



IMI plc Annual Report
engineering advantage

2009



who we are and what five strong businesses than 14,600 employees knowledge-based solut IMI delivers value around



control critical
processes ...

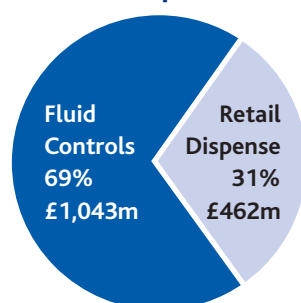


create competitive
advantage in motion
and fluid control ...

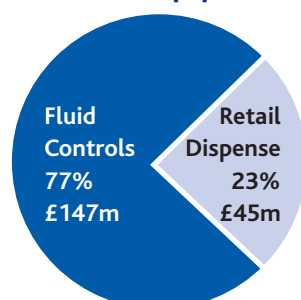
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analysis of revenue and operating profit

% of Group revenue



% of Group profit*



The Group serves all the major geographical markets where our customers are present. In 2006 these are summarised in the chart provided here.

% of revenue

	Fluid Controls	Retail Dispense	IMI Group
UK	9	16	11
Rest of Europe	49	12	38
US	21	62	33
Other	21	10	18

* Operating profit before restructuring costs and intangible amortisation

we do

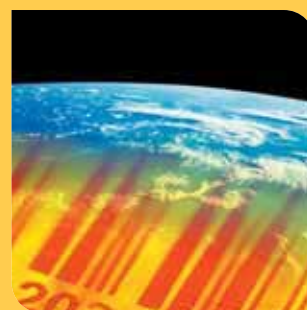
with a £1.5 billion turnover and more
worldwide, providing innovative
solutions for market leading customers
the world by helping to . . .



perfect
indoor climate ...



pioneer beverage
dispense solutions ...



and drive impulse
purchase.

2006 results in brief

Revenue

£1,505m

2005 £1,341m

Profit before tax*

£194.9m

2005 £160.9m

Operating cash flow

£147m

2005 £167m

Operating profit before tax**

£155.1m

2005 £153.9m

Profit before tax

£158.2m

2005 £151.1m

Borrowings

£80.4m

2005 £10.6m

Adjusted earnings per share

38.3p

2005 30.6p

Basic earnings per share (after charge
for discontinued operations)

21.4p

2005 3.9p

Net interest expense

£7.5m

2005 £8.2m

* before restructuring costs and intangible amortisation ** after restructuring costs and intangible amortisation

our goals and how we are

Our goal is to deliver sustainable organic growth equivalent to twice GDP growth and over time to reach operating margins of 15%.

We continue our vigorous pursuit of the same clear strategy that has moved our business forward significantly in recent years. We are focused on growth with industry or sector leading customers in niche markets which are themselves growing. Adding value to such customers and improving their performance is the route to sustainable profits growth for our shareholders.

We operate in markets where we already hold or can achieve a market leadership position and where we can clearly differentiate from our competitors with end-user insight and the application of innovative technology. Key account management and project management are important disciplines for the effective delivery of bespoke solutions to our leading customers.

the 4 key strategic growth drivers

Accelerating our key account focus

Highly talented, customer-focused, entrepreneurial-minded teams of people in IMI add long-term value for both customers and ourselves. Developing these skills, understanding the drivers of our customers' businesses, and our own, and carefully targeting our customer partners, are critical components of our business model. Recognising where value can be added for both parties is a fundamental part of our approach.

Highly skilled key account managers in different IMI businesses, like Dominique Vernier (TA Director, Southern Europe) and Michael Corbis (Cornelius Retail Sales Director, Europe), share best practice in managing key accounts effectively.



Increasing our creative abilities

We invest in techniques that improve market and customer insight. We then use our acquired knowledge to apply our engineering capabilities and to improve our customer offerings.

Our dedicated innovation unit, IMI Vision, provides a powerful resource to develop new concepts with our five businesses. Able to draw on partners in other industries and academic institutions, IMI Vision helps to bring appropriate, new, value-adding technologies to our customers.

Chris Patient, Norgren's Technical Director in Europe, ensures that product development is firmly focused on adding value to both our customers and IMI.



achieving them

We also provide aftermarket support in the form of service and spares to our customers' installed product base.

Our five business platforms share this common philosophy. While each business platform is predominantly an autonomous business, they operate in two main areas. The Severe Service, Fluid Power and Indoor Climate business platforms serve Fluid Controls markets, where our customers are plant operators and original equipment manufacturers.

The Beverage Dispense and Merchandising Systems businesses operate in Retail Dispense markets, where our customers are brand owners and retailers.

IMI plc is the ultimate holding company of the Group and has been listed on the London Stock Exchange since 1966.

At 31 December 2006 it had a market value of £1.7bn and shareholders' funds of £412.7m. The company's headquarters is at Lakeside, Birmingham Business Park, England. IMI Group trading activities are conducted through subsidiary companies.

Our strategic growth imperatives are understood by all the senior management in IMI and embedded throughout our businesses.

Seizing the initiative in rapidly growing economies

We are expanding our local resources and continue to invest in the fast-growing markets of Eastern Europe, the Middle East and Asia, particularly China.

Sales, manufacturing and procurement opportunities in these territories are all important to us.

We support our customers as they enter new markets and ensure that we have the right people 'on the ground' with local knowledge wherever possible.

A high-profile advisory board supports our commitment to current and future activities in China.

Procurement professionals like Krisztina Strath, with multiple language skills and extensive global supply chain experience, ensure that cost-saving opportunities in emerging markets are fully considered and captured.



Balance sheet management

Strategic acquisitions that align with and support our existing businesses help us to develop new markets further. We are interested only in acquisitions that align with our growth and margin targets and which meet key criteria including technology, talent, market sector or key account relationships and the ability to create significant differentiation in the market place.

In addition to our acquisition programme, we will continue to invest in our existing businesses where we see potential to promote organic growth and use the share buy back programme to help manage our balance sheet efficiently.

Sukhjit Purewal, Director of Business Development, CCI, leads efforts to find, secure and assimilate acquisitions that will contribute to the growth ambitions of our Severe Service business.



'we have moved closer to our long term margin objectives'

In 2006 the Group continued to make good progress with strong advances over last year in revenue, operating profit, operating margins and earnings per share.

The Fluid Controls businesses performed particularly strongly with an 8% organic growth in revenue. The Retail Dispense businesses were affected by lower investment levels within the beverage and retail markets which resulted in an organic decline in revenue of 3%. The fundamentals in these businesses however remain strong and we remain confident in the outlook longer term. Overall, we delivered an organic sales growth of just over 4%.

Operating profit, before restructuring costs and intangible amortisation, increased by 17%. We have moved closer to our long term margin objectives and saw our operating return on sales advance from 12.2% to 12.7%. The three year restructuring programme that we announced last year is on track and nearly £20m was invested to move more of our manufacturing facilities to our already established lower cost centres in Mexico, The Czech Republic and China.

The acquisition for £113m of the Truflo businesses was completed in April 2006 and has made a strong contribution of £11.2m operating profit to our Fluid Controls businesses.

£35m was invested in our share buy back programme during the year. This will continue to be used alongside the restructuring and acquisition programmes to manage the balance sheet and our intention remains to build net debt levels to between £400m and £500m over the next few years.

The Board is recommending that the final dividend be increased by 8% to 11.7p. This makes the total dividend for the year 18.7p, an increase of 7% over last year's 17.5p.

Results summary

Revenue increased 12% to £1,505m (2005: £1,341m) including acquisitions which contributed £120m or 9%.

Operating profit before restructuring costs and intangible amortisation was £191.8m (2005: £163.7m), an increase of 17%. Acquisitions contributed £18m at this level. Operating profit after restructuring costs and intangible amortisation was £155.1m (2005: £153.9m).

Interest costs on net borrowings were £7.5m (2005: £8.2m). Including the impact of pension fund financing (IAS19) and financial instruments and derivatives (IAS39), the total net financial income was £3.1m (2005: expense of £2.8m).

Profit before tax was £158.2m (2005: £151.1m), an increase of 5%. The effective tax rate for the year was 31%, compared to 32% in 2005.

Adjusted earnings per share on continuing businesses (excluding the change in fair value of financial instruments, restructuring costs and intangible amortisation) was 38.3p (2005: 30.6p), an increase of 25%. The basic earnings per share, after the charge in respect of discontinued operations, was 21.4p (2005: 3.9p).

Exchange rates

If average exchange rates had remained at 2005 levels our reported 2006 revenue and profit growth would each have been 1% higher. The US dollar weakened significantly late in the year. If current exchange rates of US\$1.96 and €1.49 had been applied to our 2006 results it is estimated that revenue would have been £49m lower and operating profit £7m lower.

Discontinued operations

The copper plumbing fittings business of IMI was sold in 2002 but we retained some responsibility for previous anti-competitive activity involving several other European manufacturers. In September 2006, following a lengthy investigation into the European fittings industry, the European Commission imposed a fine of €48.3m on the Company. The Company has lodged an appeal against the fine. This fine, together with certain legal expenses, is shown as a loss, after tax, of £33.5m from discontinued operations.

Cash flow

Operating cash flow was £147m, 86% of operating profit before intangible amortisation. Corporate activity, comprising acquisitions, share issues, share buy backs and the redemption of a vendor loan note accounted for an outflow of £118m. After interest, tax, the additional pension scheme contribution and paying dividends of £61m, the net cash outflow was £98m.

Balance sheet

The pension fund deficit under IAS19 at 31 December 2006 was £121m, £52m lower than the prior year, primarily due to an increase in the value of the UK pension fund assets and additional contributions made in the year of £16m. Closing net debt was £80m.



IMI people

All our people have contributed to the development of our Group and I remain impressed by their commitment and energy. On 1 July 2006 Trevor Slack stepped down from the Board and he retired from the Company later that month after 31 years of service, nine as Finance Director. In January 2007 Wayne Whitney retired from the Board after 19 years service and three as an executive director. They both have the Board's gratitude for their contribution and our best wishes in their retirement.

Douglas Hurt was appointed as Finance Director in July 2006. Roy Twite, previously President of the Indoor Climate business, was appointed to the Board on 1 February 2007 and is responsible for the Retail Dispense businesses.

Investment in developing our talent is the single most critical driver of our success. Our graduate recruitment programme, for example, yields very well qualified individuals from many countries capable of taking on substantial management roles at a young age and of being our leaders of tomorrow. Career progression is encouraged at all levels, with appropriate training and support, and our innovative business leadership programme, Aspire, launched in 2004, is beginning to deliver talented individuals to important, value-driving roles. On-line 'communities' facilitate the sharing of knowledge and expertise around the Group, around the world and we continue to invest in these and many other schemes that raise our individual, team and business capabilities.

Outlook

The underlying momentum in our business remains healthy. End markets are generally supportive, and the level of activity within our business around new product and customer development is encouraging.

The order book at the year end was around 8% higher than the prior year, reflecting both increased momentum and a lengthening delivery profile. Despite some short term issues relating to the US truck sector and the beverage dispense market, we are confident of delivering another year of good progress in 2007.

Norman B M Askew Chairman

5 March 2007

'building on strong market accelerated investment'

2006 was another encouraging year for our business, with results buoyed by a strong performance in our Fluid Controls businesses and an impressive contribution from our recent acquisitions. Another year of strong cash performance highlights the cash-generative qualities of our businesses, leaving year end net debt at £80m. We made good progress against our well defined operational strategies in each of our businesses, building on strong market positions through accelerated investment in new products and key account management. New product introductions included the launch of new control valve and strainer products within Severe Service for the rapidly growing liquefied natural gas and nuclear markets; a new technology product within Indoor Climate for protecting against legionella in water-borne cooling systems; and in-store merchandising for the launch of Microsoft's highly successful Zune digital music and video player. Creative and bespoke product solutions that deliver engineering advantage for global blue chip customers in well defined niche markets remains the common theme within IMI, and is our chosen pathway to sustainable long term growth and margin improvement.

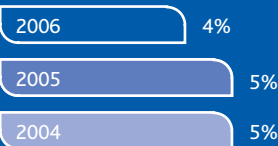
Our Fluid Controls businesses (69% of revenue, 77% of profits) are clearly faring better than our Retail Dispense businesses (31% of revenue, 23% of profits) at present, benefiting from strong end markets and a significant exposure to the faster growing emerging markets of Asia and Eastern Europe. The medium term prospects for our Fluid Controls businesses continue to look positive and, notwithstanding the short term impact of the much anticipated fall in US truck volumes this year, we expect further top line growth and margin improvement. Our Retail Dispense businesses had a more challenging year, with consumer-led sectors generally less favourable, and market-specific issues resulting in a postponement of capital expenditure and a downward pressure on margins. Nonetheless, the long term drivers for these businesses remain encouraging, and the scope for volume and margin recovery, through product innovation in particular, remains considerable. We accelerated our programme of upgrading management, through both external recruitment and increased investment in the development of our existing team. This programme is progressing well. We are encouraged by the calibre of our new recruits, and confident that we are assembling the right

our key performance indicators

Business performance is evaluated regularly by the Board of IMI plc using a variety of tools. Five of the most important measures are indicated here.

Organic revenue growth

Organic revenue growth excludes the impact of acquisitions and foreign exchange rate movements. The revenues from acquisitions are only included in the current year for the period during which the revenues were also included in the prior period. In 2006 the Group's organic revenue growth was 4.2%, just below our long term target of around 5%.



Operating margins

Operating margins are defined as the ratio of operating profit before restructuring costs and intangible amortisation as a percentage of revenues. In 2006 these margins increased from 12.2% to 12.7%. Our target is to raise these margins over time to 15%.



positions through

skills and experience to fully capitalise on future business opportunities. The recent strengthening of the Board, with the appointment of Roy Twite as Executive Director for the Retail Dispense businesses, is another very positive development in this regard.

Our balance sheet is in excellent shape and we are well placed to fund further acquisitions. We were particularly pleased with the performance of the Truflo acquisition which we concluded in April. A number of other acquisitions were considered in the year but did not proceed for a variety of reasons. Our investments in restructuring to accelerate further the transition of manufacturing to lower cost economies continued to plan in the year, and we have additional investments of around £20m programmed for each of the next two years. We are already starting to see the benefits of the actions we took during 2006 and with a continued focus on margin improvement we look forward to achieving further progress.



Martin J Lamb Chief Executive

5 March 2007



Economic value added

Economic value added is defined as the net operating profit after tax on continuing operations before restructuring costs less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital to the average invested capital (net assets plus net debt, but net debt excludes the IAS19 pension deficit).



Lost time accident rates

The Group takes seriously its responsibility for the safety of all our employees. Our lost time accident rate improved marginally in 2006 to 0.50 accidents per 100,000 hours worked from 0.53 in 2005. The 3 year rate to 2006, of 0.49, also compares favourably to the 3 year rate to 2003 which stood at 0.76. We are not complacent and continue to reinforce the responsibility of all our employees to contribute to our safe working practices.



CO₂ emissions per £ billion of revenue

Our CO₂ emissions in 2006 from all forms of energy usage in our operations amounted to 110,000 tonnes compared to 104,000 tonnes in 2005. However, as a ratio of emissions per £ billion of revenue, our performance improved by 5% with a reduction in the year to 73,000 CO₂ tonnes/£bn of revenue. All of our major factories have local energy saving targets and initiatives to deliver these improvements.



controlling critical processes

We are experts in engineered valve solutions that enhance performance and reliability in critical plant applications. Our high integrity valve systems control the handling of potentially dangerous gases and liquids in extreme physical environments. Managing flow rates and pressures protects valuable machinery such as turbines and compressors and enables them to operate with maximum efficiency. Understanding our customers' processes and challenges enables us to provide outstanding custom-engineered control valves for power generation, oil & gas production, petrochemical, pulp and paper and other process facilities. Together with our dedicated customer service network, which delivers support for the life of the plant, we reduce risk and improve efficiency, reduce maintenance and operating costs, and help minimise downtime, enabling our clients to optimise their operating and financial performance.

The activities of CCI, Truflo Rona, and Orton, our main businesses in Severe Service, are split nearly equally between the Americas, Europe/Africa/Middle East and Asia. Power generation, fuel, and energy process industries are growing fast across the globe to satisfy the world's increasing need for energy. Our expertise is integral to this growth and we expect our Severe Service valve solutions to enjoy strong demand for the foreseeable future.

Performance and prospects

Severe Service revenues grew 41% to £300m. Of this growth, acquisitions contributed £67m and organic growth was 11%.

The growth in new construction project orders remains healthy at around 25%, led by the strength of the oil and gas sector.


We have experienced good growth in power markets and renewed interest in the nuclear sector, which is an area of particular expertise for our Severe Service business. Our order book momentum continues to outpace our shipment growth with a consequent lengthening of the order book.

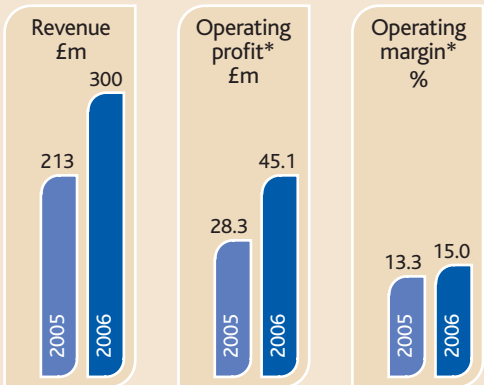
The US and Middle East markets were particularly positive and we continued to see good progress in the Far East. Truflo was acquired in April 2006. Those Truflo businesses integrated into Severe Service are benefiting from their exposure to the liquefied natural gas market which is demonstrating substantial momentum.

The operating profit margin rose from 13.3% to 15.0%.

We continue to invest in both capacity expansion and sales and engineering resource to support the strong growth potential in this business.

Factfile Severe Service

Key businesses	CCI, Truflo Rona, Orton.
Strategic focus	Controlling critical in-plant processes by providing superior custom-engineered severe service or critical service valve, actuation and silencer solutions.
Main markets	Power generation; oil & gas production; combined heat & power (CHP); liquefied natural gas (LNG); petrochemical and gas processing.
Major operational locations	USA, Switzerland, Sweden, Austria, Italy, China, Japan and South Korea.
Employees	2,200 



*before restructuring costs and intangible amortisation

customer

"Experience, advanced planning and design, and on time, on budget delivery were critical to the success of the project."

Rick Oughtred
Director of Procurement
Atomic Energy Canada Limited (AECL)

engineering advantage

Construction of the Cernovoda 2 power plant in Romania by prime contractor AECL required IMI's Newman Hattersley severe service valves and other critical components to be designed and delivered to exacting time and budgetary constraints.

key account manager

"Our experience enabled us to support AECL with reduced lead times and cost-effective valve solutions that delivered the specified design performance."

Lorraine Wiseman
Director
Newman Hattersley



creating competitive advantage in motion and fluid control

Our motion and fluid controls business, Norgren, provides sophisticated solutions to control air and other fluids in precision engineered applications. These range from the ultra-fine control of medical dosing valves to the arduous environment of on-board truck suspension systems.

Our considerable technical expertise and experience contribute to our customers' success across a range of industries. Our targeted market sectors include commercial vehicles, medical, printing and packaging, and these show particularly strong growth potential for our business model.

Intimate relationships with our customers and their markets give us a sound understanding of their businesses, their needs and values, processes, and commercial and regulatory environments. This knowledge enables us to develop design-led, innovative and reliable solutions that help our 'OEM' customers to grow their revenues and reduce the lifetime costs of ownership for the end user.

At the same time, Norgren Express, launched in 2005, provides rapid delivery of standard products from stock to improve the servicing of our valued smaller customers and enables us to improve our own stock and logistics efficiency.

With operations worldwide, Norgren can manage the most demanding of international projects, and support the continuing growth of its customers wherever they seek competitive advantage.

Performance and prospects

Fluid Power revenues were £557m representing an increase of 13%. Excluding acquisitions and currency movements, underlying revenue growth for Fluid Power was 6%.


Our sector businesses, which account for nearly 30% of Fluid Power revenues, performed well with solid progress in commercial vehicles and strong results in print and medical, the latter being helped by our expansion in China.

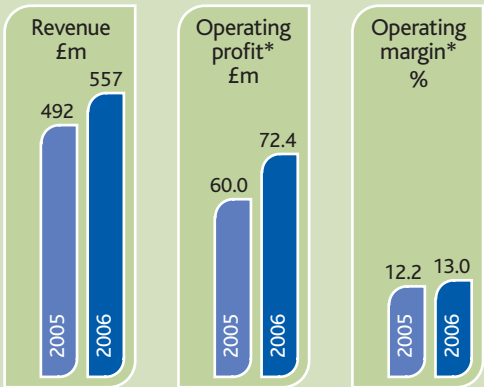
Recent acquisitions, including GT Developments and the relevant parts of the Truflo business, provided 2006 revenues of £38m.

The industrial pneumatics business made steady progress with strong growth in Asia Pacific, firmer markets in Europe, and stable markets in the USA.

Operating margins continued to make steady progress and increased from 12.2% to 13.0%. The restructuring programme to transfer manufacturing capacity to lower cost operating environments is progressing well, with the project to relocate capacity from the US to Mexico on track. Further programmes to transfer UK and German capacity have been announced in early 2007.

Factfile Fluid Power

Key businesses	Norgren.
Strategic focus	Engineering advantage in motion and fluid control solutions.
Main markets	Industrial pneumatic application; on-board commercial vehicles; medical packaging; printing; in-plant automotive; semi-conductor; rail transportation.
Major operational locations	USA, UK, Germany, Switzerland, Mexico and The Czech Republic.
Employees	6,400 



*before restructuring costs and intangible amortisation



customer

"Norgren helps us to provide the world's most efficient and effective milking systems – by sharing our passion for performance, service and innovation in a highly competitive industry"

Patrick Lacavalier President
DeLaval Local Sales Organisation USA

engineering advantage

'From cow to consumer'
DeLaval's commitment to progress in milk production demands increasingly sophisticated and customised fluid power systems, capable of raising efficiency and operating reliably in often arduous conditions.

key account manager

"Our technical expertise and understanding help us to bring efficiency and operational benefits to DeLaval's equipment, enabling them to add significant value to their customers' businesses."

Jonathan Steigerwald Key Account Manager
Norgren USA

perfecting indoor climate

Problem-free, energy efficient and cost effective heating, ventilation and air conditioning (HVAC) systems for buildings and indoor environments remain a challenge for building designers, operators, architects and engineers. For fluid-based HVAC systems our Indoor Climate business addresses this challenge and the issues associated with it.

Our products and services focus on the twin objectives of personal comfort and energy efficiency. In these markets, strong balancing system design knowledge, experience, commissioning and project management skills are essential if hospitals, airports, offices, retailers, hotel chains and restaurants for example, are to enjoy indoor environments that optimise the comfort of their employees and clients, while also being energy efficient.

Rising energy costs increase the need for successful energy management in buildings. For both new and refurbished buildings we analyse the relationship between heating, ventilation, air conditioning, lighting and power systems to deliver the most efficient energy performance.

As a major indoor climate specialist, we provide products (principally balancing systems and thermostatic radiator valves) and services that satisfy increasingly demanding legislative requirements around the world. Helping our clients to meet local and international regulatory obligations, reduce energy consumption and deliver personal comfort is what we do – and do well.

Investment in our strong TA and Heimeier brands, new products and customer training, positions us to benefit positively from global energy concerns and the fast growing Eastern European, Asian and Middle Eastern economies.

Performance and prospects


Indoor Climate revenues were £186m, with organic growth of 8% in the year.

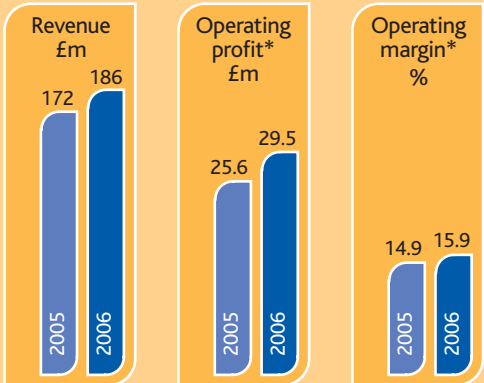
The balancing valves business, which focuses on larger commercial properties, showed good growth in mainland Europe, and made excellent progress in the Middle East, Asia and the US on the back of significant investments in sales and engineering resource over the last two years.

Our thermostatic radiator valve business, where the valves are primarily installed in residential properties, benefited from a stronger Continental European market, particularly Germany, although there was some pull forward into 2006 due to VAT changes introduced in January 2007. Growth in Eastern Europe was very strong, including Russia, where we have recently commenced local assembly.

Metal price increases were significant in the year but were recovered through selling prices.

Factfile Indoor Climate

Key businesses	TA, Heimeier, FDI.
Strategic focus	Perfecting indoor climate through the provision of critical energy-efficient heating, ventilation and air-conditioning (HVAC) products and services.
Main markets	Heating and cooling balancing systems for commercial buildings and temperature control for residential buildings.
Major operational locations	Sweden, Germany and USA.
Employees	1,600 



*before restructuring costs and intangible amortisation

A man in a dark suit, white shirt, and red tie stands in the foreground, looking towards the camera. Behind him is a tall, modern glass skyscraper with a curved facade. The sky is blue with some light clouds. The overall image has a yellow border on the left and bottom.

customer

"The IMI Indoor Climate team understood how to deliver our requirements by working closely with all the contractors on the project to deliver what we needed on time and on budget."

Mr Qu Mingguang Chairman
Beijing Finance Street Investment Co.

engineering advantage

Energy efficient indoor climate management for The Arches - a landmark office development in Beijing's fast growing financial district.

key account manager

"Our experience enabled us to analyse the complex indoor climate requirements of this prestigious building, and then design and install more than 200 TA balancing valves within a tight timescale to meet all the project's requirements."

Sam Feng Key Account Manager TA

pioneering beverage dispense solutions

Our Cornelius business supplies products and systems that combine beverage merchandising and dispensing in a total package that delivers tangible customer benefit. We drive growth for our customers, the world's leading beverage brand owners and major retailers, by helping them to increase beverage incidence – the number of times that a consumer chooses a drink.

Both cutting edge technology and market awareness contribute to our business proposition, which encompasses everything from system development and equipment specification to operational management and technical field support.

Our deep relationships with customers across the world are based on strong local presence in all our geographic markets. Operations in the Ukraine, China and Mexico are fully integrated with facilities in North America, Europe and the UK to service local, regional and global customers.

Our successful US-based on-line parts service was rebranded as 3Wire in 2006. This bold move reflects strong growth for this service over the past two years (both organic and by acquisition), its further growth potential and its success in setting industry standards for after sales support, optimising inventory control and reducing operating costs for our customers.

New products improve our customers' competitive positions and meet the changing demands of their consumers.

Cornelius beverage dispensing solutions, point of sale displays and outstanding service support, help to attract consumers in growing sectors such as non-carbonated soft drinks and coffee,

as well as our traditionally strong carbonated drinks and beer sectors. Providing our beverage and retail customers with the means to expand into such new markets, presents significant opportunities for our business.

