**Registered No. 00564656**

# Norgren Limited

## Directors' report and financial statements

### For the year ended 31 December 2011

(Registered in England and Wales - number 00564656)

## NORGREN LIMITED
## Company details

**Directors**
P D Cleaver
W O C North

**Secretary**
S A Hallam

**Auditors**
Ernst & Young LLP
One Colmore Square
Birmingham
B4 6HQ

**Bankers**
Lloyds TSB plc
PO Box 1000
Colmore Row
Birmingham
BX1 1LT

**Registered office**
PO Box 22
Eastern Avenue
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WS13 6SB

## NORGREN LIMITED
## Directors' report and financial statements
## for the year ended 31 December 2011

**Registered No. 00564656**

**CONTENTS**

## NORGREN LIMITED
## Registered No. 00564656
## Directors' report
## for the year ended 31 December 2011

The directors present their report and financial statements for the year ended 31 December 2011

**Principal activities and review of the business**

The company is a wholly-owned subsidiary of IMI plc and operates as part of IMI plc's Fluid Controls division

The company's principal activities are the manufacture and distribution of pneumatic control equipment and precision manufactured components There have not been any significant changes in the company's principal activities in the year under review The directors are not, at the date of this report, aware of any likely major changes in the company's activities in the next year

On 14th December 2011 the company announced a rationalisation program that will result in the manufacture of a range of industrial fittings and valves being transferred to low cost manufacturing facilities The program also involves the relocation of the UK manufacturing plant A provision of £2 5m has been recognised in respect of this at year end

As shown in the company's profit and loss account on page 7 the company's turnover has increased by 1% over the prior year and the profit after tax has decreased by £2 1m The balance sheet on page 8 of the financial statements shows the company's financial position at the year-end is a significant improvement over the prior year, reflecting the economic recovery

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements

IMI plc manages its operations on a divisional basis For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business The performance of the Fluid Controls division of IMI plc, which includes the company, is discussed in IMI plc's annual report which does not form part of this report

**Principal risks and uncertainties**

As with other companies in its sector, Norgren Limited is exposed to competitive pressure In order to mitigate this risk, the company seeks to focus on the high value engineered end of the markets developing strong relationships with key customers The company sells its products into international markets and it is therefore exposed to currency movements on such sales Where appropriate, the company manages this risk with forward exchange contracts in line with IMI plc's treasury policies The company's business may be affected by fluctuations in the price and supply of key raw materials and supplies, although purchasing policies and practices seek to mitigate, where practicable, such risks

The company is a member of IMI plc's multi-employer UK defined benefit pension plan, which is currently in deficit The funding level of this pension plan is subject to potential adverse change resulting from movements in experience that would be reflected in the actuarial calculation of plan liabilities, including decreasing yields on corporate bonds and increasing longevity of plan members, as well as declines in the market value of plan investments The UK pension fund is closed to new members and future accrual and deficit-reduction contributions are being made by IMI plc in addition to the normal cash contributions due under the terms of a repayment schedule agreed with the plan Trustee Significant adverse changes could materially impact the company's trading results

The company is financed by IMI plc, the details of which can be found in the IMI plc annual report and financial statements, which do not form part of this report The risks facing the IMI group are discussed in IMI plc's annual report

**Environment**

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities The company operates in accordance with IMI plc policies, as noted in IMI plc's annual report, which does not form part of this report Initiatives aimed at minimising the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption

### Employees

Details of the number of employees and related costs can be found in note 6 to the financial statements

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

The company participates in IMI plc's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters

The directors believe that benefit is derived from the provision of systematic channels for employee communication Formal point consultative procedures have been in operation for many years and exchanges of information between management and employee is strongly encouraged

### Results and dividends

The results are set out on page 7 The profit after tax for the year was £14 1m (2010 profit of £16 3m)

The company did not pay an interim dividend in 2011 or the prior year The directors propose a dividend of £36,316,000 (2010 £nil) amounting to £1 21 per £1 ordinary share to be paid on 28 September 2012

### Research and development

During the year the company continued to pursue its policy of developing existing and new products

### Policy on the payment of creditors

The company policy is to make its suppliers aware of the terms of payment, to agree such terms with suppliers for each business transaction and to make payments to suppliers in accordance with these terms, provided that the supplier is also complying with all relevant terms The number of day's billings from suppliers outstanding at the end of the financial year was 50 days (2010 42 days)

### Directors

The current directors are shown on the company details page Other directors serving during the year and changes are as follows

W O C North (appointed 28 April 2011)
B Martin (resigned 28 April 2011)

The company's ultimate parent, IMI plc, maintained directors liability insurance for all directors during the financial year

