IMI plc
Press Release

24 February 2017

Preliminary results, year ended 31 December 2016

	Reported[1]				Statutory		
Continuing operations:	**2016**	2015	Change	**Organic[4]**	**2016**	2015	Change
Revenue	**£1,649m**	£1,557m	+6%	**-5%**	**£1,657m**	£1,567m	+6%
Operating profit	**£228m**	£239m	-5%	**-17%**	**£188m**	£186m	+1%
Operating margin	**13.8%**	15.4%	-160bps	**-200bps**			
Profit before tax	**£208m**	£219m	-5%		**£165m**	£163m	+1%
Basic EPS[2]	**59.8p**	62.2p	-4%		**48.3p**	47.2p	+2%
Operating cash flow[3]	**£246m**	£232m	+6%				
Dividend per share	**38.7p**	38.4p	+1%				
Net debt	**£283m**	£237m					

[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] Operating cash flow, as described in note 9 to the financial statements.
[4] Change shown after adjusting for exchange rates and excluding the impact of acquisitions and disposals.

Key points

- Significant progress on strategic initiatives
- Results in-line with market expectations
- Strong operating cash flow of £246m
- Recommending a 1% increase in the full year dividend
- De-risking of global pension liabilities with UK remaining in surplus

Lord Smith of Kelvin, Chairman, commented:

"Despite difficult market conditions our results for 2016 were in-line with expectations and the Group continued to deliver against our ambitious strategic objectives."

"The combination of necessary management actions to address the current market difficulties and the continued progress in the execution of our strategy underpin our plans to enhance customer relationships, grow our market shares and further improve working capital. The Group's balance sheet is strong and our operations are inherently cash generative which provides the headroom to invest in organic development and appropriate acquisition opportunities as they arise."

Mark Selway, Chief Executive, added:

"2016 was another year of important progress for IMI. As well as continuing to improve both our operational performance and our customer offering, we have acted decisively to ensure our cost-base continues to support our growth ambitions while also protecting near-term performance."

"Based on current market conditions, we expect organic revenues in the first half of 2017 to reflect a similar percentage reduction to the first half of 2016, with margins slightly lower than the first half of last year. Results for the full year are expected to include a second half bias reflecting the timing of restructuring benefits and normal trading seasonality."

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A live webcast of the analyst meeting taking place today at 08:30am (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 4 May 2017.

Engineering GREAT the IMI Way

Results overview

2016 was a year of significant progress for the Group with results in-line with market expectations despite continuing headwinds in a number of our key markets. Our various initiatives have further improved operational performance, and on-going investment in great new products and customer solutions has enhanced our market competitiveness.

Reported Group revenues were 6% higher at £1,649m (2015: £1,557m). Excluding favourable exchange rate movements and disposals, Group revenues on an organic basis were 5% lower due to continuing difficult end markets. Reported segmental operating profit was 5% lower at £228m (2015: £239m). Excluding the impact of favourable exchange rate movements and disposals, segmental operating profit was 17% lower on an organic basis reflecting lower volumes and continued investments, partially offset by the benefits of restructuring. The Group's operating margin was 13.8% (2015: 15.4%) and reported earnings per share were 4% lower at 59.8p (2015: 62.2p). Operating cash flow of £246m (2015: £232m) reflected the benefits of the Group's lean initiatives which underpinned working capital improvements in the year.

Net Debt of £283m (2015: £237m) was impacted by adverse currency of £97m and resulted in a Net Debt to EBITDA ratio of 1.0x against 0.9x at the end of 2015.

Dividend
Reflecting continued confidence in the Group's prospects, the Board is recommending a final dividend increase of 1% to 24.7p (2015: 24.5p) making a total dividend for the year of 38.7p, an increase of 1% over last year's 38.4p.

Outlook
Based on current market conditions, we expect organic revenues in the first half of 2017 to reflect a similar percentage reduction to the first half of 2016, with margins slightly lower than the first half of last year. Results for the full year are expected to include a second half bias reflecting the timing of restructuring benefits and normal trading seasonality.

Trading environment
Trading conditions in many of our geographies and markets remained difficult throughout 2016. The cautious industrial investment environment continued to impact new order opportunities as customers tightened spending in the face of economic and political uncertainty.

The Oil & Gas market, which represents almost a third of Critical Engineering's revenues, continued to be impacted by falling investment, including a significant reduction in liquid natural gas (LNG) projects. The Power generation sector was impacted by lower operational spending reflecting delays, particularly in North America, where power providers have extended the time between planned outages.

While European and Asia Pacific truck markets remained resilient, the US heavy truck market declined significantly which impacted revenues in Precision Engineering. Industrial Automation markets globally were broadly flat with some signs of recovery in Europe and North America in the final quarter of the year.

In Hydronic Engineering, European construction markets remained subdued with warmer weather impacting the heating season. In addition, North America and China experienced some project delays.

Cost reduction initiatives
In response to the protracted deterioration in several of our most important markets, the Group has undertaken a number of restructuring activities that will continue into 2017. These actions include the sale or closure of eight lower growth, higher cost Critical Engineering sites and the reduction of operating costs across the entire Group.

In Precision Engineering, in-line with our strategy to simplify the business and ensure that we have the most efficient platform for future growth, the division undertook an extensive review of its operational footprint. The review – named Project Janus – is now being split into two phases. The implementation of Phase 1 has already begun and involves those projects that can be executed quickly and with the least disruption to our business. This includes a structured programme of cost reductions, insourcing to increase machining capacity utilisation, simplification of the organisational structure and further leverage of our low cost European manufacturing operations. A second phase is contingent on market conditions and anticipates potentially substantial and more complex changes, particularly in areas such as Commercial Vehicle, where significant new project quotation activity exists. All of these actions will help to protect operating margins and improve our competitive position in what remains an uncertain market environment.

In Hydronic Engineering, the subdued environment in key European markets, combined with greater efficiencies resulting from the IT and operational improvements, have provided the basis to reduce operating costs, which will be evident in the division’s activities in 2017.

Divisional review

The following review relates to our continuing businesses and compares performance during the year ended 31 December 2016 with the year ended 31 December 2015. References to organic growth are on a constant currency basis and exclude disposals and acquisitions.