Performance and prospects

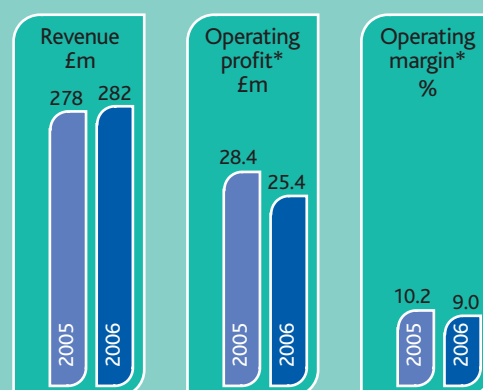
The 3% decline in organic revenues for the year reflects some of the short term challenges facing Beverage Dispense, with Quick Service Restaurants (QSR) continuing to give priority to their hot side investments and with margin pressure on some of our older equipment lines. We are confident that both these pressures will abate in time. Investment levels in the QSR sector are expected to return to normal levels later in the year and significant cost reduction programmes are now underway, most notably the further relocation of manufacturing capacity to China and Mexico. These will help to reverse downward margin trends, albeit volumes and margins for at least the first half of 2007 are unlikely to show much improvement on 2006.

Our aftermarket business continued to perform strongly and the Northern Parts business acquired in November 2005 made a solid contribution. We see opportunities to expand this business further and continue to invest in sales and systems infrastructure accordingly.

The longer term prospects for Beverage Dispense continue to look promising, with many customers now enjoying some volume growth as they navigate their way through the swing in consumer preferences to healthier drinks.

Factfile Beverage Dispense

Key businesses	Cornelius, 3Wire.
Strategic focus	Supplying innovative beverage cooling and dispense solutions to brand owners and retailers around the world.
Main markets	Soft drinks and alcoholic beverage cooling, dispense and point of sale equipment for bars, restaurants and retail outlets.
Major operational locations	USA, UK, Germany, Mexico and China.
Employees	2,700 



*before restructuring costs and intangible amortisation

customer

"The Cornelius Ultraflow system and soft drinks fountains helped us to deliver our vision of a 21st century sports arena."

John Beattie
Stadium Manager
Arsenal Football Club Limited

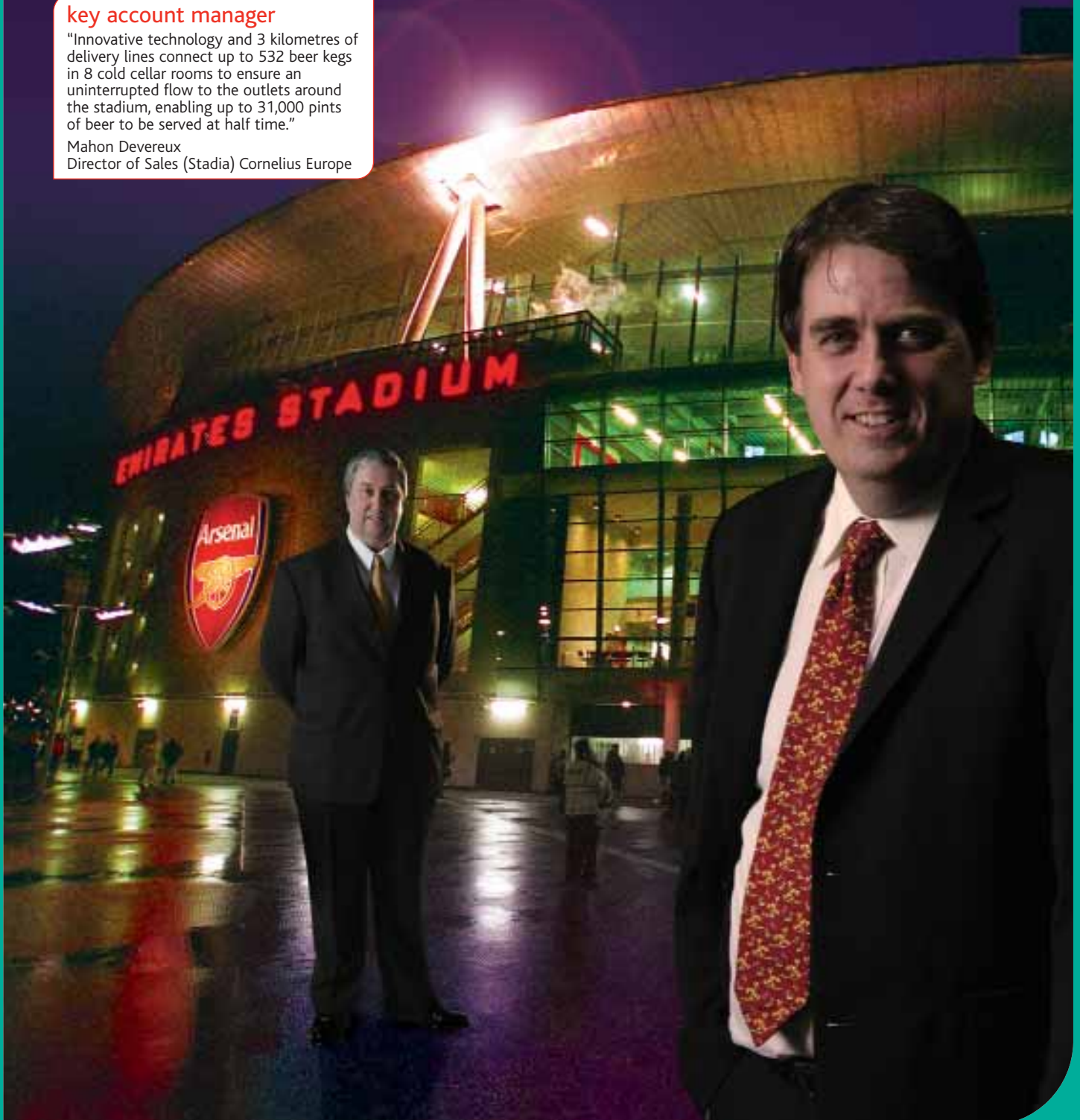
engineering advantage

In depth knowledge of the stadia sector resulted in the development of a unique fast dispense solution for beer and soft drinks, capable of serving 35 public concessions, 16 corporate bars and 8 restaurants, with a minimum of waste.

key account manager

"Innovative technology and 3 kilometres of delivery lines connect up to 532 beer kegs in 8 cold cellar rooms to ensure an uninterrupted flow to the outlets around the stadium, enabling up to 31,000 pints of beer to be served at half time."

Mahon Devereux
Director of Sales (Stadia) Cornelius Europe



driving impulse purchase

Permanent point of sale solutions, capable of influencing consumer purchase decisions, demand a rare combination of engineering expertise and marketing skills. Our sophisticated bespoke solutions, based on knowledge and in-depth research, drive tangible sales and profits benefits for our brand owner and retailer customers.

Impulse purchase plays a particularly strong role in consumer decision making in cosmetics and consumer electronics sectors. Our Artform and DCI businesses provide a deep understanding of these sectors that consumer brand leaders can rely on. In bulk dispense and grocery stock management systems Display Technologies and Cannon Equipment bring their customers inventory control, theft reduction and labour benefits as well as sales uplift.

Cannon is developing new products and services for major retailers in increasingly sophisticated retail markets.

Retailers are increasingly dependent on such point of sale expertise to deliver volume and profit improvements.

We provide retail insight as well as the design, engineering and logistics expertise to handle major customer product programmes to demanding timescales.

In a generally fragmented industry, our Merchandising Systems businesses based in the US and the UK, demonstrate the advantages that a well co-ordinated team can bring.

The benefits are particularly valuable to major global customers and our proposition is increasingly attractive to the world's leading brands and retailers.

Performance and prospects

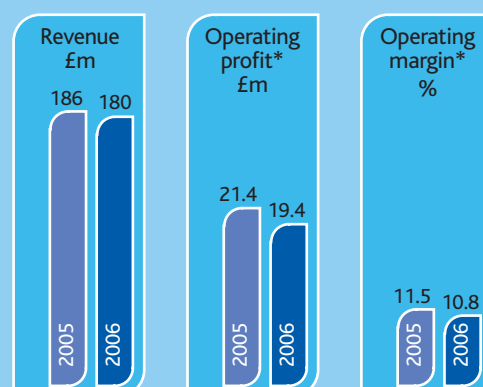
Although organic revenues were marginally down in the year, momentum in the majority of our sectors is positive, with the consumer products segment, which includes merchandising equipment for electronic games, mobile phones and MP3 players, particularly buoyant.

Sales to the grocery sector were also strong but automotive, dairy and newspaper equipment sales declined in difficult markets with older product lines coming under pricing pressure. The acceleration of our low cost sourcing programme from China and India should start to generate margin improvement as the year progresses.

Prospects for 2007 are encouraging, particularly the second half for which we have recently secured orders for a number of important projects in the cosmetics and consumer electronics sectors.

Factfile Merchandising Systems

Key businesses	Cannon, DCI Marketing, Artform, Display Technologies.
Strategic focus	Providing permanent point of sale solutions and technologies that enhance retailer and brand owner profitability by driving impulse purchase.
Main markets	Global brand owners and retail sales outlets.
Major operational locations	USA and UK.
Employees	1,400 



*before restructuring costs and intangible amortisation

customer

"DCI delivers. From design to implementation, we know that we can count on them to be nimble and understand our business needs."

Parisa Zander Group Manager
Worldwide Visual Merchandising,
Microsoft

engineering advantage

Microsoft's launch of its digital music and video player, Zune, required DCI Marketing to engineer electrically-powered point of purchase systems that would help sell the product by demonstrating its audio, video and file sharing features.

key account manager

"With a proven track record on Microsoft's Xbox and Xbox 360 launches, we designed and deployed 17,000 in-store Zune displays for 21 different retailers, each with its own unique requirements for size and location."

Janet Budecki Key Account Manager
DCI Marketing



seizing the initiative in emer

Building on our progress in previous years, in 2006, in line with our overall strategy to focus on sectors and economies that are themselves growing, we extended our involvement in the world's fastest developing nations. Countries like China, many of the states of Eastern Europe and the Middle East provide opportunities for sales to new customers. Equally significant is our work in these markets with existing customers who value our expertise to help them achieve advantage in markets where they also see opportunity. At the same time, supply chain developments in these 'new economies' help us to bring

competitive advantage to our customers around the world. In 2006 we announced a three year programme to spend £20m each year from 2006 to 2008 to restructure our operations to increase the proportion of our manufacturing in lower cost economies from 25% to 40%. At the completion of this programme the operating margin is expected to benefit by between 150 and 200 basis points. The great majority of the capacity being transferred is to existing facilities in Mexico, The Czech Republic and China. This programme is on track and will start to deliver margin benefits in 2007.

China

China's high level of investment in process industries has driven demand for the highly customised severe service valves produced by our CCI business. These products, very highly regarded across the world for their ability to protect the critical components of a plant and maintain optimum operating conditions, have led IMI sales activity in China. Our Merchandising Systems business currently has the least presence or activity in China, but supported Motorola, one of our most valued global clients, with dramatic new merchandising systems for new stores in Shanghai and Beijing.

Our Indoor Climate business has now trained more than 7,000 heating and ventilation system engineers in seminars across the country.

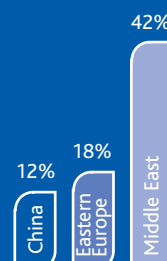
Our main production facility at Tianjin builds components for our Beverage Dispense business. Sales offices exist across the country. Regional offices are centred on Shanghai (below).



growing markets



Annual revenue growth



Eastern Europe



Norgren's plant at Brno in The Czech Republic (above), opened in 2002 and is our largest single production facility in Eastern Europe, employing 300 people. A smaller sister plant in the same city, employing 75 people, supports CCI operations across Europe.

Our newest facility in Eastern Europe, the Cornelius plant in the Ukraine, began production in 2006. This plant will focus on supplying Russia and the states of the former Soviet Union with advanced beverage dispense solutions that guarantee the brand promise and quality of dispense for both local and international brands.

Across Eastern Europe demand for Indoor Climate products and services, particularly where driven by government legislation requiring energy conservation and the fitting of energy-saving devices, is growing strongly.

Middle East

In the growth economies of the Gulf states, demand for precise, reliable indoor temperature control in hotels, offices and other major public buildings, provides opportunities for our TA business. In particular, many of Dubai's spectacular new buildings (below) are able to control the indoor environment effectively because they are fitted with TA balancing systems. The process industries of the region including water desalination, power generation and the production and transport of hydrocarbons all benefit from the control provided by the products and services of our Severe Service businesses. In the growing aluminium smelting industry 'crust breaker' systems use Norgren technology designed precisely to operate in such extreme conditions.



The results for the year 2006 were encouraging, with an impressive contribution from our recent acquisitions adding to a good organic growth from continuing operations. In Fluid Controls, Severe Service continued to benefit from the buoyant oil and gas sector; Fluid Power saw good performances in its chosen sectors, which now account for about 30% of the business, with commercial vehicles, medical and print sectors being particularly strong; and Indoor Climate saw substantial growth across its business. In Retail Dispense, the Beverage Dispense business stabilised in the second half after a first half decline; in Merchandising Systems the beverage and consumer electronics sectors continued to show good momentum, but these gains were offset by declines in the US automotive merchandising sector and in the materials handling sector. The Group continued to make progress towards its long term margin target of 15%, with the operating profit on continuing operations before restructuring costs and intangible amortisation increasing to 12.7% from 12.2% of revenue.

Organic revenue growth was around 4% in the first half, 5% in the second half and was 4.2% for the year, just below our long term target of 5%. Total revenue for the year from continuing operations increased to £1,505m (2005: £1,341m), up 12% or £164m, of which £120m (9%) came from acquisitions and £56m (4%) from organic growth, offset by a £12m reduction from the translation impact of exchange rate movements.

Group operating profit before restructuring costs and intangible amortisation at £191.8m (2005: £163.7m) increased by 17%, the net benefit from acquisitions offset by exchange rate movements was about 10%. Fluid Controls contributed £147m (2005: £113.9m) or 77% of these profits and Retail Dispense £44.8m (2005: £49.8m), or 23% of the total. Operating margins were 14.1% (2005: 13.0%) in Fluid Controls and 9.7% (2005: 10.7%) in Retail Dispense.

Interest costs for the year on net borrowings at £7.5m (2005: £8.2m) were covered 28 times by earnings before interest, tax, depreciation and amortisation of £210.8m. The net credit from pension fund financing under IAS19 was £8.3m (2005: £6.0m) and a gain arose on the revaluation of financial instruments and derivatives under IAS39 of £2.3m (2005: loss of £0.6m).

Profit before tax, restructuring costs and intangible amortisation at £194.9m (2005: £160.9m) is 21% ahead of last year.

Restructuring costs rose to £19.7m (2005: £4.2m) in the first full year of a three year programme to raise the level of the Group's manufacturing undertaken in lower cost economies from 25% to about 40%. Intangible amortisation comprises £2.4m (2005: £2.3m) for amortisation of capitalised development costs and £14.6m (2005: £3.3m) for amortisation of other acquired intangible assets. Profit before tax was £158.2m (2005: £151.1m), an increase of 5% over the prior year.

In April 2006 we acquired Truflo, a leading specialist in valve and related flow control products. The contribution made from Truflo, plus the additional months of the acquisitions made in 2005, was £120m of revenue and £17.7m of operating profit before intangible amortisation.

A summary of the major changes in revenue and profit compared with the previous year is as follows:

	Revenue £m	PBTRA* £m	PBT** £m
First half:			
2005	641	69.6	65.5
Effects of currency translation	12	1.5	1.5
Revenue and operating profit:			
Acquisitions	55	7.4	7.4
Other continuing operations	24	2.7	2.7
Net interest cost		1.7	1.7
Other financing items		5.2	5.2
Restructuring costs			(5.5)
Intangible amortisation			(3.2)
2006	732	88.1	75.3
Second half:			
2005	700	91.3	85.6
Effects of currency translation	(24)	(2.9)	(2.9)
Revenue and operating profit:			
Acquisitions	65	10.3	10.3
Other continuing operations	32	9.1	9.1
Net interest cost		(1.0)	(1.0)
Other financing items		-	-
Restructuring costs			(10.0)
Intangible amortisation			(8.2)
2006	773	106.8	82.9
Year	1,505	194.9	158.2

* Profit before tax, restructuring costs and intangible amortisation

** Profit before tax

Half year analysis

The comparison for the first and second halves of the year is as follows:

	Change %	2006 £m	2005 £m
Revenue:			
First half	+14	732	641
Second half	+10	773	700
	+12	1,505	1,341
Operating profit before restructuring and amortisation:			
First half	+16	85.9	74.3
Second half	+18	105.9	89.4
	+17	191.8	163.7
PBTRA*:			
First half	+27	88.1	69.6
Second half	+17	106.8	91.3
	+21	194.9	160.9
Restructuring costs:			
First half		7.7	2.2
Second half		12.0	2.0
		19.7	4.2
Intangible amortisation:			
First half		5.1	1.9
Second half		11.9	3.7
		17.0	5.6
Profit before tax:			
First half	+15	75.3	65.5
Second half	-3	82.9	85.6
	+5	158.2	151.1

* Profit before tax, restructuring costs and intangible amortisation

Taxation

The effective tax rate for the year on profit before tax was 31% (2005: 32%). After taxation of £49.0m, the profit on continuing operations was £109.2m (2005: £102.7m), an increase of 6%.

Loss after tax from discontinued operations

The copper plumbing fittings business of IMI was sold in 2002, but we retained some responsibility for previous anti-competitive activity involving several other European manufacturers. In September 2006, following a lengthy investigation into the European fittings industry, the European Commission imposed a fine of €48.3m on the Company. The Company has lodged an appeal against the fine. The full amount of the fine and associated costs, together amounting to £33.5m, has been provided at 31 December 2006. No tax relief on the fine has been assumed. The fine was paid in January 2007.

In 2005 we disposed of the Polypipe Group, having closed its Doors and Windows operation prior to sale.

Earnings per share

Basic earnings per share (EPS) was 21.4p (2005: 3.9p) and on continuing operations the basic EPS was 31.3p (2005: 28.6p), an increase of 9%. The Board considers that a more meaningful indication of the underlying performance of the Group is provided by adjusting EPS so that earnings are stated before the change in the fair value of financial instruments, restructuring costs and intangible amortisation. Details of the calculation are given on page 68. On this basis, the adjusted EPS from continuing operations increased by 25% from 30.6p to 38.3p.

Cash flow

The Group cash flow statement is shown on page 54.

The change in net debt is summarised below:

	2006 £m	2005 £m
EBITDA*	211	198
Working capital requirements	(27)	21
Capital expenditure	(44)	(47)
Capital sales/other	7	(5)
Operating cash flow (continuing)	147	167
European Commission fine	-	(31)
Additional pension scheme funding	(16)	(16)
Tax paid	(40)	(54)
Interest paid (net)	(8)	(8)
Free cash flow before corporate activity	83	58
Acquisitions and disposals net of cash acquired/disposed	(118)	142
Redemption of Polypipe vendor loan note	36	-
Dividends paid to equity shareholders	(61)	(59)
Dividends paid to minorities/other	(2)	(2)
Purchase of shares (net)	(36)	(62)
Currency translation	28	(12)
Change in net debt	(70)	65
Opening net debt	(10)	(75)
Closing net debt	(80)	(10)

* Earnings before interest, tax, depreciation and amortisation.

The operating cash flow from continuing operations was £147m (2005: £167m). This represents a conversion rate of operating profit to cash of 86%. Capital expenditure in the year was £44m (2005: £47m).

As can be seen in the above table, after the additional contribution to the UK pension fund, referred to later, free cash flow before dividends and corporate activity was £83m (2005: £58m). The conversion of foreign currency borrowings at the year end, particularly the US dollar borrowings, resulted in a decrease of £28m in reported debt. Net debt at the end of the year was £80m. The year end net debt to EBITDA ratio was 0.4 and the ratio of net debt to cash flow before corporate activity was 1.

The Group does not anticipate any problems increasing borrowing facilities to support corporate activity as required. There are no material funds outside the UK where repatriation is restricted. The core of the Group's debt remains in the form of US loan notes (2007 to 2022) totalling \$245m (£125m) with an average maturity of 4.4 years.

Dividend

The Board has recommended a 7.8% increase in the final dividend to 11.7p (2005: 10.85p) giving a total dividend for the year of 18.7p, an increase of 6.9%. The total cost of the final dividend is expected to be £40m, giving a total cost of £63m for the dividends payable in respect of the year ended 31 December 2006. Dividend cover based on adjusted earnings is 2.0 times.

Pensions

The IMI Pension Fund remains the largest employee benefit obligation within the Group. Like many other UK companies, the Fund is very mature having significantly more pensioners and deferred pensioners than active participating members. The most recent actuarial valuation was prepared at 31 March 2005, when the deficit was £51m. The Company has taken steps to eliminate this deficit over four years with additional annual payments of about £16m, which commenced in December 2005. The IAS19 deficit for the Group employee benefit obligations at 31 December 2006 decreased to £121m from £173m, mainly due to the better than expected performance of the pension fund assets and the contributions referred to above.

Treasury policy

IMI's centralised treasury function provides treasury services to Group companies including funding liquidity, foreign exchange and interest rate management. It ensures that the Group operates within Board approved guidelines in order to minimise the major financial risks and provide a stable financial base. The use of financial instruments and derivatives is permitted where the effect is to minimise risk to the Group. Compliance with approved policies is monitored through a control and reporting system. Other than the centralised management of base metal risk, noted on page 32 of the Directors' Report, there have been no changes in the year or since the year end to the major financial risks to the Group or the way in which they are managed.

Exchange rates

The management of currency movements as it impacts operating activities is dealt with by local management in consultation with Group treasury as appropriate. In a complex multi-currency organisation, it is not easy to quantify the commercial/transaction effect of currency movements. The translation impact on the 2006 profit before tax was a loss of £1.4m. The most important foreign currencies for the Group remain the Euro and the US dollar and the relevant exchange rates were:

	Average		At 31 December	
	2006	2005	2006	2005
Euro	1.47	1.46	1.48	1.46
US dollar	1.85	1.82	1.96	1.72

Return on capital employed

Return on capital employed, defined as operating profit before intangible amortisation as a percentage of closing net assets, was 41%. This equates to a post tax return of 28% at the underlying tax rate of 31%.

Economic value added

Economic value added is defined as the net operating profit after tax (NOPAT) on continuing operations before restructuring costs less a capital charge. The capital charge is arrived at by applying the after tax weighted average cost of capital (WACC) to the average invested capital (net assets plus net debt, but net debt excludes the IAS19 pension deficit). For 2006 the net operating profit before restructuring costs was £174.8m and after tax of 31% the NOPAT was £120.6m. The Group's invested capital at the beginning of 2006 was £431.7m, comprising £421.1m of net assets and £10.6m of net debt. The equivalent amounts at the end of 2006 were £497.0m, £416.6m of net assets and £80.4m of net debt. The average invested capital was £464.4m. Applying the 2006 WACC of 7.5% to the invested capital gives a charge of £34.8m. The economic value added in 2006 was £85.8m, representing an increase of 7% over the 2005 economic value added. The economic value added in 2005 was £80.5m and includes the net operating profit after tax of Polypipe prior to its disposal and the opening invested capital relating to that business.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue operations for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Share price and shareholder return

The share price at 29 December, the last trading day of 2006, was 507.0p (2005: 503.0p), an increase of 1% over the year. Based on the year end share price, the total dividend of 18.7p represents a yield of 3.7%.

we take our responsibilities seriously...

We take very seriously our responsibilities to the local and global environment and to all the communities in which we operate. We believe that this attitude (sometimes referred to as Corporate Social Responsibility or CSR) impacts positively on profitability, returns to shareholders, reputation and growth. A rigorous management system of priorities, policies and measures ensures that our social, environmental and economic issues are aligned and integrated with every other aspect of our business stewardship. We call this 'responsible business'.

In 2006 IMI plc was again selected for inclusion in the FTSE4Good index. IMI has also taken part in the 2006 Index of Corporate Environmental Engagement conducted by Business in the Community. The results will be published on our website (www.imiplc.com) later in the year alongside our other environmental performance information.

In March 2006, encouraged by our progress in managing responsible business issues, and to provide further external visibility of IMI's intentions and commitment in this area, we signed up to the United Nations Global Compact (UNGC). The UNGC encompasses ten individual commitments, within four core areas of Human Rights, Labour Standards, Environmental and Anti-Corruption.

Legal compliance

For IMI, legal compliance is fundamental. The key issue in this priority is to identify, monitor, and forecast legislative developments in order to maximise opportunities and minimise risks. We believe that our embedded processes enable us to do this increasingly effectively across the whole range of responsible business issues.

Our TA and Heimeier businesses, for example, are making a significant contribution to realising the goals of recent government initiatives in Poland and The Czech Republic aimed at managing the energy consumption of buildings more effectively. Similar legislation is anticipated in many other countries. In commercial truck markets across the world Norgren assists its customers with technologies that enable

them to meet the introduction of ever tighter emissions regulations.

Legislation will continue to impact responsible business management in all territories, with frequent changes across the majority of policy areas (eg, health & safety, environmental, employment regulations etc). Some, like those mentioned above, bring clear and substantial opportunities for IMI companies, but we continue to monitor regulatory proposals and legislation wherever it may impact our business.

Supporting our customers' priorities

Our businesses actively consider responsible business issues as part of product development and in the discussions that take place with key customers in support of their CSR objectives. Global concerns relating to energy issues and climate change, whether driven by legislation or not, have a positive impact on customer demand for our products and services - many of which are clearly dedicated to energy efficient operation.

Understanding issues affecting customers in the aluminium smelting industry, for example, has enabled our Norgren business to design a 'Smart crust breaker system' that not only delivers energy savings - in the case of one South African customer of up to €1m annually - but also helps to prevent the release of greenhouse gases into the atmosphere.

A solenoid operated fragrance dispense system developed for another Norgren customer replaces a conventional motorised/cam system, potentially saving up to 1 million batteries over a period of ten years, dramatically reducing costs as well as potential environmental impact.

Skillfully designed water management valves help Norgren customers like Envirofresh, Ecoflo and Cystemiser provide their customers with up to 25% savings in water usage, while other projects with Ecoflo, Kohler and Vectair are seeking additional ways to reduce water consumption by isolating domestic water systems when not required, and enabling domestic appliances like showers to operate at reduced water pressures.

Responsible business priorities and objectives

We continue to strengthen our already firm commitment to working in ways that are more sustainable and take account of all stakeholders, including future generations. Processes to deliver our four responsible business priorities and associated objectives are increasingly well embedded across all our operating units. Successful implementation of these priorities, objectives and policies will ensure that IMI maximises its opportunities and minimises its risks related to these issues.

Objectives

Legal compliance

- To improve transparency of IMI's legal compliance mechanisms.
- To anticipate changes in legislation to ensure continued compliance, minimise the cost/risk of implementation (while achieving full compliance) and maximise potential commercial benefits arising from legislative change.

Supporting our customers' priorities

- To take advantage of business opportunities arising from customer priorities.
- To work proactively with customers on responsible business issues that could enhance our relationship with them.
- To ensure that any threats arising from our customers' responsible business issues are identified and minimised.

Supply chain – manufacturing in low cost economies

- To minimise supply chain reputational risks to IMI and our customers.

