of £40m and for acquisitions and disposals, revenues increased 4% on an organic basis. Revenues of £710m (2013: £723m) were down 2% on a reported basis. Industrial automation revenues were up 5% on an organic basis, driven by increased activity levels in North America (up 4%) and the Asia Pacific region (up 22%) but partially offset by weaker second half European markets, most notably in Germany. Commercial vehicle sales increased 4% in the year with 17% growth in Europe and a strong North American market which was impacted to some degree by the conclusion of a large contract during 2013 and lower truck production in Brazil. On an organic basis, Food & Beverage was up 5%, Rail was up 28% while Oil & Gas reduced 6% and Life Sciences was down 1%.

Segmental operating profit at £126m (2013: £141m) was 10% lower on a reported basis and, after adjusting for the impact of adverse exchange rate movements of £8m, 3% lower on an organic basis. Operating margins improved in the second half (H1 2014:17.7% v H2 2014: 17.9%) while in the full year operating margins at 17.8% were lower reflecting an adverse sales mix and the increased investment to support long-term growth.

The division focused on a number of strategic activities during the second half including simplifying the organisational structure, improving operational performance through the application of lean manufacturing, upgrading IT systems, addressing supply chain complexities, introducing standard costing and increasing investment in new product development.

Our review of the industrial automation market confirmed that we have excellent market positions, with a valuable installed base and access to a high margin aftermarket. We are now developing detailed product roadmaps in each of the key geographies which will underpin our plans for growth.

Key Achievements

- Good growth in the European truck business following the introduction of new Euro VI engines
- Introduced standard costing and disciplined profit and product analysis tools across all operations to improve competitiveness and profit visibility
- Introduced lean manufacturing techniques and operational excellence initiatives across the global manufacturing footprint
- Restructured and simplified the IMI Norgren European organisation

Market Review

The global economic outlook for 2015 remains mixed with lead market indicators including the Purchasing Managers Index (PMI) weakening in the second half of 2014 most notably in Europe. While the division expects the general industrial markets in the US and Asia Pacific to remain positive, European markets are expected to remain challenging. In the truck sector we expect the European market to remain stable while North America is forecast to deliver further growth which will more than offset continued sluggish market conditions in Brazil.

Outlook

Based on the current market environment and lead indicators, we expect modest organic revenue growth with operating margins at similar levels to 2014. The benefits of stronger market conditions in North America combined with an improved performance in Europe is expected to fund the division's 2015 investments, most notably in Asia, to support the long-term development of the business.

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.

Revenue	£284m	(2013: £305m)
Operating profit	£52m	(2013: £64m)
Operating margin	18.3%	(2013: 21.1%)

Performance

After adjusting for the impact of adverse exchange rate movements of £19m, revenues were 1% lower on an organic basis. Revenues on a reported basis of £284m (2013: £305m) were down 7%. Second half activity in many of our core European markets was impacted by abnormally high autumn temperatures and weak construction activity. Following our decision in early 2014 to scale back our interests in less profitable countries and focus on those offering the best growth prospects, we delivered good growth in the emerging markets which were up 10%. Our North American business was down 4% reflecting a poor, weather related, first half performance.

Segmental operating profit at £52m (2013: £64m) was 19% lower on a reported basis and, after adjusting for £3m of exchange rate impact, 15% lower on an organic basis. This reflected the additional investment in new product development and the costs associated with the withdrawal from a number of less profitable emerging markets. While operating margins showed their normal second half seasonal improvement to 19.7% (2014 H1: 16.8%), full year margins at 18.3% were lower compared to last year (2013: 21.1%).

During the year we continued to invest in new product development and successfully launched 14 new products which delivered revenues of around £13m. A good pipeline of additional launches is scheduled for 2015 and is expected to underpin our growth ambitions for the division. During the second half of the year good progress was also made on a number of other key strategic initiatives including the implementation of lean and the commencement of a project to replace the ERP systems within the division.

Key Achievements

- Launched 14 new products including the TA Compact, a pressure independent balancing and control valve range
- Completed withdrawal from 20 low margin emerging markets to focus on those offering stronger growth prospects
- Good progress on lean implementation resulting in an improved lean assessment score of 59%, a 10% reduction in inventory levels and over 90% on time deliveries

Market Review

Improving energy efficiency in buildings is an on-going global trend and in November 2014, the US and China announced an agreement to reduce greenhouse gas emissions and increase energy efficiency over the next 20 years. This agreement builds on similar international initiatives, such as the Kyoto protocol, and will be a key driver for IMI Hydronic Engineering.

While building construction in our core European markets has remained subdued in 2014, the global ambition to improve energy efficiency will continue to drive demand for the division's new and world leading products.

Outlook

While European construction markets are expected to remain at the subdued levels experienced in the second half of 2014, the new products which were launched in 2014 are expected to compensate and result in organic revenues being broadly flat in the first half on a constant currency basis. In the second half we expect to deliver good organic revenue growth as we benefit from a number of exciting new products which will be launched at the ISH trade show in Germany at the end of March. Operating margins, while expected to show their normal seasonal improvement in the second half, are likely to be slightly below last year reflecting the ongoing investment in additional new products for long-term growth.

Board Changes

In September 2014 we announced the retirement of Douglas Hurt as Finance Director. Douglas has been in the role since 2006 and has played a major part in IMI's development over the course of the last eight years. Douglas will be succeeded by Daniel Shook who joined us in January 2015 and who will become Finance Director on 1 March 2015. Daniel was previously Chief Finance Officer at Borealis AG and brings with him over 20 years of financial management experience across a range of industrial sectors and a strong international perspective.

Ross McInnes joined the Board as a non-executive director on 1 October 2014. He took over as Chairman of the Audit Committee on 1 January 2015 after Phil Bentley stepped down from the Board at the end of the year. Anita Frew, our senior independent director, will retire after nine years as a non-executive at the Annual General Meeting (AGM) in May 2015. Bob Stack will succeed Anita as senior independent director immediately following the AGM. In addition, Mark Selway stepped down from the Nominations Committee on 26 February 2015 to comply with emerging best practice.

Following the announcement in December last year that Roberto Quarta was to join the Board of WPP plc an external search for a new Chairman was commissioned. This search process is well underway and Roberto Quarta will continue as our Chairman until his successor is identified.

Financial review

Results summary

Reported revenues decreased by 3% to £1,692m (2013: £1,743m). After adjusting for an adverse exchange rate impact of £96m and the contribution from acquisitions and disposals, the organic revenue increase was 2%. Segmental operating profit was £298m, compared to £322m in 2013. At constant exchange rates and excluding acquisitions and disposals segmental operating profit fell by 1%. The segmental operating margin was 17.7% (2013: 18.4%).

After the deduction of exceptional items, which are discussed below, operating profit was £270m (2013: £271m).

Continuing interest costs on net borrowings were £14m (2013: £16m). These were covered 27 times (2013: 21 times) by continuing earnings before interest, tax, depreciation and amortisation of £371m (2013: £332m). The net pension financing charge under IAS19 was £3m (2013: £8m).