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	£651m	(2015: £631m)
Operating profit	£81.8m	(2015: £93.1m)
Operating margin	12.6%	(2015: 14.8%)

Performance

Full year order intake at £614m (2015: £619m) was 11% lower on an organic basis, after adjusting for disposals and exchange rate movements. In the second half, order intake was 7% below the same period in 2015. In the year, as predicted, new construction Oil & Gas intake was 13% lower resulting from reduced LNG orders, following the peak in new project activity in 2015. Significant improvements were evident in both midstream, where a large Kazakhstan order was booked in the year, and in HIPPS, where a £15m order was booked in the second half. New construction Fossil Power orders were 23% lower due to reduced activity levels, particularly in the Middle East and Asia. Significant orders were also awarded in Petrochemical where full year order input was 2% higher, including a strong performance in the first half of the year.

Aftermarket orders were 6% lower when compared to 2015 with a return to 2015 levels in the second half of the year. In the full year, Oil & Gas was 11% lower reflecting reduced parts activity in the upstream sector which offset good growth in our downstream activities. Lower levels of spend, particularly in North America, resulted in a 13% reduction in Fossil Power while Nuclear Aftermarket increased 36%, reflecting a substantial Korean order in the fourth quarter.

After adjusting for £77m of exchange rate benefit and £6m from prior year disposals, revenues of £651m (2015: £631m) were 7% lower on an organic basis and 3% higher on a reported basis. Segmental operating profit of £82m (2015: £93m) was 12% lower on a reported basis and 24% lower on an organic basis. Reflecting the impact of lower volumes, margins were 12.6% against 14.8% in 2015.

The division's Value Engineering initiative continued to have a significant positive impact and contributed to £80m of new bookings in an increasingly competitive market environment. Value Engineering and improved project management activities helped deliver a year-end order book of £486m at broadly equivalent margins to the prior year. Lean scores also improved significantly to 62% against 56% at year-end 2015.

Key Achievements

- Value Engineering initiative helped to secure £80m of new orders
- Introduced 23 new products
- Rationalisation programme delivered on-time and on-budget with £12m profit benefit
- On-time and on-budget ERP implementation at four sites
- Increased average lean score to 62%
- Successful consolidation of three sites into new world-class facility in China
- Sale of loss-making Italian service business

Outlook

Based on the current order book and market outlook, we expect first half organic revenues to reflect a similar percentage reduction to the first half of 2016 with margins broadly similar to the first half of last year. Results for the full year are expected to include a second half bias reflecting the timing of restructuring benefits and normal trading seasonality.

IMI Precision Engineering

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

Revenue	£708m	(2015: £662m)
Operating profit	£118.5m	(2015: £117.7m)
Operating margin	16.7%	(2015: 17.8%)

Performance

After adjusting for £72m of exchange rate benefit and £1m from prior year disposals, revenues of £708m (2015: £662m) were 3% lower on an organic basis and 7% higher on a reported basis. Industrial Automation revenues were 1% lower principally driven by a small decline in Europe which offset broadly equivalent revenues in the balance of our core markets. The revenue profile in the year included a 5% pick-up in the final quarter providing early indications of a potential, so far unconfirmed, improvement in the sector.

In the year, Commercial Vehicle sales were 9% lower reflecting a 22% decline in North America due to lower truck production in that region. European Commercial Vehicle revenues were broadly consistent with the prior year whilst Asia improved. Energy sales continued to be impacted by lower investment and were 7% lower than 2015 while Life Sciences and Rail were broadly equivalent to 2015.

Segmental operating profit of £119m (2015: £118m) was 1% higher on a reported basis and, after adjusting for £13m of exchange rate benefit and disposals, 10% lower on an organic basis. Operating margins of 16.7% compared to 17.8% in 2015 and reflected the impact of lower overhead recoveries following weaker market conditions and investment to support long-term growth.

Our detailed review of the Industrial Automation market and its various sub-sectors confirmed that we have excellent market positions with a valuable installed base and high margin aftermarket and identified those sub-sectors and products that would provide us with the greatest opportunity for growth. In response, the division has embarked on a significant programme of new product development with the first of our great new products due to launch in the first half of 2017. This review also formed the basis for a structured programme of reorganisation, including Janus, to capitalise on the most significant opportunities.

The successful implementation of lean throughout the division has continued to make excellent progress with the score increasing to 66% against 59% at the 2015 year-end. The impact of lean was clearly evident in the results with improved productivity, a 22% reduction in scrap costs and a seven day improvement in inventory days in the year.

Key Achievements

- Successfully developed first new platform products for launch in 2017
- Improved operational performance resulted in new Commercial Vehicle opportunities
- Launched innovative IMI Norgren Express App
- 22% reduction in scrap costs
- Seven day improvement in inventory turns
- Janus Phase 1 now being implemented

Outlook

The global industrial outlook remains mixed albeit with some leading indicators and improved fourth quarter sales providing a more positive backdrop for Industrial Automation in the year ahead. We remain cautious given the considerable economic, political and industry uncertainty that remains across many markets and geographies. We expect European heavy truck and North American Class 8 volumes to soften in 2017 which, when combined with the conclusion of £13m of Commercial Vehicle contracts, will result in lower revenues in the year ahead.

Based on current market conditions, we expect first half organic revenues to be slightly lower than the first half of 2016. Excluding the £4m benefit from 2016 property disposals, margins will be comparable to the first half of last year. While markets remain uncertain, the benefits of further restructuring activities and new product launches are expected to deliver broadly equivalent margins for the full 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	£290m	(2015: £264m)
Operating profit	£51.9m	(2015: £51.8m)
Operating margin	17.9%	(2015: 19.6%)

Performance

Revenues on a reported basis of £290m (2015: £264m) were 10% higher than 2015 and after adjusting for £30m of exchange rate benefit, were 1% lower on an organic basis. While warmer weather impacted the heating season in the division’s largest European markets, revenues in that region were marginally higher than the previous year. Due to project delays, sales in China were significantly reduced in the first half before recovering with positive momentum in the final quarter of the year. North American sales reflected an overall increase of 6% in the year.

Segmental operating profit of £52m (2015: £52m) was equivalent on a reported basis and, after adjusting for £6m of exchange rate benefit, 10% lower on an organic basis. As expected, operating margins showed a second half seasonal improvement to 19.4% while full year margins at 17.9% (2015: 19.6%) were lower than the prior year reflecting the impact of lower volumes and the on-going investment in great new products and operational excellence.