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

**Going concern**

The company participates in the group's centralised treasury function and so shares funding arrangements with its parent and fellow subsidiaries Having assessed the responses of the directors of IMI plc, the company's ultimate parent, to their enquiries, the directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of IMI plc to continue as a going concern or its ability to continue with the current funding arrangements

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of IMI plc, the company's directors have a reasonable expectation that the company will be able to continue in operational existence in the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

**Auditors**

Pursuant to Section 485 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office

By order of the Board

S A Hallam
**Secretary**

## NORGREN LIMITED
## Statement of directors' responsibility in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## Independent auditor's report to the members of Norgren Limited

We have audited the financial statements of Norgren Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholder's Funds and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

## Independent auditor's report to the members of Norgren Limited

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Christopher Voogd (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

3 JULY 2012

# NORGREN LIMITED
## Profit and loss account
## for the year ended 31 December 2011

| | Notes | 2011<br>£000 | 2010<br>£000 |
|---|---|---|---|
| **Turnover** | 2 | **130,175** | 129,396 |
| Cost of sales | | **(92,609)** | (88,361) |
| **Gross profit** | | **37,566** | 41,035 |
| Distribution costs | | **(9,824)** | (10,047) |
| Administrative expenses | | **(7,664)** | (8,492) |
| Exceptional Item | 4 | **(3,923)** | - |
| **Operating profit** | | **16,155** | 22,496 |
| Interest receivable and similar income | 7 | **1,068** | 1,119 |
| Interest payable and similar charges | 8 | **(571)** | (834) |
| **Profit on ordinary activities before taxation** | 3 | **16,652** | 22,781 |
| Tax on profit on ordinary activities | 9 | **(2,545)** | (6,528) |
| **Profit for the financial year** | | **14,107** | 16,253 |

All activities relate to continuing operations

There is no material difference between the profit before taxation and the profit for the financial year as shown in the profit and loss account and their historical cost equivalents

There were no recognised gains or losses in either the current or preceeding year other than the profit for the financial year

## NORGREN LIMITED
## Balance sheet
## as at 31 December 2011

| | Notes | 2011 £000 | 2011 £000 | 2010 £000 | 2010 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 10 | | **4,977** | | 5,405 |
| Tangible assets | 11 | | **8,398** | | 9,355 |
| Investments | 12 | | **50** | | 50 |
| | | | **13,425** | | 14,810 |
| **Current assets** | | | | | |
| Stocks | 13 | **11,416** | | 11,820 | |
| Debtors (including £6,062,000 (2010 £5,678,000) due after more than one year) | 14 | **93,639** | | 90,961 | |
| Cash at bank and in hand | | **2,696** | | 2,052 | |
| | | **107,751** | | 104,833 | |
| **Creditors** amounts falling due within one year | 15 | **(40,913)** | | (54,616) | |
| **Net current assets** | | | **66,838** | | 50,217 |
| **Total assets less current liabilities** | | | **80,263** | | 65,027 |
| **Creditors** amounts falling due after more than one year | 16 | | **(6,371)** | | (6,371) |
| Provisions for liabilities | 17 | | **(3,507)** | | (2,378) |
| **Net assets** | | | **70,385** | | 56,278 |
| **Capital and reserves** | | | | | |
| Called up share capital | 18 | | **30,033** | | 30,033 |
| Profit and loss account | 19 | | **40,352** | | 26,245 |
| **Shareholder's funds** | | | **70,385** | | 56,278 |

These financial statements were approved by the board of directors on 29th June 2012 and were signed on its behalf by

**W O C North**
**Director**

## NORGREN LIMITED
## Reconciliation of movements in shareholder's funds
## for the year ended 31 December 2011

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| **Profit for the financial year** | **14,107** | 16,253 |
| **Net addition to shareholder's funds** | **14,107** | 16,253 |
| Opening shareholder's funds | **56,278** | 40,025 |
| **Closing shareholder's funds** | **70,385** | 56,278 |

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

***Basis of preparation***

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules

The financial statements present information about the company and not the group as the company is exempt from the requirement to prepare group financial statements under Section 401 of the Companies Act 2006 These financial statements present information about the Company as an individual undertaking and not about its group

***Cash flow***

As per FRS1, a group cash flow statement for the year ended 31 December 2011 is included in the IMI plc group financial statements and accordingly no cash flow statement is shown in these financial statements

***Related parties***

Transactions with other IMI plc group companies, being related parties under FRS 8, have not been disclosed in these financial statements as the company is itself a wholly owned subsidiary of that group

***Goodwill***

Goodwill arising on acquisitions prior to 31 December 1997 was set off directly against reserves Goodwill previously eliminated against reserves was not reinstated on implementation of FRS10 Positive goodwill arising on acquisitions since 1 January 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life of 20 years It is reviewed for impairment at the end of each financial year and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