Profit before taxation and exceptional items was £278m (2013: £298m), a decrease on the previous year of 7%.

Exceptional items and discontinued operations

Disposal of Retail Dispense businesses and other non-core businesses

The Group made an exceptional after-tax profit of £478m on the disposal of the Retail Dispense businesses, which completed on 1 January 2014.

During the year, the Group also disposed of a number of subsidiaries which were considered to be non-core to the Group's strategy. On 4 October 2014 the Group disposed of Eley Limited, Eley Americas Inc and Accles & Shelvoke Limited (together 'Eley') for a cash consideration of £42m, resulting in an exceptional profit on disposal for the Group of £33m, after disposing of £7m of net assets and incurring £2m of associated disposal costs.

On 23 October 2014 the Group disposed of its investment in Analytical Flow Products ('AFP') and a payment was agreed of CAD$5m (£3m) with the previous vendors to compensate them for the waiver of their earn-out arrangement, which resulted in a gain on disposal of £1m.

The gains on disposal for both Eley and AFP are presented in the income statement as an exceptional item but they are not disclosed as a discontinued item because neither represented a separate major line of business.

Reversal of net economic hedge contract 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 settlements, are included in the segmental revenues and operating profit of the relevant business segment. The exceptional item at the operating level reverses this treatment and the loss of £4m (2013: reversal of gain of £5m).

Restructuring costs
Exceptional restructuring costs in the year were £9m (2013: £14m). The 2014 costs comprise £4m for the closure of IMI Components, which was announced in August 2014 and £5m on the completion of IMI Norgren UK's factory move.

Pensions
During the year the UK Fund was split into two newly formed schemes, one for pensioners and one for deferred members, resulting in a one-off settlement gain of £4m. In addition, the insurance buy-out of one of our Swedish schemes resulted in a further settlement gain of £3m.

Impairment and acquired intangible amortisation
The Group recorded exceptional impairment charges of £41m of which £27m is against Remosa and £1m is against IMI Components in Critical Engineering, £11m is against AFP in Precision Engineering, and £2m is for the impairment of legacy IT software as our Hydronic Engineering division implements a fully integrated ERP system. Acquired intangible amortisation decreased to £20m (2013: £22m).

Acquisitions
On 2 January 2015, the Group acquired the entire share capital of B&R Holding GmbH ('Bopp & Reuther') for an enterprise value of approximately £118m (€153m). Bopp & Reuther is a good strategic fit and will significantly enhance IMI's presence in the growing power sector. It is very closely aligned with IMI Critical Engineering's existing large control valve business ('CCI') and we therefore expect to deliver good synergies from the combination of the companies. Acquisition and disposal costs were £2m (2013: £10m) and primarily comprise £2m of fees associated with this acquisition.

Financing costs
A net charge arose on the revaluation of financial instruments and derivatives under IAS39 of £7m (2013: credit of £3m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Taxation
An exceptional tax credit of £8m (2013: £10m credit) arose in connection with business restructuring and other exceptional costs.

Taxation
The effective tax rate for the Group before exceptional items remained at 22% (2013: 22%). The total tax charge for the year on continuing operations was £61m (2013: £66m) and continuing profit after tax was £217m (2013: £232m). Taxes of £67m (2013: £42m) were paid in the year, which was 109% (2013: 64%) of the underlying tax charge for the year. This reflects the timing of estimated tax payments on account. The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with The IMI Way.

Earnings per share
Basic EPS was up 243% to 243.4p (2013: 71.0p) and diluted EPS was 241.3p (2013: 70.1p), both increasing as a result of the profit on disposal of the Retail Dispense businesses of £478m. The Board considers that a more meaningful indication of the underlying performance of the Group is provided by earnings before exceptional items after tax. On this basis the adjusted EPS from continuing operations was 78.0p, an increase of 7% over last year's 72.6p. The increase is as a result of the 7 for 8 share consolidation, which occurred on 17 February 2014.

Exchange rates

The movement in average exchange rates between 2013 and 2014 resulted in our reported 2014 segmental revenue and segmental operating profit each being 6% lower as the average Euro and US Dollar rates against Sterling were 5% and 6% weaker, respectively.

If the exchange rates as at 16 February 2015 of US$1.54 and €1.35 were projected for the full year and applied to our 2014 results, it is estimated that segmental revenue and segmental operating profit would have been 3% lower and 1% lower respectively. In addition, we estimate that the recent strengthening of the Swiss Franc against the Euro if sustained would result in a further transactional foreign exchange headwind on operating profits in 2015 of around £6m, meaning that the total impact on operating profits is currently estimated to be around 3%.

Dividend

The Board has recommended a final dividend in respect of 2014 of 24.0p (2013: 22.5p) per share, an increase of 7% over the 2013 final dividend. This makes the total dividend for 2014 37.6p (2013: 35.3p). The cost of the final dividend is expected to be £65m (2013: £61m) leading to a total dividend cost of £102m (2013: £101m) in respect of the year ended 31 December 2014. Dividend cover based on adjusted earnings for the continuing businesses is 2.1 times (2013: 2.1 times).

Cash flow

The operating cash flow for continuing operations was £205m (2013: £283m), which reduced as a result of a net working capital outflow and an increase in capital and development expenditure compared to 2013. This represents a conversion rate of segmental operating profit after restructuring costs of £287m into operating cash flow of 71% (2013: 92%). Net working capital balances increased by £51m (2013: £26m) during the year. Payables decreased by £19m (2013: £17m) due to the timing of payments to suppliers, receivables increased by £38m (2013: £10m) and inventories decreased by £6m (2013: £1m) as the benefits of lean activities start to accrue in the business.

Cash spent on property, plant and equipment ('PPE') and other non-acquired intangibles in the year was £71m (2013: £53m) and was equivalent to 1.9 times (2013: 1.2 times) depreciation and amortisation thereon. £70m of pension contributions were made into the UK Pension Funds and a further £17m payment was also made to insure the scheme in Sweden.

In 2014 the Group paid tax of £67m (2013: £42m) which was 109% (2013: 64%) of the underlying tax charge for the year. This reflects the timing of estimated tax payments on account. In addition, there was a £37m cash inflow (2013: outflow £6m) following the settlement of currency derivatives hedging the balance sheet.

Proceeds from disposal of subsidiaries net of cash were £696m, which were used to fund the return of cash of £620m and invest £70m into the UK Pension Funds as noted above. Other major cash outflows in the year included dividends paid of £98m (2013: £106m) and a net cash outflow of £29m (2013: £23m) in respect of shares purchased to satisfy employee share options.

A net £81m repayment (2013: £51m drawdown) of current facilities was made and the total net cash inflow (excluding debt movements) for the year was £41m (2013: outflow of £56m).

