IMI plc
Press Release

26 February 2016

Preliminary results, year ended 31 December 2015

	Reported[1]				Statutory		
Continuing operations:	**2015**	2014	Change	**Organic[4]**	**2015**	2014	Change
Revenue	**£1,557m**	£1,686m	-8%	**-5%**	**£1,567m**	£1,692m	-7%
Operating profit	**£239m**	£298m	-20%	**-15%**	**£186m**	£270m	-31%
Operating margin	**15.4%**	17.7%	-230bps	**-190bps**			
Profit before tax	**£219m**	£278m	-21%		**£163m**	£246m	-34%
Basic EPS[2]	**62.2p**	78.0p	-20%		**47.2p**	243.4p	-81%
Cash generation[3]	**£192m**	£154m	+25%				
Dividend per share	**38.4p**	37.6p	+2%				
Net debt	**£237m**	£200m					

[1] Excluding the effect of items reported as exceptional in the income statement.
[2] Statutory amounts for Basic EPS include both continuing and discontinued operations.
[3] Cash generated from the operations after interest and tax, as described in note 11 to the financial statements.
[4] Change shown after adjusting for exchange rates and excluding the impact of acquisitions and disposals.

Key Points

- Organic revenue decline of 5%
- Currency impact reduced revenue by £72m and operating profit by £13m
- Strong cash generation up 25% at £192m
- Recommending a 2% increase in full year dividend
- Strategic growth initiatives delivering early benefits

Lord Smith of Kelvin, Chairman, commented:

“We have continued to deliver our strategic plan against a difficult economic backdrop. All of the work that has been and continues to be done will ensure we harness IMI’s full potential and deliver medium term growth and long-term shareholder value.

“While the Group’s organic growth strategy provides good prospects for profitable expansion, our strong cash generation and balance sheet give us the full range of options to create growth through business development and acquisitions.”

Mark Selway, Chief Executive, added:

“We made steady progress on a number of fronts despite tough trading conditions in many of our markets. Our financial results were broadly in line with market expectations and we made substantial progress across a range of our strategic initiatives which have improved our operational performance and enhanced our market competitiveness.

“Based on current market conditions, and on an organic constant currency basis, we expect first half revenues to reflect a similar percentage reduction to that experienced in the full year of 2015. Due to reduced sales volumes we expect first half margins to be around 250 basis points lower than the first half of 2015. In the second half of 2016 the benefits of restructuring activities, combined with normal business phasing, are expected to result in improved revenues and margins when compared to the first half of the year.”

Enquiries to:

John Dean	IMI	Tel: +44 (0)121 717 3712
Suzanne Bartch / Gayden Metcalfe	Teneo Strategy	Tel: +44 (0)20 7240 2486

A live webcast of the analyst meeting taking place today at 8:15am (GMT) will be available on the investor page of the Group’s website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 5 May 2016.

Engineering GREAT the IMI Way

Results overview

2015 was a year of progress for the Group. Despite experiencing tough conditions in many of our markets we delivered results broadly in line with market expectations. Our various growth initiatives are already improving our operational performance and have enhanced our market competitiveness.

Group revenues on an organic basis decreased by 5% due to tough conditions in many of our end markets. After acquisitions, disposals and adverse exchange rate movements, reported Group revenues were down 8% to £1,557m (2014: £1,686m). Segmental operating profit of £239m (2014: £298m) decreased by 15% on a like for like basis and reflected the lower sales volumes and our investment in a range of growth initiatives. After the impact of adverse exchange rate movements, reported segmental operating profit decreased by 20%. The Group's operating margin was 15.4% (2014: 17.7%) and reported earnings per share decreased by 20% to 62.2p (2014: 78.0p). Cash generation of £192m (2014: £154m) was particularly strong following working capital improvements across our businesses as a result of our lean implementation. This resulted in net debt of £237m and a net debt to EBITDA ratio of 0.9x.

Dividend

Reflecting continued confidence in the Group's prospects, the Board is recommending that the final dividend be increased by 2% to 24.5p (2014: 24.0p). This makes a total dividend for the year of 38.4p, an increase of 2% over last year's 37.6p.

Outlook

Based on current market conditions, and on an organic constant currency basis, we expect first half revenues to reflect a similar percentage reduction to that experienced in the full year of 2015. Due to reduced sales volumes we expect first half margins to be around 250 basis points lower than the first half of 2015. The benefits of restructuring activities, combined with normal business phasing, are expected to result in improved revenues and margins in the second half of the year.

Challenging trading environment

Trading conditions in many of our geographies and markets were tough. In particular economic slowdowns in China and Brazil impacted both our Critical Engineering and Precision Engineering divisions. Challenging trading conditions across industrial markets world-wide, including a cautious global capital spending environment, significantly impacted new order opportunities.

The Oil & Gas market continues to be impacted globally by the unprecedented slide in the oil price and while IMI is well positioned because of its exposure to liquid natural gas, the wider market downturn impacted the Petrochemical order book in Critical Engineering and the upstream activities of both Critical Engineering and Precision Engineering.

The Group's exposure to the heavy truck sector falls predominantly to Precision Engineering and 2015 represented a solid year of production in Europe and North America with the latter slowing from its peak in the final quarter of 2015. The Brazilian heavy truck market suffered terribly with close to half the volume when compared to 2014.

In Hydronic Engineering, our most important European construction markets remained soft with Germany showing a small decline in the year.

Cost reduction initiatives

At the time of our November 2015 trading update we announced that we were reviewing a number of cost-reduction initiatives to ensure that the organic elements of our strategic growth plan remained on-track and to mitigate, where practical, the impact of this trading environment.

Critical Engineering has initiated a number of cost cutting initiatives including the restructuring of its Swiss and Canadian nuclear businesses which are being transferred to IMI Bopp & Reuther's Mannheim facility in Germany and the closure and transfer of IMI TH Jansen's production facility to IMI Z&J's plant in Germany.

In Precision Engineering the downsizing of its Brazilian operation has been completed and, along with Critical Engineering, Precision Engineering is in the process of exiting its Balterswil operation in Switzerland.

We fully recognise that these difficult decisions affect our employees and the communities in which we operate, however they are necessary to keep our strategic plan on track and deliver long-term sustainable growth.

Divisional review

The following review relates to our continuing businesses: IMI Critical Engineering, IMI Precision Engineering and IMI Hydronic Engineering. It compares their performance, during the year ended 31 December 2015 with their performance in the year ended 31 December 2014. References to organic growth are on a constant currency basis and exclude the results of disposals and acquisitions. This section also comments on current market conditions and the outlook for each of our continuing businesses.

IMI Critical Engineering

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

Revenue	£631m	(2014: £692m)
Operating profit	£93m	(2014: £131m)
Operating margin	14.8%	(2014: 19.0%)

Performance

Full year order intake at £619m (2014: £686m) was down 13% on an organic basis (after adjusting for acquisitions, disposals and exchange rate movements). In the second half, order intake decreased 20% on an organic basis. The Oil & Gas sector showed resilience, with order intake decreasing by 3% in the year despite the drastic reduction in the oil price. Liquid natural gas new construction orders played a key role in delivering this result, with orders up 23% in the year which more than offset upstream order intake which was down 25%. Due to slower new order activity in China, Fossil Power orders were down 1% on the prior year. In the Petrochemical sector, orders were down 42% due to a combination of lower market activity in China, large one-off orders in 2014 and slippage of some large projects from 2015 to 2016. As anticipated, Nuclear orders were down 76% reflecting on-going weakness in the market post-Fukushima.

Aftermarket orders were down 3% compared to 2014 with Oil & Gas being up 3%, more than offset by Fossil Power down 4% and the remaining segments down 6%.

