

# Directors' Remuneration Report

## Directors' Remuneration Policy

### Introduction

The Remuneration Committee presents the Directors' Remuneration Policy Report, which will be put to shareholders for a binding vote at the Annual General Meeting to be held on 7 May 2015. Subject to shareholder approval, the effective date of this policy will be 8 May 2015. The intention of the Committee is that the policy will remain in place for three years.

The remuneration policy comprises a number of sections:

- an illustration of the sensitivity of pay outcomes relative to IMI's performance;
- a future policy table for executive directors, which sets out the components of annual remuneration;
- policies relating to other elements of executive director remuneration, including recruitment, service contracts, appointments and terminations;
- remuneration policies that relate solely to the Chairman and non-executive directors; and
- the contextual information considered by the Committee when making decisions on executive directors' remuneration.

### IMI's remuneration philosophy

The Committee aims to ensure that remuneration generally, and incentives in particular, provide strong alignment between individual performance, business performance and shareholder interests. The remuneration policy also recognises that IMI 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 component of the remuneration package to performance.

The Committee believes it is 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 potential for above-market total compensation if performance is outstanding.

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

### Changes in the remuneration policy

In submitting a revised policy to shareholders the only substantive changes, are as follows:

- the Share Matching Plan ('SMP') and Performance Share Plan ('PSP') will not be operating again and will be allowed to expire without renewal, which was due in May 2015;
- the introduction of performance share awards under a new plan, the IMI Incentive Plan ('IIP'), subject to approval at the 2015 AGM;
- adopting performance measures designed to align with our strategy; and
- increases to the Share Ownership Guidelines from 125% to 150% - 250% of salary and mandated investment of 50% of net bonus into shares and retention of half of vested share awards until share ownership guidelines have been met.

Details of decisions implemented in line with both the 2014 and 2015 Remuneration Policies, such as salary increases and changes to bonus opportunity and the incentive plan performance measures, are included in the Directors' Remuneration Report.

# Directors' Remuneration Report (cont'd)

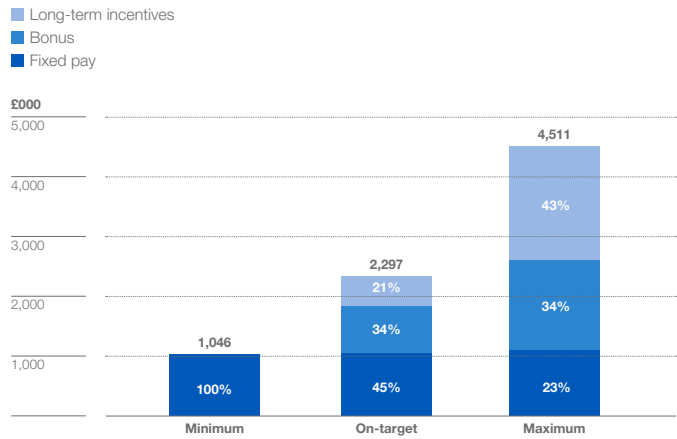
## Illustrations of the application of IMI's remuneration policy

To illustrate the opportunity available to our executive directors, and the sensitivity of pay to performance, the adjacent graphs set out pay outcomes for three performance scenarios:

- minimum, where pay is limited to fixed, non-performance related components (based on 2015 salaries and the corresponding pension and benefits as disclosed in 2014);
- 'on-target', where bonus vests at target levels for each executive, and long-term incentives vest at threshold (assuming targets are calibrated such that the lower end of the vesting schedule is representative of 'on-target'); and
- maximum, where all variable pay components vest in full.

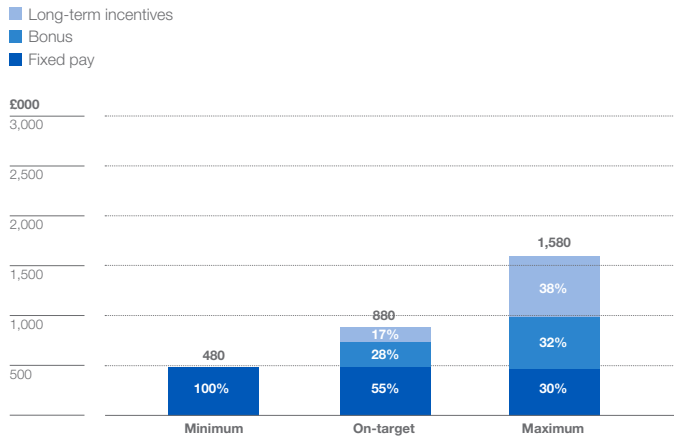
The charts are based on proposed IIP awards for 2015 in accordance with the policy subject to approval. No share price growth or dividend assumptions are made and all-employee share plans are excluded.