Balance sheet

Net debt at the year-end was £200m compared to £199m at the end of the previous year (including net cash of £27m shown as held for sale in 2013). This comprises a cash balance of £44m (2013: £100m), a bank overdraft of £23m (2013: £9m) and interest-bearing loans and borrowings of £221m (2013: £290m). The year-end net debt to EBITDA ratio was 0.5 times (2013: 0.5 times) based on continuing net debt and EBITDA and was 0.6 times excluding disposal gains and one-off pension gains from continuing EBITDA. Following the repayment of US$30m during the year, at the end of 2014 the US loan notes totalled £218m (2013: £225m), with a weighted average maturity of 3.4 years (2013: 4.1 years) and other loans including bank overdrafts totalled £26m (2013: £74m). Total committed bank loan facilities available to the Group at the year-end were £272m (2013: £275m), of which £nil (2013: £60m) was drawn.

The value of the Group's intangible assets decreased to £368m at 31 December 2014 (2013: £430m). Additions to intangible assets were £18m (2013: £8m), including £10m of IT related capital expenditure which partly offset the continuing amortisation charge, foreign exchange movements and disposals. The impairment charge for the year was £43m.

The net book value of the Group's PPE at 31 December 2014 was £227m (2013: £223m). Capital expenditure on PPE amounted to £53m (2013: £42m), with significant capital expenditure on our new sites in Korea and Houston in the Critical Engineering division. Including capitalised intangible assets, total capital expenditure was £71m (2013: £53m) and was 1.9 times (2013: 1.2 times) the depreciation and amortisation charge for the year of £38m (2013: £44m).

The post-tax return on invested capital ('ROIC') from continuing operations was 18.3% compared to 19.7% in 2013.

The share price at 31 December 2014 was £12.63 (2013: £15.25) and the average for the year was £14.02 (2013: £13.47) representing a decrease of 17% and an increase of 4% respectively. Based on the 2014 average share price, the proposed total dividend of 37.6p represents a yield of 2.7%.

Pensions

The net liability for defined benefit obligations at 31 December 2014 was £35m (2013: £158m). The UK surplus was £60m as at 31 December 2014 (2013: deficit of £63m) and constituted 84% (2013: 83%) of the total defined benefit liabilities and 90% (2013: 89%) of the total defined benefit assets. The improvement in the UK Funds in 2014 principally arose from additional cash contributions of £70m, actuarial gains of £50m and a one-off reduction in the defined benefit obligation as a result of splitting the scheme. The deficit in the overseas funds as at 31 December 2014 was unchanged at £95m (2013: £95m).

Corporate costs

In 2014 and prior years corporate costs have been allocated to each of the divisions to arrive at segmental operating profit. For our 2015 reporting and onwards we intend to separately disclose our corporate costs in our segmental information. This change will give greater transparency of the underlying segmental operating profits for each division. In note 2 we have included an analysis to show how the Group's 2014 segmental information would be presented on this new basis.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**2014**			2013		
		Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2	**1,686**	**6**	**1,692**	1,744	(1)	1,743
Segmental operating profit	2	**298.1**		**298.1**	321.6		321.6
Reversal of net economic hedge contract losses/ (gains)	9		**3.9**	**3.9**		(5.1)	(5.1)
Restructuring costs	9	**(2.6)**	**(8.6)**	**(11.2)**		(14.2)	(14.2)
Gains on special pension events	9		**7.0**	**7.0**		-	-
Impairment losses	9		**(40.8)**	**(40.8)**		-	-
Acquired intangible amortisation	9		**(19.6)**	**(19.6)**		(21.9)	(21.9)
Gains on disposal of subsidiaries	5		**34.2**	**34.2**		-	-
Acquisition and disposal costs	9		**(1.8)**	**(1.8)**		(9.9)	(9.9)
Operating profit	2	**295.5**	**(25.7)**	**269.8**	321.6	(51.1)	270.5
Financial income	6	**1.1**	**15.1**	**16.2**	4.2	20.2	24.4
Financial expense	6	**(15.4)**	**(21.8)**	**(37.2)**	(20.2)	(17.5)	(37.7)
Net finance charge relating to defined benefit pension schemes	6	**(3.1)**	**-**	**(3.1)**	(7.9)	-	(7.9)
Net financial (expense)/ income		**(17.4)**	**(6.7)**	**(24.1)**	(23.9)	2.7	(21.2)
Profit before tax		**278.1**	**(32.4)**	**245.7**	297.7	(48.4)	249.3
Taxation	7	**(61.2)**	**8.3**	**(52.9)**	(65.5)	9.8	(55.7)
Profit from continuing operations after tax		**216.9**	**(24.1)**	**192.8**	232.2	(38.6)	193.6
Profit from discontinued operations after tax	3		**478.5**	**478.5**		33.4	33.4
Total profit for the year		**216.9**	**454.4**	**671.3**	232.2	(5.2)	227.0
Attributable to:							
Owners of the parent				**668.5**			223.9
Non-controlling interests				**2.8**			3.1
Profit for the year				**671.3**			227.0
Earnings per share	8						
Basic - from profit for the year				**243.4p**			71.0p
Diluted - from profit for the year				**241.3p**			70.1p
Basic - from continuing operations				**69.2p**			60.4p
Diluted - from continuing operations				**68.6p**			59.6p
Basic - from continuing operations				**78.0p**			72.6p
Diluted - from continuing operations				**77.3p**			71.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014		2013	
	£m	£m	£m	£m
Profit for the year		**671.3**		227.0
Items reclassified to profit and loss in the year				
Foreign exchange gain reclassified to income statement on disposal of operations	**(3.9)**		-	
Realised gain on settlement of deal-contingent forward relating to disposal proceeds reclassified to income statement	**(11.2)**		-	
Related tax effect on items reclassified to profit and loss	**2.4**		-	
		(12.7)		-
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	**3.6**		3.4	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**(14.7)**		(16.9)	
Change in fair value on deal-contingent forward relating to disposal proceeds	**(3.0)**		14.2	
Fair value gain/ (loss) on available for sale financial assets	**1.1**		(0.5)	
Related tax effect on items that may subsequently be reclassified to profit and loss	**1.0**		(2.5)	
		(12.0)		(2.3)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement gain on defined benefit plans	**16.6**		41.4	
Related taxation effect in current year	**(2.2)**		(11.4)	
Taxation in relation to restructure of UK Pension Fund	**(6.6)**		-	
Effect of taxation rate change on previously recognised items	**-**		(9.9)	
		7.8		20.1
Other comprehensive (expense)/ income for the year, net of taxation		**(16.9)**		17.8
Total comprehensive income for the year, net of taxation		**654.4**		244.8
Attributable to:				
Owners of the parent		**651.6**		241.7
Non-controlling interests		**2.8**		3.1
Total comprehensive income for the year, net of taxation		**654.4**		244.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2013	85.2	170.3	7.9	5.1	32.6	334.4	635.5	48.0	683.5
Profit for the year						223.9	223.9	3.1	227.0
Other comprehensive income/ (expense)				13.9	(15.9)	19.8	17.8		17.8
Total comprehensive income/ (expense)				13.9	(15.9)	243.7	241.7	3.1	244.8
Issue of share capital	0.1	1.5					1.6		1.6
Dividends paid						(106.2)	(106.2)	(0.1)	(106.3)
Share-based payments (net of tax)						16.8	16.8		16.8
Shares acquired for:									
employee share scheme trust						(24.2)	(24.2)		(24.2)
share buyback programme						(164.3)	(164.3)		(164.3)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2013	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5
Changes in equity in 2014									
Profit for the year						668.5	668.5	2.8	671.3
Other comprehensive income/ (expense)				(8.3)	(17.1)	8.5	(16.9)		(16.9)
Total comprehensive income/ (expense)				(8.3)	(17.1)	677.0	651.6	2.8	654.4
Issue of share capital	0.1	1.8					1.9		1.9
Issue of 'B' shares - capital option	151.9	(151.9)					-		-
Issue of 'C' shares - income option	10.9	(10.9)					-		-
Redemption of 'B' and 'C' shares	(162.8)		162.8			(162.8)	(162.8)		(162.8)
Cancellation of treasury shares	(3.7)		3.7				-		-
Dividends paid on 'C' shares						(457.5)	(457.5)		(457.5)
Dividends paid						(97.3)	(97.3)	(0.2)	(97.5)
Share-based payments (net of tax)						3.2	3.2		3.2
Shares acquired for:									
employee share scheme trust						(30.7)	(30.7)		(30.7)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2014	**81.7**	**10.8**	**174.4**	**10.7**	**(0.4)**	**232.1**	**509.3**	**44.8**	**554.1**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