After adjusting for the impact of adverse exchange rate movements of £26m and for acquisitions and disposals, revenues decreased 10% on an organic basis. Revenues of £631m (2014: £692m) were down 9% on a reported basis with IMI Bopp & Reuther contributing £46m of revenues in the year. Segmental operating profit of £93m (2014: £131m) declined 29% on a reported basis and was 24% lower on an organic basis while margins decreased to 14.8% from 19.0% in 2014. This decline in profitability and margins was primarily due to the reduction in volumes.

The division's new project management systems, including Obeya and Value Engineering, were instrumental in securing significant new bookings in an increasingly competitive market environment. Both initiatives helped deliver the year-end organic order book of £438m (2014: £454m) at broadly equivalent margins to the prior year.

Key Achievements

- IMI Bopp & Reuther successfully integrated in the year
- Completion of a new £8m manufacturing facility for IMI CCI in South Korea and commencement of a £5m refurbishment of the IMI Z&J Germany manufacturing plant
- Two new service centres opened in China and a new £9m China manufacturing localisation plan started
- Successful adoption of lean with scores improving from 26% in 2014 to 56% at the end of 2015
- Obeya visual project management process implemented in eight key manufacturing plants
- New divisional ERP system successfully launched in Austria and Czech Republic with a further four sites on track to go live in 2016
- Won a number of new orders including new choke valves and HIPPs product for the Kashagan oil field in the Caspian region
- Sale of non-core IMI Scott and IMI Z&J South Africa to remove complexity from the division

Outlook

Based on the current order book and market outlook, we expect first half revenues and margins to reflect a similar percentage reduction as experienced in the full year of 2015. Subject to order book timing, and including the benefits of restructuring actions, we anticipate a second half improvement in both revenues and margins when compared to the first half of the year.

IMI Precision Engineering

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

Revenue	£662m	(2014: £710m)
Operating profit	£118m	(2014: £139m)
Operating margin	17.8%	(2014: 19.5%)

Performance

After adjusting for the impact of adverse exchange rate movements of £23m and for acquisitions and disposals, revenues of £662m (2014: £710m) decreased 3% on an organic basis and were down 7% on a reported basis. Industrial Automation revenues were down 5%, driven by lower market demand in North America and the Asia Pacific region. Overall Commercial Vehicle sales decreased 1% in the year with 9% growth in Europe and a good first half performance in North America offset by significantly lower truck production in Brazil. Rail was up 17%, while Oil & Gas reduced 10% and Life Sciences was up 1%.

Segmental operating profit at £117.7m (2014: £138.5m) was 15% lower on a reported basis and, after adjusting for the impact of adverse exchange rate movements of £3m, 14% lower on an organic basis. Operating margins suffered from weaker market conditions in the second half (H1 2015: 18.6% v H2 2015: 16.9%) and in the full year operating margins of 17.8% were also lower reflecting an adverse sales mix and the increased investment to support long-term growth.

Our review of the Industrial Automation market and its various subsectors has now been completed. It has confirmed that we have excellent market positions, with a valuable installed base and access to a high margin aftermarket. We are now developing detailed product roadmaps in each of our key geographies which will help drive our organic growth agenda.

The application of lean made terrific progress right across the division with significantly improved productivity, nearly 50% reduction in warranty costs, a 23% reduction in scrap costs and 7.5% lower inventory when compared to 2014.

Key Achievements

- New Divisional Managing Director, Massimo Grassi, appointed with effect from 1 June 2015
- Successful adoption of lean with scores improving from 32% in 2014 to 59% at the end of 2015
- Parts rationalisation completed in Europe, reducing 450,000 SKUs by 295,000 in the year
- Division wide adoption of new product introduction process, reducing lead time and improved 'job 1 readiness'
- New divisional ERP system went live successfully in Brazil and Farmington, Connecticut
- New division wide quality system implemented across all IMI Norgren global sites

Outlook

The global industrial economic outlook for 2016 remains mixed with leading indicators, including the Purchasing Managers Index, weakening in the second half of 2015. While we expect the general industrial markets in Europe to remain broadly neutral, the US and Asian markets will remain challenging, particularly in China. In the truck sector we expect the European market to remain stable while North America class 8 volumes are expected to be lower in the year ahead.

Based on current market conditions, we expect first half revenues to reflect a similar percentage reduction to the second half of 2015. Margins in the first half will be comparable to the second half of 2015. While markets remain uncertain the benefits of restructuring activities in Brazil and the actions taken to lower our costs are expected to deliver improved margins in the second half of the year.

IMI Hydronic Engineering

IMI Hydronic Engineering is a leading provider of technologies that deliver operational and energy efficient water-based heating and cooling systems for the residential and commercial building sectors.

Revenue	£264m	(2014: £284m)
Operating profit	£52m	(2014: £57m)
Operating margin	19.6%	(2014: 20.0%)

Performance

After adjusting for the impact of adverse exchange rate movements of £23m and disposals of £2m, revenues were 2% higher on an organic basis. Revenues on a reported basis of £264m (2014: £284m) were down 7%. The strong growth in the second half of the year was driven by sales of new products where in the past 24 months, Hydronic Engineering has developed and launched 29 new products which generated more than 10% of the division's 2015 revenues.

Segmental operating profit at £52m (2014: £57m) was 9% lower on a reported basis and, after adjusting for £4m of exchange rate impact, 1% lower on an organic basis. Operating margins showed their normal second half seasonal improvement to 21.2% and full year margins at 19.6% (2014: 20.0%) were slightly lower compared to 2014 reflecting the on-going investment for growth and prior year royalty benefits which were not expected to repeat.

The full implementation of lean, including Kanban and Pull Systems, resulted in base load inventory reductions of 18% while on-time delivery rose to 92%. These improvements were delivered despite the impact of 15 great new products which required their own additions to inventory and operational complexity in the year.

Key Achievements

- Delivered 2% organic sales growth
- Launched 15 new products including Eclipse, bringing annualised revenues from products launched in the last two years to around £30m
- Successful adoption of lean with scores improving from 37% in 2014 to 72% at the end of 2015
- Hydronic Engineering's Polish site is the first in IMI to achieve world-class lean ranking with a score of 88%
- Lean delivered an 18% reduction in inventory and 92% on time delivery

Outlook

In 2016 European construction markets are forecast to remain broadly flat, however, the success of our new product launches is expected to result in good revenue growth in 2016. Operating margins are expected to show their normal second half improvement and reflect the on-going investment for longer term growth.

Update on our strategic progress

Our various strategic initiatives are making a real difference. Across all parts of the Group operational performance has continued to improve and as a result our market competitiveness is being significantly enhanced.

Operational performance continues to improve

Our operational performance continues to improve. This is a fundamental part of our growth plan. As our businesses become more efficient we will better utilise our production facilities, reduce our working capital requirements and generate cost savings, all of which will enhance our competitiveness.

We use a world renowned lean benchmarking assessment to track operational improvement in every IMI facility and the first assessments took place in June 2014. Since then, significant progress has been made. Critical Engineering has improved its results from their first benchmark of 26% to 56% at the end of 2015, Precision Engineering has improved from 32% to 59% while Hydronic Engineering made the most progress from 37% to 72% in the same period. The goal for all of our facilities is to achieve world-class operational performance by 2018. Several of our plants are well on track to achieving that and I am delighted to report that Hydronic Engineering's Polish operations, which scored 88% in its latest assessment, is now operating to world-class standards.

The benefits of the operational improvements are already evident. Across all our businesses we now have established continuous improvement programmes which are driving improvements in quality, productivity and responsiveness to customer demand. In addition product lead times and machine set up times have been reduced and are reflected in the working capital and inventory improvements which were delivered in the year.