### M W Selway



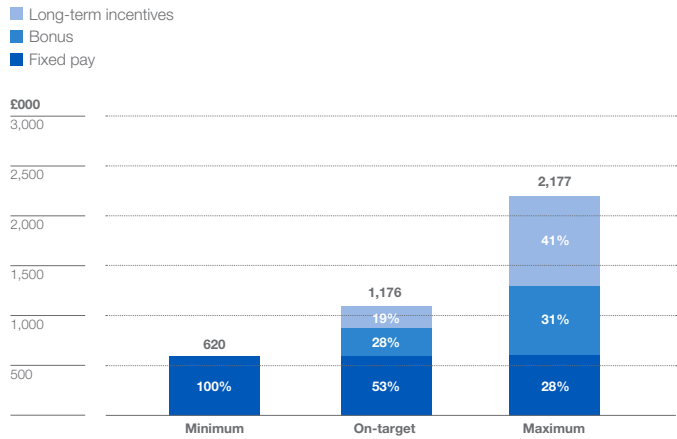
Salary	770	770	770
Pension	30%	30%	30%
Benefits	45	45	45
Annual Incentive Bonus	0%	100%	200%
IIP	0%	62.5%	250%

### D J Shook



Salary	400	400	400
Pension	20%	20%	20%
Benefits*	-	-	-
Annual Incentive Bonus	0%	62.5%	125%
IIP	0%	37.5%	150%

### R M Twite



Salary	445	445	445
Pension	35%	35%	35%
Benefits	19	19	19
Annual Incentive Bonus	0%	75%	150%
IIP	0%	50%	200%

\* D J Shook did not receive any benefits in 2014

Percentages in the above tables are percentages of salary.

## Future policy table – executive directors

Component & purpose	Operation	Annual opportunity
Fixed elements of executive remuneration		
<p><b>Salary</b></p> <p>Reflects individual performance and personal contribution to delivering the Group strategy. They are set in the context of total pay levels.</p>	<p>Reviewed annually with change normally effective from January.</p> <p>When setting salary, the Committee takes into account the level of increase for a reference group of comparable employees in the leadership group, market data, business performance, external economic factors, the complexity of the business and the role, cost, and the incumbent's experience and performance.</p>	<p>Normally any salary increase for an executive director will be in line with those of the wider workforce. Increases beyond this may be awarded in certain circumstances, such as a change in responsibility after taking into account the factors noted.</p>
<p><b>Pension</b></p> <p>Provides for retirement and supports succession planning.</p>	<p>A cash allowance in lieu of pension is paid monthly. To the extent required by law, part of this allowance will be paid into a defined contribution pension arrangement. With the Committee's approval the executive directors may redirect all or part of the balance of this allowance into a defined contribution pension arrangement.</p>	<p>Up to 30% of salary</p> <p>Legacy obligations of 35% of salary for appointments to the Board before October 2013 will continue to be honoured.</p>
<p><b>Benefits</b></p> <p>Protects the well-being of executives and to provide fair and reasonable market competitive benefits.</p>	<p>The policy provides a normal range of benefits to executive directors. These include but are not limited to:</p> <p>Non-cash: private healthcare for themselves and their family, life insurance, and other minor ancillary benefits.</p> <p>Cash and taxable allowances: car and fuel allowance, personal tax advice and two annual round trips for the Chief Executive and his spouse between work and home locations.</p> <p>Where it is in IMI's interests to request that executives work in a different country or region then we will pay relocation and provide benefits and allowances in line with IMI's Global Mobility Policy.</p> <p>Expenses that are incurred by an executive director in undertaking their role are reimbursed.</p>	<p>The values of benefits vary significantly year-on-year depending on the age and health of the individual, the cost of providing them and the geography in which the executive is based. However, the range of the benefits is not expected to change from year to year.</p> <p>Should it be appropriate to relocate an executive director or to recruit an executive director from overseas, flexibility is reserved to provide benefits that ensure that the individual and IMI can both achieve this commercial purpose.</p>
All-employee share plans (all-employee share plans do not have an associated performance framework)		
<p><b>All-Employee Share Plans</b></p> <p>Encourages share ownership amongst the broader employee population and aligns interests of IMI employees with those of shareholders. In addition provides a tax efficient investment vehicle for employees.</p>	<p><b>UK Plans</b></p> <p>UK SAYE: an HMRC approved Savings Related Share Option Scheme which is open to all of the Group's UK employees, including the UK-based executive directors.</p> <p>Employee Share Ownership Plan: an HMRC approved Share Incentive Plan which is open to all of the Group's UK employees, including the UK-based executive directors.</p> <p><b>Global Plans:</b> All-employee share purchase plans operate in geographies outside the UK. The vehicle and manner of award varies by geography depending on local market restrictions and the plan operated in the region.</p>	<p>In line with the statutorily defined limits with respect to investments, awards and discounts on the price of share options.</p> <p>Eligible employees (including executives) can invest subject to the plan limits that apply to all participants, which vary by local market and plan.</p>