	2014 £m	Restated (Note 1) 2013 £m
Assets		
Intangible assets	**367.7**	430.3
Property, plant and equipment	**226.5**	222.8
Employee benefit assets	**60.2**	0.3
Deferred tax assets	**21.3**	43.9
Other receivables	**6.0**	6.3
Other financial assets	**-**	0.2
Total non-current assets	**681.7**	703.8
Inventories	**226.3**	245.5
Trade and other receivables	**368.9**	345.3
Other current financial assets	**10.5**	22.2
Current tax	**14.9**	3.4
Investments	**26.9**	20.2
Cash and cash equivalents	**43.8**	71.7
Total current assets	**691.3**	708.3
Assets in disposal group held for sale	**-**	289.4
Total assets	**1,373.0**	1,701.5
Liabilities		
Bank overdraft	**(23.0)**	(7.9)
Interest-bearing loans and borrowings	**(2.0)**	(80.8)
Provisions	**(22.7)**	(20.1)
Current tax	**(42.6)**	(52.9)
Trade and other payables	**(333.9)**	(355.6)
Other current financial liabilities	**(9.2)**	(3.1)
Total current liabilities	**(433.4)**	(520.4)
Liabilities associated with disposal group held for sale	**-**	(77.3)
Interest-bearing loans and borrowings	**(218.8)**	(208.9)
Employee benefit obligations	**(94.9)**	(158.2)
Provisions	**(16.4)**	(18.8)
Deferred tax liabilities	**(27.2)**	(34.3)
Other payables	**(28.2)**	(36.1)
Total non-current liabilities	**(385.5)**	(456.3)
Total liabilities	**(818.9)**	(1,054.0)
Net assets	**554.1**	647.5
Equity		
Share capital	**81.7**	85.3
Share premium	**10.8**	171.8
Other reserves	**184.7**	43.6
Retained earnings	**232.1**	300.2
Equity attributable to owners of the parent	**509.3**	600.9
Non-controlling interests	**44.8**	46.6
Total equity	**554.1**	647.5

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 £m	2013 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	**269.8**	270.5
Operating profit for the year from discontinued operations	**1.0**	73.0
Adjustments for:		
Depreciation and amortisation	**57.6**	66.3
Impairment of property, plant and equipment and intangible assets	**43.5**	1.3
Gain on disposal of subsidiaries	**(34.2)**	-
Gain on special pension events	**(7.0)**	-
Loss on sale of property, plant and equipment	**1.2**	0.8
Equity-settled share-based payment expense	**4.4**	11.2
Decrease in inventories	**5.8**	1.4
Increase in trade and other receivables	**(37.7)**	(10.0)
Decrease in trade and other payables	**(18.9)**	(17.0)
Decrease in provisions and employee benefits	**(13.7)**	(1.2)
Cash generated from the operations	**271.8**	396.3
Income taxes paid	**(67.2)**	(41.7)
Cash generated from the operations after tax	**204.6**	354.6
Additional pension scheme funding - UK and overseas	**(87.0)**	(35.3)
Net cash from operating activities	**117.6**	319.3
Cash flows from investing activities		
Interest received	**1.1**	4.4
Proceeds from sale of property, plant and equipment	**1.1**	2.3
Purchase of investments	**(3.6)**	(0.3)
Settlement of transactional derivatives	**(0.2)**	3.8
Settlement of currency derivatives hedging balance sheet	**36.7**	(6.0)
Acquisitions of controlling interests	**-**	(7.8)
Acquisition of property, plant and equipment and non-acquired intangibles	**(70.8)**	(53.4)
Proceeds from disposal of subsidiaries net of cash	**696.3**	-
Net cash from investing activities	**660.6**	(57.0)
Cash flows from financing activities		
Interest paid	**(15.4)**	(20.4)
Payment to non-controlling interest	**(4.4)**	(4.4)
Shares acquired for employee share scheme trust	**(30.7)**	(24.2)
Share buyback programme including acquisition expenses	**-**	(164.3)
Proceeds from the issue of share capital for employee share schemes	**1.9**	1.6
Net (repayment)/ drawdown of borrowings	**(80.7)**	51.0
Dividends paid to equity shareholders and non-controlling interest	**(97.5)**	(106.3)
Return of cash to equity shareholders	**(620.3)**	-
Net cash from financing activities	**(847.1)**	(267.0)
Net decrease in cash and cash equivalents	**(68.9)**	(4.7)
Cash and cash equivalents at the start of the year	**90.3**	96.5
Effect of exchange rate fluctuations on cash held	**(0.6)**	(1.5)
Cash and cash equivalents at the end of the year*	**20.8**	90.3

* Net of bank overdrafts of £23.0m (2013: £9.6m). Cash and cash equivalents at 31 December 2013 includes £28.7m of cash and £1.7m of overdrafts in respect of assets and liabilities held for sale.

Reconciliation of net cash to movement in net borrowings appears in note 12.

1. Restatement in respect of other payables

The Group pays taxes in various countries which requires the interpretation of complex tax laws in these jurisdictions. Accordingly, both the amounts expected to be payable and the period in which settlement is likely to be made are reassessed from time to time. During the current year, the Group performed a review of its disclosure of the related tax liabilities, including when payment was due, and has determined that amounts previously classified within other payables – non-current liabilities of £34.5m at 31 December 2013 would be more appropriately included in current tax. Comparatives have been reclassified to reflect this change in presentation.

2. 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. Inter-segment revenue is insignificant. The Group did comprise the following five operating segments and activities, but as discussed earlier in these financial statements, the Retail Dispense businesses were disposed of on 1 January 2014 and consequently their comparative results are shown as discontinued operations in the income statement, while their comparative assets and liabilities are presented as held for sale in the balance sheet.