Our businesses are ready for accelerated growth

Much of 2015 and the early phases of our growth plan have been about strengthening our infrastructure and investing in systems and processes that allow us to operate globally in the most efficient and effective way. During the year we have made much progress in this area.

We have launched new ERP systems that accurately and efficiently manage data in all of our divisions. In May 2015, a new ERP system was launched in Critical Engineering's Czech Republic and Austrian businesses and will be subsequently rolled out in the division's Japanese, Swedish, Korean and Indian businesses during 2016. Precision Engineering has also launched a new ERP system which went live at Farmington in Connecticut and will be installed in four other US sites later this year and a new division-wide system is currently being rolled out in Hydronic Engineering.

The successful launch and roll out of these systems, on time, to budget, and without disruption, is a significant achievement and a testament to the hard work of our employees around the Group. Day-to-day tasks are performed more efficiently, project cycle times have been reduced and data retrieval and reporting has been made quicker and easier. In addition to these operational benefits, financial improvements are also coming through. Access to accurate consistent data means we can better manage and control operating costs. In particular, as we now have better visibility across the entire production process, management of our inventory has significantly improved leading to an impressive reduction in suppliers and slow moving inventory during the year. Most importantly we are now better equipped to monitor the profitability of each and every project.

We have also introduced systems to improve our project management and quality procedures. A new visual project management system called Obeya is now up and running at eight of Critical Engineering's CCI businesses and a new quality system is now operating across the whole of the Precision Engineering division.

New product development is driving organic growth

Another fundamental part of our growth plan is the development of new products and technologies that will enable us to maintain our competitiveness and market-leading positions.

In the past 24 months, Hydronic Engineering has developed and launched 29 new products which generated around 10% of the division's total 2015 revenue. Of particular note is the Eclipse product, which provides the market with a new and dynamic level of control and has succeeded in substantially growing our market share even in these soft market conditions.

In Precision Engineering we have now completed our review of the Industrial Automation market and its various subsectors. This work, together with rigorous laboratory testing and teardown of recognised market-leading products, has provided a clear roadmap for the product pipeline needed to grow our position in our selected sectors. Also in the important heavy Commercial Vehicle sector the division has completed the development of a new proportionate valve, which provides faster response and assists our customers reduce emissions and improve fuel efficiency. This valve has already been adopted by a significant European customer with a good flow of revenue expected from 2019.

In order to efficiently manage the volume of new products within Precision Engineering's future pipeline, the division has developed a new and dynamic New Product Introduction process which includes advanced quality planning and many of the tools successfully used in both Hydronic Engineering and Critical Engineering.

Board Changes

Lord Smith of Kelvin succeeded Roberto Quarta as Chairman at the close of the Annual General Meeting in May last year ('AGM'). Roberto had been IMI Chairman since 2011 and oversaw considerable change, which has positioned IMI for long-term growth.

Daniel Shook joined the Board as Finance Director designate on 1 January 2015 and became Finance Director on 1 March 2015, succeeding Douglas Hurt who retired from the Board at the AGM. After serving as a non-executive director for nine years Anita Frew also retired from the Board at the AGM and Bob Stack succeeded her as senior independent director immediately following the AGM. Ross McInnes, who joined the Board as a non-executive director on 1 October 2014, took over as Chairman of the Audit Committee on 1 January 2015 after Phil Bentley stepped down from the Board at the end of 2014.

On 1 September 2015 Isobel Sharp joined the Board as a non-executive director and a member of the Audit Committee.

Financial review

Results Summary

Reported revenue decreased by 8% to £1,557m (2014: £1,686m). After adjusting for an adverse exchange rate impact of £72m and the contribution from acquisitions and disposals, organic revenue decreased 5%, reflecting difficult market conditions, particularly in Critical Engineering which was impacted by the lower oil price and a slowdown in capital spending globally.

Segmental operating profit of £239m (2014: £298m) fell by 20% on a reported basis and 15% at constant exchange rates and excluding acquisitions and disposals. The segmental operating margin was 15.4% (2014: 17.7%). Operating profit was £186m (2014: £270m) after the deduction of exceptional items which are discussed in more detail below.

Continuing net interest costs on net borrowings were £18m (2014: £14m) and reflect the Group's higher net debt following the acquisition of Bopp & Reuther earlier in 2015. These were covered 15 times (2014: 23 times) by continuing earnings before interest, tax, depreciation, amortisation and exceptional items of £275m (2014: £334m). The net pension financing income under IAS19 was £0.2m (2014: charge of £3m). This movement is as a result of our UK scheme being in surplus throughout 2015.

Profit before taxation and exceptional items was £219m (2014: £278m), a decrease on the previous year of 21%.

Corporate Costs

In 2014 and prior years corporate costs were allocated to each of the divisions to arrive at segmental operating profit. For our 2015 reporting we have separately disclosed the Group's corporate costs in our segmental information. This change gives greater transparency of the underlying segmental operating profits for each division. Corporate costs in 2015 were £23m (2014: £29m).

Exceptional Items and Discontinued Operations

Reversal of net economic hedge contract losses
For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlements, are included in the segmental revenues and operating profit of the relevant business segment. The exceptional item at the operating level reverses the loss of £8m (2014: £4m) and records a charge within interest.

Restructuring costs
The restructuring costs treated as exceptional in 2015 of £27m (2014: £9m) are as a result of a number of significant restructuring projects across the Group, in particular within Critical Engineering and Precision Engineering. Restructuring costs of £2m (2014: £3m) that arose from normal recurring cost reduction exercises have not been treated as exceptional.

Pensions
During the year the Group continued its focus on de-risking the exposure to defined benefit obligations by undertaking a number of scheme closures, buy-outs and mergers in Switzerland, the UK and the US which resulted in settlement gains of £5m. In addition, following the commencement of a significant restructuring exercise in Switzerland, a curtailment gain of £4m was realised.

Impairment and acquired intangible amortisation
The Group recorded no exceptional impairment charges in 2015 (2014: £41m). Acquired intangible amortisation increased to £32m (2014: £20m) as a result of the acquisition of Bopp & Reuther.

Loss on disposal of subsidiaries
The Group disposed of Asterm in H1 resulting in a loss of £0.4m which is presented separately within reported operating profit, as based on its quantum, it did not meet our definition of an exceptional item. In H2 the Group made further disposals of IMI Scott Limited ('Scott'), Zimmerman & Jansen South Africa (Pty.) Ltd ('Z&J SA') and the non-core elements of Nano Porous Solutions Limited ('NPSL'). The H2 disposals resulted in losses of £8m (2014: profit of £34m) which are presented in the income statement as an exceptional item as, based on their quantum, they meet our definition of exceptional items. The losses on disposals are not disclosed within discontinued operations because none of these businesses represented a separate major line of business.

Acquisitions and disposal costs
There were no exceptional acquisition costs in 2015. Acquisition and disposal costs in 2014 comprised £2.2m of fees associated with the acquisition of Bopp & Reuther and a net release of £0.4m relating to deferred remuneration included within the post-employment contracts of the vendors for the AFP and NPSL acquisitions. The costs associated with the disposals in 2015 are included within the loss on disposal.

Financing costs
A net charge arose on the revaluation of financial instruments and derivatives under IAS39 of £5m (2014: £7m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Taxation
An exceptional tax credit of £9m (2014: £8m) arose in connection with business restructuring and other exceptional costs.

Taxation
The effective tax rate for the Group before exceptional items remained at 22% (2014: 22%). The total tax charge for the year on continuing operations was £48m (2014: £61m) and continuing profit after tax was £171m (2014: £217m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Code of Conduct.