- To manage business efficiency opportunities and threats within IMI and our suppliers.
- To improve our suppliers' understanding and actions in the area of Responsible Business.

Energy efficiency

- To minimise our energy use relative to our sales.
- To minimise our impact on the environment (principally emissions of CO₂).
- To minimise the cost of energy use to improve profitability.
- To take advantage of business opportunities associated with energy efficiency.

IMI's detailed policies, on the following subjects, can be viewed on the Company's website:

- Responsible Business – Corporate Social Responsibility
- Ethics
- Legal Affairs and Compliance
- Health, Safety & Environment
- Corporate Governance
- Community
- Donations
- Human Rights & Employment
- Communications and Investor Relations
- Whistleblowing
- Supply Chain

For Severe Service valve customers, the scale of the plants they operate is such that achieving even just a few fractions of a percentage improvement in plant efficiency can mean substantial benefits to the customer and the environment. The technologies of CCI as well as Truflo Rona and Orton, customised precisely for each application, deliver performance improvement as well as risk reduction that conventional products cannot match.

Meanwhile, the Ergon range of bottle coolers introduced by Cornelius in 2006, provides customers in the UK pub trade with energy consumption savings of 30% and temperatures 3 degrees cooler than competitors' products while using gases that do not impact the ozone layer, thus helping industry leaders like Mitchells & Butlers, for example, to meet their own CSR targets in these areas.

Supply chain and manufacturing in low cost economies

The manufacturing plants established by IMI in emerging economies have all been developed with full attention to employment, health & safety and environmental risks. Risk control surveys are conducted on a regular basis – typically annually. We now hold business-wide HS&E forums in Mexico as well as the UK and the USA, where they have been a feature for many years.

Our procurement teams use a risk-based methodology to assess and audit suppliers as part of the supplier evaluation process. In addition, IMI's Risk Control Advisor conducts regular supplier visits and training of procurement personnel. The value of this work in spreading our high standards across other businesses was demonstrated recently during a supplier inspection in China where, of 18 areas of concern noted on the previous visit, twelve had already been corrected, with actions in place to address four within a reasonable timescale and just two requiring further action.

Energy efficiency

Global pressures on energy prices have had, and will continue to have, an adverse impact on IMI's energy costs. In 2006, IMI's gas and electricity costs increased by approximately 17.5% to £11.4m from £9.7m in 2005 - including an average unit cost increase of 15%. However, the overall impact of the 2006 cost increases has been mitigated somewhat by our on-going energy efficiency and procurement initiatives. The degree of mitigation is indicated by normalising costs against sales, which shows an increase of 5% (as compared to 17.5%), and the 5% reduction in normalised CO₂ emissions, which is shown on page 7.

Despite some falls in spot energy prices, the long-term rising trends are clear. Numerous projects during the last year have focused on this issue with ideas and best practice shared around IMI's operations worldwide, through such activities as an 'Energy Day' held recently in the UK.

Programmes targeting our internal use of energy in 2006 include those at IMI's central warehouse in Poland (yielding 6% savings) and DCI Marketing's Milwaukee HQ (yielding 10% savings) which involve efficient lighting systems and automatic or master switch controls. Even more effective was a programme at CCI in California which achieved a 40% energy saving by switching from high pressure sodium lighting to fluorescent fixtures in all manufacturing areas.

Meanwhile, TA, in Sweden, has targeted its highest energy consuming operations, particularly in the foundry, and optimised layouts to minimise energy use. CCI has reduced particle emissions from product painting processes by redesigning the paint facility's layout and creating separate drying and mixing rooms.

Community engagement

Good relationships with the local communities in which our facilities operate are important at many levels.

Our long-term relationships with Care for Children (www.careforchildren.cn) in China, an increasingly important country for us, and CIDA foundation (www.cidafoundation.org), a business-focused educational charity in South Africa, continue to develop. IMI personnel have visited orphanages in China and taken part in fundraising activities both in China and elsewhere: a 'Hong bao' gift envelope scheme, sponsored by IMI, raised £8,000 in a two month period around the Chinese New Year. South African students contributed to an IMI training event in the UK and IMI graduate trainees visited CIDA to teach creative problem solving techniques.

We continue our numerous links with many other educational institutions, particularly schools, across the world. In Germany, for example, our Heimeier and Norgren facilities hosted visits by school children aimed at raising their understanding of industry, and in Sweden two-week placements were provided for 16 children aged 14-15 in addition to school visits for younger children. In Milwaukee, USA, DCI is helping to preserve a historic building which will enable schools to meet the provisions of a state law requiring children to have contact with Native American culture.

Display Technologies' employees remain closely aligned with the Queens Child Guidance Centre that focuses on improving the lives of 10,000 underprivileged children in Queens County, New York, where the business is located. In addition to financial contributions from the company, employees play a vital role on the charity's board, on its committees and in its business planning processes, with considerable benefits for all parties involved.

In Romania, Slovakia and Hungary, we provide practical support for university level technical classes and seminars focused on energy management systems in buildings. This support and similar seminars in China and elsewhere help to educate a new generation of energy conscious construction engineers, architects and system designers.

At the corporate level in 2006, partly to better align our community activities with the international profile of the Group and to improve focus on our four responsible business priorities, we have begun to extend our sponsorship commitments beyond the West Midlands region. However, we continue our support of schools and charities local to our Birmingham headquarters.

IMI graduates are encouraged to undertake community placements during their training period, with the UK Imagineering initiative remaining a popular activity, promoting engineering to schoolchildren.

Contributions to health-related causes continue to be important to IMI people. Blood donation drives are held around the world and matching funds are made available for many team fund raising efforts such as the 20-strong IMI HQ team that again participated in 'Race for Life' in aid of breast cancer research. The charity devoted to countering the debilitating skin disease Epidermolysis Bullosa, DebRA, also receives substantial support from IMI and remains, along with CIDA and Care for Children, one of the principal charitable beneficiaries of IMI's corporate responsible business programme.



Across all our businesses, we actively encourage positive contributions to local communities and environments, while still delivering the necessary business performance. For IMI people, responsibility and business performance are directly, intimately, and successfully, connected.

IMI encourages technical skills and teamwork through a number of educational sponsorships around the world, including the 'First' programme, led by Norgren in the USA. In one project in the UK, IMI supports a team at Tudor Grange School, Solihull, (pictured), which has won a national model car engineering championship for each of the past four years.

IMI non-executive directors



Norman B M Askew
Chairman

Age 64; non-executive; joined the IMI Board in 2005.

Norman Askew has extensive international experience in industry including previous positions as Chief Executive of Virginia Power in the USA and BNFL. His current positions include the chairmanship of both Taylor Woodrow plc and the Board of Governors of Manchester University.



Terry M Gateley

Age 53; non-executive; joined the IMI Board in 2003.

Terry Gateley began his career as a chartered accountant and was in private practice until moving into investment business and management in 1999. He is a member of the Industrial Advisory Board of Alchemy Partners LLP and his current directorships include Kestrel Holdings Limited, Everyday Loans Holdings Limited and Presentation Service Providers Limited.



Lance Browne CBE

Age 57; non-executive; joined the IMI Board in 2005.

Lance Browne is the non-executive Chairman of Standard Chartered Bank, China, where he was Chief Executive between 1996 and 2001. He has held a range of senior positions in banking and engineering businesses and has lived in China for over 20 years. An Honorary Citizen of Shanghai, he has also received a CBE for his work in China.



Kevin S Beeston

Age 44; non-executive; joined the IMI Board in 2005.

Kevin Beeston has been the Executive Chairman of Serco Group plc since May 2004. He is a member of the CBI's President's Committee, Chairman of the CBI's Public Services Strategy Board and a director of Ipswich Town Football Club plc.



Anita M Frew

Age 49; non-executive; joined the IMI Board in March 2006.

Anita Frew is the senior non-executive director of Victrex plc and a non-executive director of Aberdeen Asset Management PLC, Northumbrian Water Ltd, and Securities Trust of Scotland plc. She was previously an executive director of Abbott Mead Vickers PLC, Director of Corporate Development at WPP Group Plc and Head of UK Equity Investment at Scottish Provident in Edinburgh.

executive directors



David C Nicholas

(standing left)

Executive Director

Age 57; joined the IMI Board in 2004.

David Nicholas is responsible for Fluid Controls, which comprises Fluid Power, Indoor Climate and Severe Service. His recent past directorships include Tyco Flow Control Europe. He has extensive experience in managing engineering businesses.

Douglas M Hurt

(seated left)

Finance Director

Age 50; joined IMI in May 2006. Douglas Hurt was appointed to the Board in July 2006.

He was previously with GlaxoSmithKline, where both financial and operational roles included a number of US and European senior management positions. He is a member of the Institute of Chartered Accountants.

Roy M Twite

(standing right)

Executive Director

Age 40; joined IMI in 1988.

Roy Twite was appointed to the Board in February 2007 with responsibility for Retail Dispense which comprises Beverage Dispense and Merchandising Systems. He was previously president of IMI's Indoor Climate business, having held a number of senior operational positions in IMI.

Martin J Lamb

(seated right)

Chief Executive

Age 47; joined IMI in 1986.

Martin Lamb was appointed to the Board in 1996 and as Chief Executive in 2001. He has extensive experience of engineering and managed several major businesses within the Group before his present appointment.

The year's results

The Group consolidated income statement is shown on page 52. Group profit before tax, restructuring costs and intangible amortisation amounted to £194.9 million (2005: £160.9 million) and profit before taxation amounted to £158.2 million (2005: £151.1 million). Earnings applicable to shareholders of IMI plc amounted to £72.7 million (2005: £13.5 million).

Dividends

The directors recommend a final dividend at the rate of 11.7p per share on the ordinary share capital payable on 25 May 2007 to shareholders on the register at the close of business on 13 April 2007. Together with the interim dividend of 7.0p per share paid on 20 October 2006, this final dividend brings the total distribution for the year to 18.7p per share (2005: 17.5p per share).

Business review

During 2006 the Group's businesses were organised into two principal activities: Fluid Controls and Retail Dispense. The main subsidiary companies operating within these two areas of business are listed on pages 94 and 95.

The revenue, profit and capital employed attributable to each of these businesses are shown in note 3 on page 62. Further descriptions of the Group, its strategy and its businesses, and their development and performance during the year, appear on pages 2 to 27. All these pages are incorporated by reference and form part of this business review.

Research and development

Expenditure on research and development in the year was £34.1 million compared with £29.4 million in 2005: of this amount £4.4 million (2005: £5.2 million) has been capitalised.

Shareholders' funds

Shareholders' funds decreased from £417.6 million at the end of 2005 to £412.7 million at 31 December 2006.

Share capital

In 2006 the Company made market purchases of a total of 6,990,313 of its own shares at an aggregate cost of £35.2 million (nominal value £1,747,578) including dealing costs of £0.2 million.

On 4 April 2006 1,244,130 shares were purchased and are held in an employee trust for use in relation to certain executive incentive plans. Voting rights attached to shares held in the employee trust were not exercised during the year. During the year 2,423,236 new ordinary shares were issued under employee share schemes; 644,642 under the all employee share ownership and save as you earn plans and 1,778,594 under executive share options.

The Company has been informed of the following notifiable interests in its voting rights and capital in issue:

Standard Life Investments	10.03%
Goldman Sachs Group Inc	6.31%
Legal and General Group plc	3.52%
Deutsche Bank AG	3.42%

Corporate social responsibility

The Board has adopted a range of corporate policies, including a Corporate Social Responsibility Policy, which reflect the high standards of conduct it sets for itself and its employees across the Group. A relevant selection of corporate policies is available on our website (www.imiplc.com). Further information on corporate social responsibility matters is set out on pages 24 to 27.

Employment policies

The Group continues to support employee involvement at all levels in the organisation. A formal joint consultative process is operated in all except the smallest units where it is strongly encouraged on an informal basis. During the year consultative arrangements, including formal committees and team briefings, were used to consider and discuss employees' views, to develop understanding of business aims, to increase awareness of financial and economic factors affecting performance, and to improve effectiveness. The Group has a European Works Council which meets at least once a year to exchange views on pan-European issues facing the Group.

The Annual Report is available to all employees. The Company operates an all employee share ownership plan covering all UK employees of certain operations, under which an annual bonus worth up to £3,000 can be awarded to employees in shares and employees can invest their own money to acquire additional shares in a tax efficient manner. A savings-related share option scheme, which is available to the majority of UK employees, has operated since 1984.

A number of management development initiatives are co-ordinated across the Group, including the IMI Academy and a senior talent management programme called Aspire. Aspire is a merit-based scheme for which the starting point for entry is self-nomination, with managers from across the Group free to put their own names forward for a series of assessment and selection activities. Those managers achieving the benchmark are invited to join Aspire and take part in a range of tailored development activities. The Group encourages its operating units to train and develop employees at all levels and a wide range of business-related education and training opportunities are made available.

It is Group policy to promote equal opportunities in employment consistent with the requirements of the countries in which the Group operates. The policy applies to both employees and applicants for employment. Companies in the Group are required to eliminate discrimination and communicate and promote the policy to all employees. Managing Directors of operating units have responsibility for compliance and each employee is required to abide by the policy. Every effort is made to ensure that applications for employment from disabled persons are fully and fairly considered and that disabled employees have equal opportunity in training and promotion. As a matter of longstanding policy, where appropriate, employees who become disabled have been given suitable training for employment within the Group or elsewhere. The Group also supports charities for assisting disabled people into work.

Health, safety and the environment

It is Group policy to maintain healthy and safe working conditions and to operate in a responsible manner with regard to the environment. Information on key performance indicators in this area is given on page 7 and further information is available on our website (www.imiplc.com).

Policy and practice on the payment of trade creditors

Operating units are responsible for making their suppliers aware of the terms of payment and agreeing such terms with their suppliers for each business transaction. The Company is not a trading entity.

Donations

£316,000 was given during 2006 for community and similar purposes including £235,000 for charitable purposes. The Group supports a range of selected national charities and smaller charitable organisations operating in communities where the Group has a presence. Our approach to charitable and other donations is explained on page 26. No donations to political parties were made during the year.

Directors

The persons who were directors throughout the year were Mr N B M Askew, Mr T M Gateley, Mr L Browne, Mr K Beeston, Mr M J Lamb, Mr W R Whitney and Mr D C Nicholas. Ms A M Frew was appointed as a non-executive director with effect from 2 March 2006. Mr D M Hurt joined the Board on 1 July 2006 as Finance Director and Mr T J Slack retired on the same date. On 31 January 2007 Mr W R Whitney retired from the Board and Mr R M Twite was appointed as an executive director from 1 February 2007.

Under the Company's articles of association, Mr T M Gateley and Mr L Browne retire by rotation at the forthcoming annual general meeting and are both recommended for re-election. In addition, Mr D M Hurt and Mr R M Twite will be standing for election at that meeting, being the first annual general meeting since they were appointed. Biographical details appear on pages 28 and 29. Messrs Gateley and Browne are non-executive directors with a letter of appointment and do not have a service contract. Messrs Hurt and Twite are executive directors and have service contracts terminable on one year's notice.

The Company maintains directors' and officers' liability insurance and all directors of the Company benefit from qualifying third party indemnity provisions in place during the financial year. At the date of this annual report there were such indemnity arrangements with each director in respect of the costs of defending civil, criminal and regulatory proceedings brought against them, in their capacity as a director, where not covered by insurance.

Directors' interests

The interests of the persons (including the interests of their families) who were directors at the end of the year, in the share capital of the Company, and their interests under share option and incentive schemes, are shown on pages 46 to 49.

Directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law. They have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Risks and uncertainties

In common with all businesses, there are a number of risks and uncertainties which could have a material impact on the Group's long-term performance. The Group has in place a risk management structure and internal controls which are designed

to identify, manage and mitigate business risk. A summary of the Group's risk management structure is given on page 37.

The Group's financial risk management practices are also discussed in note 1 to the accounts. In addition, the Group's approach to corporate social responsibility and associated risks is described on pages 24 to 27.

The principal risks faced by the Group, as identified by the Board, are summarised below:

- The Group's worldwide operations expose it to economic, business, political and other risks such as sudden changes in regime, expropriation of assets, imposition of trade barriers and wage controls, limits on the export of currency and volatility of prices, taxes and currencies.
- The Group's worldwide operations also expose it to different legal and regulatory requirements and standards in each of the jurisdictions in which it operates including those for taxation, environmental, operational and competition matters.
- The nature of the Group's operations exposes it to the potential for litigation from third parties which may arise in the ordinary course of business.
- Certain of the Group's businesses benefit from close commercial relationships with key customers and suppliers. The loss of any of these key relationships could have a material impact on the Group's results.
- The Group's products contain various raw materials or purchased components including metals and plastics. Any increases or volatility in prices and shortages in supply could affect the Group's performance.

In response to the rising costs of base metals, the Group centralised its hedging process for exposure to copper, zinc, aluminium and nickel during 2006. The exposure is managed through a combination of financial contracts and local supply agreements in order to minimise the short term impact of metal price volatility.

- The Group operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the Group's results.
- The majority of the Group's operating profit is earned outside the UK. As such, the Group is exposed to movements in exchange rates between sterling and other world currencies, which could impact results. The Group is also exposed to movements in global interest rates.

It is the Group's policy to minimise risk to exchange rates by hedging currency exposures at the time of commitment or when there is a high probability of future commitment using currency instruments (primarily forward exchange contracts). The Group's wide geographic spread both in terms of cost base and customer locations helps to reduce the impact on profitability of swings in exchange rates as well as creating opportunities for central netting of exposures.

Currency loans and foreign exchange contracts are used to reduce the translation risks associated with holding currency based net assets. The Group reduces its exposure to short term swings in interest rates through a combination of fixed rate debt and derivative contracts where appropriate. The effect of a global rise of 1% in short term interest rates during 2007 would be immaterial to the Group's interest cost.

- If the Group is unable to recruit and retain high calibre managers and engineering talent, it may not be able to effectively implement its business plans and strategy and could experience delays in the development of, or increased difficulty in developing and selling, its products and services.
- The Group is exposed to risks associated with the commercial failure of new products, projects and technologies.
- Poor investment returns and longer life expectancy may result in the cost of funding defined benefit pension arrangements becoming a significant burden on the Group's financial resources.
- The Group may be subject to liabilities as a result of past or future disposals.
- IMI's growth strategy is in part dependent on acquisitions. The execution and integration of acquisitions involves a number of risks, including diversion of management's attention, failure to retain key personnel of the acquired business and risks associated with unanticipated events or liabilities.
- The Group is exposed to certain credit risks.

A central view is taken on credit risk in respect of deposits, financial instruments, receivables and provision of funding arrangements. A group of core relationship banks provides the bulk of the banking services – with pre-approved credit limits set for each institution. At the end of 2006 surplus cash was deposited with the Group's banks with no single institution or individual trade debtor creating an exposure greater than £30m.

Cautionary statements

The foregoing statements of directors' responsibilities for the financial statements, and the confirmations regarding audit information, are addressed solely to shareholders and made pursuant to and for the purposes required by UK legislation and regulations without any other or special assumption of responsibility on the part of the Company or its directors and officers.

The business review and other content of this annual report is addressed to the shareholders of IMI plc as a body. Neither the Company nor its directors or officers accept or assume responsibility to any person for this annual report beyond the responsibilities arising from the production of this annual report pursuant to and for the purposes required by UK legislation.

Sections of this annual report may contain forward-looking statements about the Group, including for example statements relating to: future demand and markets for the Group's products and services, research and development relating to new products and services; liquidity and capital resources and implementation of restructuring plans and efficiencies.

Any forward-looking statements are by their nature subject to numerous risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements depending on a variety of factors, including for example those described above under the heading "Risks and uncertainties". IMI undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Annual general meeting

The annual general meeting will be held at the Hilton Birmingham Metropole Hotel, National Exhibition Centre, Birmingham on Friday 18 May 2007, commencing at noon. Notice of the meeting will be sent to shareholders as a separate circular.

Auditor

Resolutions for the re-appointment of KPMG Audit Plc as auditor of the Company and to authorise the directors to determine the auditor's remuneration are to be proposed at the forthcoming annual general meeting.

By order of the Board

John O'Shea

Company Secretary

5 March 2007

Statement of Compliance

The Board is committed to high standards of corporate governance and confirms that throughout the year ended 31 December 2006 the Company has applied the principles of good governance contained in the Combined Code and complied with its best practice provisions as set out below in the Board's report on corporate governance and in its remuneration report on pages 38 to 50.

The Board is able to report compliance with the Combined Code throughout 2006 save that until March 2006 the balance of the Board and its committees was affected by a vacancy for an independent non-executive director. An additional independent non-executive director, Ms A M Frew, was appointed on 2 March 2006 and brought the non-executive presence on the Board up to four, excluding the Chairman, in accordance with the Combined Code.

The Board

At the end of the year the Board comprised nine directors: the Chairman; Chief Executive; four independent non-executive directors; the Finance Director and two other executive directors. Changes in the composition of the Board during the year are noted in the Directors' Report.

The non-executive directors are all free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of them meet the criteria for independence under the Combined Code and are regarded by the Board as independent of the Group's executive management. Mr T M Gateley is the senior non-executive director. The Chairman, Mr N B M Askew, was also regarded as independent at the date of his appointment in May 2005. The independent non-executive directors are from varied backgrounds and bring with them a wide range of skills and experience of senior management in commerce and industry. Biographical details of the current directors are shown on pages 28 and 29.

Each new appointee to the Board is required to stand for election at the next annual general meeting following their appointment. In addition, one third of the Board retire by rotation at each annual general meeting and each director stands for re-election at least once every three years.

The Board provides leadership, direction and control for the business and corporate affairs of the Group and oversees business and management performance. The Board has an established list of matters reserved to it and written delegations of authority for its committees and the executive directors. Board reserved matters include strategy and key areas of policy, major investment decisions and material changes in the composition of the Group. The Board reviews budgets, forecasts and plans for the businesses of the Group on an annual basis. Quarterly meetings of the Board consider detailed financial and management reports on the operational and strategic progress of the Group. Senior executives from around the Group are invited by the Board to attend certain meetings to make presentations and join in discussion.

There is a clear division of responsibility between the Chairman and Chief Executive, which is reflected in a written statement approved by the Board. In summary, the Chairman is responsible for the leadership and running of the Board but does not have any executive powers or responsibilities. The Chief Executive leads the executive management team in running the businesses and implementing operating and strategic plans under authority delegated by the Board. The executive team during the year comprised : the Chief Executive, Mr M J Lamb, Finance Director, Mr T J Slack until 1 July 2006 and thereafter Mr D M Hurt, and two operational executives, Mr D C Nicholas, responsible for Fluid Controls, and Mr W R Whitney, responsible for Retail Dispense. In January 2007 Mr W R Whitney retired. He was succeeded by Mr R M Twite.

Non-executive directors are encouraged to become familiar with the businesses and there is regular contact between management and non-executive directors during site visits and formal meetings. The Chairman is responsible for ensuring that the Board meetings operate to an appropriate agenda, and that adequate information is provided sufficiently in advance of meetings to allow proper consideration. He is supported by the Company Secretary, who also assists in ensuring that the Board operates in accordance with good corporate governance under the Combined Code and relevant regulatory requirements. The Company Secretary acts as secretary to all of the committees of the Board. The Board has a recognised procedure for any director to obtain independent professional advice at the Company's expense and all directors have access to the Company Secretary who is a solicitor.

The Board met on nine occasions during the year including four quarterly reviews, strategy days, visits to operations and meetings convened for special purposes as the need arose. All members of the Board were in attendance at each meeting held during their tenure save that Mr K S Beeston, Mr D C Nicholas and Mr W R Whitney each missed one meeting.

Pursuant to the Combined Code, and in accordance with best practice, the non-executive directors met as a group with the Chairman on a number of occasions during the year and the senior independent director, Mr T M Gateley, convened one such meeting in the absence of the Chairman.

Standing committees of the Board

The standing committees of the Board are: the Audit Committee, the Remuneration Committee, the Nominations Committee and the Executive Committee. Each of these committees operate under written terms of reference which clearly set out their respective delegated responsibilities and authorities. Summaries and the full terms of reference of the Audit Committee, Remuneration Committee and Nominations Committee appear on the Company website (www.imiplc.com).

The Audit Committee was chaired by Mr T M Gateley. All of the other independent non-executive directors were also members of the Audit Committee throughout the year except that Ms A M Frew was appointed on 2 March 2006. Mr T M Gateley is qualified as a chartered accountant and has significant relevant financial experience. The committee received reports from the external auditor who attended its meetings when required to do so. The committee's work included reviewing the financial statements, accounting policies and significant issues of judgement, internal financial controls, the proposed external audit approach and the independence and objectivity of the external auditor. In assessing auditor independence the committee had regard to the guidance for audit committees in the Smith Report and required the auditor to confirm that its ethics and independence policies complied with the requirements of the Institute of Chartered Accountants in England and Wales. The Group policy on the use of the auditor for non audit work is monitored by the committee. The policy requires committee approval for any non-audit engagement where fees exceed £100,000 and does not allow work to be placed with the auditor if it could materially compromise auditor independence, such as forensic accounting and fraud investigation work. The committee also receives reports from and monitors the work of the internal audit function, known as the "IMI Assurance Department", and reviews the operation of the Group whistleblowing policy and procedure. During the year the committee surveyed the main subsidiaries to assess the performance and efficiency of the external auditor. The committee recommended and the Board approved the proposal to re-appoint the external auditor at the forthcoming annual general meeting. The committee met on four occasions during the year with all members in attendance except that Mr K S Beeston missed one meeting. The committee regularly calls upon the Chairman, Chief Executive, Finance Director and other personnel, including the Controller and the Group Assurance Manager, to attend for parts of its meetings. The committee approved the foregoing report on its work.

The Remuneration Committee was chaired by Mr K S Beeston. Mr T M Gateley and Mr L Browne were members of the Remuneration Committee throughout the year. Ms A M Frew joined the committee on 2 March 2006 and the Company Chairman, Mr N B M Askew, was appointed a member of the committee on 1 September 2006. The committee's main responsibilities are to determine the remuneration policy and individual terms and conditions in respect of the executive directors including new appointments and to set the Chairman's remuneration. As well as salary and annual bonuses, the committee is responsible for the structure and level of performance related elements of executive remuneration and other benefits. The committee also reviews the packages of those at the next most senior level of management. The committee met on six occasions during the year with all members in attendance except that Mr K S Beeston missed one meeting. External consultants were engaged by the committee to provide advice and the Chief Executive and Finance Director attended its meetings when required. During the year the committee considered the impact of age discrimination legislation and tax changes in relation to UK pensions. New service agreements with executive directors were put in place to reflect the new UK retirement age of 65 and changes to pension arrangements for serving executive directors. The committee approved the foregoing report on its work and more details are given in the Remuneration Report.