New products launched in the last three years continued to have an important, positive impact on the results and generated £55m of sales in the year. Included in the 2016 product launches were a number of products specifically targeted at the development of the division’s over-the-counter sales strategy, which resulted in two significant new agreements being signed in Europe. These agreements, while having relatively modest impact on the 2016 results, are expected to underpin increased trading in future years. The previously announced entry into the actuator market, with TA-Slider, has received an excellent market reception and 2017 plans include further product launches.

The division's lean score continued to improve and increased to 76% against 72% at year-end 2015. In the year, Hydronic Engineering's Polish operations, the Group's highest lean scoring plant, successfully launched the division's standard J D Edwards ERP system. This system is now providing increased efficiencies and forms the foundations for future ERP roll-outs across the division. Also in 2016, the division's largest manufacturing plant, in Germany, undertook a total refurbishment of its foundry facilities resulting in a significant reduction in scrap and work in progress.

Key Achievements

- 19% of revenue from products launched in the last three years
- Two substantial over-the-counter sales contracts signed
- Successful Product Development momentum building sustainable competitive advantage
- Refurbishment of foundry in Germany significantly reduces scrap
- Lean score increased to 76%

Outlook

While the European construction markets are forecast to remain subdued, the success of new products and over-the-counter sales are expected to result in organic revenue growth in the year, albeit weighted to the second half. Operating margins are also expected to show their normal second half improvement and will include the benefits of restructuring.

Good strategic progress

It is particularly rewarding to report a further year of successful execution of our strategy. Key achievements, including a significant and positive cultural shift with a passion for continuous improvement, improved operational performance and success in our endeavours to add high quality products across all three divisions, have all contributed to our results in 2016. We move forward with confidence that we will achieve world-class performance by 2019, as envisaged in our original 2014 plan. Our objective to double operating profit by that point also remains our goal, although achieving that will clearly rely upon a more favourable market environment, and will almost certainly be reached beyond the original 2019 timescale.

Improving our operational performance

Improving operational performance is fundamental to our objective of creating competitive advantage and remains a key part of our strategic growth plan. During the year the efficiency of our operations improved significantly.

Our operational improvements are assessed twice yearly using an industry recognised lean benchmarking methodology. During 2016, the Group's average lean score has continued to improve, and ended the year at 66% against 59% at the same point in 2015. As a result of more efficient operations, scrap rates continued to improve, on-time-delivery and inventory management both made good progress and the benefits were evident in the Group's working capital in the year. This improved productivity and operational performance provides an important foundation to underpin our increased competitiveness and responsiveness to customers.

Readying our businesses for growth

In the past two years, we have invested heavily in new systems and processes which are essential to the Group's sustainable competitive advantage. During 2016 new integrated IT systems, that make day-to-day operations more cost and time efficient, were successfully installed on-time and on-budget in Critical Engineering's plants in Sweden, Japan, India and Korea, two of Precision Engineering's US operations, Hydronic Engineering's Polish plant and at its headquarters in Switzerland. In 2017, Critical Engineering will roll out an additional six sites in the US and Asia, Precision Engineering will complete their remaining sites in the US, and Hydronic Engineering will largely complete the vast majority of their factories and sales offices.

In addition to much needed IT investment, our focus also extends to embedding disciplined and efficient processes, including New Product Development, competitor product tear-downs and the application of Value Engineering. These processes underpin the sustainability of continuous improvement and ensure that investment ultimately delivers an earlier and greater return. Much has been achieved to simplify the way our businesses operate.

New product portfolios

Our focus on New Product Development gained significant momentum during the year and as a result we have expanded our portfolio of great new products which enhance the competitiveness of the Group. The Group's advanced product quality planning process (APQP) and competitor product tear-downs have resulted in the development of an industry-leading range of platform products in Precision Engineering which represent the first significant investment for more than 10 years.

During the year, Hydronic Engineering maintained its development pipeline and launched 13 new products while Critical Engineering introduced a significant number of enhanced products. All three divisions have ambitious plans to continue their product development strategies in 2017 and beyond.

Compelling customer solutions

During the year, Critical Engineering developed an aggressive Value Engineering programme to enhance its competitiveness. Despite challenging market conditions, Value Engineering helped to deliver new orders totalling £80m at historic margin levels while providing, on average, a 15% cost reduction for customers. In addition, Value Engineering has opened up a number of new product markets where we are now able to offer our world-class valve technologies, providing an additional basis for profitable growth.

Revised go-to-market strategies

In our Precision Engineering division, following the work undertaken in 2015 to identify the markets that offer the greatest growth potential, the division's US and European operations have been reorganised around key industry verticals of Industrial Automation, Commercial Vehicle, Life Sciences and Energy. This new structure delivers sector marketing strategies that address distinct customer requirements, target specific market opportunities and build stronger customer relationships. In November, Precision Engineering launched an innovative IMI Norgren Express App which enables customers, using their smartphones, to identify, locate and purchase replacement parts quickly and easily.

Business development

Alongside our organic growth initiatives, targeted acquisitions that meet our clearly defined and disciplined criteria remain a core part of our strategy. While market conditions have reduced the pipeline of opportunities, we continue to refine our targets, enhance our integration processes and make our underlying businesses stronger, all of which will facilitate the success of any future developments.

Financial review

Results Summary

Reported revenue increased by 6% to £1,649m (2015: £1,557m). After adjusting for a favourable exchange rate impact of £179m and the contribution from acquisitions and disposals, organic revenue decreased by 5% reflecting difficult market conditions, particularly in Critical Engineering which continues to be impacted by lower oil prices and a decline in outage and maintenance activity in the power sector.

Segmental operating profit of £228m (2015: £239m) decreased by 5% on a reported basis and by 17% at constant exchange rates and excluding acquisitions and disposals. The segmental operating margin was 13.8% (2015: 15.4%). Statutory operating profit was £188m (2015: £186m) after the deduction of exceptional items which are discussed in more detail below.

Continuing net interest costs on net borrowings were £17m (2015: £18m) reflecting the repayment of US$75m of borrowings in July 2016. These were covered 16 times (2015: 15 times) by continuing earnings before interest, tax, depreciation, amortisation and exceptional items of £273m (2015: £275m). The net pension financing income under IAS19 was £1.1m (2015: £0.2m).

Reported profit before taxation was £208m (2015: £219m), a reduction of 5% on the prior year.