Earnings per Share
The Board considers that a more meaningful indication of the underlying performance of the Group is provided by continuing earnings before exceptional items after tax. Details of this calculation are given in note 7. Adjusted EPS from continuing operations was 62.2p, a decrease of 20% on last year's 78.0p. Statutory basic EPS was down 81% to 47.2p (2014: 243.4p) and diluted EPS was 46.8p (2014: 241.3p), both decreasing largely as a result of the profit on disposal of the Retail Dispense businesses of £478m in the prior year.

Foreign Exchange
The movement in average exchange rates between 2014 and 2015 resulted in our reported 2015 segmental revenue and segmental operating profit each being 4% lower as the average Euro rate was 11% weaker against Sterling partially offset by the US Dollar rate, which strengthened 7% against Sterling.

If the average exchange rates for January 2016 of US$1.45 and €1.33 were projected for the full year and applied to our 2015 results, it is estimated that segmental revenue and segmental operating profit would have been approximately 3-4% higher.

Cash Flow
The operating cash flow from continuing operations was £222m (2014: £205m). This represents a conversion rate of total Group segmental operating profit after restructuring costs of £210m (2014: £287m) into operating cash flow of 106% (2014: 71%).

Net working capital balances decreased by £18m (2014: £51m increase) during the year. Inventory increased by £4m (2014: £6m decrease) due to an increase in inventory of £13m within Critical Engineering reflecting the timing of orders and customer shipments, partially offset by inventory reductions in Precision Engineering and Hydronic Engineering of £6m and £3m respectively as a result of lean initiatives. The Group's receivables decreased by £29m (2014: £38m increase) as a result of both a reduction in revenue and increased efforts across the Group to improve the collection of receivables. Payables decreased by £7m (2014: £19m) due to the timing of payments to suppliers across each of the divisions.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £71m (2014: £71m) which was equivalent to 1.9 times (2014: 1.9 times) depreciation and amortisation thereon of £38m (2014: £38m). Continuing research and development spend including capitalised intangible development costs of £5m (2014: £6m) totalled £52m (2014: £52m).

In 2015 the Group paid tax of £36m (2014: £67m) which was 75% (2014: 109%) of the reported tax charge for the year. This reflects the timing of estimated tax payments on account.

Dividends paid to shareholders totalled £103m (2014: £98m) and there was a cash inflow of £3m (2014: £29m outflow) for net share issues to satisfy employee share options. The acquisition of Bopp & Reuther resulted in cash outflows of £109m (excluding £3m net cash acquired). The total net cash outflow (excluding debt movements) was £22m (2014: inflow of £41m).

Balance Sheet

Net debt at the year-end was £237m compared to £200m at the end of the previous year, largely reflecting the payment for the Bopp & Reuther acquisition offset by good operating cash delivery. The net debt is composed of a cash balance of £114m (2014: £44m), a bank overdraft of £6m (2014: £23m) and interest-bearing loans and borrowings of £345m (2014: £221m).

The year-end net debt to EBITDA ratio was 0.9 x (2014: 0.6 x) based on continuing EBITDA before exceptional items. Following the drawdown of €150m during the year, at the end of 2015 the loan notes totalled £341m (2014: £218m), with a weighted average maturity of 4.6 years (2014: 3.4 years) and other loans including bank overdrafts totalled £10m (2014: £26m). Total committed bank loan facilities available to the Group at the year-end were £294m (2014: £272m), of which £nil (2014: £nil) was drawn.

The value of the Group's intangible assets increased to £457m at 31 December 2015 (2014: £368m), a £118m increase in intangible assets arose in relation to the acquisition of Bopp & Reuther, which comprised goodwill of £53m, customer relationships of £44m, order book of £9m, brand of £11m and software of £1m. Other additions to intangible assets were £20m (2014: £18m), including £14m of IT related capital expenditure, partly offset by the continuing amortisation charge, foreign exchange movements and disposals.

The net book value of the Group's PPE at 31 December 2015 was £231m (2014: £227m). Capital expenditure on PPE amounted to £51m (2014: £53m), with significant capital expenditure on our new manufacturing plant in South Korea and a new Chinese service centre in the Critical Engineering division.

Pensions

The net surplus for defined benefit obligations at 31 December 2015 was £4m (2014: £35m net liability). The UK funds surplus was £89m as at 31 December 2015 (2014: £60m) and constituted 88% (2014: 84%) of the total defined benefit liabilities and 95% (2014: 90%) of the total defined benefit assets. The improvement in the UK funds in 2015 principally arose from actuarial gains of £26m.

The deficit in the overseas funds as at 31 December 2015 was £84m (2014: £95m), including the impact of £4m from the acquisition of Bopp & Reuther. This reduction in the overseas deficit is as a result of a number of liability management exercises that were undertaken during the year, in particular in Switzerland and the United States.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 Reported £m	2015 Exceptional items £m	2015 Statutory £m	2014 Reported £m	2014 Exceptional items £m	2014 Statutory £m
Revenue	1	1,557	10	1,567	1,686	6	1,692
Segmental operating profit	1	239.4		239.4	298.1		298.1
Reversal of net economic hedge contract losses/(gains)	8		7.6	7.6		3.9	3.9
Restructuring costs	8	(2.1)	(27.1)	(29.2)	(2.6)	(8.6)	(11.2)
Gains on special pension events	8		9.1	9.1		7.0	7.0
Impairment losses	8		-	-		(40.8)	(40.8)
Acquired intangible amortisation	8		(32.2)	(32.2)		(19.6)	(19.6)
(Loss)/gain on disposal of subsidiaries	4	(0.4)	(8.4)	(8.8)		34.2	34.2
Acquisition and disposal costs	8		-	-		(1.8)	(1.8)
Operating profit	1	236.9	(51.0)	185.9	295.5	(25.7)	269.8
Financial income	5	3.2	20.9	24.1	1.1	15.1	16.2
Financial expense	5	(21.6)	(25.9)	(47.5)	(15.4)	(21.8)	(37.2)
Net financial income/(expense) relating to defined benefit pension schemes	5	0.2		0.2	(3.1)		(3.1)
Net financial expense		(18.2)	(5.0)	(23.2)	(17.4)	(6.7)	(24.1)
Profit before tax		218.7	(56.0)	162.7	278.1	(32.4)	245.7
Taxation	6	(48.1)	8.7	(39.4)	(61.2)	8.3	(52.9)
Profit from continuing operations after tax		170.6	(47.3)	123.3	216.9	(24.1)	192.8
Profit from discontinued operations after tax	2		6.7	6.7		478.5	478.5
Total profit for the year		170.6	(40.6)	130.0	216.9	454.4	671.3
Attributable to:							
Owners of the parent				127.6			668.5
Non-controlling interests				2.4			2.8
Profit for the year				130.0			671.3
Earnings per share	7						
Basic - from profit for the year				47.2p			243.4p
Diluted - from profit for the year				46.8p			241.3p
Basic - from continuing operations				44.7p			69.2p
Diluted - from continuing operations				44.4p			68.6p
Basic - from continuing operations				62.2p			78.0p
Diluted - from continuing operations				61.7p			77.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015		2014	
	£m	**£m**	£m	£m
Profit for the year		**130.0**		671.3
Items reclassified to profit and loss in the year				
Foreign exchange loss/(gain) reclassified to income statement on disposal of operations	**2.0**		(3.9)	
Realised gain on settlement of deal-contingent forward relating to disposal proceeds reclassified to income statement	**-**		(11.2)	
Related tax effect on items reclassified to profit and loss	**-**		2.4	
		2.0		(12.7)
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	**(11.0)**		3.6	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**2.9**		(14.7)	
Change in fair value on deal-contingent forward relating to disposal proceeds	**-**		(3.0)	
Fair value (loss)/gain on available for sale financial assets	**(1.7)**		1.1	
Related tax effect on items that may subsequently be reclassified to profit and loss	**(1.6)**		1.0	
		(11.4)		(12.0)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement gain on defined benefit plans	**27.8**		16.6	
Related taxation effect in current year	**(5.6)**		(2.2)	
Taxation in relation to restructure of UK Pension Fund	**0.5**		(6.6)	
Effect of taxation rate change on previously recognised items	**(5.1)**		-	
		17.6		7.8
Other comprehensive income/(expense) for the year, net of taxation		**8.2**		(16.9)
Total comprehensive income for the year, net of taxation		**138.2**		654.4
Attributable to:				
Owners of the parent		**135.8**		651.6
Non-controlling interests		**2.4**		2.8
Total comprehensive income for the year, net of taxation		**138.2**		654.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
As at 1 January 2014	85.3	171.8	7.9	19.0	16.7	300.2	600.9	46.6	647.5
Profit for the year						668.5	668.5	2.8	671.3
Other comprehensive income/(expense)				(8.3)	(17.1)	8.5	(16.9)		(16.9)
Total comprehensive income/(expense)				(8.3)	(17.1)	677.0	651.6	2.8	654.4
Issue of share capital	0.1	1.8					1.9		1.9
Issue of 'B' shares - capital option	151.9	(151.9)					-		-
Issue of 'C' shares - income option	10.9	(10.9)					-		-
Redemption of 'B' and 'C' shares	(162.8)		162.8			(162.8)	(162.8)		(162.8)
Cancellation of treasury shares	(3.7)		3.7				-		-
Dividends paid on 'C' shares						(457.5)	(457.5)		(457.5)
Dividends paid						(97.3)	(97.3)	(0.2)	(97.5)
Share-based payments (net of tax)						3.2	3.2		3.2
Shares acquired for:									
employee share scheme trust						(30.7)	(30.7)		(30.7)
Income earned by partnership								(4.4)	(4.4)
As at 31 December 2014	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1
Changes in equity in 2015									
Profit for the year						**127.6**	**127.6**	**2.4**	**130.0**
Other comprehensive income/(expense)				**(10.1)**	**1.8**	**16.5**	**8.2**		**8.2**
Total comprehensive income/(expense)				**(10.1)**	**1.8**	**144.1**	**135.8**	**2.4**	**138.2**
Issue of share capital	**0.1**	**1.0**					**1.1**		**1.1**
Dividends paid						**(102.5)**	**(102.5)**		**(102.5)**
Share-based payments (net of tax)						**0.1**	**0.1**		**0.1**
Shares issued by:									
employee share scheme trust						**2.3**	**2.3**		**2.3**
Income earned by partnership								**(4.4)**	**(4.4)**
As at 31 December 2015	**81.8**	**11.8**	**174.4**	**0.6**	**1.4**	**276.1**	**546.1**	**42.8**	**588.9**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015