The Nominations Committee comprised the Chairman, Mr N B M Askew, who chaired the committee, all of the independent non-executive directors (Ms A M Frew, from 2 March 2006) and the Chief Executive. During the year the committee reviewed the Board composition and made nominations for appointments to the Board and its committees. External search consultants were engaged by the committee in relation to the recruitment of a non-executive director and worked to an agreed brief defining the core competencies and profile for the role. It was through search consultants that the committee selected Ms A M Frew, who was appointed to the Board on the committee's recommendation with effect from 2 March 2006. Appointments of non-executives are made on the basis of a standard form of appointment letter. Each non-executive director and the Chairman were appointed on the basis of a stated minimum time commitment judged appropriate by the committee. The committee considered that the time given by each non-executive was sufficient. The committee also reviewed the roles of the non-executive directors and made recommendations, which were approved by the Board, concerning the composition of the Audit Committee and the Remuneration Committee. The committee met on four occasions during the year with all members in attendance. The committee played a central role in the selection of new executive directors to fill vacancies arising from retirements, one during 2006 and another in early 2007. The committee approved the foregoing report on its work.

The Executive Committee of the Board is chaired by the Chief Executive and consists of all the executive directors. It meets monthly and more often as may be required in order to monitor performance, review business management issues and formulate budgets and proposals on strategy, policy and resource allocation for consideration by the Board. Its minutes are circulated to all members of the Board. It also acts as the Risk Committee of the Board. Senior executives from around the Group are regularly called upon to attend meetings of the Executive Committee.

Board induction, continuing professional development and evaluation

A formal induction process for new directors has been in operation for several years. It is overseen and kept up to date by the Chairman with support from the Chief Executive and Company Secretary. During and after induction directors are encouraged to visit business units around the Group and to meet with operating management and corporate staff. Appropriate coaching and access to training and other continuing professional development is available to all directors and all directors participated in some appropriate training during the year.

An internal evaluation of the Board, its committees and individual directors, including the Chairman, was carried out. This included questionnaires and appropriate follow up discussions. In addition, the non-executive directors met with the senior independent non-executive director regarding the performance of the Chairman and the Chairman met individually with each of the non-executive directors to canvass their views. The Board received the findings of the evaluation in March 2007 and concluded that the Board and its committees were effective and that each director demonstrated a valuable contribution. The contribution and performance of individual directors standing for election or re-election is commented on in the notice of the annual general meeting issued to shareholders with this annual report.

Investor relations

The annual general meeting is regarded by the Board as an important opportunity to meet and communicate with shareholders, particularly private investors. The 2006 annual general meeting was chaired by the Chairman, and attended by the chairmen of the standing committees of the Board and all of the other directors. The Chairman encouraged debate and questions at the formal meeting and informally during refreshments afterwards.

Each substantially separate issue was put to the 2006 annual general meeting as an individual motion and the meeting was invited to adopt and approve the financial statements and the directors' report for 2005. A separate resolution for the approval of the remuneration report was also put to the meeting. Notice of the 2006 annual general meeting was despatched more than twenty working days in advance and the level of proxy votes lodged for and against each resolution, together with details of abstentions, were disclosed at the meeting and are shown on the Company's website.

In addition to the annual report, the Company publishes an interim report to shareholders and issues trading updates around the mid-year and in December. The Company has its own website (www.imiplc.com) which includes recordings of certain key presentations made by senior management, recent annual and interim reports, trading updates, other corporate announcements and links to the websites of Group businesses. The Company has arranged a dealing service for the convenience of shareholders with JPMorgan Cazenove (contact details are shown on page 99).

The Board as a whole seeks to maintain a balanced understanding of the issues and concerns of major shareholders. Dialogue is maintained with shareholders and the executive directors meet regularly with institutional investors. The Chief Executive and Finance Director have primary responsibility for investor relations and report to the Board at least quarterly in that connection. In addition, financial analysts' notes are circulated to the Board and regular feedback reports from the Company's brokers are supplemented by periodic, independent surveys of major investors' views. The Chairman, senior independent non-executive director and other non-executives will meet with major shareholders upon request and otherwise if any of them considers appropriate. During the year the Chairman and the senior independent non-executive director joined the Chief Executive and Finance Director in a meeting with one of the Company's major investors.

Corporate social responsibility

The Board takes account of the social, environmental and ethical impact of its decisions and has established corporate policies and standards for responsible business across the Group. Through the Group's risk assessment processes key issues of corporate social responsibility are identified, monitored and addressed.

The Company satisfies the FTSE4Good global corporate responsibility criteria and has been awarded membership of the FTSE4Good Index. More information on corporate policies and social responsibility matters is given on pages 24 to 27 and on the Company website (www.imiplc.com).

Internal control

The Board has overall responsibility for the Group's system of internal control and confirms that the system of internal control accords with the relevant guidance issued in September 1999 and revised in October 2005 by the Financial Reporting Council (the "Turnbull Committee Guidance").

Consistent with the Turnbull Committee Guidance, the Board has assigned responsibility for the continuous review of risk management and controls to the Executive Committee. During the year the Board received reports on risk issues from the Executive Committee and reviewed the effectiveness of the Group's system of internal control in relation to financial, operational and compliance controls and risk management. In addition, the Audit Committee considered and reported to the Board on the financial aspects of internal control including the nature and scope of external audit. The committee also reviews the internal audit work carried out by the IMI Assurance Department.

Each operating unit is required to undertake a continuous process of business risk assessment and reporting. This is reviewed by the most senior executive within the relevant business and any major risk issues are considered by the Executive Committee. The Executive Committee makes regular reports to the Board on major business risks faced by individual operations and by the Group and how those risks are managed. Through this process major business risks are identified, assessed and ranked according to their nature and urgency and the Board considers what measures would be appropriate in order to control such risks.

The Board has clearly defined in writing those matters which are reserved to it and the respective delegated authorities of its committees and the executive directors.

The Group has a clear organisational structure and well established reporting and control disciplines. Managers of operating units assume responsibility for and exercise a high degree of autonomy in running day-to-day trading activities. They do this within a framework of clear rules and policies regarding business conduct, approval of proposals for investment and material changes in operations.

All operating units prepare forward plans annually which make projections for a period of three years. These plans are reviewed in detail by executive directors and consolidated for review by the Board. Performance against forecast is continuously monitored by the executive directors, reviewed at monthly meetings of the Executive Committee and on a quarterly basis by the Board. Minimum standards for accounting systems and controls, which are documented and monitored, are promulgated throughout the Group. Certified quarterly reports are required from senior executives of operating units, confirming compliance with Group standards. There is also a central internal audit function, IMI Assurance Department, which operates a rolling programme of internal assurance reporting and reviews. These include on site reviews of selected operating units which are carried out by the IMI Assurance Department and co-ordinated with the divisional financial management review processes and external audit. Additionally, visits to operations are carried out by senior Group finance personnel in conjunction with the external auditor.

Control processes are dynamic and continuous improvements are made to adapt them to the changing risk profile of operations and whenever weakness in the internal control system is identified appropriate remedial action is taken.

Capital investments are subject to a clear process for investment appraisal, authorisation and post-investment review, with major investment proposals referred for consideration by the Executive Committee or the Board, as appropriate, according to their materiality. In addition, the Executive Committee and the Board regularly review the operation of corporate policies and controls in relation to treasury activities, environmental issues, health and safety, human resources, ethical trading, taxation, insurance, pensions, legal and regulatory compliance. Compliance reports are made to the Board and the Audit Committee, as appropriate, to enable control issues and developments to be monitored.

Through the procedures outlined above the Board has considered all significant aspects of internal control for the year 2006 and up to the date of this Annual Report. The Board believes that the Group's system of internal control, which is designed to manage rather than eliminate risk, provides reasonable but not absolute assurance against material misstatement or loss.

By order of the Board

John O'Shea

Company Secretary

5 March 2007

Remuneration Committee

The members of the Remuneration Committee during the year were Mr K S Beeston (Chairman), Mr T M Gateley, Mr L Browne, from 2 March 2006 Ms A M Frew and from 1 September 2006, Mr N B M Askew, the Company's non-executive Chairman. In accordance with the revised Combined Code, issued by the Financial Reporting Council in June 2006, all of the foregoing non-executive directors were regarded by the Board as independent and Mr Askew was considered independent on his appointment as Chairman of the Company. Prior to his appointment to the committee Mr Askew was consulted on remuneration matters generally. The committee also consulted the Chief Executive, Mr M J Lamb, regarding the remuneration of the other executive directors and senior managers. It also received the advice and services of the Finance Director (Mr T J Slack and from 1 July 2006 Mr D M Hurt), the Group Pensions Manager, Mr P Flanagan, and the Company Secretary, Mr J O'Shea, who acted as secretary to the committee. Deloitte & Touche LLP was engaged by the committee to provide advice on directors' remuneration to the committee and played a central advisory role in relation to a review of pension arrangements carried out by the committee.

Deloitte & Touche LLP also attended certain meetings at the request of the committee. During the year Deloitte & Touche LLP also provided due diligence, financial and tax consulting services to the Company. Watson Wyatt LLP was also engaged by the committee to report on the impact of the government's proposed changes to the tax regime for occupational pensions. Watson Wyatt LLP are the actuaries, investment advisers and administrators to the Company's main UK pension fund and also provide pensions advice to the Company. Mayer, Brown, Rowe & Maw advised the committee on age discrimination issues and pension terms for executive directors and also acted as legal advisers to the Company's main UK pension fund and provided pensions-related legal advice to the Company.

Non-executive directors' remuneration and terms of appointment

The remuneration of the non-executive directors is determined, after reference to external benchmarks, by the Chairman and the executive directors. However, the non-executive Chairman's remuneration is determined by the Remuneration Committee. The policy on non-executive remuneration is to pay an appropriate level on a comparative basis for their time and work on the Board and its committees. They do not participate in any bonus or employee share schemes of the Company and no part of their remuneration is conditional upon the performance of the Company. The Remuneration of the non-executive directors is shown in the table on page 45 and will be reviewed in 2007 (the last review being in 2005). For 2006 annual remuneration was as follows: Chairman £175,000, non-executive director £35,000 and additional remuneration for chairing a committee of £10,000 and for the senior non-executive director of £5,000.

The Board has established a shareholding guideline for non-executive directors, each of whom is encouraged to build up a holding of at least 7,500 shares, or 10,000 shares in the case of the Chairman, within twelve months of appointment. All of the non-executives hold the relevant number of shares except for Mr L Browne, who intends to acquire further shares during 2007.

The normal period for initial appointment and first renewal is three years. The appointment of the Chairman runs for an initial three year term. Appointments are made under a letter of agreement subject to retirement by rotation and removal under the Company's articles of association. There are no provisions for the Company to give notice or pay compensation in relation to the early termination of the appointment of the Chairman or any non-executive director. There is a provision in the appointment letters to the effect that a non-executive director is normally expected to give one month's prior notice of termination to the Company. The dates and unexpired terms of the letters of appointment for the non-executive directors, which are available for inspection at the annual general meeting and at the Company's registered office, are as follows:

	Date of letter of appointment	Unexpired term as at 31 December 2006	Date appointed as a director
Mr N B M Askew	28.04.05	1 year 4 months	14.05.05
Mr K S Beeston	07.03.05	1 year 2 months	08.03.05
Mr L Browne	16.12.04	1 year	01.01.05
Ms A M Frew	16.02.06	2 years 2 months	02.03.06
Mr T M Gateley	30.10.06	2 years 10 months	01.11.03

Executive directors' remuneration and terms of appointment

Statement of policy

The Company aims to ensure that remuneration generally and incentives in particular provide strong links between individual performance and shareholder interests. The remuneration policy also recognises that the Company operates in global and highly competitive markets with the vast majority of its activities outside the UK.

The policy is to provide competitive remuneration packages to attract, motivate, reward and retain executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to specific performance measures.

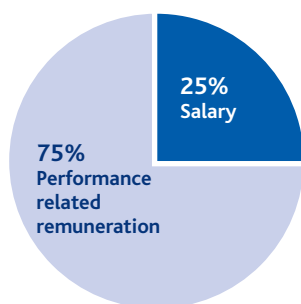
The Remuneration Committee considers it to be important to maintain the flexibility to respond to individual circumstances. However, its normal approach has been to pay salaries within appropriate market competitive ranges, combined with realistic potentials for above market total compensation if performance is outstanding. Remuneration comprises basic salaries, annual performance bonuses and benefits in kind, pension arrangements or a cash allowance and participation in a deferred bonus plan and a performance share plan.

In setting the remuneration of each executive director, the Remuneration Committee takes into account their role and responsibilities, skills and individual performance and makes reference to market rates as evidenced by published studies and comparisons with international UK-based groups of a similar size and complexity. In this connection the committee considered market trend data prepared by Deloitte & Touche LLP. The committee uses such data with caution in view of the risk of an upward ratchet of remuneration levels. It also has regard to pay and conditions of employees throughout the Group.

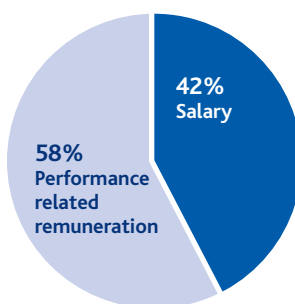
The policy of the committee is to set performance conditions which are both stretching but also reasonably attainable in the environment in which the Company is then operating.

The charts below show the proportion of executive directors' aggregate remuneration paid as salary or performance-related pay based, respectively, on maximum and on target vesting under the annual bonus and long-term incentive arrangements mentioned above (assuming reinvestment of half of annual bonus payments in the deferred bonus plan and excluding the impact of changes in share price). For the Chief Executive the maximum and on target levels of performance-related pay would account for 76% and 59%, respectively.

Maximum performance pay



On target performance pay



Consistent with the policy on service contracts, the executive directors service contracts are subject to termination on one year's notice by the Company or the executive. Contractual retirement age for UK directors was changed from 60 to 65 during the year in response to the new age discrimination law. All such contracts allow the Company to elect to make payment in lieu of notice but do not include any other specific provision for compensation payable upon early termination. It is the policy of the Remuneration Committee to limit any compensation which might be paid in the event of early termination of an executive director's contract to the legal minima, taking into account mitigation and other relevant factors.

The dates of the contracts and period to normal retirement age for those serving as executive directors during the year are as follows:

	Date joined Group	Date of appointment to Board	Date of service contract	Notice period	Period to normal retirement age** as at 31 December 2006
Mr M J Lamb	31.10.86	18.07.96	01.10.06	12 months	19 years
Mr T J Slack	05.01.76	01.08.97	01.02.99	12 months	Retired in July 2006
Mr D M Hurt	01.05.06	01.07.06	01.10.06	12 months	14 years 6 months
Mr D C Nicholas	08.03.04	08.03.04	01.10.06	12 months	8 years
Mr W R Whitney*	03.08.87	01.03.04	01.03.04	12 months	2 years 10 months

*Retired on 31 January 2007

**60 for Mr W R Whitney and 65 for all others

Annual bonus

Executive directors are awarded annual performance bonuses. Maximum bonus is only payable if the stretching targets set by the Remuneration Committee are met. The maximum bonus opportunity is 100% of salary. For 2006 the annual bonus targets related to (and for 2007 will relate to) operating profit before restructuring costs and intangible amortisation, organic revenue growth and working capital. During 2006 operating profit increased by 17%, organic revenue growth was 4.2% and there was an improvement in working capital efficiency. On this basis the Remuneration Committee determined that bonuses in respect of 2006 be 88% of salary (2005: 100%), of which half must be deferred into the Deferred Bonus Plan. Annual bonuses are non-pensionable in the case of all executive directors.

The auditor reviewed the computation of the annual bonus payable to the executive directors and confirmed to the committee that it was calculated correctly.

Long term incentive arrangements

The Deferred Bonus Plan ("DBP") runs in conjunction with the annual bonus plan for executive directors and was approved by shareholders at the 2005 annual general meeting following consultation with major shareholders and institutional investor representative bodies.

Under the DBP, at least one half of each executive director's earned annual bonus will be mandatorily deferred for three years and delivered in shares in the Company. The executive may also elect to voluntarily defer all or part of the remaining 50% of their annual bonus. Additional shares, in the form of a matching award, may be earned (to a maximum of 100% of the deferred bonus at the entry share price level or 125% for the Chief Executive) if stretching performance conditions are met by the Company over the three year deferral period. The first awards were made in 2006 subject to economic profit, also known as "economic value added" (EVA), based performance conditions. EVA was chosen as the performance measure because it combines profitability with return on capital in a single measure and is being used across the Group as a management decision-making tool. The EVA performance conditions attached to these awards are tiered (with linear progression within each band) from 0% to 20% of maximum vesting for positive EVA up to £100 million, 20% to 50% at EVA of between £100 million and £150 million, 50% to 85% at between EVA of £150 million to £200 million and 85% to 100% at EVA of between £200 million and £210 million. The calculation of EVA is based on operating profit after tax, with appropriate adjustment for restructuring costs, less a capital charge on the invested capital in the business reflecting IMI's cost of capital.

The Performance Share Plan ("PSP") was also introduced in 2005 with shareholder approval and allows for share-based awards worth up to the normal policy maximum of 100% of annual salary. Details of the awards made in 2006 are contained in the table of directors' awards on page 48. The vesting of awards is subject to the satisfaction of stretching performance conditions over a three year period. One half is subject to earnings per share ("EPS") performance conditions and the other to comparative total shareholder return ("TSR").

For PSP awards, TSR performance is measured against a comparator group over a three-year period. TSR is well understood and accepted as a performance measure for long term incentives and links rewards to shareholder value.

The comparator group for the relative TSR was chosen by reference to the companies' size, international spread and industry sector relative to IMI and comprises the following 18 companies (Pilkington was originally included but has since ceased to be independent):

■ Aga Foodservice	? ■ BBA Group	? ■ Bodycote
■ Cobham	? ■ Cookson Group	? ■ Enodis
■ FKI	? ■ Halma	? ■ Hanson
■ Johnson Matthey	? ■ Meggitt	? ■ Morgan Crucible
■ Spirax-Sarco	? ■ Rexam	? ■ Rotork
■ Wolseley	? ■ Tomkins	? ■ Weir Group

If, at the end of the three-year period, the Company is ranked median in the comparator group, then 30% of the TSR-dependent awards will vest. If the Company is ranked at the point between median and upper quartile (i.e. at the 62.5th percentile), 55% of the TSR-dependent awards will vest. If the company is ranked in the upper quartile (top 25%) of the comparator group, then the TSR-dependent awards will vest in full. Awards will vest on a straight line basis if the Company's TSR performance is between these points. If the Company's TSR performance is below the median, the TSR dependent awards will lapse without retesting.

To ensure that TSR reflects improvement in the underlying performance of the Company the Remuneration Committee also imposed a financial underpin. No PSP awards will vest unless the compound annual earnings per share growth exceeds inflation (measured against the Retail Price Index, or "RPI") by at least 3% per annum during the three year performance period.

The performance condition for the second 50% of PSP awards is based on the Company's compound annual earnings per share growth above RPI over a three-year period. EPS was chosen as an appropriate measure which rewards absolute growth in underlying earnings and because the Remuneration Committee believed it works well in combination with TSR which is a comparative measure. The Remuneration Committee sets the EPS targets in respect of each annual award at the level it considers appropriately stretching given the conditions in which the Company is operating.

In respect of the EPS-dependent element of the 2006 PSP award, 30% will vest if compound earnings per share growth exceeds RPI by 3% per annum during the three-year performance period. If the Company's compound annual earnings per share growth exceeds RPI by 12% per annum, then the EPS-dependent awards will vest in full. Awards will vest on a straight line basis if the Company's EPS growth is between these points. Awards lapse without retesting as to this element (and also the TSR-dependent portion) if EPS growth is below RPI plus 3% per annum. The EPS targets for the 2005 PSP awards were set on the same basis except that maximum vesting required 15% real EPS growth and the measure excluded the impact of the Polypipe Group which was sold during 2005.

The EPS measure for PSP awards is otherwise based on IFRS earnings per share subject to certain adjustments including the elimination in whole or in part of restructuring costs, share buy backs, intangible amortisation and the change in fair value of financial instruments and derivatives.

As regards the transition from UK GAAP to IFRS, to the extent that any material adjustments are considered appropriate to ensure a like for like comparison, these will be reviewed and agreed by the auditor. This applies to both the current and legacy incentive arrangements.

Executive directors who are eligible to participate in the DBP and the PSP, will be encouraged to acquire and maintain a shareholding in the Company with a value equal to 100% of their annual salary, within three years of appointment or June 2008 for those in office in 2005. The Chief Executive attained the required holding during the previous year.

Legacy incentive arrangements**Expired share option schemes**

Executive share options were last awarded to executive directors in 2004 under the Executive Share Option (1995) Scheme which expired in May 2005. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in earnings per share above inflation over a fixed period of three financial years as further described below.

For options granted over shares representing one times salary, vesting required growth in earnings per share of at least 6% above the rate of increase in the RPI over a three-year performance period. This hurdle doubled to 12% growth above RPI for awards representing between one and two times salary, and the hurdle was 24% for awards of between two and three times salary. The Remuneration Committee had a policy of awarding annual share option grants to executive directors of up to two times salary and up to three times salary for the Chief Executive. Details of directors' share options are set out on page 48.

Options were priced at full market value without discount. There is no retesting of performance conditions and options will therefore lapse if applicable performance conditions are not met in the relevant three-year performance period. All options granted in 2004 will become exercisable in 2007 because, when measured on a comparable basis, adjusted EPS growth over the three-year performance period ending 31 December 2006 was in excess of RPI plus 24%.

The method adopted to assess whether performance conditions attached to options under the Executive Share Option (1995) Scheme were satisfied by reference to earnings per share for the three years ended 31 December 2006, was based on IFRS adjusted earnings per share for 2006 subject to certain adjustments including the elimination in whole or in part of restructuring costs, share buy backs, intangible amortisation and the change in fair value of financial instruments and derivatives. The auditor reviewed the earnings per share computation and confirmed to the committee that the adjustments made were appropriate and correctly calculated.

Legacy long term incentive plan ("LTIP")

The last LTIP awards were made to executive directors in 2005 as part of the transition to the new long term incentive arrangements introduced in 2005. The LTIP allowed cash awards to senior executives, including executive directors, up to a maximum potential value of 50% of salary for each year of participation. The policy was to make an annual LTIP award to each executive director subject to performance conditions related to the economic profit of the Group as a whole over a period of three years. As with executive share options, awards lapse without retesting if targets are not met in the relevant three-year period.

Economic profit is based on the net operating profit after tax of the Group derived from the audited financial statements subject to certain adjustments such as for acquisition goodwill and a capital charge.

At the end of the performance period, the net of tax value of any LTIP payments earned by eligible executive directors is to be invested in market purchases of the Company's ordinary shares pursuant to a deferred share plan. Such share purchases are made through an employee trust and, if held for a further three-year period, an executive director will receive a matching award of one additional share for every four. The LTIP awards maturing in 2006 will result in vesting worth 50% of 2006 salary against a target maximum economic profit of £54.3m.

SAYE plan

The Company operates an HM Revenue and Customs approved savings-related share option scheme which is open to the majority of the Group's UK employees, including the UK-based executive directors, and allows the grant of options to all participants at a discount of up to 20 per cent below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in their employer's business or group.

All Employee Share Ownership Plan

The UK-based executive directors also participate in an All Employee Share Ownership Plan which is open to the majority of the Group's UK employees. In May 2007 shares to a value equal to the lesser of £3,000 and 0.75% of each participant's basic salary will be acquired at market value by the trustee of the plan in respect of their participation during 2006. The plan is not operated subject to specific performance conditions but the level of shares awarded to participating employees is set taking into account performance, in particular that of the UK operations of the Group. Eligible employees are also able to invest up to £1,500 annually in a tax-efficient manner in purchasing partnership shares under the plan. Each of the UK-based executive directors makes the maximum contribution from their salary towards partnership shares under the plan. Up to two matching shares may be awarded for every one partnership share acquired under the plan, although the policy to date has been not to award any matching shares.

Save as indicated below, the remainder of this report has been audited.

Pension entitlement

UK-based executive directors except for Mr D M Hurt participate in the IMI Pension Fund. Their normal retirement age under the Fund is 65, although Mr M J Lamb and Mr D C Nicholas may elect to retire and receive a pension at any time after age 57 without any actuarial discount. On death after retirement a dependant's pension is provided equal to two-thirds of the member's pension. If death occurs in the first five years of retirement a lump sum is also paid equal to the balance of five years pension payments. Pensions in payment, in excess of any guaranteed minimum pension, are increased each year in line with price inflation up to a maximum of 5%, in respect of pension built up before 1 January 2006, and 2.5% in respect of pension built up after 1 January 2006.

With effect from April 2006 the taxation arrangements for occupational pension schemes in the UK changed and the Remuneration Committee gave the then serving UK-based executive directors the choice of remaining in the UK scheme for future service or "opting out" and either building up benefits in a new employer-financed retirement benefits scheme or receiving a cash allowance instead of pension benefits. These alternatives were designed to be cost neutral to the Company and honoured the Company's commitment to the existing defined benefit arrangements. The committee received confirmation from independent actuaries that the alternative arrangements were expected to be no more expensive than the overall cost of providing the benefits that would otherwise have arisen under the IMI Pension Fund when compared by reference to the long term actuarial assumptions adopted for the fund as a whole in the 31 March 2005 actuarial valuation.

Mr D C Nicholas was a member of an unfunded unapproved arrangement that provided compensation for the legislative restriction of his pensionable pay in the IMI Pension Fund to the earnings cap. From April 2006 he elected to forgo his benefits under this arrangement and remain in the IMI Pension Fund on the basis that the revised arrangements would mean the earnings cap would no longer apply.

Mr T J Slack also remained in the IMI Pension Fund from April 2006 and retired at age 60 in July 2006.

In April 2006 Mr M J Lamb "opted-out" of the IMI Pension Fund and receives a cash allowance equal to 35% of his basic salary instead of accrual for future service from that date, although accrued benefits generally continue to be linked to final salary inflation and fund benefits were preserved in relation to ill-health retirement, death-in-service and retirement after age 50 for redundancy or otherwise at the Company's instance.

On joining the Company in May 2006, Mr D M Hurt elected not to join the Company's defined contribution pension scheme and receives a cash allowance equal to 35% of his basic salary instead of pension benefits.

The policy regarding pension arrangements for new appointments will be flexible to take account of the individual position, the cost of pension arrangements to the Company, including in particular the cost of defined benefits, and the alternative forms of pension provision. However, the norm would not be to offer defined benefits to new executive directors.

Mr W R Whitney was a USA-based executive director and during the year was a member of two pension arrangements in the USA. The first was a defined contribution arrangement, the IMI 401 (k) Plan. In the period from 1 January 2006 to 31 December 2006 employer contributions of £4,757 were made to this plan (2005: £4,621). The second was a defined benefit arrangement, the IMI Americas Supplemental Executive Retirement Plan. His pension payable from age 60 would be 60% of basic salary less any pension from the employer's contributions to the defined contribution plan and an amount representing the Social Security Primary Insurance payable. There are no post retirement increases provided under the plan. Normally no dependants' pension is payable on death after retirement but Mr Whitney has opted for a reduced member's pension with such an attaching dependant's pension. On death prior to retirement a dependant's pension, equal to the member's pension, is payable.

Details of the pension benefits earned in the IMI Pension Fund or the IMI Americas Supplemental Executive Retirement Plan are summarised in the following table.