***Fixed assets***

In general, machine tools purchased initially with major items of plant are included in the capital cost of that plant Subsequent replacements are charged to profit and loss account

Major items of product tooling are capitalised as plant and machinery and depreciated

***Depreciation***

Tangible assets are depreciated by equal annual instalments over their estimated useful lives

| | |
|---|---|
| Plant and machinery | between 3 and 15 years |

No depreciation is provided on freehold land or assets in the course of construction

***Investments***

Investments in subsidiary undertakings are stated at cost less amounts written off

***Stocks***

Stocks are valued at the lower of cost or net realisable value In respect of work in progress and finished goods, cost includes all production overheads and the appropriate proportion of related works overheads

1 **Accounting policies** *(continued)*

***Turnover***

Turnover represents amounts invoiced by the company in respect of goods and services provided during the year, excluding value added tax Included within turnover is £20 6m (2010 £24 5m) of sales to Norgren European Logistics Company Limited, a fellow subsidiary undertaking, where the significant risks and rewards of ownership of the inventory to which these sales relate have been transferred to Norgren European Logistics Company Limited In addition, the company has recognised sales of £11 3m (2010 £14 6m) for items sold to entities outside of the IMI plc group that have been originally manufactured by the company but have been purchased from Norgren European Logistics Company Limited Purchases from Norgren European Logistics Company Limited during the year were £7 6m (2010 £9 9m)

Revenue from the sale of products is recognised in the profit and loss account net of returns, trade discounts and volume rebates when the significant risks and rewards of ownership have been transferred to the buyer, and reliable measurement is possible No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods

***Research and development expenditure***

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred Development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are expected to exceed related future sales and adequate resources exist to enable the project to be completed

***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

***Pensions***

The company participates in a multi-employer pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the company The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by Financial Reporting Standard No 17 'Retirement Benefits' accounts for the scheme as if it were a defined contribution scheme As a result, the amounts charged to the profit and loss account represent the contributions payable to the scheme in respect of the accounting period

***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred taxation is recognised without discounting on all timing differences which have arisen but not reversed at the balance sheet date, except as otherwise stated by FRS 19 Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

1 **Accounting policies** *(continued)*

***Equity and equity-related compensation benefits***

The Company participates in an Executive Share Option Scheme, a SAYE Share Option Scheme and a Performance Share Plan For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable The fair value of the options is determined based on the Black-Scholes option-pricing model

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

***Leases***

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

***Going concern***

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Directors' Report on page 1

The company participates in the group's centralised treasury function and so shares funding arrangements with its parent and fellow subsidiaries Having assessed the responses of the directors of IMI plc, the company's ultimate parent, to their enquiries, the directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of IMI plc to continue as a going concern or its ability to continue with the current funding arrangements

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of IMI plc, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

2. **Turnover**

Turnover is derived from one class of business in the UK and is analysed by geographical area as follows

| | **2011** | 2010 |
|---|---|---|
| | **£000** | £000 |
| UK | **63,886** | 69,279 |
| Rest of Europe | **47,719** | 40,893 |
| America | **11,170** | 11,658 |
| Asia | **7,377** | 7,086 |
| Australasia | **17** | 17 |
| Africa | **6** | 463 |
| | **130,175** | 129,396 |

## 3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Depreciation and other amounts written off tangible fixed assets | | |
| Owned | 2,673 | 4,972 |
| Loss/(profit) on disposal of fixed assets | 62 | (597) |
| Amortisation of goodwill | 428 | 428 |
| Operating lease rentals - land and buildings | 544 | 547 |
| Operating lease rentals - plant and machinery | 697 | 642 |
| Foreign exchange gains | (366) | (341) |
| Research and development expenditure | | |
| Expenditure in the year | 2,476 | 2,317 |

## 3 Profit on ordinary activities before taxation *(continued)*

*Auditors' remuneration*

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Audit of these financial statements | 62 | 58 |

Amounts receivable by the Company's auditors and their associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, IMI plc

## 4 Exceptional item

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Restructuring costs | 2,457 | - |
| Impairment of tangible fixed assets | 1,466 | - |
| | 3,923 | - |

On 14th December 2011 the company announced a rationalisation program that will result in the manufacture of a range of industrial fittings and valves being transferred to low cost manufacturing facilities The program also involves the relocation of the UK manufacturing plant A provision of £2 5m has been recognised in respect of this at year end

Furthermore, as a result of the transfer of manufacturing to low cost facilities and the relocation of the UK manufacturing plant, certain tangible fixed assets will be rendered obsolete An impairment provision of £1 5m has been recognised in respect of this at year-end