	2015 £m	2014 £m
Assets		
Intangible assets	**457.2**	367.7
Property, plant and equipment	**230.8**	226.5
Employee benefit assets	**88.7**	60.2
Deferred tax assets	**19.8**	21.3
Other receivables	**4.6**	6.0
Total non-current assets	**801.1**	681.7
Inventories	**233.3**	226.3
Trade and other receivables	**351.4**	368.9
Other current financial assets	**2.8**	10.5
Current tax	**10.4**	14.9
Investments	**27.0**	26.9
Cash and cash equivalents	**114.2**	43.8
Total current assets	**739.1**	691.3
Total assets	**1,540.2**	1,373.0
Liabilities		
Bank overdraft	**(6.4)**	(23.0)
Interest-bearing loans and borrowings	**(54.1)**	(2.0)
Provisions	**(25.1)**	(22.7)
Current tax	**(44.6)**	(42.6)
Trade and other payables	**(342.1)**	(333.9)
Other current financial liabilities	**(8.9)**	(9.2)
Total current liabilities	**(481.2)**	(433.4)
Interest-bearing loans and borrowings	**(290.6)**	(218.8)
Employee benefit obligations	**(84.3)**	(94.9)
Provisions	**(17.5)**	(16.4)
Deferred tax liabilities	**(53.5)**	(27.2)
Other payables	**(24.2)**	(28.2)
Total non-current liabilities	**(470.1)**	(385.5)
Total liabilities	**(951.3)**	(818.9)
Net assets	**588.9**	554.1
Equity		
Share capital	**81.8**	81.7
Share premium	**11.8**	10.8
Other reserves	**176.4**	184.7
Retained earnings	**276.1**	232.1
Equity attributable to owners of the parent	**546.1**	509.3
Non-controlling interests	**42.8**	44.8
Total equity	**588.9**	554.1

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £m	2014 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	**185.9**	269.8
Operating profit for the year from discontinued operations	**0.9**	1.0
Adjustments for:		
Depreciation and amortisation	**70.4**	57.6
Impairment of property, plant and equipment and intangible assets	**6.9**	43.5
Loss/(gain) on disposal of subsidiaries	**8.8**	(34.2)
Gain on special pension events	**(9.1)**	(7.0)
(Profit)/loss on sale of property, plant and equipment	**(6.9)**	1.2
Equity-settled share-based payment expense	**1.1**	4.4
(Increase)/decrease in inventories	**(3.5)**	5.8
Decrease/(increase) in trade and other receivables	**29.2**	(37.7)
Decrease in trade and other payables	**(7.3)**	(18.9)
Increase/(decrease) in provisions and employee benefits	**5.6**	(13.7)
Cash generated from the operations	**282.0**	271.8
Income taxes paid	**(36.2)**	(67.2)
Cash generated from the operations after tax	**245.8**	204.6
Additional pension scheme funding - UK and overseas	**(2.9)**	(87.0)
Net cash from operating activities	**242.9**	117.6
Cash flows from investing activities		
Interest received	**3.2**	1.1
Proceeds from sale of property, plant and equipment	**12.0**	1.1
Purchase of investments	**(0.8)**	(3.6)
Settlement of transactional derivatives	**(5.0)**	(0.2)
Settlement of currency derivatives hedging balance sheet	**29.0**	36.7
Acquisitions of subsidiaries net of cash	**(106.2)**	-
Acquisition of property, plant and equipment and non-acquired intangibles	**(70.6)**	(70.8)
Proceeds from disposal of subsidiaries net of cash	**0.6**	696.3
Net cash from investing activities	**(137.8)**	660.6
Cash flows from financing activities		
Interest paid	**(21.6)**	(15.4)
Payment to non-controlling interest	**(4.4)**	(4.4)
Shares issued by/(acquired for) employee share scheme trust	**2.3**	(30.7)
Proceeds from the issue of share capital for employee share schemes	**1.1**	1.9
Net drawdown/(repayment) of borrowings	**107.9**	(80.7)
Dividends paid to equity shareholders and non-controlling interest	**(102.5)**	(97.5)
Return of cash to equity shareholders	**-**	(620.3)
Net cash from financing activities	**(17.2)**	(847.1)
Net increase/(decrease) in cash and cash equivalents	**87.9**	(68.9)
Cash and cash equivalents at the start of the year	**20.8**	90.3
Effect of exchange rate fluctuations on cash held	**(0.9)**	(0.6)
Cash and cash equivalents at the end of the year*	**107.8**	20.8

* Net of bank overdrafts of £6.4m (2014: £23.0m).

Reconciliation of net cash to movement in net borrowings appears in note 11.

NOTES RELATING TO THE FINANCIAL STATEMENTS

1. Segmental information

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

Continuing operations

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

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

IMI Hydronic Engineering
IMI Hydronic Engineering designs and manufactures technologies which deliver optimal and energy efficient heating and cooling systems to the residential and commercial building sectors.