Name	Age at 31.12.06*	Pensionable service to 31.12.06*	Accrued pension at 31.12.06*	Increase in accrued pension over the year	Increase in pension over the year (net of inflation)	Transfer value of accrued pension at 31.12.06*	Transfer value of accrued pension at 31.12.05	Difference between transfer values at 31.12.05 and 31.12.06*	Value of increase in accrued pension at 31.12.06* (net of inflation)
		Years	£000 pa	£000 pa	£000 pa	£000	£000	£000	£000
M J Lamb	46	20	240	21	15	2,949	2,295	654	184
T J Slack**	60	31	246	15	15	4,505	5,053	(548)	294
D C Nicholas	57	3	21	15	15	466	139	327	321
W R Whitney***	57	19	120	17	14	1,338	1,006	332	139

* Or as at earlier date of leaving.

** Retired in July 2006, receiving an annual (post-commutation) pension of £185,589 and a lump sum (provided by commutation of pension) of £890,966. The 2006 transfer value reflects these benefits.

*** The accrued pension as at 31 December 2006 of £120,393 pa reduces to £106,756 pa following Mr Whitney's election for a death after retirement dependant's pension. The transfer value as at 31 December 2006 reflects this lower accrued pension and attaching dependant's pension. All relevant benefits are provided in US Dollars and figures shown were converted at £1 to \$1.96 (2005: £1 to \$1.72).

The accrued pension benefits at the end of the year (July 2006 for Mr T J Slack) represent the annual deferred pension to which each executive director would have been entitled had he left service at the end of the year. This is based on completed pensionable service and pensionable earnings at the relevant date. The increase in the accrued pension during the year reflects the completion of further pensionable service and the increase in pensionable earnings, both before and after inflation. During 2006 the trustee of the IMI Pension fund adopted new assumptions for the calculation of cash equivalent transfer values payable from the fund. The main changes were to allow for longer life expectancy and for investment returns in excess of gilt yields for members close to retirement. In broad terms the overall impact of the changes was to increase transfer values for younger members by around 10% with small reductions for those close to (or over) normal retirement age. Changes to pension benefit arrangements in place at the start of the year were made with effect from April 2006 as described above. The above figures exclude any benefits from the executive directors' voluntary contributions.

Transfer values calculated in accordance with the guidance note GN11 published by the Institute and Faculty of Actuaries are also shown in the table. A transfer value is the estimated capital value of the future pension payments in retirement.

Under the method and assumptions used by the Company to account for the costs associated with its defined benefit pension schemes (see note 20 to the financial statements on page 77), the aggregate value of the accrued benefits as at 31 December 2006 for the executive directors was £8.65 million (2005: £13.11 million).

Mr R M Twite, age 40, was appointed as an executive director from 1 February 2007. From 31 January 2007 he "opted-out" of the IMI Pension Fund, retaining a deferred pension based on service to 31 January 2007 of £53,256 pa and receiving a cash allowance of 35% of basic salary instead of pension benefits. His deferred pension is payable from age 60 and on death after retirement a dependant's pension equal to 50% of his pension is payable. If death occurs within five years of retirement the dependant's pension is increased to 100% of his pension for the remainder of this five year period. The transfer value of his deferred pension as at 1 February 2007 was £428,000.

Mr W R Whitney ceased to be a director in January 2007 and will be retiring as an employee in July 2007. His accrued pension benefits will reflect his earnings and service at the date of leaving (as described above) and no additional pension entitlements will arise as a result.

Summary of directors' remuneration

	Salary and fees £000	Non-cash benefits £000	Sums by way of taxable allowances £000	Bonus £000	LTIP Payment £000	Total 2006 £000	Total 2005 £000
Non-executive							
N B M Askew ¹	175	-	-	-	-	175	111
K S Beeston	45	-	-	-	-	45	36
L Browne	45	-	-	-	-	45	45
A M Frew ²	29	-	-	-	-	29	-
T M Gateley	50	-	-	-	-	50	50
J W Leng ³	-	-	-	-	-	-	64
Executive							
D M Hurt ⁴	155	4	153	137	-	449	-
M J Lamb	573	4	170	504	287	1,538	1,298
D C Nicholas	311	7	19	274	156	767	610
T J Slack ⁵	173	13	-	153	87	426	795
W R Whitney ⁶	313	11	-	276	157	757	657
Total	1,869	39	342	1,344	687	4,281	
Total 2005							3,666

¹ Mr Askew was appointed on 14 May 2005.

² Ms Frew was appointed on 2 March 2006

³ Mr Leng retired from office with effect from 13 May 2005.

⁴ Mr Hurt was employed from 1 May 2006 and appointed as a director on 1 July 2006.

⁵ Mr Slack retired as a director on 1 July 2006 and retired as an employee on 31 July 2006.

⁶ Mr Whitney retired as a director on 31 January 2007 and retires as an employee on 31 July 2007. All of his remuneration was provided in US dollars and figures shown were converted at the average exchange rate for the year of £1 to \$1.85.

Half of the Bonus and all of the LTIP payments shown above must be invested in the relevant share matching arrangement (as described above) in the case of all eligible executive directors.

Remuneration shown above as salaries for non-executive directors includes fees of £169,073 (2005: £134,166). No compensation for loss of office was paid to or receivable by any director in 2006 and none is payable in respect of the retirement of Mr W R Whitney.

Benefits in kind provided to executive directors consist of the provision of private health care arrangements, life insurance and All Employee Share Ownership Plan awards. A fully expensed motor car was provided for Mr W R Whitney and Mr T J Slack.

Mr D M Hurt, Mr M J Lamb and Mr D C Nicholas, elected for a cash alternative scheme, instead of a company car. Sums paid by way of taxable allowances in the above table include cash allowances instead of company car and pension benefits and in the case of Mr D M Hurt, who joined the Company during the year, a relocation allowance of £90,000.

External appointments

Executive directors may accept one external appointment with the consent of the Board, and are normally allowed to retain fees from external non-executive directorships. Mr M J Lamb was a non-executive director of Spectris plc until 17 May 2006, in respect of which office he received remuneration of £17,500 in 2006.

Directors' awards under legacy long term incentive plan

Details of entitlements under the long term incentive plan of persons who were directors during the year are set out below. The last awards were made under this plan in 2005.

	At 1 January 2006	At 31 December 2006
M J Lamb	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2005 (vested at 36% of salary in March 2006) (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (c) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006* (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007
T J Slack	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2005 (vested at 36% of salary in March 2006) (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (c) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006* pro rated to the date of retirement (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007 pro rated to the date of retirement
D C Nicholas	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006* (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007
W R Whitney	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2005 (vested at 24% of salary in March 2006) (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006 (c) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007	(a) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2006* (b) up to 50% of salary potentially vesting in respect of the three year performance period ending 31 December 2007

* Based on performance measured to 31 December 2006 these awards will vest in 2007 at 50% of 2006 salary but will be pro rated to the date of retirement in the case of Mr T J Slack.

Awards potentially vest in March of the year following the performance period end date shown above. References in the above table to salary are to annual salary for the final year of the relevant performance period. The last awards were made under this plan in 2005. If and when any award vests in future years, the net amount payable to eligible executive directors will be used to purchase shares at the market prices that then apply pursuant to the linked deferred share plan.

Awards under the legacy IMI Deferred Share Plan 2002 (the '2002 Plan')

Director	Performance period and conditions	Percentage of award vested (maximum of 50%)	Percentage of LTIP award invested in deferred share plan	Gross amount of vested LTIP award (£)	Amount of vested LTIP award net of income tax and social charges (£)	Date shares acquired ('initial shares') with vested LTIP award	Purchase price for initial shares (per share)	Number of initial shares purchased	Potential 1 for 4 matching award if initial shares held for three years after acquisition	Release date
M J Lamb	a)	36	100	194,670	114,855	03.04.06	570.66p	19,986	4,997	03.04.09
T J Slack*	a)	36	Nil	Nil	Nil	-	-	Nil	Nil	-
W R Whitney	b)	22	100	54,371	31,535	04.04.05	407.49p	7,677	1,919	04.04.08
	c)	24	100	72,943	40,629	03.04.06	570.66p	7,070	1,767	03.04.09

* At the time of vesting of the LTIP award Mr Slack was within six months of retirement and in accordance with the rules of the 2002 Plan he was not eligible to invest his vested LTIP award in shares.

a) Performance period 2003-2005. Performance target for maximum vesting: £82m Group economic profit.

b) Performance period 2002-2004. Award and performance target related to Mr Whitney's responsibilities prior to his appointment as an executive director.

c) Performance period 2003-2005. Performance target for maximum vesting: in respect of 2003 the target was based on Mr Whitney's responsibilities prior to his appointment as an executive director and for 2004-2005 the Group economic profit target applied.

Directors' share awards

Options were granted during 2006 under the Performance Share Plan (although for Mr W R Whitney, a US-based executive director the award was structured as a deferred share award rather than a nil cost option). Since 2004 no executive share options have been granted to executive directors under the IMI Executive Share Option (1995) Scheme. Relevant details are shown in the table of share options and share awards on page 48.

Share awards/options are outstanding under the following schemes:

SAYE - IMI Savings-Related Share Option Scheme

ESOS - IMI Executive Share Option (1995) Scheme

PSP - Performance Share Plan

DBP - Deferred Bonus Plan

Directors' share awards

Director	Scheme	Performance condition	Date of grant/award	Award price* (pence)	As at 01.01.06 (or date of joining if earlier)	During the year		As at 31.12.06 (or date of retirement if earlier)	Date from which exercisable/ vesting date	Expiry date	Date of exercise	Mid market price at date of exercise	Notional gain (£)**
						Granted	Exercised / vested						
M J Lamb	SAYE	a)	06.04.99	254.00	1,707		1,707	Nil	01.08.06		27.09.06	498.0p	4,165
			09.04.01	201.00	1,679		1,679	Nil	01.07.06		05.07.06	510.0p	5,188
			08.04.03	201.00	4,980			4,980	01.08.10	31.01.11			
			06.04.04	289.00	1,335			1,335	01.08.09	31.01.10			
			04.04.06	494.55	Nil	378		378	01.08.09	31.01.10			
	ESOS	b)	02.04.03	256.90	418,500		418,500	Nil	02.04.06		03.04.06	571.5p	1,316,601
			24.03.04	358.00	418,000			418,000	24.03.07	24.03.14			
	PSP	c)	13.05.05	388.67	139,100			139,100	13.05.08	13.05.15			
			03.04.06	569.67	Nil	100,500		100,500	03.04.09	03.04.16			
D M Hurt	PSP	c)	28.09.06	494.92	Nil	62,800		62,800	28.09.09	28.09.16			
T J Slack	SAYE	a)	09.04.01	201.00	1,477		1,477	1,477	01.07.06		15.11.06	553.0p	5,199
			08.04.03	201.00	865		865	865	01.08.06		15.11.06	553.0p	3,045
	ESOS	b)	02.04.03	256.90	210,000		210,000	Nil	02.04.06		03.04.06	571.5p	660,660
			24.03.04	358.00	173,000			173,000	24.03.07	24.03.14			
	PSP	c)	13.05.05	388.67	83,900			83,900	13.05.08	13.05.15			
D C Nicholas	SAYE	a)	04.04.06	494.55	Nil	3,255		3,255	01.08.11	31.01.12			
	ESOS	b)	24.03.04	358.00	156,000			156,000	24.03.07	24.03.14			
	PSP	c)	13.05.05	388.67	75,800			75,800	13.05.08	13.05.15			
			03.04.06	569.67	Nil	54,500		54,500	03.04.09	03.04.16			
W R Whitney	ESOS	b)	02.04.03	256.90	55,000		55,000	Nil	02.04.06		03.04.06	571.5p	173,030
			24.03.04	358.00	156,000			156,000	24.03.07	24.03.14			
	PSP	c)	13.05.05	388.67	69,000			69,000	13.05.08	13.05.15			
			03.04.06	569.67	Nil	58,900		58,900	03.04.09	03.04.16			

a) No performance conditions are attached to the SAYE options.

b) EPS – growth of 6%, 12% and 24% above RPI, respectively, for awards worth, one, two and three times salary at option price.

c) 50% of award based on comparative TSR (with an EPS underpin) with vesting at median (30% vests) to upper quartile (full vesting) and 50% based on real EPS growth of between 3% (30% vests) to 12% (full vesting) for 2006 awards and 15% (full vesting) for 2005 awards.

* The award price is the exercise price for awards structured as options and the price used to calculate the number of shares for PSP awards to UK participants in the PSP which are structured as deferred share awards or nil cost options and, in each case, is determined by reference to an average middle market quotation without discount.

**Notional gains on share options exercised shown in the table above are based on the mid-market price at the date of exercise.

The closing price of the Company's ordinary shares on the last trading day of the year, 29 December 2006, was 507p per share and the price range during the year was 469p to 582.5p.

Awards under the Deferred Bonus Plan ("DBP")

Director	Bonus year	Percentage of maximum total bonus achieved	Amount of bonus received invested in the DBP to purchase base shares (expressed as a percentage)	Date of investment in base shares	Purchase price for base shares per share	Number of base shares purchased	Potential maximum matching award if base shares held for three years after acquisition and subject to performance conditions**	Performance conditions for matching share awards	Vesting date
M J Lamb	2005	100	50	03.04.06	570.658p	27,758	59,224	a)	03.04.09
D C Nicholas	2005	100	100	03.04.06	570.658p	29,051	49,586	a)	03.04.09
T J Slack*	2005	100	Nil	-	-	-	-	-	-
W R Whitney	2005	100	50	03.04.06	570.658p	14,729	26,630	a)	03.04.09

* At the time of payment of the bonus Mr T J Slack was within six months of retirement and in accordance with the rules of the DBP he was not eligible to invest in shares under the DBP.

** Shares acquired via investment of the gross or net of tax annual bonus under the DBP are eligible for a matching award by reference to the gross bonus amount invested.

a) Performance of the Group in relation to economic value added will be measured over the years 2006-2008. Vesting is tiered (with linear progression in each band) as follows: 0% to 20% of maximum (maximum being a 125% match for the Chief Executive and 100% match for other executive directors) for positive economic value added up to £100 million, 20% to 50% for £100 million to £150 million, 50% to 85% for £150 million to £200 million and 85% to 100% for £200 million to £210 million economic value added.

Directors' interests and shareholding guidelines

All of the executive directors hold interests in the ordinary shares of the company (as detailed below) and, in line with a policy adopted in 2005, all are expected to acquire and maintain holdings equivalent in value to one year's salary within three years of appointment or by June 2008 for those in office in 2005. All of the persons who were non-executive directors at the year end held shares in the Company and during 2005 the Board set a shareholding guideline as set out on page 38 which it encourages non-executive directors to meet.

The interests (all being beneficial) of the directors and their families in the share capital of the Company are shown below:

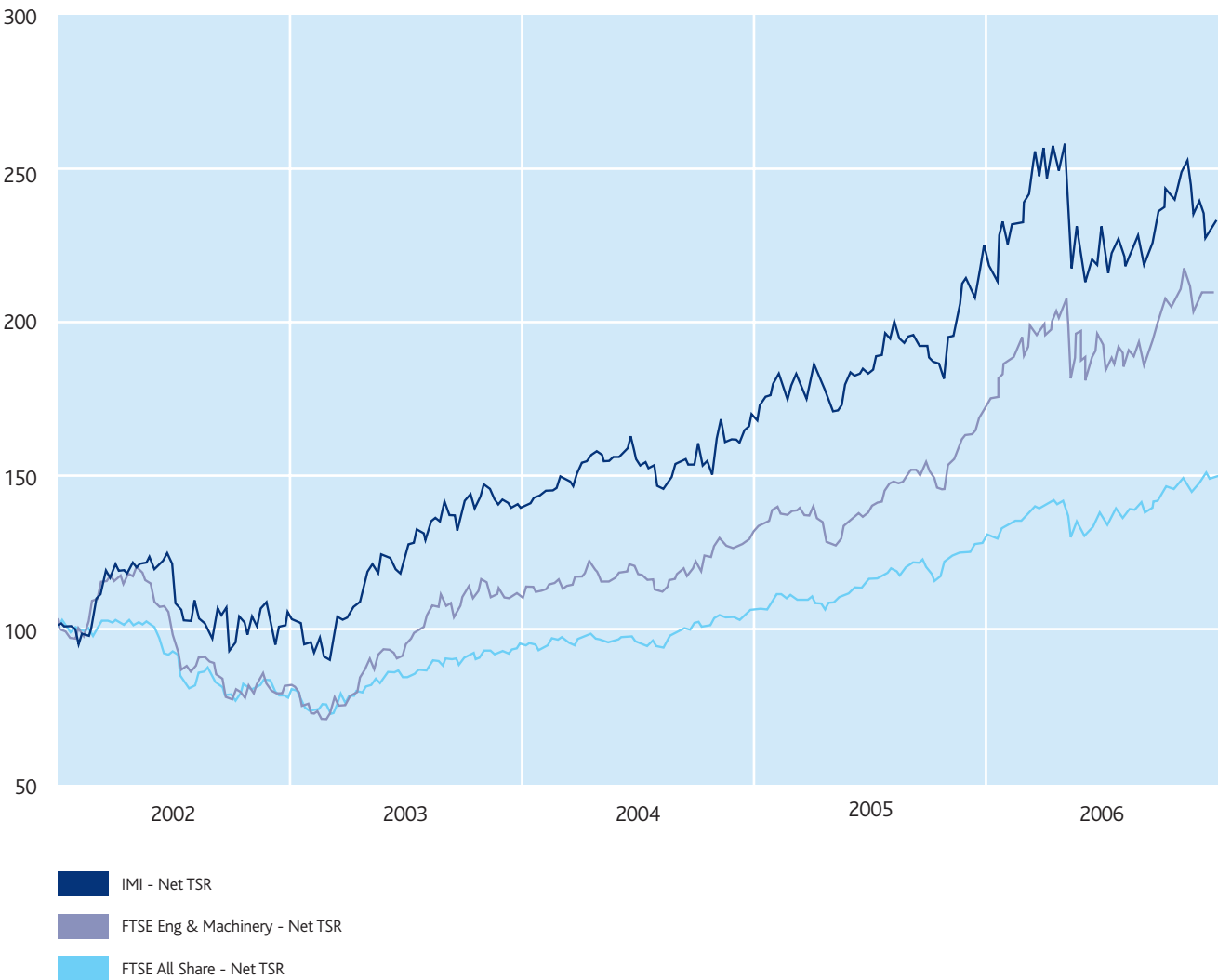
Directors during 2006	Shares held	Interest at 31.12.06 or date of retirement	Interest at 01.01.2006 or date of appointment
N B M Askew	Ordinary shares	10,000	10,000
K S Beeston	Ordinary shares	7,500	3,000
L Browne	Ordinary shares	6,438	5,008
A M Frew	Ordinary shares	7,500	Nil
T M Gateley	Ordinary shares	7,500	7,500
D M Hurt**	Ordinary shares	11,024	11,000
M J Lamb	Ordinary shares	96,442	114,814
D C Nicholas	Ordinary shares	41,914	11,986
T J Slack*	Ordinary shares	73,868	82,892
W R Whitney	Ordinary shares	58,960	25,061

* Mr Slack retired as a director on 1 July 2006.

** Mr Hurt was appointed as a director on 1 July 2006.

During the period 31 December 2006 to 5 March 2007 there were no changes in the interests of any current director from those shown save for purchases within the IMI All Employee Share Ownership Plan on 9 January 2007 of 24 shares on behalf of each of Mr M J Lamb and Mr D M Hurt and 25 shares on behalf of Mr D C Nicholas, in each case at 510.67p per share, and on 13 February 2007 of 24 shares on behalf of Mr M J Lamb and Mr D M Hurt and 23 shares on behalf of Mr D C Nicholas at 530.67p per share.

Total shareholder return performance graph *This section of this report is not required to be audited.*
 The graph below compares the Company's total shareholder return over the five years ended 31 December 2006 with that for the FTSE All Share Index and the FTSE Engineering and Machinery Sector Index. The FTSE Engineering and Machinery Sector Index was chosen as a comparator index because it is the industry share index in which the Company is classified and provides a reasonable benchmark for assessment of its relative performance. The FTSE All Share Index was chosen as it is a relevant broad equity market index. Over the past five years the IMI share price has outperformed the FTSE Engineering and Machinery Sector Index by 6.2% and the FTSE All Share Index by 47.7%. Over the same period total shareholder return has outperformed the FTSE Industrial Engineering Sector Index by 10.8% and the FTSE All Share Index by 56.6%.



Approved by the Board on 5 March 2007 and signed on its behalf by:

Kevin S Beeston

Chairman of the Remuneration Committee

IMI independent auditor's report

We have audited the group and parent company financial statements (the "financial statements") of IMI plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on pages 31 and 32.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc, Birmingham
Chartered Accountants
Registered Auditor
5 March 2007

IMI consolidated income statement

for the year ended 31 December 2006

	Notes 2	2006 £m	2005 restated £m
Revenue	3,4,5	1,505	1,341
Operating profit before restructuring costs and intangible amortisation		191.8	163.7
Restructuring costs		(19.7)	(4.2)
Intangible amortisation		(17.0)	(5.6)
Operating profit	3,4,5	155.1	153.9
Financial income	7	73.8	67.0
Financial expense	7	(70.7)	(69.8)
Net financial income/(expense)	7	3.1	(2.8)
Profit before tax	8		
Before restructuring costs and intangible amortisation		194.9	160.9
Restructuring costs		(19.7)	(4.2)
Intangible amortisation		(17.0)	(5.6)
Total		158.2	151.1
Taxation	9		
UK taxation		(6.5)	(2.5)
Overseas taxation		(42.5)	(45.9)
Total		(49.0)	(48.4)
Profit of continuing operations after tax		109.2	102.7
Loss from discontinued operations (net of tax)	6	(33.5)	(86.5)
Total profit for the year		75.7	16.2
Attributable to:			
Equity shareholders of the Company		72.7	13.5
Minority interest		3.0	2.7
Total profit for the year		75.7	16.2
Earnings per share	10		
Basic earnings per share		21.4p	3.9p
Diluted earnings per share		21.3p	3.8p
Basic earnings per share (continuing operations)		31.3p	28.6p
Diluted earnings per share (continuing operations)		31.1p	28.4p

IMI consolidated balance sheet

at 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Intangible assets	12	286.8	185.8
Property, plant and equipment	13	190.3	192.1
Deferred tax assets	14	55.8	75.5
Total non-current assets		532.9	453.4
Inventories	15	217.4	205.6
Trade and other receivables	16	295.2	301.8
Current tax		8.7	18.6
Investments		15.0	13.0
Cash and cash equivalents		107.2	188.9
Total current assets		643.5	727.9
Total assets		1,176.4	1,181.3
Liabilities			
Bank overdraft	19	(3.6)	(6.9)
Interest-bearing loans and borrowings	19	(43.3)	(44.4)
Provisions for liabilities and charges	22	(6.2)	(1.1)
Current tax		(18.2)	(27.1)
European Commission fine		(33.5)	-
Trade and other payables	18	(322.0)	(301.9)
Total current liabilities		(426.8)	(381.4)
Interest-bearing loans and borrowings	19	(140.7)	(148.2)
Employee benefits	20	(120.6)	(172.8)
Provisions for liabilities and charges	22	(34.3)	(33.0)
Deferred tax liabilities	14	(15.5)	(4.4)
Other payables		(21.9)	(20.4)
Total non-current liabilities		(333.0)	(378.8)
Total liabilities		(759.8)	(760.2)
Net assets		416.6	421.1
Equity	23		
Share capital		90.3	89.6
Share premium		155.2	149.4
Other reserves		(0.4)	7.3
Retained earnings		167.6	171.3
Total equity attributable to equity shareholders of the Company		412.7	417.6
Minority interest		3.9	3.5
Total equity		416.6	421.1

Approved by the Board of Directors on 5 March 2007 and signed on its behalf by:

Norman B M Askew Chairman

IMI consolidated statement of cash flows

for the year ended 31 December 2006

	2006 £m	2005 restated £m
Cash flows from operating activities		
Profit for the period	75.7	16.2
Adjustments for:		
Depreciation	38.7	38.4
Amortisation	17.0	5.6
Loss from discontinued operations (net of tax)	33.5	86.5
Gain on sale of property, plant and equipment	(2.0)	-
Financial income	(73.8)	(67.0)
Financial expense	70.7	69.8
Equity-settled share-based payment expenses	2.9	2.0
Income tax expense	49.0	48.4
Increase in trade and other receivables	(30.9)	(8.9)
(Increase)/decrease in inventories	(14.8)	5.7
Increase in trade and other payables	19.0	24.6
Increase/(decrease) in provisions and employee benefits	1.3	(12.0)
Cash generated from the operations	186.3	209.3
Income taxes paid	(40.0)	(54.2)
	146.3	155.1
Additional pension scheme funding	(15.6)	(15.6)
European Commission fine	-	(31.3)
Net cash from operating activities	130.7	108.2
Cash flows from investing activities		
Interest received	8.4	10.0
Proceeds from sale of property, plant and equipment	7.7	5.6
Sale of investments	0.1	-
Purchase of investments	(2.6)	(1.1)
Acquisition of subsidiaries, net of cash acquired	(118.4)	(63.6)
Disposal of subsidiary/discontinued operations (net of cash disposed)	-	206.4
Redemption of vendor loan note re Polypipe	35.9	-
Acquisition of property, plant and equipment	(39.7)	(41.9)
Capitalised development expenditure	(4.4)	(5.2)
Net cash from investing activities	(113.0)	110.2
Cash flows from financing activities		
Interest paid	(17.0)	(18.2)
Purchase of own shares	(42.4)	(72.6)
Proceeds from the issue of share capital for employee share schemes	6.5	10.4
Drawdown/(repayment) of borrowings	7.4	(14.0)
Dividends paid to minority interest	(2.1)	(1.6)
Dividends paid	(60.7)	(59.4)
Net cash from financing activities	(108.3)	(155.4)
Net (decrease)/increase in cash and cash equivalents	(90.6)	63.0
Cash and cash equivalents at start of year	182.0	115.4
Effect of exchange rate fluctuations on cash held	12.2	3.6
Cash and cash equivalents at end of the year	103.6	182.0

Notes to the cash flow appear in note 24.

IMI consolidated statement of recognised income and expense

for the year ended 31 December 2006

	2006 £m	2005 £m
Foreign currency translation differences	(9.6)	5.6
Actuarial gains/(losses) on defined benefit plans (net of tax)	23.3	(36.4)
Effective portion of change in fair value of net investment hedges (net of tax)	1.9	2.3
Income and expense recognised directly in equity	15.6	(28.5)
Profit for the year	75.7	16.2
Total recognised income and expense for the year	91.3	(12.3)
Attributable to:		
Equity holders of the Company	88.3	(15.0)
Minority interest	3.0	2.7
Total recognised income and expense for the year	91.3	(12.3)

reconciliation of changes in shareholders' equity

	2006 £m	2005 £m
Shareholders' equity at start of the year	417.6	550.8
Total recognised income and expense for the year	88.3	(15.0)
Dividends paid	(60.7)	(59.4)
Share based payments (net of tax)	3.4	3.4
Issue of ordinary shares net of costs	6.5	10.4
Purchase of own shares	(42.4)	(72.6)
	(93.2)	(118.2)
Shareholders' equity at end of the year	412.7	417.6

1. Significant accounting policies

IMI plc (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRS). The financial statements were approved by the Board of Directors on 5 March 2007.