## Directors' Remuneration Report (cont'd)

### Future policy table – executive directors (cont'd)

Component	Purpose	Operation
Variable components of executive remuneration		
<b>Annual Incentive Bonus</b>	Drives and rewards performance against annual financial, strategic and operational goals, which are consistent with the medium to long-term strategic goals of IMI, also taking into account individual behaviours and contributions.	<p>Payment of awards is determined by the Committee based on annual performance relative to set targets which are reviewed at the end of the year.</p> <p>If the executive has not achieved their share ownership guideline, up to half of any bonus is mandated to be invested into IMI shares for at least three years. Otherwise, the executive can elect whether to receive their bonus in cash and/or shares. Dividends (or equivalent value payments) accrue and are payable in cash or shares when shares are released.</p> <p>Malus and clawback are included in the plan rules.</p>
<b>IMI Incentive Plan ('IIP')</b>	Incentivises long-term value creation, aligning the interests of executives and shareholders through the delivery of awards in shares. The selected performance metrics support the long-term strategy of IMI and the plan and time horizon serves as a retention tool for key executives.	<p>The Committee can make annual share-based awards. Dividends (or equivalent value payments) accrue and are payable in cash or shares in respect of vested awards.</p> <p>Malus and clawback are included in the plan rules.</p>

### Additional notes to the future policy table

#### Legacy plans

Awards made under the SMP and PSP prior to the approval of this Remuneration Policy will be permitted to vest in accordance with the terms approved in the prior Remuneration Policy. The final awards under these plans were made in 2014.

#### Setting of performance measures and targets

The Committee reviews and selects performance measures annually, taking account of the economic conditions and IMI's priorities at the time. In particular, the Committee considers the strategic plan and the key performance indicators associated with it. Details of the performance measures are included in the Annual Report each year. At the time of selecting performance measures, the Committee determines the performance targets that will apply in respect of each measure. Factors that the Committee may consider include the strategic plan, the annual budget, analysts' forecasts, economic conditions, individuals' areas of responsibilities and the Committee's expectations over the relevant period. Depending on the nature of the measure e.g. health and safety, the Committee may exercise judgement in assessing performance and determining the level of vesting.

#### Principles for the impact of corporate transactions

The Committee has established principles that determine the way in which corporate transactions will impact remuneration. It is clear that any corporate transaction, which is in the best interests of IMI and its shareholders, should not have an adverse impact on remuneration. The principles include the need for management to be treated in a manner consistent with shareholders in respect to the rights to equity, that performance should be measured on a like-for-like basis, that there should be no compensation for adverse or favourable tax consequences and that any changes to performance computations will be reviewed by the Company's auditors.

#### Recovery provisions

The Committee has the power to operate malus and/or clawback provisions in the event that the Company misstated financial results and if there was an error or miscalculation in determining the size of the award and/or gross misconduct. The provisions enable the Committee to reduce future annual bonus payments, reduce the number of shares under any form of share award, and/or require an individual to make a payment to the Company on terms deemed to be fair and reasonable by the Committee.