Performance is measured based on segmental operating profit which is the profit reported by the business, stated before exceptional items and other restructuring costs.

Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Segmental operating profits are therefore charged/credited with the impact of these contracts. In accordance with IAS39, these contracts do not meet the technical provisions required for hedge accounting and gains and losses are reversed out of segmental revenue and profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Corporate costs
In 2014 and prior years corporate costs were allocated to each of the divisions to arrive at segmental operating profit. Whilst our corporate costs do not meet the definition of an operating segment under IFRS8 'Operating Segments', for 2015 reporting we have separately disclosed corporate costs before arriving at segmental operating profit so that reporting is consistent with the format that has been used for review by the chief operating decision maker from 1 January 2015. As required by IFRS8, comparative amounts have been restated to reflect this change. This change gives greater transparency of the underlying segmental operating profits for each division.

1. Segmental information (continued)

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

	Revenue 2015	Revenue 2014	Operating profit 2015	Operating profit 2014 restated*	Operating margin 2015	Operating margin 2014 restated*
	£m	£m	£m	£m	%	%
Continuing operations						
IMI Critical Engineering	**631**	692	**93.1**	131.4	**14.8%**	19.0%
IMI Precision Engineering	**662**	710	**117.7**	138.5	**17.8%**	19.5%
IMI Hydronic Engineering	**264**	284	**51.8**	56.8	**19.6%**	20.0%
Corporate costs			**(23.2)**	(28.6)		
Total segmental revenue/ segmental operating profit and margin	**1,557**	1,686	**239.4**	298.1	**15.4%**	17.7%
Restructuring costs (non-exceptional)			**(2.1)**	(2.6)		
Loss on disposal of subsidiaries (non-exceptional)			**(0.4)**	-		
Total segmental revenue/ operating profit and margin (before exceptional items)	**1,557**	1,686	**236.9**	295.5	**15.2%**	17.5%
Reversal of net economic hedge contract losses/(gains)	**10**	6	**7.6**	3.9		
Restructuring costs			**(27.1)**	(8.6)		
Gains on special pension events			**9.1**	7.0		
Impairment losses			**-**	(40.8)		
Acquired intangible amortisation			**(32.2)**	(19.6)		
(Loss)/gain on disposal of subsidiaries			**(8.4)**	34.2		
Acquisition and disposal costs			**-**	(1.8)		
Statutory revenue/operating profit	**1,567**	1,692	**185.9**	269.8		
Net financial expense			**(23.2)**	(24.1)		
Profit before tax from continuing operations			**162.7**	245.7		

*Restatement reflects the separate disclosure of corporate costs.

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

	Year ended 31 December 2014				**Year ended 31 December 2015**				
Revenue	As reported	Movement in foreign exchange	Acquisitions/ disposals	Organic	**As reported**	**Acquisitions/ disposals**	**Organic**	**Reported growth (%)**	**Organic growth (%)**
IMI Critical Engineering	692	(26)	(23)	643	**631**	**(52)**	**579**	**-9%**	**-10%**
IMI Precision Engineering	710	(23)	(1)	686	**662**	**-**	**662**	**-7%**	**-3%**
IMI Hydronic Engineering	284	(23)	(2)	259	**264**	**-**	**264**	**-7%**	**2%**
Total	1,686	(72)	(26)	1,588	**1,557**	**(52)**	**1,505**	**-8%**	**-5%**
Segmental operating profit									
IMI Critical Engineering	131.4	(5.4)	(5.7)	120.3	**93.1**	**(1.2)**	**91.9**	**-29%**	**-24%**
IMI Precision Engineering	138.5	(3.4)	1.7	136.8	**117.7**	-	**117.7**	**-15%**	**-14%**
IMI Hydronic Engineering	56.8	(4.3)	(0.1)	52.4	**51.8**	-	**51.8**	**-9%**	**-1%**
Corporate costs	(28.6)	-	-	(28.6)	**(23.2)**	-	**(23.2)**		
Total	298.1	(13.1)	(4.1)	280.9	**239.4**	**(1.2)**	**238.2**	**-20%**	**-15%**
Segmental operating profit margin (%)	17.7%			17.7%	**15.4%**		**15.8%**		

1. Segmental information (continued)

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

	2015 Revenue £m	2014 Revenue £m
UK	**90**	98
Germany	***219***	*235*
Other Western Europe	***344***	*409*
Western Europe	**563**	644
USA	***311***	*300*
Canada	***23***	*18*
North America	**334**	318
Emerging Markets	**505**	544
Rest of World	**65**	82
Total segmental revenue	**1,557**	1,686
Reversal of economic hedge contract losses	**10**	6
Total	**1,567**	1,692

2. Discontinued operations

A pre-tax and post-tax gain of £4.4m was recognised in the current year as a result of the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses, which were sold on 1 January 2014 and a pre-tax gain of £0.9m and post-tax gain of £2.3m relating to other discontinued operations.

The prior year comparative includes a post-tax gain on disposal of the Retail Dispense businesses of £477.5m and a pre-tax and post-tax gain of £1.0m relating to other discontinued operations.

3. Acquisitions

Acquisitions in the current year

On 2 January 2015, the Group acquired the entire share capital of B&R Holding GmbH ('Bopp & Reuther') for a cash consideration of £109.2m (€140.8m).

Bopp & Reuther is a leading manufacturer of safety, control and shut-off valve technology for process industries as well as conventional fossil and nuclear power plants worldwide. Its head office and manufacturing plant is located in Mannheim, Germany and it has service centres in Germany, Austria, Romania and China. The senior management team and all of its approximately 400 employees transferred upon completion of the acquisition by the Group.

Bopp & Reuther joins the IMI Critical Engineering division and over the course of the year has been effectively integrated into its control valve business ('CCI').

The final fair values of the assets and liabilities acquired are summarised below.

	£m
Customer relationships	43.9
Order book	9.3
Brand	11.4
Property, plant and equipment	4.2
Other intangibles - software	1.0
Inventories	10.4
Trade and other receivables	21.1
Cash and cash equivalents	3.0
Interest-bearing liabilities and borrowings	(8.6)
Trade and other payables	(14.9)
Taxation balances	(20.3)
Employee benefit obligations	(4.4)
Other assets	0.6
Total identifiable net assets	**56.7**
Goodwill arising on acquisition	52.5
Total purchase consideration	**109.2**

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

	£m
Cash consideration	109.2
Net cash and cash equivalents acquired	(3.0)
Net cash paid on acquisition	**106.2**
Acquisition costs (included in cash flows from operating activities)	1.8
Total cash flow on acquisition of controlling interests	**108.0**

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Bopp & Reuther with those of the Group. The goodwill is not deductible for income tax purposes.

Acquisition costs of £2.2m were incurred in 2014 and were recorded as an exceptional item in the income statement. The cash flows associated with these acquisition costs in 2015 are shown in the table above.

At the date of the acquisition, the fair value and gross amount of the trade receivables was £21.1m. At 31 December 2015, £0.1m of the trade receivables have been impaired.

From the date of acquisition, Bopp & Reuther has contributed £46m of revenue and a profit of £1.3m to the operating profit of the Group. In addition, the effective integration of Bopp & Reuther within IMI Critical Engineering's existing large control valve business has resulted in strong revenue synergies elsewhere within the Group.

4. Disposals

Disposals in the current year

During the year, the Group disposed of Asterm SAS ('Asterm'), IMI Scott Limited (‘Scott’), Zimmerman & Jansen South Africa (Pty.) Ltd (‘Z&J SA’) and the non-core elements of Nano Porous Solutions Limited (‘NPSL’), with the remainder of the NPSL business being transferred to Norgren UK.