The following standards and IFRICs were issued and endorsed by the EU but are not effective for the year ended 31 December 2006.

- IFRS 7 Financial Instruments: Disclosures – application date 1 January 2007.
- Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures – application date 1 January 2007.
- IFRIC 8 Scope of IFRS 2 – application date 1 May 2006.

The application of IFRS 7 and the amendment to IAS 1 would not have affected the balance sheet or income statement as the standards are concerned with disclosure only. The application of IFRIC 8 would not have affected the balance sheet or income statement.

a) Basis of accounting

The financial statements are presented in pounds sterling (which is the Company's functional currency), rounded to the nearest hundred thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: pension plan assets, derivative financial instruments, and assets and liabilities identified as hedged items.

Non-current assets and disposal groups held for sale, where applicable, are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies have been applied consistently throughout the Group for the purposes of these consolidated financial statements.

b) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The nature of the markets in which the Group operates leads, from time to time, to a variety of possible legal and other claims from customers. Whenever such matters are notified to the Group, they are investigated and any liability which results is recognised in the accounts as soon as a reliable estimate can be made.

The Company has disposed of a number of its previous businesses. The sale agreements contained various warranties and indemnities. In some cases, the agreements also include the potential for adjustment to the purchase price, sometimes contingent on future events. At the time of disposal, the accounts reflect the best estimate of the likely future impact of these agreements. Estimates are updated at each reporting date to reflect the latest information available.

Information about other areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the notes which follow.

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are those entities which the Company has the power to control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

d) Foreign currencies

i) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translating transactions at the exchange rate ruling on the transaction date are reflected in profit before taxation in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair values were determined.

ii) Foreign operations

The income statements of overseas subsidiary undertakings are translated at the appropriate average rate of exchange for the year and the adjustment to year end rates is taken directly to reserves.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at foreign exchange rates ruling at the balance sheet date.

Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. Since 1 January 2004, the Group's date of transition to IFRS, such differences have been recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

e) Financial instruments and fair value hedging

Financial instruments are recorded initially at fair value. Subsequent measurement depends on the designation of the instrument, which follows the categories in IAS 39:

- Fixed deposits, comprising principally funds held with banks and other financial institutions, and short term borrowings and overdrafts are classified as "loans and receivables" under IAS 39, and held at amortised cost (after impairment losses).
- Derivatives, comprising interest rate swaps, foreign exchange contracts and options, metals futures contracts and any embedded derivatives, are classified as "held for trading" under IAS 39, unless designated as hedges.
- Long term loans are generally held at amortised cost. Where the long term loan is hedged, generally by an interest rate swap, and the hedge is regarded as effective, the carrying value of the long term loan is adjusted for changes in fair value of the risk being hedged.
- Trade receivables are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.
- Trade payables are stated at amortised cost.
- Financial assets and liabilities are recognised on the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.

f) Other hedging

i) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

ii) Hedge of net investment in foreign operation

Where a foreign currency liability or derivative financial instrument is in a formally designated hedge of a net investment in a foreign operation, foreign exchange differences arising on translation of the foreign currency liability or derivative financial instrument are recognised directly in equity to the extent the hedge is effective. The Company assesses the hedge effectiveness of its net investment hedges based on fair value changes of its net assets and the fair value changes of debt designated as hedging instruments.

g) Intangible assets

i) Goodwill

Goodwill arising on acquisitions from 1 January 2004 is recognised as an intangible asset at the date of acquisition. The asset recognised is measured as the excess of the consideration paid over the fair value of the net assets acquired and associated costs. On an ongoing basis the goodwill is measured at cost less impairment losses (see accounting policy 'Impairment'). Fair value adjustments are always considered to be provisional at the first balance sheet date after acquisition to allow the maximum time to elapse for management to make a reliable estimate.

Goodwill on acquisitions prior to 1 January 1998 was deducted from reserves in the year of acquisition. In accordance with IFRS3 '*Business Combinations*' such goodwill continues as a deduction from reserves and is not recognised in the income statement in the event of disposal of the cash-generating unit to which it relates.

Goodwill arising on acquisitions after 1 January 1998 was previously capitalised as an intangible asset and amortised on a straight-line basis over a maximum 20 years. The un-amortised goodwill under UK GAAP at 31 December 2003 became the opening goodwill under the Group's transition to IFRS on 1 January 2004.

1. Significant accounting policies (continued)

g) Intangible assets

ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised provided benefits are probable, cost can be reliably measured and if, and only if, the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and directly attributable overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 'Impairment').

iii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy on 'Impairment'). Cost reflects management's prudent judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from utilisation of the asset, discounted at an appropriate discount rate. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation of intangible assets other than goodwill

Amortisation is charged to the income statement on a straight-line basis (unless such a basis is not aligned with the anticipated benefit) over the estimated useful lives of intangible assets. Amortisation commences from the date the intangible asset becomes available for use. The estimated maximum useful lives are as follows:

- Capitalised development costs 5 years
- Customer relationships Life of the intangible asset (up to 10 years)
- Other intangible assets Life of the intangible asset (up to 10 years)

h) Property, plant and equipment

Freehold land and assets in the course of construction are not depreciated.

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 'Impairment').

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight line basis (unless such a basis is not aligned with the anticipated benefit) so as to write down the cost of assets to residual values over the period of their estimated useful lives within the following ranges:

- Freehold buildings 25 to 50 years
- Leasehold land and buildings Period of lease
- Plant and machinery 3 to 20 years

i) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see above) and impairment losses (see accounting policy 'Impairment').

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. The majority of leasing transactions entered into by the Group are operating leases.

j) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy 'Impairment').

k) Inventories

Inventories are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost includes all direct costs of production and the appropriate proportion of production overheads.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

m) Impairment

The carrying values of the Group's non-financial assets other than inventories (see accounting policy 'Inventories') and deferred tax assets (see accounting policy 'Income tax'), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset or all assets within its cash-generating unit is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

i) Calculation of recoverable amount

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows generated (based upon the latest Group three year plan and prudently extrapolated using an appropriate long-term growth rate in perpetuity consistent with GDP growth) are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management believe that this approach is appropriate based upon historical experience. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

ii) Reversals of impairment

As required by IAS36: '*Impairment of Assets*', any impairment of goodwill is non-reversible. In respect of other assets, an impairment loss is reversed if at the balance sheet date there are indications that the loss has decreased or no longer exists following a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Dividends

Dividends are recognised as a liability in the period in which they are approved by shareholders.

o) Employee benefits

i) Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at balance sheet date on high quality bonds of the appropriate currency that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss in the income statement. Actuarial gains and losses are recognised immediately in equity and disclosed in the statement of recognised income and expense.

1. Significant accounting policies (continued)

o) Employee benefits (continued)

iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on high quality bonds of the appropriate currency that have maturity dates approximating the terms of the Group's obligations.

iv) Equity and equity-related compensation benefits

The Group operates an Executive Share Option Scheme, a SAYE Share Option Scheme, an All Employee Share Ownership Plan and a Performance Share Plan. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

p) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are valued at management's best estimate of the amount required to settle the present obligation at the balance sheet date.

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

q) Trade and other payables

Trade and other payables are stated at their cost.

r) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer and reliable measurement is possible. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods.

s) Financial income and expense

Financial income comprises interest receivable on funds invested, assumed returns on employee benefit plan assets and gains on hedging instruments that are recognised in the income statement. Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the income statement on the date that the dividend is declared.

Financial expense comprises interest payable on borrowings calculated using the effective interest rate method, assumed interest on employee benefit plan liabilities and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

t) Income tax

Current tax represents the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and taking into account any adjustments in respect of prior years.

Deferred tax is provided, using the balance sheet method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the timing of the reversal of the differences can be controlled and it is probable that the differences will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

u) Non-current assets held for sale and discontinued operations

Where applicable, on initial classification as "held for sale," non-current disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on the initial classification of assets as held for sale are included in profit or loss, even for assets measured at fair value, as are gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of, is held for sale or is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

2. Restatement

2005 comparative figures have been restated where appropriate to exclude and separately identify restructuring costs, to show financial income and expense related to defined benefit pension schemes gross, to show loss from discontinued operations (net of tax) and the equivalent in the cash flow as single line items, and to include goodwill within segment assets.

3. Business and geographical segments

Segmental information is presented in the consolidated financial statements in respect of the Group's continuing business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structures. Inter-segment revenue is insignificant. Geographical location is the secondary basis of segment reporting.

The Group is comprised of the following main business segments and activities:

Fluid Controls

Severe Service	Design, manufacture, supply and service of high performance critical control valves and associated equipment for power generation plants, oil & gas producers and other process industries.
Fluid Power	Design, manufacture and supply of motion and fluid control systems, principally pneumatic devices, for original equipment manufacturers in commercial vehicle, medical, print, packaging and other industries.
Indoor Climate	Design, manufacture and supply of indoor climate control systems, principally balancing valves for large commercial buildings and thermostatic radiator valves for residential buildings.

Retail Dispense

Beverage Dispense	Design, manufacture and supply of still and carbonated beverage dispense systems and associated merchandising equipment for brand owners and retailers.
Merchandising Systems	Design, manufacture and supply of point of purchase display systems for brand owners and retailers.

3. Business and geographical segments (continued)

	Revenue		Operating profit before restructuring costs & intangible amortisation		Operating profit	
	2006	2005	2006	2005 restated	2006	2005
	£m	£m	£m	£m	£m	£m
Fluid Controls	1,043	877	147.0	113.9	116.6	107.6
Severe Service	300	213	45.1	28.3	33.4	27.3
Fluid Power	557	492	72.4	60.0	55.9	55.4
Indoor Climate	186	172	29.5	25.6	27.3	24.9
Retail Dispense	462	464	44.8	49.8	38.5	46.3
Beverage Dispense	282	278	25.4	28.4	22.0	26.3
Merchandising Systems	180	186	19.4	21.4	16.5	20.0
Segment result	1,505	1,341	191.8	163.7	155.1	153.9
Net financial income/(expense)					3.1	(2.8)
Taxation					(49.0)	(48.4)
Profit of continuing operations after tax					109.2	102.7

The segment result in relation to the operations discontinued in 2005 is included in note 6.

	Segment assets		Segment liabilities	
	2006	2005	2006	2005
	£m	£m	£m	£m
Fluid Controls	712.7	553.5	218.0	168.6
Severe Service	260.2	137.4	85.8	56.1
Fluid Power	354.8	322.0	92.9	78.3
Indoor Climate	97.7	94.1	39.3	34.2
Retail Dispense	259.2	272.3	72.3	80.0
Beverage Dispense	130.2	129.1	47.1	47.6
Merchandising Systems	129.0	143.2	25.2	32.4
Total	971.9	825.8	290.3	248.6

Reconciliation of segment assets and liabilities to Group balance sheet

	Assets		Liabilities	
	2006 £m	2005 £m	2006 £m	2005 £m
Segment assets and liabilities	971.9	825.8	290.3	248.6
Corporate items	17.8	23.7	109.7	64.4
Employee benefits	-	-	120.6	172.8
Investments	15.0	13.0	-	-
Vendor loan note	-	35.8	-	-
Net borrowings	107.2	188.9	187.6	199.5
Net taxation and others	64.5	94.1	51.6	74.9
Per Group balance sheet	1,176.4	1,181.3	759.8	760.2

Other information

	Goodwill in segment net assets		Capital expenditure		Depreciation & amortisation	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Fluid Controls	147.0	79.6	35.9	28.5	43.3	30.2
Severe Service	75.7	21.7	9.6	4.5	15.1	4.4
Fluid Power	56.1	41.6	21.4	18.7	21.9	19.5
Indoor Climate	15.2	16.3	4.9	5.3	6.3	6.3
Retail Dispense	83.8	85.9	11.1	14.5	11.8	12.3
Beverage Dispense	13.4	10.9	6.7	6.2	7.7	6.2
Merchandising Systems	70.4	75.0	4.4	8.3	4.1	6.1
Total continuing operations	230.8	165.5	47.0	43.0	55.1	42.5
Discontinued and corporate	-	-	1.4	10.8	0.6	13.5
Total	230.8	165.5	48.4	53.8	55.7	56.0

Revenue by geographical destination

	2006 £m	2005 £m
UK	173	164
Germany	194	179
Rest of Europe	376	324
USA	490	466
Asia/Pacific	183	141
Rest of World	89	67
Total continuing operations	1,505	1,341

3. Business and geographical segments (continued)

Segmental analysis of operating assets by geographical origin

	Carrying amount of segment assets		Capital expenditure	
	2006 £m	2005 £m	2006 £m	2005 £m
UK	207.5	164.8	13.4	22.2
Germany	112.8	103.9	7.1	9.3
Rest of Europe	285.0	171.3	13.0	7.4
USA	274.6	308.8	11.6	12.3
Asia/Pacific	69.8	64.3	2.9	2.5
Rest of World	22.2	12.7	0.4	0.1
Total continuing operations	971.9	825.8	48.4	53.8

The results in respect of discontinued operations are set out in note 6.

4. Acquisitions

The only material acquisition completed in the period was of the whole share capital of Truflo, a leading specialist in valves and related flow control products, acquired in April 2006 and reported within Severe Service and Fluid Power.

Of the reported increase in revenue and operating profit of continuing operations (before restructuring costs and intangible amortisation), £62m and £11.2m respectively result from the Truflo acquisition. The extra months of the prior year acquisitions of Syron Engineering & Manufacturing and GT Development Corporation (Fluid Power), the ABB KK Control Valve business (Severe Service) and Northern Parts & Service (Beverage Dispense) contributed £58m and £6.5m revenue and operating profit respectively.

Assuming the Truflo acquisition had been completed on 1 January 2006, the Group revenue and operating profit would have been higher by £19m and £3m respectively.

	Truflo £m	Total £m
Purchase consideration (cash)	123.1	126.7
Less cash acquired	(8.3)	(8.3)
Purchase consideration including costs, net of cash acquired	114.8	118.4
Fair value of net assets	(12.5)	(8.1)
Intangible assets net of deferred tax	(31.5)	(33.7)
Goodwill	70.8	76.6

The methodology for arriving at fair value, intangible asset values and residual goodwill is described in the Accounting Policies in note 1(g) to these financial statements. The goodwill recognised on the acquisition principally relates to skills present within the assembled workforce, customer service capability and the geographical and sector presence of Truflo.

Net assets acquired:

	Truflo			Total		
	Carrying values at acquisition £m	Fair value adjustments £m	Fair value of net assets acquired £m	Carrying values at acquisition £m	Fair value adjustments £m	Fair value of net assets acquired £m
Intangible assets	-	46.4	46.4	-	50.0	50.0
Property, plant and equipment	8.1	(0.7)	7.4	8.1	(0.8)	7.3
Working capital	10.8	(6.3)	4.5	10.8	(10.7)	0.1
Cash acquired	8.3	-	8.3	8.3	-	8.3
Tax	(0.4)	(13.9)	(14.3)	(0.4)	(15.2)	(15.6)
Net identifiable assets and liabilities	26.8	25.5	52.3	26.8	23.3	50.1

The fair value adjustments relate principally to harmonisation with Group IFRS compliant accounting policies. Intangible assets principally comprise the value of non-contractual customer relationships and the order book at acquisition.

Cash impact of acquisitions

	2006 £m	2005 £m
Purchase consideration net of cash acquired	(114.8)	(67.2)
Deferred consideration to pay	-	3.6
Deferred consideration paid	(3.6)	-
	(118.4)	(63.6)

5. Operating profit

	2006 £m	2005 £m
Revenue	1,504.9	1,341.0
Cost of sales	(904.1)	(800.5)
Gross profit	600.8	540.5
Distribution costs	(202.5)	(197.3)
Administrative expenses	(244.0)	(190.4)
Other operating income	0.8	1.1
Operating profit	155.1	153.9

6. Discontinued operations

There were no businesses discontinued during 2006.

In September 2006, the European Commission announced the imposition of a fine of €48.3m on IMI in relation to its former copper fittings business, which was sold in 2002. Pending the outcome of an appeal, the full amount of the fine together with associated costs has been provided and is reported in the income statement as a loss on discontinued operations (net of tax). The fine was paid in January 2007.

The 2005 loss on discontinued operations (net of tax) comprises the after tax trading result of the Polypipe Group (Building Products segment) together with the loss on its disposal in September 2005, plus closure costs of its Doors & Windows business which was closed prior to sale.

	2005	
	£m	£m
Revenue		237
Operating profit		18.8
Less tax		(6.0)
		12.8
Loss on disposal	(96.6)	
Closure costs	(8.0)	
	(104.6)	
Less tax	5.3	
		(99.3)
Loss from discontinued operations (net of tax)		(86.5)

In 2005 the discontinued operations had cash inflows from operating activities of £3.0m and cash outflows from investing activities of £5.6m.

6. Discontinued operations (continued)

6. Discontinued operations (continued)		2005 £m
Net cash of subsidiary disposed of		(7.7)
Sale of operations		216.7
		209.0
Net cash flow from discontinued operations		(2.6)
		206.4
	2006	2005
Basic EPS	(9.9p)	(24.7p)
Diluted EPS	(9.8p)	(24.6p)

7. Financial income and expense

	Interest £m	2006 Other £m	Total £m	Interest £m	2005 Other £m	Total £m
Interest income	5.5		5.5	6.9		6.9
Gain on remeasurement of financial instruments and derivatives		5.3	5.3		3.3	3.3
Expected return on defined benefit pension plan assets *		63.0	63.0		56.8	56.8
Financial income	5.5	68.3	73.8	6.9	60.1	67.0
Interest expense	(13.0)		(13.0)	(15.1)		(15.1)
Loss on remeasurement of financial instruments and derivatives		(3.0)	(3.0)		(3.9)	(3.9)
Financial cost of defined benefit pension scheme liabilities *		(54.7)	(54.7)		(50.8)	(50.8)
Financial expense	(13.0)	(57.7)	(70.7)	(15.1)	(54.7)	(69.8)
Net financial income/(expense)	(7.5)	10.6	3.1	(8.2)	5.4	(2.8)

* In line with best practice, the components of financial income and expense related to defined benefit pension schemes have been separated into their respective categories. The comparatives have been restated accordingly. Net financial income/expense is unaffected.

8. The following have been charged in arriving at profit before tax

	2006 £m	2005 restated £m
Depreciation of property, plant and equipment	38.7	38.4
Amortisation of intangible fixed assets	17.0	5.6
Fees payable to the company's auditor for the audit of the company's annual accounts	0.3	0.2
Fees payable to the company's auditor and its associates for other services:*		
The audit of the company's subsidiaries, pursuant to legislation	2.8	2.7
Other services pursuant to legislation	0.1	0.2
Tax services	1.4	0.7
Fees in respect of IMI Pension Fund:		
Audit	-	-
Rentals under operating leases:		
Property rents	15.8	15.7
Hire of plant and machinery	5.9	5.8
Research and development**	29.7	24.2

* In addition to the above, amounts paid to the UK auditors in respect of fees included in cost of investment were £nil (2005: £0.1m).

** In addition to the above, £4.4m (2005: £5.2m) has been capitalised. See note 12.

9. Taxation

	2006	2005
	£m	£m
a) Recognised in the income statement:		
Current tax expense		
UK corporation tax		
Current tax on income for the period	22.6	25.3
Adjustments in respect of prior periods	(0.5)	(0.5)
	<u>22.1</u>	<u>24.8</u>
Double taxation relief	(22.4)	(20.1)
	<u>(0.3)</u>	<u>4.7</u>
Overseas tax		
Current tax on income for the period	43.5	45.7
Adjustments in respect of prior periods	(0.4)	0.8
	<u>43.1</u>	<u>46.5</u>
Total current taxation	<u>42.8</u>	<u>51.2</u>
Deferred taxation		
Origination and reversal of temporary differences	6.2	3.2
Income tax expense excluding tax on sale of discontinued operations	<u>49.0</u>	<u>54.4</u>
Income tax expense on continuing operations	49.0	48.4
Income tax expense on trading profits of discontinued operations	-	6.0
	<u>49.0</u>	<u>54.4</u>
Income tax re disposal of discontinued operations	(0.3)	(5.3)
Total income tax expense	<u>48.7</u>	<u>49.1</u>
b) Deferred tax recognised directly in equity:		
Equity-settled transactions	(0.5)	(1.3)
On gains and losses of financial instruments	-	1.0
On actuarial gains and losses of recognised income and expense	9.0	(15.3)
	<u>8.5</u>	<u>(15.6)</u>
c) Reconciliation of effective tax rate		
Profit before tax	158.2	151.1
Tax using the group rate of 31% (2005: 32%)	49.0	48.4
Effects of:		
Non-taxable and non-deductible items	(0.8)	2.8
Utilisation of tax losses	-	(4.1)
Effect of differing tax rates in different jurisdictions	1.1	1.8
Over provided in prior years	(0.3)	(0.5)
Total tax in income statement	<u>49.0</u>	<u>48.4</u>

10. Earnings per ordinary share

The weighted average number of shares in issue during the year, net of shares purchased by the Company and held as treasury shares or to satisfy share option vesting, was 339.3m, 341.3m diluted for the effect of outstanding share options (2005: 349.7m, 352.4m diluted). Basic and diluted earnings per share have been calculated on earnings of £72.7m (2005: £13.5m) and the equivalent ratios for continuing businesses have been calculated on earnings of £106.2m (2005: £100.0m), before loss on discontinued operations (net of tax).

The directors consider that adjusted earnings per share figures, using earnings as calculated below, give a more meaningful indication of the underlying performance.

	2006 £m	2005 £m
Profit of continuing operations after tax	109.2	102.7
Minority interest	(3.0)	(2.7)
Charges/(credits) included in profit for the year:		
Change in fair value of financial instruments	(2.3)	0.6
Intangible amortisation	17.0	5.6
Restructuring costs	19.7	4.2
Taxation on credits included in profit before tax	(10.7)	(3.5)
Earnings for adjusted EPS	129.9	106.9
Weighted average number of shares	339.3m	349.7m
Adjusted EPS	38.3p	30.6p

11. Employee information

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

	2006	2005
Fluid Controls	10,231	9,234
Retail Dispense	4,295	4,422
Other	212	192
Continuing operations	14,738	13,848
Discontinued operations	-	3,251
Total	14,738	17,099

The aggregate employment cost for the year was:

	£m	£m
Continuing operations		
Wages and salaries	377.1	357.2
Share-based payments (see note 21)	2.9	2.0
Social security costs	55.6	51.6
Pension costs	18.5	16.7
	454.1	427.5
Discontinued operations		
Wages and salaries	-	42.3
Social security costs	-	5.2
Pension costs	-	0.7
	-	48.2
Total	454.1	475.7

The detailed information concerning directors' emoluments, shareholdings and options is shown in the Remuneration Report on pages 38 to 50.

12. Intangible assets

	Goodwill	Capitalised development cost			Other acquired intangibles			Total
	Carrying amount £m	Cost £m	Amort- isation £m	Carrying amount £m	Cost £m	Amort- isation £m	Carrying amount £m	Carrying amount £m
At 31 December 2004	322.7	13.5	5.6	7.9	7.0	4.2	2.8	333.4
Exchange adjustments	6.7	0.6	0.4	0.2	0.8	0.1	0.7	7.6
Acquisitions	36.1	-	-	-	9.1	-	9.1	45.2
Additions	-	5.2	-	5.2	-	-	-	5.2
Disposals	(200.0)	-	-	-	-	-	-	(200.0)
Amortisation for year			2.3	(2.3)		3.3	(3.3)	(5.6)
At 31 December 2005	165.5	19.3	8.3	11.0	16.9	7.6	9.3	185.8
Exchange adjustments	(11.3)	(1.4)	(0.7)	(0.7)	(1.9)	(0.9)	(1.0)	(13.0)
Acquisitions	76.6	-	-	-	50.0	-	50.0	126.6
Additions	-	4.4	-	4.4	-	-	-	4.4
Amortisation for year			2.4	(2.4)		14.6	(14.6)	(17.0)
At 31 December 2006	230.8	22.3	10.0	12.3	65.0	21.3	43.7	286.8

Cumulative impairment recognised in relation to goodwill is £nil.

Management believe that the key assumptions on which the carrying value of goodwill is based are appropriate and any reasonable change in these assumptions would not lead to a materially different conclusion.

13. Property, plant and equipment

	Land & buildings			Plant & machinery			Assets in course of construction	Total
	Gross book value £m	Depre- ciation £m	Net book value £m	Gross book value £m	Depre- ciation £m	Net book value £m	Net book value £m	Net book value £m
At 31 December 2004	193.1	83.8	109.3	737.1	577.6	159.5	10.9	279.7
Exchange adjustments	1.2	0.7	0.5	9.1	7.4	1.7	0.6	2.8
Acquisitions	10.0	2.3	7.7	8.0	6.3	1.7	-	9.4
Additions	3.2	-	3.2	33.7	-	33.7	11.7	48.6
Disposals of subsidiaries	(43.9)	(14.2)	(29.7)	(229.1)	(175.8)	(53.3)	(0.1)	(83.1)
Disposals	(10.0)	(3.5)	(6.5)	(47.5)	(39.7)	(7.8)	(0.6)	(14.9)
Transfers	0.6	-	0.6	10.5	-	10.5	(11.1)	-
Depreciation for year		3.2	(3.2)		47.2	(47.2)		(50.4)
At 31 December 2005	154.2	72.3	81.9	521.8	423.0	98.8	11.4	192.1
Exchange adjustments	(7.3)	(3.3)	(4.0)	(23.8)	(19.9)	(3.9)	(0.8)	(8.7)
Acquisitions	4.3	1.2	3.1	11.0	6.8	4.2	-	7.3
Additions	6.1	-	6.1	24.5	-	24.5	13.4	44.0
Disposals	(8.3)	(6.5)	(1.8)	(25.9)	(22.0)	(3.9)	-	(5.7)
Transfers	0.8	-	0.8	13.7	-	13.7	(14.5)	-
Depreciation for year		4.9	(4.9)		33.8	(33.8)	-	(38.7)
At 31 December 2006	149.8	68.6	81.2	521.3	421.7	99.6	9.5	190.3

The net book value of land and buildings comprises:

	2006 £m	2005 £m
Freehold: land	13.9	13.3
buildings	59.5	60.7
Long leasehold	0.1	0.2
Short leasehold	7.7	7.7
	81.2	81.9

Included in the total net book value of plant and machinery is £0.8m (2005: £0.3m) in respect of assets acquired under finance leases. Depreciation for the year on these assets was £0.4m (2005: £0.5m).

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Non-current assets	(10.1)	(17.4)	28.1	19.6	18.0	2.2
Inventories	(6.4)	(10.3)	4.6	8.5	(1.8)	(1.8)
Interest-bearing loans and borrowings	(0.6)	(0.7)	0.4	0.3	(0.2)	(0.4)
Employee benefits and provisions	(63.7)	(72.7)	8.7	3.7	(55.0)	(69.0)
Tax value of loss carry-forward recognised	(1.3)	(2.1)	-	-	(1.3)	(2.1)
	(82.1)	(103.2)	41.8	32.1	(40.3)	(71.1)
Set off of tax	26.3	27.7	(26.3)	(27.7)	-	-
	(55.8)	(75.5)	15.5	4.4	(40.3)	(71.1)

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following item:

	2006 £m	2005 £m
Tax losses	24.6	22.2

The majority of the tax losses have no expiry date. Deferred tax assets have not been recognised due to uncertainty over their recoverability.