#### Differences in the remuneration policy for executives relative to the broader employee population

The remuneration framework in place for the executive directors is informed by the structure that sits beneath it for the broader employee population. While absolute levels and the provision of certain components, benefits and allowances vary by geography and level, the overarching themes are:

- salaries are reviewed annually with any increases made on a discretionary basis and informed by factors such as those set out in the policy table;
- consistent with executive directors, the leadership group participates in annual bonus plans with measures linked to corporate, divisional and/or local performance depending on their level;
- the leadership group can be considered for awards under the IIP. At lower levels, employees can also be considered for discretionary share awards with a pre-grant performance test. IMI's share plans are intended to encourage share ownership at all levels of the Group. The all-employee plans described in the policy table are offered on consistent terms to all employees in the geographies where the plans operate; and
- eligibility for and provision of benefits and allowances varies by level and local market practice. For senior managers, it is standard to receive a company car allowance. Pension contributions below the Board are set at a lower rate, and can take the form of a cash allowance.

**Annual opportunity****Performance**

Up to a maximum of 200% of salary.

As a percentage of maximum the following amounts are potentially payable for the corresponding levels of performance (straight-line between points):

**Threshold (minimum):** 0%

**Target:** 50%

**Maximum:** 100%

In 2015 the performance measures will be Group PBT (40%), Group organic revenue growth (20%), cash conversion (20%), strategic and personal objectives (20%) and a health and safety underpin. Divisional operating profit and organic revenue growth will replace Group organic revenue for Divisional roles with weightings adjusted accordingly.

Payment depends on performance relative to pre-determined measures and targets over the course of a financial year.

The Committee determines the measures and targets annually to ensure alignment with strategy. Normally these will be a combination of measures linked to the financial and non-financial performance of IMI.

Normal award: Up to 250% of salary

Maximum award: 400% of salary (to be used in exceptional circumstances only e.g. upon recruitment)

If an award above the normal maximum is made, full details will be provided in the following year's Annual Remuneration Report.

As a percentage of the award the following amounts are payable for the corresponding levels of performance (straight-line between points):

**Threshold (minimum):** 25%

**Maximum:** 100%

In 2015 the performance measures will be Group PBT growth (50%), ROCE (25%) and relative TSR (25%).

The release of shares will depend on performance relative to pre-determined measures and targets over three consecutive financial years.

The Committee will determine targets and ranges in respect of each award when made.

## Directors' Remuneration Report (cont'd)

### Other executive director remuneration policies

#### Share ownership guideline

Executive directors are subject to guidelines which require them to build a shareholding in IMI worth at least 250% of salary for the Chief Executive, 150% of salary for the Finance Director and 200% of salary for Roy Twite. When assessing compliance with this guideline the Committee reviews both the level of beneficial share ownership and vested but unexercised share incentive awards on a post-tax basis.

To the extent an individual does not meet their share ownership guideline, up to half of any annual bonus is automatically payable in shares and 50% of share awards must be retained.

#### Appointments to the board

Base salary will be set taking into account factors including market levels, experience, internal relativities and cost. The Committee may determine that an initial positioning below market is appropriate and; in those circumstances, realign base salary in the years following appointment, which may result in an exceptional rate of increase in the short-term. Any reliance on this principle will be noted at the time of appointment. The theoretical maximum variable pay opportunity that can be awarded in one year will be 600% of salary: up to 200% in annual bonus and up to 400% in an IIP award.

As part of the appointments policy the Committee may also:

- continue with the provision of existing remuneration components relating to pension, benefits and allowances for internal appointments;
- provide benefits, allowances and/or payments related to relocation; and/or
- make a long-term incentive award on appointment, outside of the annual cycle, under existing shareholder approved share plans and/or an individual award agreement to provide an immediate interest in company performance. The Committee will determine the level of any award, performance conditions and time horizon informed by the business circumstances at the time. The maximum value of such an award will be 400% of salary.

Service contracts will be entered into on terms summarised in the service contract policy (see below). As noted above, the Committee would authorise the payment of a relocation allowance as well as other associated international mobility terms in line with IMI's Global Mobility Policy.

The Committee may consider 'buying-out' incentive awards that an individual forfeits in accepting the appointment up to an equivalent value. To achieve this, the Committee's preference has been to use the existing shareholder approved plans. When making their decision, the Committee will be informed by the time horizons, value and performance targets associated with any forfeited awards.