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 reported revenues and operating profit of the relevant business segment. The exceptional item at the operating profit level reverses this treatment and the loss of £6m (2015: £8m).

Restructuring costs
Restructuring costs treated as exceptional in 2016 of £19m (2015: £27m) 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 £4m (2015: £2m) that arose from normal recurring cost reduction exercises have not been treated as exceptional.

Pensions
During the year, following the conversion to a non-inflation linked pension for certain members of our UK Funds, an exceptional net gain of £6.1m was realised. In addition, following further restructuring exercises in Switzerland, a curtailment gain of £1.4m was recognised. These exceptional gains were partially offset by an exceptional loss of £4.7m relating to the distribution of pension assets to members from our previously overfunded Swiss schemes.

Impairment and acquired intangible amortisation
The Group recorded an exceptional impairment charge of £5m (2015: £nil) against the goodwill associated with the Stainless Steel Fasteners ('SSF') CGU in the IMI Critical Engineering division. Acquired intangible amortisation reduced £12m to £21m, following the full amortisation in 2015 of the order book acquired from Bopp & Reuther.

Financing costs

A net charge arose on the revaluation of financial instruments and derivatives under IAS39 of £7m (2015: £5m) principally reflecting movements in exchange rates during the year on forward foreign exchange contracts.

Taxation

An exceptional tax credit of £12m (2015: £9m) arose in connection with business restructuring and other exceptional items.

Taxation

The effective tax rate for the Group before exceptional items reduced to 21% (2015: 22%). The total reported tax charge for the year on continuing operations was £44m (2015: £48m) and continuing reported profit after tax was £164m (2015: £171m). 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 Tax Policy.

Earnings per Share

The Board considers that a more meaningful indication of the underlying performance of the Group is provided by reported earnings per share. Details of this calculation are given in note 5. Reported EPS was 59.8p, a decrease of 4% over last year's 62.2p. Statutory basic EPS was up 2% to 48.3p (2015: 47.2p) and statutory diluted EPS was up 3% to 48.0p (2015: 46.8p).

Foreign Exchange

The movement in average exchange rates between 2015 and 2016 resulted in our reported 2016 revenue being 11% higher and segmental operating profit being 13% higher as the average euro and US dollar rates against sterling were 12% and 11% stronger, respectively.

If the exchange rates as at 6th February 2017 of US$1.25 and €1.16 were projected for the full year and applied to our 2016 results, it is estimated that reported revenue would have been 6% higher and segmental operating profit would have been approximately 7% higher.

Cash Flow

The operating cash flow (pre-exceptional items) was £246m (2015: £232m). After £25m (2015: £10m) of cash outflow from exceptional items, operating cash flow (post-exceptional items) was £221m (2015: £223m), which represents a conversion rate of total Group segmental operating profit after restructuring costs into operating cash flow of 107% (2015: 106%).

Net working capital balances reduced £30m (2015: £18m) during the year. Inventory reduced £18m (2015: £4m increase) due to reductions in Critical Engineering and Precision Engineering. The Group's receivables reduced £7m (2015: £29m) as a result of reductions in revenue and increased efforts across the Group to improve the collection of receivables. Payables increased by £6m (2015: £7m decrease) due to payment timing and proactive supplier term management across each of the divisions.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £71m (2015: £71m) which was equivalent to 1.5 times (2015: 1.9 times) depreciation and amortisation (excluding acquired intangible amortisation) for the year of £46m (2015: £38m). Continuing research and development spend including capitalised intangible development costs of £8m (2015: £5m) totalled £57m (2015: £52m).

In 2016 the Group paid tax of £32m (2015: £36m) which was 73% (2015: 75%) of the reported tax charge for the year and reflects the timing of estimated tax payments on account.

Dividends paid to shareholders and non-controlling interests totalled £105m (2015: £103m) and there was a cash outflow of £7m (2015: £3m inflow) for net share purchases to satisfy employee share options. The total net cash inflow (excluding debt movements) was £9m (2015: outflow of £22m).

Balance Sheet

Net debt at the year-end was £283m compared to £237m at the end of the previous year, largely reflecting the impact of sterling depreciation on the Group's euro and US dollar denominated debt. Net debt is composed of a cash balance of £80m (2015: £114m), a bank overdraft of £12m (2015: £6m) and interest-bearing loans and borrowings of £350m (2015: £345m).

The year-end net debt to EBITDA ratio was 1.0 times (2015: 0.9 times) based on continuing EBITDA before exceptional items. Following the repayment of US$75m during the year, at the end of 2016 loan notes totalled £343m (2015: £341m), with a weighted average maturity of 4.3 years (2015: 4.6 years) and other loans including bank overdrafts totalled £20m (2015: £10m). Total committed bank loan facilities available to the Group at the year-end were £301m (2015: £294m), of which £nil (2015: £nil) was drawn.

The value of the Group's intangible assets increased to £521m at 31 December 2016 (2015: £457m). The increase was due to exchange gains of £75m (2015: £9m loss) and additions to intangible assets of £24m (2015: £20m), partially offset by an amortisation charge for the year of £29m (2015: £38m) and impairment of £6m (2015: £nil).

The net book value of the Group's property, plant and equipment ('PPE') at 31 December 2016 was £266m (2015: £231m). Capital expenditure on PPE amounted to £47m (2015: £51m), with significant capital expenditure related to investment in Critical Engineering's manufacturing facilities in Germany and China and a new layout to improve the flow and productivity of Precision Engineering's operation in the Czech Republic.

Pensions

The net deficit for defined benefit obligations at 31 December 2016 was £80m (2015: £4m surplus). The UK fund surplus at 31 December 2016 was £24m (2015: £89m) and constituted 88% (2015: 88%) of the total defined benefit liabilities and 94% (2015: 95%) of the total defined benefit assets. The reduction in the UK surplus in 2016 principally arose from actuarial losses related to movements in the discount rate and actions taken during the year to further de-risk the position.