There are no material unrecognised temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised.

Movement in temporary differences during the year

	Balance at 1 Jan 06 £m	Recognised in income £m	Recognised directly in equity £m	Other £m	Acquisitions/ disposals £m	Balance at 31 Dec 06 £m
Non-current assets	2.2	(2.0)	-	2.2	15.6	18.0
Inventories	(1.8)	-	-	0.1	(0.1)	(1.8)
Interest-bearing loans and borrowings	(0.4)	0.1	-	0.1	-	(0.2)
Employee benefits and provisions	(69.0)	7.0	8.5	(0.8)	(0.7)	(55.0)
Tax value of loss carry-forward recognised	(2.1)	0.8	-	-	-	(1.3)
	(71.1)	5.9	8.5	1.6	14.8	(40.3)

	Balance at 1 Jan 05 £m	Recognised in income £m	Recognised directly in equity £m	Other £m	Acquisitions/ disposals £m	Balance at 31 Dec 05 £m
Non-current assets	4.3	2.6	-	(0.4)	(4.3)	2.2
Inventories	(3.3)	1.6	-	0.2	(0.3)	(1.8)
Interest-bearing loans and borrowings	(2.2)	1.7	1.0	(0.9)	-	(0.4)
Employee benefits and provisions	(52.2)	0.8	(16.6)	(0.1)	(0.9)	(69.0)
Tax value of loss carry-forward recognised	-	(2.2)	-	0.1	-	(2.1)
	(53.4)	4.5	(15.6)	(1.1)	(5.5)	(71.1)

15. Inventories

	2006 £m	2005 £m
Raw materials and consumables	85.8	75.2
Work in progress	78.0	61.8
Finished goods	53.6	68.6
	217.4	205.6

16. Trade and other receivables

	2006 £m	2005 £m
Falling due for payment within one year		
Trade debtors	262.3	230.9
Other debtors	12.5	12.2
Vendor loan note re Polypipe	-	35.8
Prepayments and accrued income	13.0	13.5
Deferred consideration	-	0.4
Other financial assets	3.6	4.7
	291.4	297.5
Falling due for payment after more than one year		
Other debtors	3.8	4.3
	295.2	301.8
Receivables are stated after:		
Bad debt provision	7.0	7.5

17. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group interest-bearing loans and borrowings. For more information about the Group exposure to interest rate and foreign currency risk, see note 19.

	2006 £m	2005 £m
Current liabilities		
Secured bank loans*	1.0	2.3
Unsecured bank loans	21.1	-
Unsecured other loans	20.9	41.7
Secured other loans*	0.1	0.1
Current portion of finance lease liabilities	0.2	0.3
	43.3	44.4
Non-current liabilities		
Unsecured bank loans	20.0	-
Unsecured other loans	120.2	147.6
Secured other loans*	0.3	0.4
Finance lease liabilities	0.2	0.2
	140.7	148.2

*Secured against property, plant and equipment.

18. Trade and other payables

Current liabilities

	2006 £m	2005 £m
Trade creditors	171.8	144.2
Bills of exchange payable	3.2	2.9
Other taxation	8.3	7.2
Social security	3.2	4.5
Other creditors	0.7	1.2
Accruals and deferred income	133.6	137.8
Other financial liabilities	1.2	4.1
	322.0	301.9

19. Financial instruments

Foreign currency

The Group's policies in relation to foreign exchange, interest rate and credit risk are outlined in the Directors' Report on pages 32 and 33.

Interest rate risk management

The Group has raised US dollar debt through the issuance of medium to long term fixed rate loan notes. In order to manage its exposure to interest rates by maintaining a balanced exposure between fixed and floating rates, US\$ 95m of this fixed rate exposure was hedged back to floating through the use of interest rate swaps in 1999 and 2001 covering loan notes with maturities between 2009 and 2014. The interest component of the fair value of this portion of the loan notes has been designated as a hedged item and has been revalued accordingly in the accounts.

The fair value of these interest rate swaps is included in the balance sheet at £2.7m (2005: £4.7m). The hedged item is included in the value of the debt as an increase in liability of £2.7m (2005: increase £5.2m).

Exposure to other interest rate volatility is managed through a combination of fixed rate debt and derivative instruments where appropriate.

Net investment hedges

The Group hedges its net investments in overseas operations by way of external currency loans and currency forward contracts.

The intention is to minimise the Group's exposure to gains and losses in Group equity resulting from retranslation of currency net assets at balance sheet dates. To the extent that an instrument used to hedge a net investment in a foreign operation is determined to be an effective hedge, the gain or loss arising is recognised directly in reserves. The ineffective portion is recognised immediately in the income statement.

19. Financial instruments (continued)

Currency profile of assets and liabilities

	Assets excluding cash and debt 2006 £m	Cash 2006 £m	Debt 2006 £m	Exchange contracts 2006 £m	Net assets 2006 £m	Net assets 2005 £m
Sterling	68	9	(38)	291	330	302
US Dollar	186	10	(128)	(60)	8	37
Euro	134	30	(20)	(141)	3	7
Other	110	58	(2)	(90)	76	75
Total	498	107	(188)	-	417	421

Exchange contracts and non-sterling debt are financial instruments used as currency hedges of overseas net assets.

Financial liabilities

	Debt and exchange contracts 2006 £m	Floating rate 2006 £m	Fixed rate 2006 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(38)	(38)	-	-	-
US Dollar	(188)	(111)	(77)	6.9	4.4
Euro	(161)	(140)	(21)	5.2	0.7
Other	(92)	(92)	-	-	-
Total	(479)	(381)	(98)		

Financial liabilities

	Debt and exchange contracts 2005 £m	Floating rate 2005 £m	Fixed rate 2005 £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years
Sterling	(42)	(42)	-	-	-
US Dollar	(189)	(102)	(87)	6.9	5.4
Euro	(78)	(57)	(21)	5.2	2.7
Other	(86)	(86)	-	-	-
Total	(395)	(287)	(108)		

Interest rates are managed using fixed and floating rate debt and financial instruments including interest rate swaps. Floating rate liabilities comprise short term debt which bears interest at short term bank rates and the liability side of exchange contracts where the interest element is based primarily on three month inter bank rate.

All cash surpluses are invested for short periods and can be considered as floating rate investments.

Short term trade debtors and creditors have been excluded from the above two analyses. There are no other material non-interest bearing financial assets or liabilities.

Undrawn committed facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 31 December in respect of which all conditions precedent had been met were as follows:

	2006 £m	2005 £m
Expiring within a year	5	25
Expiring between one and two years	50	25
Expiring after more than two years	75	85
	130	135

The weighted average life of these facilities is 2.7 years (2005: 2.3 years).

Fair value of financial assets/(liabilities)

	2006		2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Short term deposits	7.2	7.2	40.0	40.0
Cash at bank and in hand	100.0	100.0	148.9	148.9
Other borrowings falling due within one year	(43.3)	(43.4)	(44.4)	(44.4)
Borrowings falling due after more than one year	(140.7)	(144.4)	(148.2)	(153.9)
Overdrafts	(3.6)	(3.6)	(6.9)	(6.9)
Forward currency contracts - transactional	0.5	0.5	(1.0)	(1.0)
Forward currency contracts - translational	(0.2)	(0.2)	(2.1)	(2.1)
Interest rate instruments	2.5	2.5	3.6	3.6
Metals futures contracts	(0.3)	(0.3)	-	-

For short term deposits, cash at bank and in hand and floating rate borrowings, the fair values are the same as book value.

For fixed rate borrowings, forward currency contracts and interest rate instruments, fair values have been calculated by discounting cashflows at prevailing market rates.

There is no difference between the fair value and book value of trade debtors and creditors.

The Company has a process in place to review significant contracts to identify embedded derivatives. As at 31 December 2006, there are no material embedded derivatives.

19. Financial instruments (continued)
Effective interest rates and repricing analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced.

	Effective interest rate %	Total £m	2006					5 years and over £m
			0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	
Cash and cash equivalents	Floating	107.2	107.2	-	-	-	-	-
US Loan Notes 2007-2022	6.70%-7.17%	(51.1)	(7.8)	-	(25.5)	-	-	(17.8)
US Loan Notes 2009-2014 Floating	Floating	(25.4)	-	-	(8.1)	-	-	(17.3)
US Loan Notes 2009	6.56%	(25.6)	-	-	(25.6)	-	-	-
US Loan Notes 2009	Floating	(25.9)	-	-	(25.9)	-	-	-
UK Loan Notes 2007	Floating	(13.1)	(13.1)	-	-	-	-	-
Finance leases	Various	(0.4)	(0.2)	(0.1)	(0.1)	-	-	-
Bank overdrafts	Floating	(3.6)	(3.6)	-	-	-	-	-
Secured bank loans	Floating	(1.0)	(1.0)	-	-	-	-	-
Unsecured bank loans	Floating	(41.1)	(21.1)	-	-	-	(20.0)	-
Other secured loans	Floating	(0.4)	(0.1)	(0.1)	-	(0.1)	(0.1)	-
Total		(80.4)	60.3	(0.2)	(85.2)	(0.1)	(20.1)	(35.1)

	Effective interest rate %	Total £m	2005					5 years and over £m
			0 to <1 year £m	1 to <2 years £m	2 to <3 years £m	3 to <4 years £m	4 to <5 years £m	
Cash and cash equivalents	Floating	188.9	188.9	-	-	-	-	-
US Loan Notes 2007-2022	6.70%-7.17%	(58.1)	-	(8.7)	-	(29.1)	-	(20.3)
US Loan Notes 2009-2014 Floating	Floating	(30.3)	-	-	-	(9.6)	-	(20.7)
US Loan Notes 2009	6.56%	(29.1)	-	-	-	(29.1)	-	-
US Loan Notes 2009	Floating	(30.1)	-	-	-	(30.1)	-	-
UK Loan Notes 2006-2007	Floating	(41.7)	(41.7)	-	-	-	-	-
Finance leases	Various	(0.5)	(0.3)	(0.2)	-	-	-	-
Bank overdrafts	Floating	(6.9)	(6.9)	-	-	-	-	-
Secured bank loans	Floating	(2.3)	(2.3)	-	-	-	-	-
Other secured loans	Floating	(0.5)	(0.1)	(0.1)	(0.1)	-	-	(0.2)
Total		(10.6)	137.6	(9.0)	(0.1)	(97.9)	-	(41.2)

20. Employee benefits

Post retirement benefits

	2006 £m	2005 £m
Recognised liability for defined benefit obligations	120.6	172.8

(a) Summary of assumptions

	31 Dec 2006		Weighted averages 31 Dec 2005		31 Dec 2004	
	UK % pa	Overseas % pa	UK % pa	Overseas % pa	UK % pa	Overseas % pa
Discount rate	5.1	4.2	4.8	4.0	5.3	4.6
Expected rate of salary increases ¹	4.7	2.8	4.5	2.8	4.5	3.6
Rate of pension increases ²	3.0	0.6	2.8	0.6	2.8	0.8
Rate of increase for deferred pensions ²	3.0	0.6	2.8	0.6	2.8	0.8
Medical cost trend rate	n/a	5.0 ⁴	n/a	5.0	n/a	5.0
Expected return on equities	7.8	6.2	7.8	7.0	8.0	6.8
Expected return on bonds	4.7	3.5	4.3	2.2	4.8	3.5
Expected return on property	n/a	4.0	n/a	3.0	n/a	3.9
Expected return on other assets ³	4.2	2.5	4.0	2.2	4.0	2.6
Overall expected return on assets	6.8	4.5	6.6	4.0	6.9	4.6

¹ Includes 0.2% pa as the average effect of the age-by-age promotional scale for UK.

² Appropriate for pension in excess of any Guaranteed Minimum Pension (GMP) for UK.

³ Based on the distribution of assets set out below.

⁴ Initial rate of 10% pa reducing by 0.5% pa each year to 5% pa. Assumed healthcare cost trend rates do not have a significant effect on the amounts recognised in the income statement.

The IMI Pension Fund constitutes around 90% of the total pension liabilities as at 31 December 2006. The mortality assumptions used for the Fund reflect its experience, together with an allowance for future improvements over time. The experience is next expected to be reviewed as part of the formal actuarial valuation as at 31 March 2008. The table below shows the implied life expectancy from age 65 for the Fund's current and future pensioners based on the mortality assumptions adopted. (The figure for future pensioners is based on the average current employee). No changes to these assumptions have been made during the year.

Implied life expectancy (years) from age 65 for:	Males	Females
Current pensioners	18.8	20.9
Future pensioners	21.3	23.4

(b) Reconciliation to the balance sheet as at 31 December

	2006				2005			
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m
Fair value of assets	999.9	56.1	-	1,056.0	931.5	53.1	-	984.6
Present value of defined benefit obligation (funded schemes)	(1,059.7)	(65.2)	-	(1,124.9)	(1,040.0)	(66.0)	-	(1,106.0)
Present value of defined benefit obligation (unfunded schemes)	-	(42.3)	(9.4)	(51.7)	-	(47.6)	(3.8)	(51.4)
Defined benefit liability at year end	(59.8)	(51.4)	(9.4)	(120.6)	(108.5)	(60.5)	(3.8)	(172.8)

20. Employee benefits (continued)
(c) Components of the pension expense recognised in the income statement for the year ended 31 December

	2006				2005			
	UK	Overseas	Overseas	Total	UK	Overseas	Overseas	Total
	£m	post	non-post	£m	£m	post	non-post	£m
		employ-	employ-			employ-	employ-	
		ment	ment			ment	ment	
		£m	£m			£m	£m	
From defined benefit schemes:								
Current service cost	13.9	4.1	1.0	19.0	10.6	3.6	-	14.2
Interest cost (in financial expense)	49.7	4.2	0.8	54.7	46.2	4.4	0.2	50.8
Expected return on assets (in financial income)	(60.7)	(2.3)	-	(63.0)	(54.5)	(2.3)	-	(56.8)
Past service cost	-	-	0.3	0.3	-	-	-	-
Actuarial (gains)/losses	-	-	(0.8)	(0.8)	-	-	-	-
Settlement/curtailment	-	-	-	-	-	0.2	-	0.2
Total pension expense from defined benefit schemes	2.9	6.0	1.3	10.2	2.3	5.9	0.2	8.4
Pension expense from defined contribution schemes	0.4	6.3	-	6.7	1.0	5.0	-	6.0
Total pension expense	3.3	12.3	1.3	16.9	3.3	10.9	0.2	14.4

Unless otherwise noted, pension expense is charged within operating profit in the income statement.

(d) Income and expense recognised through equity for the year ended 31 December

	2006				2005			
	UK	Overseas	Overseas	Total	UK	Overseas	Overseas	Total
	£m	post	non-post	£m	£m	post	non-post	£m
		employ-	employ-			employ-	employ-	
		ment	ment			ment	ment	
		£m	£m			£m	£m	
Actuarial gains/(losses) during the year	27.7	4.7	(0.1)	32.3	(49.4)	(2.1)	0.1	(51.4)
Cumulative amount of actuarial (losses)/gains at beginning of year	(44.8)	(5.5)	0.3	(50.0)	4.6	(3.4)	0.2	1.4
Cumulative amount of actuarial (losses)/gains at end of year	(17.1)	(0.8)	0.2	(17.7)	(44.8)	(5.5)	0.3	(50.0)

(e) Reconciliation of present value of Defined Benefit Obligation (DBO) for the year ended 31 December

	2006				2005			
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m
Present value of DBO at the beginning of the year	1,040.0	113.6	3.8	1,157.4	892.5	107.0	3.7	1,003.2
Current service cost	13.9	4.1	1.0	19.0	10.6	3.6	-	14.2
Interest cost	49.7	4.2	0.8	54.7	46.2	4.4	0.2	50.8
Employee contributions	2.0	0.7	-	2.7	1.5	-	-	1.5
Past service cost	-	-	0.3	0.3	-	-	-	-
Actuarial loss/(gain)								
-from experience	5.5	4.5	0.3	10.3	2.1	1.1	(0.2)	3.0
-from changes in assumptions	(14.7)	(4.8)	-	(19.5)	138.9	(0.4)	-	138.5
Actual benefit payments	(50.4)	(3.3)	(1.1)	(54.8)	(45.4)	(4.0)	-	(49.4)
Settlement/curtailment	-	-	-	-	-	(1.2)	-	(1.2)
Purchase/(sale) of businesses	13.7	0.8	-	14.5	(6.4)	-	-	(6.4)
Other	-	(12.3)	4.3	(8.0)	-	3.1	0.1	3.2
Present value of DBO at the end of the year	1,059.7	107.5	9.4	1,176.6	1,040.0	113.6	3.8	1,157.4

(f) Market value by category of assets as at 31 December

	2006				2005			
	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m	UK £m	Overseas post employ- ment £m	Overseas non-post employ- ment £m	Total £m
Equities	681.4	22.3	-	703.7	616.6	19.8	-	636.4
Bonds	285.9	24.3	-	310.2	305.5	22.9	-	328.4
Property	-	2.0	-	2.0	-	1.6	-	1.6
Other	32.6	7.5	-	40.1	9.4	8.8	-	18.2
Total	999.9	56.1	-	1,056.0	931.5	53.1	-	984.6

20. Employee benefits (continued)
(g) Reconciliation of the fair value of assets for the year ended 31 December

	2006				2005			
	UK	Overseas	Overseas	Total	UK	Overseas	Overseas	Total
	£m	post	non-post	£m	£m	post	non-post	£m
		employ-	employ-			employ-	employ-	
		ment	ment			ment	ment	
		£m	£m			£m	£m	
Fair value of assets at the beginning of the year	931.5	53.1	-	984.6	810.7	50.1	-	860.8
Expected return on assets	60.7	2.3	-	63.0	54.5	2.3	-	56.8
Actuarial gain/(loss) on assets	18.5	1.7	-	20.2	91.6	(0.3)	-	91.3
Actual company contributions:								
- normal	8.3	3.7	-	12.0	6.9	4.4	-	11.3
- additional	15.6	-	-	15.6	15.6	-	-	15.6
Employee contributions	2.0	0.7	-	2.7	1.5	-	-	1.5
Actual benefit payments	(50.4)	(1.1)	-	(51.5)	(45.4)	(4.0)	-	(49.4)
Settlements	-	-	-	-	-	(1.4)	-	(1.4)
Purchase/(sale) of businesses	13.7	-	-	13.7	(3.9)	-	-	(3.9)
Other	-	(4.3)	-	(4.3)	-	2.0	-	2.0
Fair value of fund assets at the end of the year	999.9	56.1	-	1,056.0	931.5	53.1	-	984.6

(h) Reconciliation of actual return on assets for the year ended 31 December

	2006				2005			
	UK	Overseas	Overseas	Total	UK	Overseas	Overseas	Total
	£m	post	non-post	£m	£m	post	non-post	£m
		employ-	employ-			employ-	employ-	
		ment	ment			ment	ment	
		£m	£m			£m	£m	
Expected return on assets	60.7	2.3	-	63.0	54.5	2.3	-	56.8
Actuarial gain/(loss) on assets	18.5	1.7	-	20.2	91.6	(0.3)	-	91.3
Actual return on assets	79.2	4.0	-	83.2	146.1	2.0	-	148.1

(i) Additional information

	UK	Overseas	Total
	£m	£m	£m
Expected employer contributions for year ending 31 December 2007:			
- normal	6.5	3.4	9.9
- additional	15.6	-	15.6
Expected employee contributions for year ending 31 December 2007	2.4	0.8	3.2
Expected benefits payable by the Company for year ending 31 December 2007	-	4.3	4.3

(j) Historical information

	2006 £m	2005 £m	2004 £m
Present value of the defined benefit obligation	(1,176.6)	(1,157.4)	(1,003.2)
Fair value of assets	1,056.0	984.6	860.8
Deficit	(120.6)	(172.8)	(142.4)
Experience loss/(gain) arising on plan liabilities	10.3	3.0	(1.6)
Experience gain arising on plan assets	(20.2)	(91.3)	(27.6)

21. Share-based payments

The Group operates the following share-based payment schemes:

SAYE savings-related share option scheme

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in the business. SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

Executive Share Option Scheme

Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005. All outstanding options granted under this scheme were granted subject to stretching performance conditions related to growth in earnings per share above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown below.

Long Term Incentive Plan (LTIP)

The last LTIP awards were made in 2005 as part of the transition to new long term incentive arrangements introduced in 2005. The LTIP allows cash awards to executive directors and selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments must normally be invested in market purchases of the Company's ordinary shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded of one additional share for every four with no further performance conditions.

Performance Share Plan (PSP)

These are open to the executive directors and selected senior managers within the Group. 50% of these PSP shares vest subject to EPS growth, based on internal financial performance conditions. Hence, for purposes of IFRS2, the fair value of the shares does not include any performance related discount. The plan uses TSR (total shareholder return) as a performance condition for the other 50% of shares granted. As TSR is a market based performance condition, the accounting treatment differs from that for shares subject to internal performance conditions. This means that the TSR performance condition must be incorporated into the calculation of the fair value, that is, there is a TSR-related discount in calculating the fair value.

Deferred Bonus Plan (DBP)

Under the DBP, for executive directors and selected senior managers a proportion of earned annual bonus will be mandatorily deferred for three years and delivered in shares in the Company. Qualifying employees may also elect to voluntarily defer all or part of the remainder of their annual bonus. Additional shares, in the form of a matching award, may be earned (to a maximum of 100% of the deferred bonus at the entry share price level or 125% for the Chief Executive) if stretching performance conditions are met by the Company over the three year deferral period.

21. Share-based payments (continued)

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Analysis of options granted

Employee SAYE options				Executive options		
	Number of options thousand	Weighted average option price	Normal exercisable date	Number of options thousand	Weighted average option price	Normal exercisable date
2003	976	201p	2007-2010	2,258	257p	2007-2013
2004	801	289p	2007-2009	2,199	358p	2007-2014
2005	464	380p	2008-2010	484	421p	2008-2015
2006	251	495p	2009-2011	-	-	-

Long Term Incentive Plan*			Performance Share Plan*		Deferred Bonus Plan*	
	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date	Number of awards thousand	Normal exercisable date
2005	53	2008	706	2008	-	-
2006	44	2009	716	2009	117	2009

* These options were granted at an option price of £nil.

The number and weighted average exercise prices of share options are as follows:

	Employee SAYE options			Executive options			Performance LTIP	Share Plan	Deferred Bonus Plan
	Number of options	Range of option prices	Weighted average option price	Number of options	Range of option prices	Weighted average option price	Number of shares	Number of shares	Number of shares
Outstanding at 1 January 2005	1,549,507	201-289p	243p	4,214,000	257-358p	308p	-	-	-
Exercisable at 1 January 2005	20,110	201-289p	233p	-	-	-	-	-	-
Granted	464,450	380p	380p	484,000	421p	421p	53,012	706,200	-
Exercised	184,852	201-289p	234p	11,000	257p	257p	-	-	-
Lapsed	545,921	201-380p	286p	76,250	257-421p	312p	6,003	-	-
Outstanding at 31 December 2005	1,283,184	201-380p	276p	4,610,750	257-421p	320p	47,009	706,200	-
Exercisable at 31 December 2005	232,793	201-380p	262p	3,000	257p	257p	-	-	-
Granted	250,619	494.55p	494.55p	-	-	-	43,623	716,250	116,816
Exercised	281,876	201-380p	215p	1,489,846	257p	257p	-	-	-
Lapsed	177,467	201-494.55p	314p	25,000	257-421p	316p	-	12,500	-
Outstanding at 31 December 2006	1,074,460	201-494.55p	336p	3,095,904	257-358p	350p	90,632	1,409,950	116,816
Exercisable at 31 December 2006	7,764	201p	201p	2,622,904	257-358p	337p	-	-	-

The weighted average share price at the date of exercise of share options exercised during the year was £5.57 (2005: £4.21).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes option pricing model. The assumptions used for grants in 2006 included a dividend yield of 3.5% (2005: 3.5%), expected share price volatility of 34% (2005: 34%), a weighted average expected life of 4.5 years (2005: 4.6 years) and a weighted average interest rate of 4.2% (2005: 4.2%). The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period arising from share-based payments are as follows:

	2006 £m	2005 £m
Equity settled share-based payment expense in employee cost in the income statement	2.9	2.0

22. Provisions for liabilities and charges

	Due inside one year Restructuring £m	Trade warranties £m	Due outside one year Other £m	Total £m
At 31 December 2004	4.4	20.4	16.5	36.9
Exchange adjustment	0.4	2.0	-	2.0
Acquisitions/disposals	-	0.1	-	0.1
Utilised during the year	(7.9)	(9.8)	(1.1)	(10.9)
Income statement	4.2	4.9	-	4.9
At 31 December 2005	1.1	17.6	15.4	33.0
Exchange adjustment	(0.2)	(0.7)	-	(0.7)
Acquisitions	0.4	1.8	-	1.8
Utilised during the year	(14.8)	(6.1)	(0.1)	(6.2)
Income statement	19.7	6.4	-	6.4
At 31 December 2006	6.2	19.0	15.3	34.3

The restructuring provision balance reflects residual amounts committed but not spent in relation to a number of specific projects to relocate or reorganise operations and facilities and upgrade talent.

Trade warranties are given in the normal course of business and cover a range of periods, typically from 1-6 years.

Other provisions comprise mainly environmental provisions, recognising the Group's obligations to remediate contaminated land at a number of current and former sites. Because of the long term nature of the liability, costs to be incurred and timescale are uncertain and the provision represent management's best estimate of these costs.

23. Share capital and reserves

	Share capital £m	Share premium account £m	Hedging reserve £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total parent equity £m	Minority interest £m	Total equity £m
At 31 December 2004	88.7	139.9	(4.5)	2.3	1.6	322.8	550.8	4.0	554.8
Total recognised income and expense			2.3	5.6		13.5	21.4	3.1	24.5
Issued in the year	0.9	9.5					10.4		10.4
Acquired during the year								(2.0)	(2.0)
Dividends paid						(59.4)	(59.4)	(1.6)	(61.0)
Actuarial losses on defined benefit plans (net of tax)						(36.4)	(36.4)		(36.4)
Share based payments (net of tax)						3.4	3.4		3.4
Treasury shares						(72.6)	(72.6)		(72.6)
At 31 December 2005	89.6	149.4	(2.2)	7.9	1.6	171.3	417.6	3.5	421.1
Total recognised income and expense			1.9	(9.6)		72.7	65.0	2.5	67.5
Issued in the year	0.7	5.8					6.5		6.5
Dividends paid						(60.7)	(60.7)	(2.1)	(62.8)
Actuarial gains on defined benefit plans (net of tax)						23.3	23.3		23.3
Share based payments (net of tax)						3.4	3.4		3.4
Shares held in trust for employee share schemes						(7.2)	(7.2)		(7.2)
Treasury shares						(35.2)	(35.2)		(35.2)
At 31 December 2006	90.3	155.2	(0.3)	(1.7)	1.6	167.6	412.7	3.9	416.6

Share capital

	Number of ordinary shares of 25p each			
	2006 m	2005 m	2006 £m	2005 £m
Authorised	480.0	480.0	120.0	120.0
Issued and fully paid:				
On issue at start of year	358.6	354.8	89.6	88.7
Issued to satisfy employee share schemes	2.4	3.8	0.7	0.9
On issue at end of year	361.0	358.6	90.3	89.6
Of which held within retained earnings	25.3	17.1		

During the year 2.4m shares were issued under employee share schemes realising £6.5m.