These disposals resulted in losses of £8.8m and with the exception of Asterm, are presented in the income statement as an exceptional item as, based on their quantum, they meet our definition of exceptional items. The losses on disposals are not disclosed within discontinued operations because none of these businesses represented a separate major line of business.

A summary of the proceeds received, assets disposed and resulting losses on disposal are included in the table below:

	Asterm 21 January 2015 £m	Scott 30 October 2015 £m	Z&J SA 13 November 2015 £m	NPSL 16 December 2015 £m	Total 2015 £m
Sale consideration	**0.4**	**1.2**	**0.2**	**0.7**	**2.5**
Net assets disposed	(0.7)	(2.7)	(2.2)	(2.0)	(7.6)
Costs of disposal	(0.1)	(0.6)	(0.4)	(0.6)	(1.7)
Foreign exchange loss reclassified on disposal	-	-	(2.0)	-	(2.0)
Loss on disposal	**(0.4)**	**(2.1)**	**(4.4)**	**(1.9)**	**(8.8)**

Net cash flow arising on disposal

	Asterm	Scott	Z&J SA	NPSL	Total
Sale consideration	**0.4**	**1.2**	**0.2**	**0.7**	**2.5**
Cash disposed of	(0.2)	(0.2)	(0.3)	(0.1)	(0.8)
Cash costs of disposal	(0.1)	(0.5)	(0.4)	(0.1)	(1.1)
Net cash flow arising on disposal of operations	**0.1**	**0.5**	**(0.5)**	**0.5**	**0.6**

Disposals in the prior year

Retail Dispense

The Group disposed of the Retail Dispense businesses on 1 January 2014 for proceeds of £691.2m resulting in a post-tax gain on disposal of £477.5m.

Eley

The Group disposed of Eley Limited, Accles and Shelvoke Limited and Eley Americas Inc (together 'Eley') on 4 October 2014 for proceeds of £41.6m resulting in a gain on disposal for the Group of £33.1m, after disposing of £6.5m of net assets and incurring £2.0m of associated costs.

AFP

The Group disposed of Mecanique Analytique Inc (trade name 'AFP') on 23 October 2014 for proceeds of £3.4m resulting in a gain on disposal for the Group of £1.1m, after disposing of £1.3m of net assets and incurring £1.0m of associated costs.

The gains on disposal of Eley and AFP were presented in the income statement as an exceptional item. They were not disclosed as discontinued operations because they did not represent a separate major line of business.

5. Net financial income and expense

	2015			2014		
	Interest	Financial Instru-ments	Total	Interest	Financial Instru-ments	Total
Recognised in the income statement	**£m**	**£m**	**£m**	£m	£m	£m
Interest income on bank deposits	**3.2**		**3.2**	1.1		1.1
Financial instruments at fair value through profit or loss:						
Designated hedges		**-**	**-**		0.8	0.8
Other economic hedges						
- current year trading		**14.5**	**14.5**		7.1	7.1
- future year transactions		**6.4**	**6.4**		7.2	7.2
Financial income	**3.2**	**20.9**	**24.1**	1.1	15.1	16.2
Interest expense on interest-bearing loans and borrowings	**(21.6)**		**(21.6)**	(15.4)		(15.4)
Financial instruments at fair value through profit or loss:						
Designated hedges		**-**	**-**		(0.8)	(0.8)
Other economic hedges						
- current year trading		**(16.8)**	**(16.8)**		(7.2)	(7.2)
- future year transactions		**(9.1)**	**(9.1)**		(13.8)	(13.8)
Financial expense	**(21.6)**	**(25.9)**	**(47.5)**	(15.4)	(21.8)	(37.2)
Net finance charge relating to defined benefit pension schemes	**0.2**		**0.2**	(3.1)		(3.1)
Net financial expense	**(18.2)**	**(5.0)**	**(23.2)**	(17.4)	(6.7)	(24.1)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in segmental operating profit (see note 1). For statutory purposes these are required to be shown within net financial income and expense above. Gains or losses for future year transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

6. Taxation

The effective tax rate for the Group before exceptional items was 22% (2014: 22%). In addition, an exceptional tax credit of £8.7m (2014: £8.3m) arose in connection with business restructuring and other exceptional costs. The total tax charge for the year on continuing operations was £39.4m (2014: £52.9m) and continuing profit after tax was £123.3m (2014: £192.8m). Taxes of £36.2m (2014: £67.2m) were paid in the year. IMI seeks to manage its tax affairs wholly within the Company's core tax principles of compliance, fairness, value and transparency, in accordance with the Group Code of Conduct.

7. Earnings per ordinary share

	Key	2015 million	2014 million
Weighted average number of shares for the purpose of basic earnings per share	A	**270.6**	274.6
Dilutive effect of employee share options		**1.9**	2.4
Weighted average number of shares for the purpose of diluted earnings per share	B	**272.5**	277.0
		£m	£m
Profit for the year		**130.0**	671.3
Non-controlling interests		**(2.4)**	(2.8)
Profit for the year attributable to owners of the parent	C	**127.6**	668.5
Profits from discontinued operations, net of tax		**(6.7)**	(478.5)
Continuing profit for the year attributable to owners of the parent	D	**120.9**	190.0
Total exceptional charges included in profit before tax		**56.0**	32.4
Total exceptional credits included in taxation		**(8.7)**	(8.3)
Earnings for adjusted EPS	E	**168.2**	214.1

EPS measures			
Basic EPS	C/A	47.2p	243.4p
Diluted EPS	C/B	46.8p	241.3p
Basic continuing EPS	D/A	44.7p	69.2p
Diluted continuing EPS	D/B	44.4p	68.6p
Adjusted EPS measures			
Adjusted basic continuing EPS	E/A	62.2p	78.0p
Adjusted diluted continuing EPS	E/B	61.7p	77.3p

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

Discontinued earnings per share
Basic discontinued earnings per share were 2.5p (2014: 174.2p). Diluted discontinued earnings per share were 2.4p (2014: 172.7p).

8. Exceptional items

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

Reversal of net economic hedge contract losses/gains

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlement, are included in the segmental revenues and operating profit of the relevant business segment. The exceptional items at the operating level reverse this treatment. The financing exceptional items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted. The former comprised a reversal of a loss of £7.6m (2014: reversal of a loss of £3.9m) and the latter amounted to a loss of £5.0m (2014: loss of £6.7m).

Restructuring costs

The restructuring costs treated as exceptional in 2015 of £27.1m (2014: £8.6m) are as a result of a number of significant restructuring projects across the Group. These include £9.6m relating to a large European restructuring exercise across each of the divisions and £9.3m in relation to the restructuring of our Switzerland business, that both Critical and Precision Engineering operate from. Our Critical Engineering business in Switzerland will be merged with Bopp & Reuther along with our Canadian Nuclear business which is also being closed at a cost of £1.7m. £3.6m was incurred in relation to the closure of two of our Petrochemical sites in Italy and Germany, with further costs expected in 2016. As part of Critical Engineering's localisation plan in China, £1.1m of restructuring costs were incurred. Included within the costs above are £6.9m of impairment charges against property, plant and equipment directly resulting from these significant restructuring projects.

Exceptional restructuring costs in 2014 related to the closure of IMI Components and the IMI Precision Engineering UK factory move (£8.6m). Further costs of £1.8m were incurred associated with these restructuring exercises in 2015.

Other restructuring costs of £2.1m (2014: £2.6m) are not included in the measure of segment operating profit reported to the Executive Committee. These costs have been charged below segmental operating profit and included in reported operating profit as, based on their quantum, they do not meet our definition of exceptional items.