The deficit in overseas funds as at 31 December 2016 was £103m (2015: £84m). The increase predominantly relates to adverse exchange movements of £15m during the year.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016			2015		
		Reported £m	Exceptional items £m	Statutory £m	Reported £m	Exceptional items £m	Statutory £m
Revenue	1	**1,649**	**8**	**1,657**	1,557	10	1,567
Segmental operating profit	1	**227.7**		**227.7**	239.4		239.4
Reversal of net economic hedge contract losses	6		**5.6**	**5.6**		7.6	7.6
Restructuring costs	6	**(3.5)**	**(18.8)**	**(22.3)**	(2.1)	(27.1)	(29.2)
Gains on special pension events	6		**2.8**	**2.8**		9.1	9.1
Impairment losses	6		**(5.0)**	**(5.0)**		-	-
Acquired intangible amortisation	6		**(20.5)**	**(20.5)**		(32.2)	(32.2)
Loss on disposal of subsidiaries			**-**	**-**	(0.4)	(8.4)	(8.8)
Operating profit	1	**224.2**	**(35.9)**	**188.3**	236.9	(51.0)	185.9
Financial income	3	**4.5**	**12.6**	**17.1**	3.2	20.9	24.1
Financial expense	3	**(21.8)**	**(19.4)**	**(41.2)**	(21.6)	(25.9)	(47.5)
Net financial income relating to defined benefit pension schemes	3	**1.1**		**1.1**	0.2		0.2
Net financial expense		**(16.2)**	**(6.8)**	**(23.0)**	(18.2)	(5.0)	(23.2)
Profit before tax		**208.0**	**(42.7)**	**165.3**	218.7	(56.0)	162.7
Taxation	4	**(43.7)**	**11.6**	**(32.1)**	(48.1)	8.7	(39.4)
Profit from continuing operations after tax		**164.3**	**(31.1)**	**133.2**	170.6	(47.3)	123.3
Profit from discontinued operations after tax	2		**-**	**-**		6.7	6.7
Total profit for the year		**164.3**	**(31.1)**	**133.2**	170.6	(40.6)	130.0
Attributable to:							
Owners of the parent		**161.9**		**130.8**	168.2		127.6
Non-controlling interests		**2.4**		**2.4**	2.4		2.4
Profit for the year		**164.3**		**133.2**	170.6		130.0
Earnings per share	5						
Basic - from profit for the year		**59.8p**		**48.3p**	62.2p		47.2p
Diluted - from profit for the year		**59.4p**		**48.0p**	61.7p		46.8p
Basic - from continuing operations		**59.8p**		**48.3p**	62.2p		44.7p
Diluted - from continuing operations		**59.4p**		**48.0p**	61.7p		44.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016		2015	
	£m	£m	£m	£m
Profit for the year		**133.2**		130.0
Items reclassified to profit and loss in the year				
Foreign exchange loss reclassified to income statement on disposal of operations	**-**		2.0	
		-		2.0
Items that may be reclassified to profit and loss				
Change in fair value of effective net investment hedge derivatives	**(2.8)**		(11.0)	
Exchange differences on translation of foreign operations net of hedge settlements and funding revaluations	**39.4**		2.9	
Fair value loss on available for sale financial assets	**-**		(1.7)	
Related tax effect on items that may subsequently be reclassified to profit and loss	**0.6**		(1.6)	
		37.2		(11.4)
Items that will not subsequently be reclassified to profit and loss				
Re-measurement (loss)/gain on defined benefit plans	**(78.2)**		27.8	
Related taxation effect in current year	**15.3**		(5.6)	
Taxation in relation to restructure of UK Pension Fund	**-**		0.5	
Effect of taxation rate change on previously recognised items	**(2.5)**		(5.1)	
		(65.4)		17.6
Other comprehensive (expense)/income for the year, net of taxation		**(28.2)**		8.2
Total comprehensive income for the year, net of taxation		**105.0**		138.2
Attributable to:				
Owners of the parent		**102.6**		135.8
Non-controlling interests		**2.4**		2.4
Total comprehensive income for the year, net of taxation		**105.0**		138.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	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 2015	81.7	10.8	174.4	10.7	(0.4)	232.1	509.3	44.8	554.1
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
Changes in equity in 2016									
Profit for the year						**130.8**	**130.8**	**2.4**	**133.2**
Other comprehensive income/(expense)				**(2.2)**	**39.4**	**(65.4)**	**(28.2)**	**-**	**(28.2)**
Total comprehensive income/(expense)				**(2.2)**	**39.4**	**65.4**	**102.6**	**2.4**	**105.0**
Issue of share capital	**-**	**0.3**					**0.3**		**0.3**
Dividends paid						**(104.2)**	**(104.2)**	**(0.8)**	**(105.0)**
Share-based payments (net of tax)						**5.8**	**5.8**		**5.8**
Shares acquired for:									
employee share scheme trust						**(7.4)**	**(7.4)**		**(7.4)**
Income earned by partnership								**(4.4)**	**(4.4)**
As at 31 December 2016	**81.8**	**12.1**	**174.4**	**(1.6)**	**40.8**	**235.7**	**543.2**	**40.0**	**583.2**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	2016 £m	2015 £m
Assets		
Intangible assets	**521.2**	457.2
Property, plant and equipment	**266.2**	230.8
Employee benefit assets	**57.8**	88.7
Deferred tax assets	**22.8**	19.8
Other receivables	**5.7**	4.6
Total non-current assets	**873.7**	801.1
Inventories	**255.2**	233.3
Trade and other receivables	**400.5**	351.4
Other current financial assets	**2.9**	2.8
Current tax	**7.1**	10.4
Investments	**29.9**	27.0
Cash and cash equivalents	**79.7**	114.2
Total current assets	**775.3**	739.1
Total assets	**1,649.0**	1,540.2
Liabilities		
Bank overdraft	**(12.2)**	(6.4)
Interest-bearing loans and borrowings	**(6.8)**	(54.1)
Provisions	**(19.9)**	(25.1)
Current tax	**(62.8)**	(44.6)
Trade and other payables	**(407.9)**	(342.1)
Other current financial liabilities	**(13.5)**	(8.9)
Total current liabilities	**(523.1)**	(481.2)
Interest-bearing loans and borrowings	**(343.3)**	(290.6)
Employee benefit obligations	**(137.6)**	(84.3)
Provisions	**(19.1)**	(17.5)
Deferred tax liabilities	**(32.0)**	(53.5)
Other payables	**(10.7)**	(24.2)
Total non-current liabilities	**(542.7)**	(470.1)
Total liabilities	**(1,065.8)**	(951.3)
Net assets	**583.2**	588.9
Equity		
Share capital	**81.8**	81.8
Share premium	**12.1**	11.8
Other reserves	**213.6**	176.4
Retained earnings	**235.7**	276.1
Equity attributable to owners of the parent	**543.2**	546.1
Non-controlling interests	**40.0**	42.8
Total equity	**583.2**	588.9