The Company made market purchases of a total of 8.2m (2005: 17.1m) of its own shares with an aggregate market value of £42.4m (2005: £72.6m) (nominal value £2.1m (2005: £4.3m)) including dealing costs of £0.2m (2005: £0.3m). Of the purchases in 2006, 1.2m shares with a value of £7.2m are held in trust to satisfy employee share scheme vesting.

Dividends

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2006 £m	2005 £m
11.7p per qualifying ordinary share (2005: 10.85p)	39.5	37.1

Dividends paid in the year of £60.7m represented 17.85p per share (2005: 16.85p).

Share options

The majority of UK employees may participate in the IMI SAYE Share Option (1994) Scheme and selected senior executives within the Group participate in the IMI Executive Share Option (1995) Scheme and the IMI Performance Share Plan. At 31 December 2006, options to purchase ordinary shares had been granted to and not exercised by participants of IMI share option schemes as follows:

	Date of grant	Number of shares	Price	Date of exercise
IMI SAYE Share Option (1994) Scheme	06.04.99	723	254p	01.08.06
	13.04.00	45,906	201p	01.07.07
	09.04.01	56,759	201p	01.07.06 or 01.07.08
	08.04.02	145,502	244p	01.08.07 or 01.08.09
	08.04.03	240,619	201p	01.08.06, 01.08.08 or 01.08.10
	06.04.04	345,217	289p	01.08.07 or 01.08.09
	05.04.05	249,410	380p	01.08.08 or 01.08.10
	04.04.06	239,214	494.55p	01.08.09 or 01.08.11
IMI Executive Share Option (1995) Scheme	26.03.97	2,572	390.8p	26.03.00 to 26.03.07
	18.09.97	10,235	384.9p	18.09.00 to 18.09.07
	25.03.98	8,615	455.1p	25.03.01 to 25.03.08
	24.03.99	49,200	284.6p	24.03.02 to 24.03.09
	22.03.00	23,425	226.6p	22.03.03 to 22.03.10
	03.04.01	121,545	248.4p	03.04.04 to 03.04.11
	03.04.02	325,522	309.1p	03.04.05 to 03.04.12
	25.09.02	90,000	274.0p	25.09.05 to 25.09.12
	02.04.03	550,154	256.9p	02.04.06 to 02.04.13
	24.03.04	1,992,750	358.0p	24.03.07 to 24.03.14
	04.10.04	80,000	362.2p	04.10.07 to 04.10.14
	23.03.05	473,000	420.5p	23.03.08 to 23.03.15
IMI 2005 Long Term Incentive Plan (also known as IMI Performance Share Plan)	13.05.05	706,200	388.67p	13.05.08 to 13.05.15
	03.04.06	639,650	569.67p	03.04.09 to 03.04.16
	28.09.06	76,600	494.92p	28.09.09 to 28.09.16

SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

24. Cash flow notes

(a) Reconciliation of cash generated from the operations

	2006 £m	2005 £m
Cash generated from the operations	186.3	209.3
Sale of property, plant and equipment	7.7	5.6
Purchase of investments	(2.5)	(1.1)
Acquisition of property, plant and equipment	(39.7)	(41.9)
Capitalised development expenditure	(4.4)	(5.2)
Operating cash flow	147.4	166.7

(b) Reconciliation of cash and cash equivalents

Cash and cash equivalents in current assets	107.2	188.9
Bank overdraft in current liabilities	(3.6)	(6.9)
Cash and cash equivalents	103.6	182.0

(c) Reconciliation of net cash to movement in net borrowings

Net (decrease)/increase in cash and cash equivalents	(90.6)	63.0
(Drawdown)/repayment of borrowings	(7.4)	14.0
Cash (outflow)/inflow	(98.0)	77.0
Currency translation differences	28.2	(11.9)
Movement in net borrowings in the year	(69.8)	65.1
Net borrowings at the start of the year	(10.6)	(75.7)
Net borrowings at the end of the year	(80.4)	(10.6)

(d) Analysis of net debt

	Cash and deposits £m	Borrowings and finance leases due		Total net debt £m
		within 1 year £m	after more than 1 year £m	
At 31 December 2005	188.9	(51.3)	(148.2)	(10.6)
Cash flow	(93.9)	3.4	(7.5)	(98.0)
Currency translation differences	12.2	1.0	15.0	28.2
At 31 December 2006	107.2	(46.9)	(140.7)	(80.4)

25. Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	2006		2005	
	Land and buildings £m	Others £m	Land and buildings £m	Others £m
Within one year	8.7	3.9	3.1	1.4
In the second to fifth year	25.1	8.9	12.3	10.9
After five years	16.9	0.1	50.8	0.6
	50.7	12.9	66.2	12.9

Operating lease payments represent rentals payable by the Group primarily for certain of its office properties.

26. Commitments

Group contracts in respect of future capital expenditure which had been placed at the balance sheet date amounted to £5m (2005: £4m).

Foreign exchange commitments at the balance sheet date amounted to £483m (2005: £309m).

27. Contingencies

Following completion of the European Commission investigations into allegations of anti-competitive behaviour in the EU among certain manufacturers of copper tube and copper fittings, the Company has paid fines of £31.3m in February 2005 and £32.8m in January 2007. Both of these fines are the subject of ongoing appeals. In preparing the financial statements, the directors have not anticipated the outcome of either appeal due to the inherent uncertainty of such processes.

There is a right of set-off with four of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

Group contingent liabilities relating to guarantees in the normal course of business and other items amounted to £53m (2005: £52m).

28. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Detailed information concerning directors' emoluments, shareholdings, options and retirement benefits are shown in the Remuneration Report on pages 38 to 50.

IMI company balance sheet

at 31 December 2006

	Note	2006 £m	2005 £m
Fixed assets			
Investments	C5	927.5	798.3
Current assets			
Debtors	C6	23.2	19.1
Cash at bank and in hand		5.0	84.0
		28.2	103.1
Creditors:			
amounts falling due within one year			
Borrowings	C7	(38.9)	(48.5)
Other creditors	C8	(36.3)	(7.6)
		(75.2)	(56.1)
Net current (liabilities)/assets		(47.0)	47.0
Total assets less current liabilities		880.5	845.3
Creditors:			
amounts falling due after more than one year			
Borrowings	C7	(96.8)	(89.5)
Other creditors	C9	(496.4)	(328.0)
		(593.2)	(417.5)
Net assets		287.3	427.8
Capital and reserves	C10		
Called up share capital		90.3	89.6
Share premium account		155.2	149.4
Capital redemption reserve		1.6	1.6
Profit and loss account		40.2	187.2
Equity shareholders' funds		287.3	427.8

Approved by the Board of Directors on 5 March 2007 and signed on its behalf by:

Norman B M Askew Chairman

IMI company statement of changes in shareholders' equity

for the year ended 31 December 2006

	2006 £m	2005 £m
Shareholders' equity at start of the year	427.8	553.9
Loss for the year	(46.8)	(7.9)
Dividends paid	(60.7)	(59.4)
Share based payments (net of tax)	2.9	3.4
Issue of ordinary shares net of costs	6.5	10.4
Purchase of own shares	(42.4)	(72.6)
Shareholders' equity at end of the year	287.3	427.8

company notes to the financial statements

C1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements except as noted below:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards except for certain financial instruments as defined by FRS26: '*Financial instruments : measurement*' which are stated at fair value.

The Company has not presented a separate profit and loss account as permitted by Section 230 (4) of the Companies Act 1985.

Under FRS1 '*Cash flow statements*', the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

The Company has taken advantage of the exemptions contained in FRS8 '*Related party disclosures*' and has not disclosed transactions or balances with entities which form part of the Group.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Sterling at the rates of exchange ruling at the balance sheet date and the gains or losses on translation included in the profit and loss account.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheets date, except as otherwise required by FRS19.

C1. Significant accounting policies (continued)

Pensions and post-retirement benefits

The Company participates in a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 '*Retirement benefits*'; accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period.

Financial instruments

The principal financial instruments utilised by the Company are interest rate swaps and forward foreign currency contracts. These instruments are used for hedging purposes in line with the Group's risk management policy. Interest differentials are taken to net interest in the profit and loss account.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Equity and equity-related compensation benefits

The Company operates an Executive Share Option Scheme, a SAYE Share Option Scheme and a Performance Share Plan. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options at the date of grant is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest.

It recognises the impact of the revision of original estimates, if any, in the profit and loss account.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Dividends or shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

C2. Remuneration of directors

The detailed information concerning directors' emoluments, shareholdings and options are shown in the Remuneration Report on pages 38 to 50.

All directors of the Company are also directors of the Group.

C3. Staff numbers and costs

With the exception of the directors, the number of people employed by the Company during the year was nil (2005: nil).

C4. Dividends

The aggregate amount of dividends comprises:

	2006 £m	2005 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	37.0	36.2
Interim dividends paid in respect of the current year	23.7	23.2
Aggregate amount of dividends paid in the financial year	60.7	59.4

Dividends paid in the year of £60.7m represented 17.85p per share (2005: 16.85p).

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	2006 £m	2005 £m
11.7p per qualifying ordinary share (2005: 10.85p)	39.5	37.1

C5. Fixed assets - investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
At 31 December 2005 at cost and net book value	54.6	743.7	798.3
Advances during year	-	6.1	6.1
Acquisition of Truflo Group during year	123.1	-	123.1
At 31 December 2006 at cost and net book value	177.7	749.8	927.5

Details of subsidiary undertakings at 31 December 2006 are shown on pages 94 and 95.

The Company's cost of investment in subsidiary undertakings is stated at the aggregate of (a) the cash consideration, (b) the nominal value of the shares issued as consideration within section 131 of the Companies Act 1985 applies and (c) in all other cases the market value of the Company's shares on the date they were issued as consideration.

C6. Debtors

	2006 £m	2005 £m
Falling due for payment within one year:		
Amounts owed by subsidiary undertakings	0.6	0.6
Other debtors	-	1.5
Prepayments and accrued income	0.2	0.3
Corporation tax	14.2	9.0
Deferred tax	5.5	3.0
Other financial assets	2.7	4.7
	23.2	19.1

Deferred tax relates principally to timing differences on employee benefits.

C7. Borrowings

The note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see note 19 of the Group financial statements.

	2006 £m	2005 £m
Due within one year:		
Unsecured UK loan notes 2007	13.1	41.7
Unsecured overdrafts	5.6	6.8
Unsecured Euro loans	20.2	-
	38.9	48.5
Due outside one year:		
Unsecured US loan notes 2009-2014	25.4	30.3
Unsecured US loan notes 2009	51.4	59.2
Unsecured Sterling loans	20.0	-
	96.8	89.5

Terms and debt repayment schedule

	2006 £m	2005 £m
Debt can be analysed as falling due:		
In one year or less, or on demand	38.9	48.5
Between one and two years	-	-
Between two and three years	59.5	-
Between three and four years	-	68.7
Between four and five years	20.0	-
In five years or more	17.3	20.8
	135.7	138.0

C8. Other creditors falling due within one year

	2006 £m	2005 £m
UK corporation tax	-	-
Other taxation	0.1	0.2
Other payables	0.7	0.5
Accruals and deferred income	1.6	3.7
European Commission fine	33.5	-
Other financial liabilities	0.4	3.2
	36.3	7.6

C9. Other creditors falling due after one year

	2006 £m	2005 £m
Amounts owed to other Group companies	496.4	328.0

C10. Share capital and reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total parent equity £m
At 31 December 2005	89.6	149.4	1.6	187.2	427.8
Retained loss for the year				(46.8)	(46.8)
Issued in the period	0.7	5.8			6.5
Dividends paid				(60.7)	(60.7)
Share based payments*				2.9	2.9
Shares held in trust for employee share schemes				(7.2)	(7.2)
Treasury shares*				(35.2)	(35.2)
At 31 December 2006	90.3	155.2	1.6	40.2	287.3

*Details of Treasury and employee share scheme trust share movements are contained in note 23 to the Group financial statements on page 84.

Share capital

	2006 £m	2005 £m
Authorised		
480m (2005: 480m) ordinary shares of 25p each	120.0	120.0
Issued and fully paid		
361.0m (2005: 358.6m) ordinary shares of 25p each	90.3	89.6

During the year 2,423,236 shares were issued under employee share schemes realising £6.5m.

C11. Contingencies

Contingent liabilities relating to guarantees in the normal course of business and other items amounted to £46.2m (2004: £45.5m).

There is a right of set-off with four of the Company's bankers relating to the balances of the Company and a number of its wholly-owned UK subsidiaries.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The following is a list of the Company's subsidiary undertakings, except for some intermediate holding companies and certain other undertakings of minor importance which are excluded by virtue of sub-Section 231(5) of the Companies Act 1985. Except where indicated, the undertakings are subsidiaries incorporated in Great Britain and the share capital consists of ordinary shares only.

The principal country in which each subsidiary operates is the country of incorporation. The Company's effective interest in the undertakings listed is 100%, except where indicated, and is held in each case by a subsidiary undertaking, except for those marked + in which case it is held directly by the Company.

Fluid Controls

Aero Dynamiek BV <i>Holland</i>	IMI Norgren Herion Pvt Ltd <i>India</i>	Norgren Sdn Bhd <i>Malaysia</i>
Asterm SAS <i>France</i>	IMI Norgren Ltd	Norgren SpA <i>Italy</i>
CCI AG <i>Switzerland</i>	IMI Norgren Ltd <i>Canada</i>	Norgren Sweden AB <i>Sweden</i>
CCI KK <i>Japan</i>	IMI Norgren Oy <i>Finland</i>	Norgren Taiwan Co Ltd <i>Taiwan</i>
CCI Limited <i>Korea</i>	IMI Norgren Pneumatics	Orton srl <i>Italy</i>
CCI Valve Technology AB <i>Sweden</i>	(Shanghai) Co Ltd <i>China</i>	Shanghai CCI Power Station Equipment Co Ltd
CCI Valve Technology GesmbH <i>Austria</i>	IMI Norgren SA <i>Spain</i>	<i>China (70%)</i>
Commtech Ltd	IMI Norgren Terracco SA <i>Spain</i>	Stainless Steel Fasteners Ltd
Control Components Inc <i>USA</i>	IMI Scott Ltd	STI srl <i>Italy</i>
Control Components India Pty Ltd <i>India</i>	IMI Webber Ltd	Syron Engineering & Manufacturing LLC <i>USA</i>
Eley Ltd	Industrie Mecanique Pour Les Fluides SA	TA Regulator d.o.o. <i>Slovenia</i>
EVU Energi & VVS Utveckling AB <i>Sweden</i>	<i>France</i>	Theodor Heimeier Metallwerk GmbH
FAS AG <i>Switzerland</i>	Newman Hattersley Ltd <i>Canada</i>	<i>Germany</i>
FAS GmbH <i>Germany</i>	Norgren AB <i>Sweden</i>	Thompson Valves Ltd
FAS Medic SA <i>Switzerland</i>	Norgren AG <i>Switzerland</i>	Tour & Andersson A/S <i>Denmark</i>
FAS Sarl <i>France</i>	Norgren AS <i>Norway</i>	Tour & Andersson AB <i>Sweden</i>
FAS Srl <i>Italy</i>	Norgren Automotive GmbH <i>Germany</i>	Tour & Andersson AS <i>Norway</i>
FAS Technologies SA <i>Switzerland</i>	Norgren Automotive Inc <i>USA</i>	Tour & Andersson BV <i>Holland</i>
Flow Design Inc <i>USA</i>	Norgren BV <i>Holland</i>	Tour & Andersson GesmbH <i>Austria</i>
Fluid Automation Systems SA <i>Switzerland</i>	Norgren Co Ltd <i>China</i>	Tour & Andersson Hydronics sp zoo <i>Poland</i>
GT Development Corporation <i>USA</i>	Norgren European Logistics Company Ltd	Tour & Andersson Ltd
Herion Fluidtronik Corporation Ltd <i>China</i>	Norgren GesmbH <i>Austria</i>	Tour & Andersson Ltda <i>Brazil</i>
Herion Systemtechnik GmbH <i>Germany</i>	Norgren GmbH <i>Germany</i>	Tour & Andersson NV <i>Belgium</i>
Hochdruck-Reduzietechnik GmbH <i>Germany</i>	Norgren Inc <i>USA</i>	Tour & Andersson Oy <i>Finland</i>
IMI Components Ltd	Norgren Ltd <i>Hong Kong</i>	Tour & Andersson Pte Ltd <i>Singapore</i>
IMI Indoor Climate Trading (Shanghai)	Norgren Ltd <i>New Zealand</i>	Tour & Andersson SA <i>France</i>
Co Ltd <i>China</i>	Norgren Ltda <i>Brazil</i>	Tour & Andersson SA <i>Spain</i>
IMI International Kft <i>Hungary</i>	Norgren Manufacturing de Mexico SA	Truflo Group Ltd
IMI International sro <i>The Czech Republic</i>	de CV <i>Mexico</i>	Truflo International Ltd
IMI International sp zoo <i>Poland</i>	Norgren NV <i>Belgium</i>	Truflo Marine Ltd
IMI Norgren A/S <i>Denmark</i>	Norgren Pte Ltd <i>Singapore</i>	Truflo Rona S.A. <i>Italy</i>
IMI Norgren Buschjost GmbH & Co KG	Norgren Pty Ltd <i>Australia</i>	
<i>Germany (90%)</i>	Norgren SAS <i>France</i>	

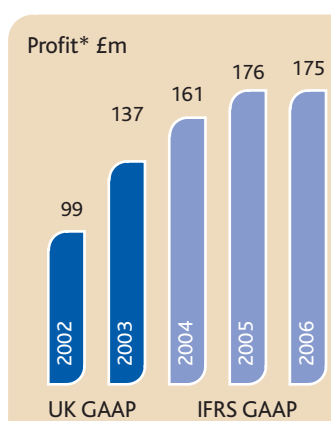
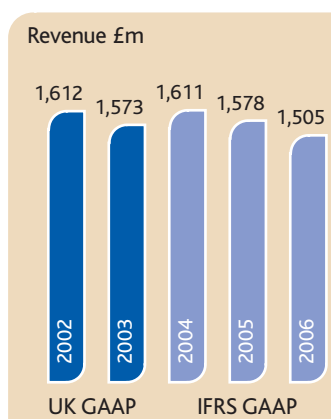
Retail Dispense

Artform International Inc <i>USA</i>	IMI Bevcore Solutions Inc <i>USA</i>	IMI Manufacturing de Mexico SA de CV <i>Mexico</i>
Artform International Ltd (92.2%)	IMI Cornelius España SA <i>Spain</i>	IMI Tijuana Manufacturing de Mexico SA de CV <i>Mexico</i>
Baldwin-Miller Inc <i>USA</i>	IMI Cornelius Europe SA <i>Belgium</i>	IMI MCR Inc <i>USA</i>
Cannon Equipment Co <i>USA</i>	IMI Cornelius (Pacific) Ltd <i>Hong Kong</i>	Infrastructure Inc <i>USA</i>
Cannon Equipment Midwest Inc <i>USA</i>	IMI Cornelius (Tianjin) Co Ltd <i>China</i>	Melrose Displays Inc (Cannon Melrose Displays) <i>USA</i>
Cannon Equipment Southeast Inc <i>USA</i>	IMI Cornelius (UK) Ltd	Objex Ltd
Cannon Equipment West Inc <i>USA</i>	IMI Cornelius Australia Pty Ltd <i>Australia</i>	Pacific Coast Parts Distributors Inc <i>USA</i>
DCI Marketing Europe Ltd	IMI Cornelius de Mexico SA de CV <i>Mexico</i>	Restaurant Appliance Service Inc <i>USA</i>
DCI Marketing Inc <i>USA</i>	IMI Cornelius Deutschland GmbH <i>Germany</i>	
DCI Marketing-Service GmbH <i>Germany</i>	IMI Cornelius Equipco Inc <i>USA</i>	
Display Technologies LLC <i>USA</i> (80.1%)	IMI Cornelius Hellas SA <i>Greece</i>	
Display Technology (Europe) Ltd	IMI Cornelius Inc <i>USA</i>	
Golden State Appliance Service & Parts Inc <i>USA</i>	IMI Cornelius Italia srl <i>Italy</i>	
	IMI Cornelius Österreich GesmbH <i>Austria</i>	
	IMI Cornelius Pte Ltd <i>Singapore</i>	

Corporate

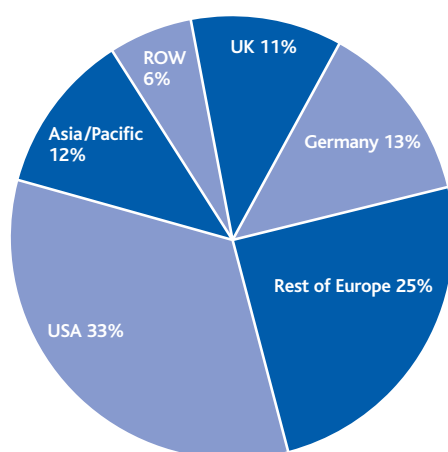
+ IMI Kynoch Ltd
+ IMI Overseas Investments Ltd
IMI Property Investments Ltd
IMI Vision Ltd

IMI five year summary



*Profit before tax, exceptional items, goodwill and intangible amortisation.

2006 Revenue by geographical destination



	UK GAAP		IFRS GAAP		
	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m
Profit and loss account					
Revenue	1,612	1,573	1,611	1,578	1,505
Profit before tax, exceptional items, goodwill and intangible amortisation	99	137	161	176	175
Goodwill and intangible amortisation	(18)	(20)	(6)	(6)	(17)
Profit before tax and exceptional items	81	117	155	170	158

Group revenue by destination

	UK GAAP		IFRS GAAP		
	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m
UK	463	428	447	351	173
Germany	170	186	194	196	194
Rest of Europe	369	348	368	358	376
USA	450	447	431	466	490
Asia/Pacific	81	91	107	115	183
Rest of World	79	73	64	92	89
	1,612	1,573	1,611	1,578	1,505

	UK GAAP		IFRS GAAP		
	2002	2003	2004	2005	2006
Earnings and dividends					
Adjusted earnings per share (pre-restructuring)	25.0p	26.8p			38.3p
Adjusted earnings per share (post-restructuring)		25.7p	29.5p	33.4p	
Earnings per share	15.7p	20.1p	19.1p	3.9p	21.4p
Ordinary dividend per share	15.5p	15.5p	16.5p	17.5p	18.7p
Balance sheet	2002	2003	2004	2005	2006
	£m	£m	£m	£m	£m
Net operating assets including intangible assets	776	758	698	578	682
Other non-operating liabilities (excluding borrowings)	(72)	(79)	(67)	(146)	(185)
Net borrowings	(173)	(136)	(76)	(11)	(80)
Net assets	531	543	555	421	417
Statistics	2002	2003	2004	2005	2006
Profit* as a percentage of revenue	6.1%	8.7%	10.0%	11.2%	11.6%
Profit* as a percentage of net assets	18.6%	25.2%	29.0%	41.8%	42.0%
Net assets per share	150.8p	153.7p	156.4p	117.4p	115.5p
Net borrowings as a percentage of shareholders' funds	32.9%	25.3%	13.7%	2.5%	19.5%
Net debt: EBITDA	0.9	0.6	0.3	-	0.4
Interest cover*	7	14	18	22	23

* Before tax, exceptional items and goodwill/intangible amortisation

Announcement of trading results

The trading results for the Group for the first half of 2007 will be announced on 3 September 2007.

The trading results for the full year ending 31 December 2007 will be announced in March 2008.

Trading updates are also issued around the mid-year and in December.

Dividend payments

Dividends on ordinary shares are normally paid as follows:

Interim: mid October

Final: mid May

Share prices and capital gains tax

The closing price of the Company's Ordinary Shares on the London Stock Exchange on the last trading day of the year, 29 December 2006, was 507p per share compared with 503p per share on 30 December 2005.

The market value of the Company's Ordinary Shares on 31 March 1982, as calculated for capital gains tax purposes, was 53.5p per share.

The Company's SEAQ number is 51443.

Enquiries about shareholdings

For enquiries concerning shareholders' personal holdings please contact the Company's registrar:

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA (telephone: 0870 600 3970).

Corporate Individual Savings Accounts (ISAs)

By arrangement with Lloyds TSB Registrars, an IMI single company ISA is now being operated. A brochure, application form and further information can be obtained by contacting the Lloyds TSB Registrars ISA Helpline on 0870 24 24 244.

Share Dealing Service

Managed by JPMorgan Cazenove, the Company's stockbrokers, the IMI plc Share Dealing Service provides shareholders with a simple way of buying and selling IMI ordinary shares. Full written details can be obtained from Secretary's Department, IMI plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7XZ (telephone: 0121 717 3700).

Ordinary shareholders

Range:	Number of Holdings	%	Balance as at 31 December 2006	%
1-500 shares	5,940	30.18	1,671,363	0.50
501-1,000 shares	5,493	27.91	4,051,602	1.20
1,001-10,000 shares	7,491	38.07	17,620,243	5.23
10,001-100,000 shares	451	2.29	14,794,272	4.39
100,001-Highest	304	1.55	298,797,590	88.68
Total	19,679	100.00	336,935,070	100.00

general information

Headquarters and registered office

Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham
B37 7XZ
Telephone: 0121 717 3700

Website address

www.imiplc.com

Secretary

John O'Shea

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA
Telephone: 0870 600 3970

Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Allen & Overy LLP
One Bishops Square
London
E1 6AO

Stockbrokers

JPMorgan Cazenove
20 Moorgate
London
EC2R 6DA

Citigroup
33 Canada Square
Canary Wharf
London
E14 5LB

Auditor

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

IMI plc is registered in England
No.714275

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United Kingdom	2,803
Continental Europe	5,418
Americas	5,226
Asia Pacific	1,085
Others	128
<hr/>	
Total	14,660
<hr/>	

who we are and what
 five strong businesses
 than 14,600 employees
 knowledge-based solut
IMI delivers value around



control critical
 processes ...



create competitive
 advantage in motion
 and fluid control ...

IMI's policies relating to employee involvement and development are set out in the Directors' Report on pages 30 to 31. Policies relating to health, safety and the environment are described on pages 24 to 27.

we do

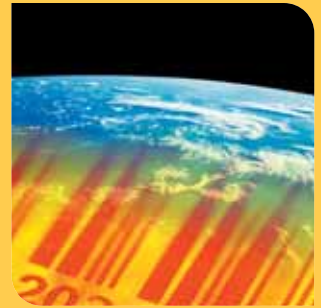
with a £1.5 billion turnover and more
worldwide, providing innovative
solutions for market leading customers
the world by helping to . . .



perfect
indoor climate ...



pioneer beverage
dispense solutions ...



and drive impulse
purchase.

IMI plc
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham B37 7XZ
United Kingdom

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