Gains on special pension events

During the year the Group continued its focus on de-risking the exposure to defined benefit obligations by undertaking a number of scheme closures, buy-outs and mergers in Switzerland, the UK and the US. These exercises resulted in settlement gains of £4.9m. Following the commencement of a restructuring exercise in Switzerland, a curtailment gain of £4.2m was realised. Gains on special pension events in the UK and Sweden of £7.0m were recognised in 2014.

Impairment losses and acquired intangible amortisation

Following completion of the Group's annual impairment review, no impairment charge has been recognised in 2015 against goodwill or intangible assets (2014: £40.8m). As described above, directly resulting from a number of significant restructuring projects was £6.9m of impairment of property, plant and equipment.

Losses on disposal of subsidiaries

Losses on the disposal of Scott, Z&J SA and part of our NPSL business are discussed in note 4.

Acquisition and disposal costs

There were no exceptional acquisition costs in 2015. Acquisition and disposal costs in 2014 comprised £2.2m of fees associated with the acquisition of Bopp & Reuther and a net release of £0.4m relating to deferred remuneration included within the post-employment contracts of the vendors for the AFP and NPSL acquisitions. The costs associated with disposals in 2015 are included within losses on disposal.

Taxation

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

9. Dividend

The directors recommend a final dividend of 24.5p per share (2014: 24.0p) payable on 20 May 2016 to shareholders on the register at close of business on 8 April 2016, which will cost about £66.4m (2014: £64.9m). Together with the interim dividend of 13.9p per share paid on 18 September 2015, this makes a total distribution of 38.4p per share (2014: 37.6p per share). In accordance with IAS10 'Events after the Balance Sheet date', this final proposed dividend has not been reflected in the 31 December 2015 balance sheet.

10. Employee Benefits

The Group has 63 (2014: 64) defined benefit obligations in operation as at 31 December 2015. The Group recognises there is a funding and investment risk inherent within defined benefit arrangements and seeks to continue its programme of closing overseas defined benefit plans where they are neither mandatory nor an operational necessity and providing in their place appropriate defined contribution arrangements.

The net surplus for defined benefit obligations at 31 December 2015 was £4m (2014: £35m net liability). The UK surplus was £89m (2014: £60m) and constituted 88% (2014: 84%) of the total defined benefit liabilities and 95% (2014: 90%) of the total defined benefit assets. The improvement in the UK scheme in 2015 principally arose from actuarial gains of £26m.

The deficit in the overseas funds as at 31 December 2015 was £84m (2014: £95m).

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) as at 1 January 2015	60.1	(94.8)	(34.7)
Movement recognised in:			
Income statement	**2.7**	**2.9**	**5.6**
Other comprehensive income	**25.9**	**1.9**	**27.8**
Cash flow statement	**-**	**9.7**	**9.7**
Acquisitions	**-**	**(4.0)**	**(4.0)**
Net defined benefit surplus/(obligation) as at 31 December 2015	**88.7**	**(84.3)**	**4.4**

Engineering GREAT the IMI Way

11. Cash flow and net debt reconciliation

Reconciliation of net cash to movement in net borrowings

	2015 £m	2014 £m
Net increase/(decrease) in cash and cash equivalents excluding foreign exchange and net cash disposed/acquired	**85.7**	(39.9)
Net (drawdown)/repayment of borrowings	**(107.9)**	80.7
(Increase)/decrease in net debt before acquisitions and foreign exchange	**(22.2)**	40.8
Net cash disposed	**(0.8)**	(29.0)
Net debt acquired	**(5.6)**	-
Currency translation differences	**(8.3)**	(12.4)
Movement in net borrowings in the year	**(36.9)**	(0.6)
Net borrowings at the start of the year	**(200.0)**	(199.4)
Net borrowings at the end of the year	**(236.9)**	(200.0)

Movement in net debt

	2015 £m	2014 £m
EBITDA* from continuing operations	**263.2**	370.9
Working capital movements	**18.4**	(50.8)
Capital and development expenditure	**(70.6)**	(70.8)
Loss/(gain) on disposal of subsidiaries	**8.8**	(34.2)
Gain on special pension events	**(9.1)**	(7.0)
Other	**11.0**	(3.0)
Operating cash flow from continuing operations	**221.7**	205.1
EBITDA from discontinued operations	**0.9**	1.0
Other	**-**	(7.6)
Operating cash flow from discontinued operations	**0.9**	(6.6)
Operating cash flow**	**222.6**	198.5
Tax paid	**(36.2)**	(67.2)
Interest/ derivatives	**5.6**	22.2
Cash generation	**192.0**	153.5
Additional pension scheme funding - UK	**-**	(70.0)
Additional pension scheme funding - overseas	**(2.9)**	(17.0)
Free cash flow before corporate activity	**189.1**	66.5
Acquisitions (before net cash acquired)	**(109.2)**	-
Dividends paid to equity shareholders and non-controlling interest	**(102.5)**	(97.5)
Return of cash	**-**	(620.3)
Disposal of subsidiaries	**1.4**	725.3
Payment to non-controlling interest	**(4.4)**	(4.4)
Net issue/(purchase) of own shares	**3.4**	(28.8)
Net cash flow (excluding debt movements)	**(22.2)**	40.8
Opening net debt	**(200.0)**	(199.4)
Net cash disposed	**(0.8)**	(29.0)
Net debt acquired	**(5.6)**	-
Foreign exchange translation	**(8.3)**	(12.4)
Closing net debt	**(236.9)**	(200.0)

* Earnings before interest (£23m), tax (£39m), depreciation (£33m), amortisation (£38m) and impairment (£7m).

** Operating cash flow is the cash generated from the operations shown in the consolidated statement of cash flows less cash spent acquiring property, plant and equipment, other non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments.

12. Exchange rates

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

	Average Rates		Balance Sheet Rates	
	2015	2014	**2015**	2014
Euro	**1.38**	1.24	**1.36**	1.29
US Dollar	**1.53**	1.65	**1.47**	1.56

The movement in average exchange rates between 2014 and 2015 resulted in our reported 2015 segmental revenue and segmental operating profit each being 4% lower as the average Euro rate was 11% weaker against Sterling partially offset by the US Dollar rate, which strengthened 7% against Sterling.

If the average exchange rates for January 2016 of US$1.45 and €1.33 were projected for the full year and applied to our 2015 results, it is estimated that segmental revenue and segmental operating profit would have been approximately 3-4% higher.

13. Financial information

The preliminary statement of results was approved by the Board on 25 February 2016. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014 but is derived from the 2015 accounts, which are prepared on the same basis as the 2014 accounts. Statutory accounts for 2014 have been delivered to the registrar of companies and those for 2015 will be delivered in due course. Ernst & Young LLP has reported on both the 2014 and 2015 accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and (iii) did not contain statements under section S498(2) or S498(3) of the Companies Act 2006.

This announcement may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the preparation of this announcement. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations. Nothing in this preliminary announcement should be construed as a profit forecast.

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

References to segmental revenue, segmental operating profit and segmental operating margins, unless otherwise stated, relate to amounts on a reported basis before exceptional items as noted on the face of the consolidated income statement.

References to organic growth exclude the impact of exchange rate translation and acquisitions or disposals that are included in reported figures. The impact on revenue and segmental operating profit of movements in foreign exchange, acquisitions and disposals is set out in note 1.

References to EPS, unless otherwise stated, relate to reported basic adjusted EPS from continuing operations i.e. after adjustment for the per share after tax impact of exceptional items in note 7. The directors' commentary discusses these adjusted amounts to remove the effects of items of both income and expense which are sufficiently large, volatile or one-off in nature, to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group.

The Company's 2015 Annual Report and notice of the forthcoming Annual General Meeting will be posted to shareholders on 23 March 2016.