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £m	2015 £m
Cash flows from operating activities		
Operating profit for the year from continuing operations	**188.3**	185.9
Operating profit for the year from discontinued operations	**-**	0.9
Adjustments for:		
Depreciation and amortisation	**66.3**	70.4
Impairment of property, plant and equipment and intangible assets	**8.0**	6.9
Loss on disposal of subsidiaries	**-**	8.8
Gain on special pension events	**(2.8)**	(9.1)
Profit on sale of property, plant and equipment	**(1.6)**	(6.9)
Equity-settled share-based payment expense	**5.8**	1.1
Decrease/(increase) in inventories	**17.5**	(3.5)
Decrease in trade and other receivables	**6.8**	29.2
Increase/(decrease) in trade and other payables	**5.5**	(7.3)
(Decrease)/increase in provisions and employee benefits	**(8.6)**	5.6
Cash generated from the operations	**285.2**	282.0
Income taxes paid	**(31.7)**	(36.2)
Cash generated from the operations after tax	**253.5**	245.8
Additional pension scheme funding - UK and overseas	**(1.9)**	(2.9)
Net cash from operating activities	**251.6**	242.9
Cash flows from investing activities		
Interest received	**4.5**	3.2
Proceeds from sale of property, plant and equipment	**6.8**	12.0
Purchase of investments	**(0.4)**	(0.8)
Settlement of transactional derivatives	**(2.4)**	(5.0)
Settlement of currency derivatives hedging balance sheet	**(41.8)**	29.0
Acquisitions of subsidiaries net of cash	**-**	(106.2)
Acquisition of property, plant and equipment and non-acquired intangibles	**(70.9)**	(70.6)
Proceeds from disposal of subsidiaries net of cash	**-**	0.6
Net cash from investing activities	**(104.2)**	(137.8)
Cash flows from financing activities		
Interest paid	**(21.8)**	(21.6)
Payment to non-controlling interest	**(4.4)**	(4.4)
Shares (acquired for)/issued by employee share scheme trust	**(7.4)**	2.3
Proceeds from the issue of share capital for employee share schemes	**0.3**	1.1
Net (repayment)/drawdown of borrowings	**(54.6)**	107.9
Dividends paid to equity shareholders and non-controlling interest	**(105.0)**	(102.5)
Net cash from financing activities	**(192.9)**	(17.2)
Net (decrease)/increase in cash and cash equivalents	**(45.5)**	87.9
Cash and cash equivalents at the start of the year	**107.8**	20.8
Effect of exchange rate fluctuations on cash held	**5.2**	(0.9)
Cash and cash equivalents at the end of the year*	**67.5**	107.8

* Net of bank overdrafts of £12.2m (2015: £6.4m).

Reconciliation of net cash to movement in net borrowings appears in note 9.

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.

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 defined in the table below.

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 requirements for hedge accounting and gains and losses are reversed out of reported revenue and operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

Alternative Performance Measures

To facilitate a more meaningful review of performance, certain alternative performance measures ('APMs') have been included within this announcement. These APMs are used by the Executive Committee to monitor and manage the performance of the Group in order to ensure that decisions taken align with its long-term interests. These APMs exclude exceptional and other items in order to best reflect the underlying performance of the Group. Movements in reported revenue and segmental operating profit are given on an organic basis (see definition below) so that performance is not distorted by acquisitions, disposals and movements in exchange rates.

APM	Definition
Reported revenue Reported profit before tax Reported earnings per share	These measures all exclude exceptional items.
Reported segmental operating profit and margin	These measures exclude exceptional items, underlying restructuring costs and underlying gains and losses on disposal of subsidiaries.
Organic growth	Movements are after adjusting for exceptional items and the impact of acquisitions, disposals and movements in exchange rates.
Operating cash flow	Operating cash flow is cash generated from the operations as shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, after adjusting for the cash impact of exceptional items.

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 2016 £m	Revenue 2015 £m	Operating profit 2016 £m	Operating profit 2015 £m	Operating margin 2016 %	Operating margin 2015 %
Continuing operations						
IMI Critical Engineering	**651**	631	**81.8**	93.1	**12.6%**	14.8%
IMI Precision Engineering	**708**	662	**118.5**	117.7	**16.7%**	17.8%
IMI Hydronic Engineering	**290**	264	**51.9**	51.8	**17.9%**	19.6%
Corporate costs			**(24.5)**	(23.2)		
Total reported revenue/ segmental operating profit and margin	**1,649**	1,557	**227.7**	239.4	**13.8%**	15.4%
Restructuring costs (non-exceptional)			**(3.5)**	(2.1)		
Loss on disposal of subsidiaries (non-exceptional)			**-**	(0.4)		
Total reported revenue/ operating profit and margin	**1,649**	1,557	**224.2**	236.9	**13.6%**	15.2%
Reversal of net economic hedge contract losses/(gains)	**8**	10	**5.6**	7.6		
Restructuring costs			**(18.8)**	(27.1)		
Gains on special pension events			**2.8**	9.1		
Impairment losses			**(5.0)**	-		
Acquired intangible amortisation			**(20.5)**	(32.2)		
Loss on disposal of subsidiaries			**-**	(8.4)		
Statutory revenue/operating profit	**1,657**	1,567	**188.3**	185.9		
Net financial expense			**(23.0)**	(23.2)		
Statutory profit before tax from continuing operations			**165.3**	162.7		

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

	Year ended 31 December 2015				**Year ended 31 December 2016**			
Reported revenue	As reported	Movement in foreign exchange	Disposals	Organic	**As reported**	**Organic**	**Reported growth (%)**	**Organic growth (%)**
IMI Critical Engineering	631	77	(6)	702	**651**	**651**	**3%**	**-7%**
IMI Precision Engineering	662	72	(1)	733	**708**	**708**	**7%**	**-3%**
IMI Hydronic Engineering	264	30	-	294	**290**	**290**	**10%**	**-1%**
Total	1,557	179	(7)	1,729	**1,649**	**1,649**	**6%**	**-5%**
Segmental operating profit								
IMI Critical Engineering	93.1	14.4	0.1	107.6	**81.8**	**81.8**	**-12%**	**-24%**
IMI Precision Engineering	117.7	12.6	1.1	131.4	**118.5**	**118.5**	**1%**	**-10%**
IMI Hydronic Engineering	51.8	5.6	-	57.4	**51.9**	**51.9**	**0%**	**-10%**
Corporate costs	(23.2)	-	-	(23.2)	**(24.5)**	**(24.5)**		
Total	239.4	32.6	1.2	273.2	**227.7**	**227.7**	**-5%**	**-17%**
Segmental operating profit margin (%)	15.4%			15.8%	**13.8%**	**13.8%**		