Continuing operations

IMI Critical Engineering

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

IMI Precision Engineering

IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies wherever 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.

Retail Dispense – discontinued operations

Beverage Dispense

Design, manufacture and supply of still and carbonated beverage dispense systems and associated merchandising equipment for brand owners and retailers.

Merchandising

Design, manufacture and supply of permanent point of purchase display systems for brand owners and retailers.

Performance is measured based on segmental operating profit which is the profit reported by the business, stated before exceptional items and other restructuring 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 revenue and profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Corporate costs

In 2014 and prior years corporate costs have been allocated to each of the divisions to arrive at segmental operating profit. Whilst our corporate costs do not meet the definition of an operating segment under IFRS8 *'Operating Segments'*, for 2015 reporting and onwards we will separately disclose and deduct corporate costs before arriving at segmental operating profit so that reporting is consistent with the format that is to be used for review by the chief operating decision maker from 1 January 2015. A table to illustrate how the Group's 2014 segmental operating profit would have been presented on the new basis is set out on the next page.

2. Segmental information (continued)

The following table illustrates how the results for the segments reconcile to the overall results reported in the income statement.

	Revenue		Operating profit		Operating margin	
	2014	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**%**	%
Continuing operations						
IMI Critical Engineering	**692**	716	**119.8**	116.8	**17.3%**	16.3%
IMI Precision Engineering	**710**	723	**126.4**	140.5	**17.8%**	19.4%
IMI Hydronic Engineering	**284**	305	**51.9**	64.3	**18.3%**	21.1%
Total continuing segmental revenue/ operating profit/ operating margin	**1,686**	1,744	**298.1**	321.6	**17.7%**	18.4%
Restructuring costs (non-exceptional)			**(2.6)**	-		
Total segmental revenue/ operating profit/ operating margin after non-exceptional restructuring	**1,686**	1,744	**295.5**	321.6	**17.5%**	18.4%
Reversal of net economic hedge contract losses/ (gains)	**6**	(1)	**3.9**	(5.1)		
Restructuring costs (exceptional)			**(8.6)**	(14.2)		
Gains on special pension events			**7.0**	-		
Impairment losses			**(40.8)**	-		
Acquired intangible amortisation			**(19.6)**	(21.9)		
Gains on disposal of subsidiaries			**34.2**	-		
Acquisition and disposal costs			**(1.8)**	(9.9)		
Total revenue/operating profit reported	**1,692**	1,743	**269.8**	270.5		
Net financial expense			**(24.1)**	(21.2)		
Profit before tax from continuing operations			**245.7**	249.3		
Retail Dispense - discontinued operations						
Beverage Dispense	**-**	337	**-**	51.2	**-**	15.2%
Merchandising	**-**	174	**-**	29.8	**-**	17.1%
Discontinued segmental revenue/operating profit	**-**	511	**-**	81.0	**-**	15.9%
Total Group revenue/operating profit	**1,686**	2,255	**298.1**	402.6	**17.7%**	17.9%

As explained above, the following table illustrates how the Group's 2014 segmental reporting would be presented on the new basis to be used for our 2015 reporting.

	Revenue 2014			Operating profit 2014			Operating Margin 2014		
	First half	Second half	Total	First half	Second half	Total	First half	Second half	Total
	£m	£m	£m	£m	£m	£m	%	%	%
Continuing operations									
IMI Critical Engineering	**315**	**377**	**692**	**56.1**	**75.3**	**131.4**	**17.8%**	**20.0%**	**19.0%**
IMI Precision Engineering	**355**	**355**	**710**	**69.4**	**69.1**	**138.5**	**19.5%**	**19.5%**	**19.5%**
IMI Hydronic Engineering	**139**	**145**	**284**	**25.8**	**31.0**	**56.8**	**18.6%**	**21.4%**	**20.0%**
Corporate Costs				**(14.1)**	**(14.5)**	**(28.6)**			
Total continuing segmental revenue/ operating profit/ operating margin	**809**	**877**	**1,686**	**137.2**	**160.9**	**298.1**	**17.0%**	**18.3%**	**17.7%**

The following table illustrates how revenue and operating profit have been impacted by movements in foreign exchange, acquisitions and disposals.

	Revenue				Operating profit			
	IMI Critical Engineering	IMI Precision Engineering	IMI Hydronic Engineering	Total	IMI Critical Engineering	IMI Precision Engineering	IMI Hydronic Engineering	Total
	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2013	716	723	305	1,744	116.8	140.5	64.3	321.6
Organic growth	**16**	**25**	**(2)**	**39**	**10.6**	**(3.8)**	**(9.1)**	**(2.3)**
Movement in foreign exchange	**(37)**	**(40)**	**(19)**	**(96)**	**(6.9)**	**(7.6)**	**(3.3)**	**(17.8)**
Impact of acquisitions and disposals	**(3)**	**2**	**-**	**(1)**	**(0.7)**	**(2.7)**	**-**	**(3.4)**
31 December 2014	**692**	**710**	**284**	**1,686**	**119.8**	**126.4**	**51.9**	**298.1**
Organic growth %	**2%**	**4%**	**-1%**	**2%**	**10%**	**-3%**	**-15%**	**-1%**

2. Segmental information (continued)

The following table shows a geographical analysis of how the Group's revenue is derived by destination.

	2014 Continuing Segmental Revenue £m	2013 Continuing Segmental Revenue £m	Discontinued Operations £m	Total £m
UK	**98**	104	38	142
Germany	***235***	*247*	*23*	*270*
Other Western Europe	***409***	*439*	*30*	*469*
Western Europe	**644**	686	53	739
USA	***300***	*314*	*346*	*660*
Canada	***18***	*24*	*7*	*31*
North America	**318**	338	353	691
Emerging Markets	**544**	504	60	564
Rest of World	**82**	112	7	119
Total segmental revenue	**1,686**	1,744	511	2,255
Reversal of economic hedge contract losses/ (gains)	**6**	(1)	-	(1)
Total	**1,692**	1,743	511	2,254

3. Discontinued operations

	2014 £m	2013 £m
Revenue	**-**	511
Depreciation	**-**	(3.9)
Amortisation	**-**	(1.3)
Other operating expenses	**-**	(424.8)
Segmental operating profit	**-**	81.0
Restructuring costs	**-**	(3.0)
Gain on disposal of operations	**480.0**	-
Operating profit	**480.0**	78.0
Financial income	**-**	0.2
Financial expense	**-**	(0.4)
Net finance expense related to benefit pension schemes	**-**	(0.4)
Profit before tax	**480.0**	77.4
Taxation	**(2.5)**	(39.0)
Profit after tax	**477.5**	38.4

The results of the Retail Dispense businesses and the associated profit on disposal are presented above, in addition to which, a pre-tax and post-tax gain of £1.0m (2013: loss of £5.0m) relating to other discontinued operations has also been included in this line in the income statement.