### Service contract policy

From September 2013

<b>Notice period</b>	12 months' notice each way
<b>Payment in lieu of notice</b>	As determined by the Committee, but restricted to salary, benefits and pension. Directors have a duty to mitigate
<b>Change of control</b>	No incremental payments or protection
<b>Entitlements on termination</b>	No entitlement if leaving as a 'bad leaver' as set out in the contract Salary, contractual benefits and pension allowance as per notice period Committee power to make phased payments that would be reduced or stopped if alternative employment is taken up

Prior to September 2013 (Roy Twite)

<b>Notice period</b>	12 months' notice each way
<b>Payment in lieu of notice</b>	At the Committee's discretion
<b>Change of control</b>	Bonus entitlement if a change in control has taken place within the 24 months prior to termination
<b>Entitlements on termination</b>	No entitlement if dismissed for cause or resignation

## Termination and loss of office

The primary principle underpinning the determination of any payments on loss of office is that payments for failure will not be made. Service contracts and plan rules have been drafted in such a way that the Committee has the necessary powers to ensure this. On departure, the Committee will take into account factors including the reason for the executive leaving, performance during the time served in the year and contractual obligations when approving any payments. When an executive is terminated for cause there is no entitlement to salary, pension, benefits or an annual bonus and unvested share awards lapse.

The following table provides a summary of the treatment of each component of pay applicable for the current executive directors. It should be noted that the Committee applies judgement in determining whether an individual is classed as a good leaver or otherwise under the share plans and is authorised to reach compromise agreements with departing executives. Agreed departure can include death, ill health, redundancy or retirement.

Payment	Agreed departure	Differences in a change in control situation
<b>Salary, pension and benefits</b>	The Committee may make payment in lieu of notice.	None.
<b>Annual bonus</b>	Individuals can be considered for a bonus; factors such as time served during the performance period and performance can be taken into account.  Deferred bonuses vest.	Performance to the date of the event taking place will be considered in determining whether any bonus should be payable, subject to the overall maximum applicable to the relevant individual.  For directors appointed prior to September 2013, there remains a bonus entitlement if a change in control has taken place within the 24 months prior to termination. In this scenario, the director is entitled to bonus, or compensation in lieu of bonus, in respect of the relevant calendar year.
<b>IIP performance share awards and legacy PSP</b>	Performance measured at the end of the performance period, or at the date of cessation of employment.  Pro-rating for time elapsed at cessation of employment will be considered by the Committee.  The Committee can reduce or increase the exercise period for unvested and vested but unexercised awards (legacy PSP only).	Similar to agreed departure.  A reduction in the exercise period for vested but unexercised awards.  Performance and time elapsed will be taken into account, but the Committee may enable awards to vest in full.  In certain situations (as defined in the plan rules) rollover awards of a broadly equivalent nature can be offered.
<b>Legacy Share Matching Plan (no awards from 2015)</b>	Invested shares are transferred back on cessation or at the end of the investment period.  <b>Matching shares:</b> Performance measured at the end of the performance period, or at the date of cessation of employment.  Pro-rating for time elapsed at cessation of employment will be considered by the Committee.  The Committee can reduce or increase the exercise period for unvested and vested but unexercised awards.	Similar to agreed departure.  A reduction in the exercise period for vested but unexercised awards.  Performance and time elapsed will be taken into account, but the Committee may enable awards to vest in full.  In certain situations (as defined in the plan rules) rollover awards can be offered, taking into account performance and time elapsed, although these can be disapplied by the grantor.
<b>Other</b>	The Committee may approve other limited payments which may include legal fees connected to the departure, untaken holiday, out-placement and repatriation.	Similar to agreed departure.

## Directors' Remuneration Report (cont'd)

### Considerations taken into account when setting our executive directors' remuneration policy

#### *Employment conditions at IMI*

When setting the salaries for executive directors the Committee takes into account a number of factors (as noted in the future policy table on pages 61 to 63) and these include the broader employment conditions within IMI. More specifically:

- the Committee reviews budgeted salary increases across the Group on a country-by-country basis when assessing the appropriateness of any increases for the Directors; and
- in making decisions the Committee also takes account of the internal relativities against the reference group and within the wider leadership group and general employee population.

Details of these comparison metrics will be included every year in the Annual Remuneration Report.