1. Segmental information (continued)

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

	2016 Revenue £m	2015 Revenue £m
UK	**75**	90
Germany	***240***	*219*
Other Western Europe	***390***	*344*
Western Europe	**630**	563
USA	***327***	*311*
Canada	***17***	*23*
North America	**344**	334
Emerging Markets	**520**	505
Rest of World	**80**	65
Total reported revenue	**1,649**	1,557
Reversal of economic hedge contract losses	**8**	10
Total statutory revenue	**1,657**	1,567

2. Discontinued operations

There has been no profit or loss from discontinued operations in 2016.

The prior year comparative includes a pre-tax and post-tax gain of £4.4m as a result of the finalisation of a number of matters relating to the disposal of the Retail Dispense businesses as well as a pre-tax gain of £0.9m and post-tax gain of £2.3m relating to other discontinued operations.

3. Net financial income and expense

	2016			2015		
	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	**4.5**		**4.5**	3.2		3.2
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		**5.6**	**5.6**		14.5	14.5
- future year transactions		**7.0**	**7.0**		6.4	6.4
Financial income	**4.5**	**12.6**	**17.1**	3.2	20.9	24.1
Interest expense on interest-bearing loans and borrowings	**(21.8)**		**(21.8)**	(21.6)		(21.6)
Financial instruments at fair value through profit or loss:						
Other economic hedges						
- current year trading		**(7.5)**	**(7.5)**		(16.8)	(16.8)
- future year transactions		**(11.9)**	**(11.9)**		(9.1)	(9.1)
Financial expense	**(21.8)**	**(19.4)**	**(41.2)**	(21.6)	(25.9)	(47.5)
Net finance income relating to defined benefit pension schemes	**1.1**		**1.1**	0.2		0.2
Net financial expense	**(16.2)**	**(6.8)**	**(23.0)**	(18.2)	(5.0)	(23.2)

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in reported revenue and operating profit. 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.

4. Taxation

The effective tax rate for the Group before exceptional items was 21% (2015: 22%). In addition, an exceptional tax credit of £12m (2015: £9m) arose in connection with business restructuring and other exceptional costs. The total reported tax charge for the year on continuing operations was £44m (2015: £48m) and reported profit after tax was £164m (2015: £171m). Taxes of £32m (2015: £36m) 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's Code of Conduct.

5. Earnings per ordinary share

	Key	2016 million	2015 million
Weighted average number of shares for the purpose of basic earnings per share	A	**270.8**	270.6
Dilutive effect of employee share options		**1.8**	1.9
Weighted average number of shares for the purpose of diluted earnings per share	B	**272.6**	272.5
		£m	£m
Statutory profit for the year		**133.2**	130.0
Non-controlling interests		**(2.4)**	(2.4)
Statutory profit for the year attributable to owners of the parent	C	**130.8**	127.6
Statutory profit from discontinued operations, net of tax		**-**	(6.7)
Continuing statutory profit for the year attributable to owners of the parent	D	**130.8**	120.9
Total exceptional charges included in profit before tax		**42.7**	56.0
Total exceptional credits included in taxation		**(11.6)**	(8.7)
Earnings for reported EPS	E	**161.9**	168.2

Statutory EPS measures			
Statutory basic EPS	C/A	48.3p	47.2p
Statutory diluted EPS	C/B	48.0p	46.8p
Statutory basic continuing EPS	D/A	48.3p	44.7p
Statutory diluted continuing EPS	D/B	48.0p	44.4p
Reported EPS measures			
Reported basic EPS	E/A	59.8p	62.2p
Reported diluted EPS	E/B	59.4p	61.7p

Discontinued earnings per share

Statutory basic discontinued earnings per share were nil (2015: 2.5p). Statutory diluted discontinued earnings per share were nil (2015: 2.4p).

6. Exceptional items

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 reported 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 £5.6m (2015: reversal of a loss of £7.6m) and the latter amounted to a loss of £6.8m (2015: loss of £5.0m).

Restructuring costs

The restructuring costs treated as exceptional in 2016 of £18.8m (2015: £27.1m) are as a result of a number of significant restructuring projects across the Group, predominantly in Critical Engineering. These include £7.6m relating to the closure of one of our Critical Engineering sites in Germany, £1.7m from the closure of one of our Critical Engineering sites in Italy, £3.2m for the continuing European restructuring exercise commenced in 2015 and £5.6m from the restructuring of our Swedish business.

Exceptional restructuring costs in 2015 included £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. £3.6m was also incurred in relation to the closure of two of our Petrochemical sites in Italy and Germany, £1.7m in relation to the closure of our Canadian Nuclear business and £1.1m as part of Critical Engineering's localisation plan in China.

Other restructuring costs of £3.5m (2015: £2.1m) 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.

Pensions

During 2016, following the conversion to a non-inflation linked pension for certain members of our UK Funds, an exceptional net gain of £6.1m was realised. In addition, following further restructuring exercises in Switzerland, a curtailment gain of £1.4m was recognised. These exceptional gains were partially offset by an exceptional loss of £4.7m relating to the distribution of pension assets to members from our previously overfunded Swiss schemes. Gains on special pension events in the UK, US and Switzerland of £9.1m were recognised in 2015.

6. Exceptional items (continued)

Impairment losses and acquired intangible amortisation

Following completion of the Group's annual impairment review, an exceptional impairment charge of £5m (2015: nil) was recorded against the goodwill associated with the Stainless Steel Fasteners ('SSF') CGU in the IMI Critical Engineering division. Acquired intangible amortisation decreased to £21m (2015: £32m) following the full amortisation in 2015 of the order book acquired from Bopp & Reuther.