4. Acquisition

B&R Holding GmbH ('Bopp & Reuther')

On 2 January 2015, the Group acquired the entire share capital of Bopp & Reuther for an enterprise value of approximately £118m (€153m) including the assumption of debt of approximately £15m.

Bopp & Reuther is a leading manufacturer of safety, control and shut-off valve technology for the process industries as well as conventional fossil and nuclear power plants worldwide. Its head office and manufacturing plant is located in Mannheim, Germany and it has service centres in Germany, Austria, Romania and China. The senior management and all of its 419 employees transferred upon completion of the acquisition by the Group.

Bopp & Reuther joins the IMI Critical Engineering division and is very closely aligned with IMI Critical Engineering's existing large control valve business ('CCI').

Given the close proximity of this acquisition to the date of approval of these financial statements, the initial acquisition accounting is not yet complete. The completion accounts process and conversion of amounts from German GAAP to IFRS has not yet been finalised. Consequently, disclosures regarding the revenue and profits of Bopp & Reuther for 2014, the fair value of the assets and liabilities acquired, the fair value of the consideration and amounts allocated to goodwill and intangible assets have not been given and will be included in the Group's 2015 Interim announcement.

5. Disposals

The Group disposed of the Retail Dispense businesses on 1 January 2014, Eley Limited, Accles and Shelvoke Limited and Eley Americas Inc (together 'Eley') on 4 October 2014 and Mecanique Analytique Inc (trade name 'AFP') on 23 October 2014.

Retail Dispense

The disposal of the Retail Dispense businesses are discussed further in note 3.

Eley

The Group disposed of Eley on 4 October 2014 for proceeds of £41.6m resulting in an exceptional profit on disposal for the Group of £33.1m after disposing of £6.5m of net assets and incurring £2.0m of associated disposal costs. The business was considered to be non-core to IMI Critical Engineering's operations.

The gain on disposal is presented in the income statement as an exceptional item but it is not disclosed as a discontinued item because it did not represent a separate major line of business.

AFP

Following the impairment loss of £10.8m recorded in the first half of the year, the results of AFP continued to be disappointing. As a result, on 23 October 2014 the Group disposed of AFP. A payment was agreed of CAD$4.5m (£2.5m) with the previous vendors to compensate them for the waiver of their earn-out arrangement, which resulted in settlement of the estimated contingent consideration owed. The resulting gain on disposal was £1.1m.

The gain on disposal is presented in the income statement as an exceptional item but it is not disclosed as a discontinued item because it did not represent a separate major line of business.

5. Disposals (continued)

Details of the disposals are as follows:

	Retail Dispense 1 January 2014 £m	Eley 4 October 2014 £m	AFP 23 October 2014 £m	Total 2014 £m
Sale consideration*	**691.2**	**41.6**	**3.4**	**736.2**
Net assets disposed	(205.0)	(6.5)	(1.3)	(212.8)
Intercompany loans settled following completion	3.8	-	-	3.8
Costs of disposal	(13.9)	(2.0)	(1.0)	(16.9)
Foreign exchange gain transferred on disposal of operations	3.9	-	-	3.9
Taxation	(2.5)	-	-	(2.5)
Gain on disposal	**477.5**	**33.1**	**1.1**	**511.7**
Segmental assets				
Intangible assets	114.1	-	0.1	114.2
Property, plant and equipment	25.1	2.8	0.2	28.1
Inventories	50.8	2.1	0.5	53.4
Trade and other receivables	67.1	1.6	0.4	69.1
Total segmental assets	**257.1**	**6.5**	**1.2**	**264.8**
Non-segmental assets				
Current tax	0.2	-	0.3	0.5
Deferred tax	3.8	-	-	3.8
Cash and cash equivalents	28.2	2.3	0.2	30.7
Investments	0.1	-	-	0.1
Total assets	**289.4**	**8.8**	**1.7**	**299.9**
Segmental liabilities				
Trade and other payables	(56.2)	(2.0)	(0.4)	(58.6)
Provisions	(5.4)	-	-	(5.4)
Total segmental liabilities	**(61.6)**	**(2.0)**	**(0.4)**	**(64.0)**
Non-segmental liabilities				
Current tax	(3.2)	(0.3)	-	(3.5)
Deferred tax	(10.0)	-	-	(10.0)
Bank overdraft	(1.7)	-	-	(1.7)
Employee benefit obligations	(7.9)	-	-	(7.9)
Total liabilities	**(84.4)**	**(2.3)**	**(0.4)**	**(87.1)**
Net assets disposed	**205.0**	**6.5**	**1.3**	**212.8**

Movements between the net assets held for sale at 31 December 2013 for the Retail Dispense businesses and the eventual assets disposed principally represent a minor change in the completion mechanism relating to the disposal of the employee benefit obligations, which increased by £7.1m to £7.9m. This resulted in a gain of £2.8m, which is included within the gain on disposal.

* Sale consideration for AFP consists of a cash payment of £2.5m to the vendors offset by the settlement of a £5.9m contingent consideration creditor.

Net cash flow arising on disposal

Cash consideration/ (settlement) at spot rate	**680.0**	**41.6**	**(2.5)**	**719.1**
Settlement of deal-contingent forward**	**11.2**	**-**	**-**	**11.2**
Sale consideration	**691.2**	**41.6**	**(2.5)**	**730.3**
Cost of deal-contingent forward**	**(3.0)**	**-**	**-**	**(3.0)**
Cash costs of disposal	**(3.9)**	**(1.5)**	**(0.4)**	**(5.8)**
Intercompany loans settled following completion	**3.8**	**-**	**-**	**3.8**
Net cash flow arising on disposal of operations	**688.1**	**40.1**	**(2.9)**	**725.3**
Net cash disposed on disposal of operations	**(26.5)**	**(2.3)**	**(0.2)**	**(29.0)**

** As at 31 December 2013 the deal-contingent forward used to manage the sterling-US dollar exposure on the consideration was valued at £11.2m. The net gain on settlement of this contract was £8.2m which is net of the £3.0m option premium.

6. Net financial income and expense

	2014			2013		
	Interest	Financial Instru-ments	Total	Interest	Financial Instru-ments	Total
Recognised in the income statement	**£m**	**£m**	**£m**	£m	£m	£m
Interest income on bank deposits	**1.1**		**1.1**	4.2		4.2
Financial instruments at fair value through profit or loss:						
Designated hedges		**0.8**	**0.8**		1.3	1.3
Other economic hedges						
- current year trading		**7.1**	**7.1**		12.9	12.9
- future year transactions		**7.2**	**7.2**		6.0	6.0
Financial income	**1.1**	**15.1**	**16.2**	4.2	20.2	24.4
Interest expense on interest-bearing loans and borrowings	**(15.4)**		**(15.4)**	(20.2)		(20.2)
Financial instruments at fair value through profit or loss:						
Designated hedges		**(0.8)**	**(0.8)**		(1.3)	(1.3)
Other economic hedges						
- current year trading		**(7.2)**	**(7.2)**		(9.4)	(9.4)
- future year transactions		**(13.8)**	**(13.8)**		(6.8)	(6.8)
Financial expense	**(15.4)**	**(21.8)**	**(37.2)**	(20.2)	(17.5)	(37.7)
Net finance charge relating to defined benefit pension schemes	**(3.1)**		**(3.1)**	(7.9)		(7.9)
Net financial (expense)/ income	**(17.4)**	**(6.7)**	**(24.1)**	(23.9)	2.7	(21.2)

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.