The Committee did not consult with employees when preparing the Directors' Remuneration Policy for this Report.

#### *Shareholder views*

The Committee has a standard annual agenda item whereby the feedback from shareholders and investor advisory bodies is presented and discussed following the AGM. This feedback is sought and collated by the Company Secretary. The feedback that the Committee receives then informs discussions for the formulation of future policy and subsequent remuneration decisions. A formal shareholder consultation process was undertaken in the Autumn of 2014 to gather investor feedback on the revised remuneration policy, with the majority of shareholders supportive.

#### *Exceptional circumstances*

The Committee retains the authority to make payments outside those set out elsewhere in this Policy to the extent they are needed in truly exceptional circumstances and were genuinely unforeseen and thus are of an emergency nature.

This discretion will not be used in any recruitment of an executive director, the policy and limits of which we have described on pages 61 to 63 and if it is used to grant a variable or performance-related award, the terms of that award will be made within the limits of the stated policy on incentive awards. Any such payments will be disclosed on a timely basis.

#### *Chairman and non-executive directors*

The table on page 67 summarises the policy with respect to the remuneration of the Chairman and non-executive directors. No component of remuneration is linked to performance, there are no provisions for the recovery of sums paid or the withholding of any payments and there are no provisions for the Company to pay compensation on early termination.

#### *Letters of appointment*

The letters of appointment set out key duties, including appropriate time commitments, provisions for induction and familiarisation with the businesses and wider senior management team and require approval for other directorships and potential conflicts of interest.

There are no provisions for the Company to give notice, but the Chairman is required to give three months' notice to the Company and non-executives one month. Subject to annual election at the AGM, the initial period to first renewal is three years. After six years, renewal is considered on an annual basis.

The letters of appointment are available for inspection at the AGM and the Company's registered office. Details of the dates of appointments and unexpired terms are included in the Corporate Governance Report on page 47.

#### *Appointments to the Board*

Any contractual terms will be consistent with those currently adopted for existing non-executive directors. The Chairman and non-executive directors are not eligible to receive any variable pay. On appointment, fees for non-executive directors will be consistent with the policy in place at the time of appointment. If necessary, to secure the appointment of a new Chairman who is not based in the UK, payments relating to relocation and/or housing may be provided.



## Future policy table

Component	Purpose	Operation	Annual opportunity
<b>Base fees</b>	To attract and retain high-calibre individuals by offering market-competitive fees, commensurate to the time commitment and experience that is required.	<p>Fees are reviewed annually (or less frequently where noted) and can be paid in cash and/or shares.</p> <p>Benchmarked against companies of a similar size and complexity.</p> <p>When setting fees, factors considered include the level of increase for employees more generally, market data, business performance, external economic factors, the skills required, time requirements and cost.</p> <p>In respect of the Chairman, IMI also consider the individual's profile and experience.</p>	<p>As of 1 January 2014, the Chairman's fee was fixed at £300,000 and no increase for 2015 is proposed. Roberto Quarta has elected to receive 25% of his fees in IMI shares<sup>1</sup> although that is not a Company requirement and may or may not apply to a new Chairman.</p> <p>At 31 December 2014 base fees for the non-executive directors were £60,000, and no increase for 2015 was awarded in the review at the end of 2014.</p>
<b>Additional fees</b>	To reflect the additional time required when an individual chairs a committee or is appointed as senior independent director.	<p>Fees are reviewed annually and can be paid in cash and/or shares.</p> <p>The Chairman is not eligible to receive additional fees.</p> <p>Fees are benchmarked and set in a manner consistent with base fees (see above).</p>	<p>Fee levels in place at 31 December 2014 and subject to review in 2015:</p> <p><b>Committee Chairman:</b> £15,000</p> <p><b>Senior independent director:</b> £10,000</p>
<b>Benefits</b>	To reimburse reasonable business expenses.	Reimbursement in cash on production of receipts or other proof of payment of business expense.	Expenses incurred by the Chairman and non-executive directors in undertaking their role are reimbursed as a business expense and are not a personal benefit in kind. Typically these might include business travel, meals and entertainment.

<sup>1</sup> 25% of the Chairman's after tax fee was used to purchase shares in the market. These shares were then transferred to the Chairman. All dealing charges were paid for by the Chairman.