Taxation

An exceptional tax credit of £12m (2015: £9m) arose in connection with business restructuring and other exceptional items.

7. Dividend

The directors recommend a final dividend of 24.7p per share (2015: 24.5p) payable on 19 May 2017 to shareholders on the register at close of business on 7 April 2017, which will cost about £67.0m (2015: £66.4m). Together with the interim dividend of 14.0p per share paid in September 2016, this makes a total distribution of 38.7p per share (2015: 38.4p per share). In accordance with IAS10 *'Events after the Balance Sheet date'*, this final proposed dividend has not been reflected in the 31 December 2016 balance sheet.

8. Employee Benefits

The Group has 63 (2015: 63) defined benefit obligations in operation as at 31 December 2016. 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 deficit for defined benefit obligations at 31 December 2016 was £80m (2015: £4m surplus). The UK surplus was £24m (2015: £89m) and constituted 88% (2015: 88%) of the total defined benefit liabilities and 94% (2015: 95%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2016 was £103m (2015: £84m).

	UK £m	Overseas £m	Total £m
Net defined benefit surplus/(obligation) as at 1 January 2016	88.7	(84.3)	4.4
Movement recognised in:			
Income statement	**10.9**	**(12.4)**	**(1.5)**
Other comprehensive income	**(76.1)**	**(16.9)**	**(93.0)**
Cash flow statement	**0.1**	**10.2**	**10.3**
Net defined benefit surplus/(obligation) as at 31 December 2016	**23.6**	**(103.4)**	**(79.8)**

9. Cash flow and net debt reconciliation

Reconciliation of net cash to movement in net borrowings

	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents excluding foreign exchange and net cash disposed/acquired	**(45.5)**	85.7
Net repayment/(drawdown) of borrowings	**54.6**	(107.9)
Decrease/(increase) in net debt before acquisitions, disposals and foreign exchange	**9.1**	(22.2)
Net cash disposed	**-**	(0.8)
Net debt acquired	**-**	(5.6)
Currency translation differences	**(54.8)**	(8.3)
Movement in net borrowings in the year	**(45.7)**	(36.9)
Net borrowings at the start of the year	**(236.9)**	(200.0)
Net borrowings at the end of the year	**(282.6)**	(236.9)

Movement in net debt

	2016 £m	2015 £m
EBITDA* from continuing operations	**273.0**	275.1
Working capital movements	**29.8**	18.4
Capital and development expenditure	**(70.9)**	(70.6)
Loss on disposal of subsidiaries	**-**	0.4
Provisions and employee benefit movements**	**(2.2)**	(4.1)
Other	**16.2**	13.0
Operating cash flow (pre-exceptional items)* **	**245.9**	232.2
Exceptional items****	**(25.2)**	(9.6)
Operating cash flow (post-exceptional items)	**220.7**	222.6
Tax paid	**(31.7)**	(36.2)
Interest and derivatives	**(61.5)**	5.6
Cash generation	**127.5**	192.0
Additional pension scheme funding	**(1.9)**	(2.9)
Free cash flow before corporate activity	**125.6**	189.1
Acquisitions (before net cash acquired)	**-**	(109.2)
Dividends paid to equity shareholders and non-controlling interest	**(105.0)**	(102.5)
Proceeds from disposal of subsidiaries	**-**	1.4
Payment to non-controlling interest	**(4.4)**	(4.4)
Net (purchase)/issue of own shares	**(7.1)**	3.4
Net cash flow (excluding debt movements)	**9.1**	(22.2)
Opening net debt	**(236.9)**	(200.0)
Net cash disposed	**-**	(0.8)
Net debt acquired	**-**	(5.6)
Foreign exchange translation	**(54.8)**	(8.3)
Closing net debt	**(282.6)**	(236.9)

* Reported earnings before interest (£16.2m), tax (£43.7m), depreciation (£37.8m), amortisation (£8.0m) and impairment (£3.0m).

** Movement in provisions and employee benefits as per the statement of cash flows (£8.6m), adjusted for the decrease in exceptional restructuring provisions (£3.1m) and the decrease in provisions relating to discontinued operations (£3.3m).

*** Operating cash flow (pre-exceptional items) is the cash generated from the operations shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, after adjusting for the cash impact of exceptional items. This measure best reflects the underlying operating cash flows of the Group.

**** Cash impact of exceptional items, including an outflow relating to restructuring costs of £21.9m and a cash outflow of £3.3m in relation to discontinued operations.

10. 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	
	2016	2015	**2016**	2015
Euro	**1.22**	1.38	**1.17**	1.36
US Dollar	**1.36**	1.53	**1.23**	1.47

The movement in average exchange rates between 2015 and 2016 resulted in our reported 2016 revenue being 11% higher and segmental operating profit being 13% higher as the average euro and US dollar rates against sterling were 12% and 11% stronger, respectively.

If the exchange rates as at 6th February 2017 of US$1.25 and €1.16 were projected for the full year and applied to our 2016 results, it is estimated that reported revenue would have been 6% higher and segmental operating profit would have been approximately 7% higher.

11. Financial information

The preliminary statement of results was approved by the Board on 23 February 2017. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from the 2016 accounts, which are prepared on the same basis as the 2015 accounts. Statutory accounts for 2015 have been delivered to the registrar of companies and those for 2016 will be delivered in due course. Ernst & Young LLP has reported on both the 2015 and 2016 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 in the commentary to 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 EPS, unless otherwise stated, relate to reported basic EPS i.e. after adjustment for the per share after tax impact of exceptional items in note 5. The directors' commentary discusses these alternative performance measures 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.

References to organic growth exclude the impact of exchange rate translation and acquisitions or disposals that are included in reported growth figures. The organic growth is derived from excluding any contribution from acquired businesses to revenues or profits in the current period until the first anniversary of their acquisition. It also excludes the contribution to revenues or profits in both the current and comparative period from any business that has been disposed of. These organic revenues or profits will then be compared to the organic revenue or profits for the prior period after their re-translation at the current period average exchange rates to provide the organic growth rate. The impact on revenue and segmental operating profit of movements in foreign exchange, acquisitions and disposals is set out in note 1.

IMI plc is registered in England No. 714275. Its legal entity identifier ('LEI') number is 2138002W9Q21PF751R30.

The Company's 2016 Annual Report and notice of the forthcoming Annual General Meeting will be posted to shareholders on 24 March 2017.