7. Taxation

The effective tax rate for the Group before exceptional items was 22% (2013: 22%). In addition, an exceptional tax credit of £8.3m (2013: £9.8m) arose in connection with business restructuring and other exceptional costs. The total tax charge for the year on continuing operations was £52.9m (2013: £55.7m) and continuing profit after tax was £192.8m (2013: £193.6m). Taxes of £67.2m (2013: £41.7m) were paid in the year. IMI seeks to manage its tax affairs wholly within the Company's core tax principles of compliance, fairness, value and transparency, in accordance with the IMI Way.

8. Earnings per ordinary share

	Key	**2014 million**	2013 million
Weighted average number of shares for the purpose of basic earnings per share	A	**274.6**	315.5
Dilutive effect of employee share options		**2.4**	4.0
Weighted average number of shares for the purpose of diluted earnings per share	B	**277.0**	319.5
		£m	£m
Profit for the year		**671.3**	227.0
Non-controlling interests		**(2.8)**	(3.1)
Profit for the year attributable to owners of the parent	C	**668.5**	223.9
Profits from discontinued operations, net of tax		**(478.5)**	(33.4)
Continuing profit for the year attributable to owners of the parent	D	**190.0**	190.5
Total exceptional charges included in profit before tax		**32.4**	48.4
Total exceptional credits included in taxation		**(8.3)**	(9.8)
Earnings for adjusted EPS	E	**214.1**	229.1

EPS measures			
Basic EPS	C/A	243.4p	71.0p
Diluted EPS	C/B	241.3p	70.1p
Basic continuing EPS	D/A	69.2p	60.4p
Diluted continuing EPS	D/B	68.6p	59.6p
Adjusted EPS measures			
Adjusted basic continuing EPS	E/A	78.0p	72.6p
Adjusted diluted continuing EPS	E/B	77.3p	71.7p

The reduction in the weighted average number of shares is primarily as a result of the 7 for 8 share consolidation on 17 February 2014.

Discontinued earnings per share
Basic discontinued earnings per share were 174.2p (2013: 10.6p). Diluted discontinued earnings per share were 172.7p (2013: 10.5p).

9. Exceptional items

The following items are considered to be exceptional in these financial statements.

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 segmental revenues and operating profit of the relevant business segment. The exceptional items at the operating level reverse 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 former comprised the reversal of a loss of £3.9m (2013: reversal of gain of £5.1m) and the latter amounted to a loss of £6.7m (2013: gain of £2.7m).

Restructuring costs
The restructuring costs treated as exceptional of £8.6m (2013: £14.2m) include £4.2m costs for the closure of IMI Components, announced in August 2014 and £4.4m on the completion of the IMI Norgren UK factory move. Other restructuring costs of £2.6m have been charged below segmental operating profit and included in the underlying operating profit as, based on their quantum, they do not meet our definition of exceptional items.

Gains on special pension events
The split of the UK fund into two newly formed schemes for pensioners and deferred members resulted in a one-off settlement gain of £3.5m. In addition, the insurance buy-out of one of our Swedish schemes resulted in a further settlement gain of £3.5m. Both of these gains have been treated as exceptional items.

Impairment losses and acquired intangible amortisation
As reported at the half-year and prior to its disposal in October 2014, due to reduced expectations for the future performance of AFP, the Group carried out a review of the recoverable amount of the business. Alongside this, we also reassessed the amounts to be paid based on the business's performance in the three to five years following the acquisition. This review led to the recognition of an exceptional net impairment loss of £10.8m, partially offset by a deferred tax credit of £3.8m.

Following completion of the Group's annual impairment review an exceptional impairment loss has been recorded for £26.9m reflecting a deterioration in the current trading base of Remosa.

Additional exceptional impairment losses were recognised of £1.1m on announcement of the proposed closure of IMI Components and £2.0m for the impairment of legacy IT software as Hydronic Engineering implements a new ERP system.

Acquired intangible amortisation amounted to £19.6m for the year (2013: £21.9m).

Gain on disposal of subsidiaries
Gains on the disposals of Eley and AFP are discussed in note 5.

Acquisition and disposal costs
Acquisition and disposal costs comprise £2.2m of fees associated with the acquisition of Bopp & Reuther which were incurred in the year and a net release of £0.4m relating to deferred remuneration included within the post-employment contracts of the vendors for the AFP and NPSL acquisitions (2013: charge of £1.9m).

Preparatory costs for the sale of the Retail Dispense businesses in the prior year amounted to £8.0m and principally represented costs payable to the legal and financial advisors assisting with the origination and completion of the transaction, in addition to the advisory costs borne in 2013 relating to the return of cash.

Taxation
The tax effects of the above items are included in the exceptional column of the income statement. In addition, during the year the Group incurred a one-off charge of £2.8m in respect of a prior year tax audit. In 2013, exceptional tax charges of £14.7m were incurred in association with the pre-sale restructuring of certain of the Retail Dispense businesses and were included in discontinued operations.

10. Dividend

The directors recommend a final dividend of 24.0p per share (2013: 22.5p) payable on 22 May 2015 to shareholders on the register at close of business on 10 April 2015, which will cost about £64.8m (2013: £60.6m). Together with the interim dividend of 13.6p per share paid on 19 September 2014, this makes a total distribution of 37.6p per share (2013: 35.3p per share). In accordance with IAS10 *'Events after the Balance Sheet date'*, this final proposed dividend has not been reflected in the 31 December 2014 balance sheet.

11. Employee Benefits

The Group has 64 (2013: 74) defined benefit obligations in operation as at 31 December 2014. The Group recognises there is a funding and investment risk inherent within defined benefit arrangements and seeks to continue its programme of closing overseas defined benefit plans where they are neither mandatory nor an operational necessity and providing in their place appropriate defined contribution arrangements.

The net liability for defined benefit obligations at 31 December 2014 was £35m (2013: £158m). The UK surplus was £60m (2013: deficit of £63m) and constituted 84% (2013: 83%) of the total defined benefit liabilities and 90% (2013: 89%) of the total defined benefit assets. The improvement in the UK scheme in 2014 principally arose from additional cash contributions of £70m, actuarial gains of £50m and a one-off reduction in the defined benefit obligation as a result of splitting the scheme.

The deficit in the overseas funds as at 31 December 2014 was unchanged at £95m (2013: £95m).

	UK £m	Overseas £m	Total £m
Net defined benefit obligation as at 1 January 2014	(63.1)	(94.8)	(157.9)
Movement recognised in:			
Income statement	3.4	(4.3)	(0.9)
Other comprehensive income	49.8	(29.4)	20.4
Cash flow statement	70.0	26.6	96.6
Disposals	-	7.1	7.1
Net defined benefit surplus/ (obligation) as at 31 December 2014	**60.1**	**(94.8)**	**(34.7)**

12. Cash flow and net debt reconciliation

Reconciliation of net cash to movement in net borrowings

	2014 £m	2013 £m
Net decrease in cash and cash equivalents excluding foreign exchange and net cash disposed/ debt acquired	**(39.9)**	(4.7)
Net repayment/ (drawdown) of borrowings	**80.7**	(51.0)
Increase/ (decrease) in net debt before acquisitions and foreign exchange	**40.8**	(55.7)
Net cash disposed	**(29.0)**	-
Debt acquired	**-**	(2.5)
Currency translation differences	**(12.4)**	2.6
Movement in net borrowings in the year	**(0.6)**	(55.6)
Net borrowings at the start of the year	**(199.4)**	(143.8)
Net borrowings at the end of the year	**(200.0)**	(199.4)

Movement in net debt

	2014 £m	2013 £m
EBITDA* from continuing operations	**370.9**	331.5
Working capital movements	**(50.8)**	(16.5)
Capital and development expenditure	**(70.8)**	(45.0)
Gain on disposal of subsidiaries	**(34.2)**	-
Gain on special pension events	**(7.0)**	-
Other	**(3.0)**	13.0
Operating cash flow from continuing operations	**205.1**	283.0
EBITDA from discontinued operations	**1.0**	79.6
Working capital movements	**-**	(9.1)
Capital and development expenditure	**-**	(8.4)
Other	**(7.6)**	(0.2)
Operating cash flow from discontinued operations	**(6.6)**	61.9
Operating cash flow**	**198.5**	344.9
Tax paid	**(67.2)**	(41.7)
Interest / derivatives	**22.2**	(18.2)
Operating cash flow after interest and tax	**153.5**	285.0
Additional pension scheme funding - UK	**(70.0)**	(33.6)
Additional pension scheme funding - overseas	**(17.0)**	(1.7)
Free cash flow before corporate activity	**66.5**	249.7
Acquisitions	**-**	(7.8)
Dividends paid to equity shareholders and non-controlling interest	**(97.5)**	(106.3)
Return of cash	**(620.3)**	-
Disposal of subsidiaries	**725.3**	-
Payment to non-controlling interest	**(4.4)**	(4.4)
Share buyback programme	**-**	(164.3)
Net purchase of own shares	**(28.8)**	(22.6)
Net cash flow (excluding debt movements)	**40.8**	(55.7)
Opening net debt	**(199.4)**	(143.8)
Net cash disposed	**(29.0)**	-
Debt acquired	**-**	(2.5)
Foreign exchange translation	**(12.4)**	2.6
Closing net debt	**(200.0)**	(199.4)

* Earnings before interest (£24m), tax (£53m), depreciation (£33m), amortisation (£25m) and impairment (£44m).

** 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.

13. Share capital

	Ordinary shares 25p per share Number (m)	Ordinary shares 28 4/7p per share Number (m)	'B' Shares 200p per share Number (m)	'C' Shares 0.001p per share Number (m)	Deferred shares 0.001p per share Number (m)	Value (£m)
In issue at the start of the year	341.0	-	-	-	-	85.3
Share cancellations	(14.6)	-	-	-	-	(3.7)
Share consolidation	(326.4)	285.6	-	-	-	-
Issued to satisfy employee share schemes	-	0.4	-	-	-	0.1
Issue of 'B' shares - Immediate Capital Option	-	-	75.9	-	-	151.9
Issue of 'B' shares - Deferred Capital Option	-	-	5.5	-	-	10.9
Redemption of 'B' shares at nominal value	-	-	(81.4)	-	-	(162.8)
Issue of 'C' shares - Income Option	-	-	-	228.7	-	-
Dividend paid on 'C' shares	-	-	-	(228.7)	228.7	-
Cancellation of deferred shares	-	-	-	-	(228.7)	-
In issue at the end of the year	**-**	**286.0**	**-**	**-**	**-**	**81.7**

The B and C Share Scheme was accompanied by a share consolidation, which is a commonly used arrangement to ensure that the Group's share price after the return of capital is broadly equivalent to the share price prior to the return of capital, which ensures that targets and prices in the Group's various share-based remuneration schemes remain appropriate.

On 16 January 2014 the company cancelled 14,598,706 ordinary shares that had been held as treasury shares. On 13 February 2014 the company cancelled a further 5 ordinary shares that had been held as treasury shares.

On 17 February 2014, the Group effected the return of cash to shareholders. 75,928,619 'B' shares of 200 pence each were issued under the Immediate Capital Option; 5,475,074 'B' shares of 200 pence each were issued under the Deferred Capital Option; and 228,744,051 'C' shares of 0.001 pence each were issued under the Income Option.

'B' shares for both the Immediate Capital Option and Deferred Capital Option were redeemed at their nominal value of 200 pence per share on 17 February 2014 and 6 April 2014, respectively.

A dividend of 200 pence per share was declared on the 'C' shares, which was paid on 4 March 2014. Following declaration of the dividend the 'C' shares became deferred shares.

On 17 February 2014, a share consolidation was performed whereby the existing ordinary shares of 25 pence per share were replaced by new ordinary shares of 28 4/7 pence per share at a ratio of 7 new shares for 8 existing shares.

On 26 February 2014 the deferred shares were cancelled.

14. 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	
	2014	2013	**2014**	2013
Euro	**1.24**	1.18	**1.29**	1.20
US Dollar	**1.65**	1.56	**1.56**	1.65

The movement in average exchange rates between 2013 and 2014 resulted in our reported 2014 segmental revenue and segmental operating profit each being 6% lower as the average Euro and US Dollar rates against Sterling were 5% and 6% weaker, respectively. If the exchange rates as at 16 February 2015 of US$1.54 and €1.35 were projected and applied to our 2014 results, it is estimated that segmental revenue and segmental operating profit would have been 3% lower and 1% lower respectively. In addition, we estimate that the recent strengthening of the Swiss Franc against the Euro if sustained would result in a further transactional foreign exchange headwind on operating profits in 2015 of around £6m, meaning that the total impact on operating profits is currently estimated to be around 3%.

15. Financial information

The preliminary statement of results was approved by the Board on 26 February 2014. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013 but is derived from the 2014 accounts, which are prepared on the same basis as the 2013 accounts. Statutory accounts for 2013 have been delivered to the registrar of companies and those for 2014 will be delivered in due course. Ernst & Young LLP has reported on both the 2013 and 2014 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 revenues, operating profit, operating margins and profit before tax, unless otherwise stated, relate to reported numbers after adjustment for exceptional items. Segmental revenues and operating profit are 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 revenues and 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.

The Company's 2014 Annual Report and Notice of the forthcoming Annual General Meeting will be posted to shareholders on 24 March 2015.