## 5 Remuneration of directors

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Directors' emoluments | 846 | 464 |
| Pension contributions | 71 | 80 |
| | 917 | 544 |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £604,000 (2010 £348,000), and Company pension contributions of £36,000 (2010 £69,000) were made to a defined contribution scheme on his behalf He is also a member of a defined benefit scheme, under which his accrued pension at the year end was £42,000 (2010 £42,000)

The total remuneration received by the directors reflects their services as directors of the company and fellow subsidiary companies The total remuneration cost retained in Norgren Ltd is £68,000, whilst the remainder is recharged to other group companies

Retirement benefits are accruing to the following number of directors under

| | Number of directors | |
|---|---|---|
| | 2011 | 2010 |
| Defined benefit schemes | - | 2 |
| Money purchase schemes | 2 | - |

2 directors exercised share options during the year (2010 1)

## 6 Staff numbers and costs

The average number of persons employed by the company during the year, including directors, was as follows

| | 2011 | 2010 |
|---|---|---|
| Production | 383 | 387 |
| Distribution | 108 | 115 |
| Administration | 156 | 142 |
| | 647 | 644 |

The aggregate payroll costs of these persons was as follows

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 21,221 | 19,794 |
| Share-based payments | 339 | 218 |
| Social security costs | 2,018 | 1,613 |
| Pension costs | 1,024 | 2,272 |
| | 24,602 | 23,897 |

## 7 Interest receivable and similar income

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Receivable from group undertakings | 1,068 | 1,119 |

## 8 Interest payable and similar charges

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Interest payable to group undertakings | 550 | 795 |
| Interest payable on bank overdrafts | 21 | 39 |
| | 571 | 834 |

## 9 Taxation

### *(a) Tax on profit on ordinary activities*

| | 2011 £000 | 2010 £000 |
|---|---|---|
| *Current tax* | | |
| UK Corporation tax at 26 5% (2010 28%) | 2,676 | 6,860 |
| Adjustment in respect of prior years | (173) | 2 |
| Total current tax (note 9(b)) | 2,503 | 6,862 |
| *Deferred tax* | | |
| Origination and reversal of timing differences | 461 | (194) |
| Adjustment in respect of prior years | (419) | (140) |
| Total deferred tax | 42 | (334) |
| Tax on profit on ordinary activities | 2,545 | 6,528 |

The tax assessed on the profit on ordinary activities for the year is lower (2010 higher) than the standard rate of corporation tax in the UK of 26 5% (2010 28%) The differences are reconciled below

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 16,652 | 22,781 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 28%) | 4,413 | 6,379 |
| Effects of | | |
| Depreciation in excess of capital allowances | 300 | 369 |
| Transfer pricing adjustment | (2,080) | - |
| Other timing differences | (191) | (149) |
| Expenses not deductible for tax purposes | 234 | 261 |
| Adjustments in respect of prior years | (173) | 2 |
| Total current tax charge (note 9(a)) | 2,503 | 6,862 |

**9 Taxation** *(continued)*

***(c) Factors that may affect future charges***
The Finance Act 2011, enacted on 19 July 2011, reduced the main rate of corporation tax to 26% from 1 April 2011 and to 25% from 1 April 2012 Deferred tax assets and liabilities at 31 December 2011 have been calculated at 25% and the reduction in the deferred tax asset or liability has been included within the tax charge for the year

The UK government announced in the Budget of 21 March 2012 further reductions in the standard rate of UK Corporation Tax to 24% from 1 April 2012 and announced a further reduction of 1% per annum to 22% from 1 April 2014 The 1% reduction in the main rate of UK Corporation Tax to 24% was substantively enacted on 26 March 2012 (through the Provisional Collection of Taxes Act procedure) These reductions had not been substantively enacted at the balance sheet date and consequently their effects are not included in these financial statements

The change in rate to 22% would reduce the deferred tax asset by £133,000

***(d) Deferred tax***
The deferred tax included in the balance sheet is as follows

| | **2011** | 2010 |
|---|---|---|
| | **£000** | £000 |
| Included in debtors (note 14) | **1,110** | 1,152 |
| Accelerated capital allowances | **970** | 796 |
| Other timing differences | **140** | 356 |
| | **1,110** | 1,152 |

| | |
|---|---|
| Balance at start of year | 1,152 |
| Deferred tax charge in profit and loss account for the year | **(42)** |
| Balance at end of year | **1,110** |

**10 Intangible fixed assets**

| | **Goodwill** |
|---|---|
| | **£000** |
| ***Cost*** | |
| At beginning and end of year | **8,570** |
| ***Amortisation*** | |
| At beginning of year | 3,165 |
| Charged in year | **428** |
| At end of year | **3,593** |
| ***Net book value*** | |
| **At 31 December 2011** | **4,977** |
| At 31 December 2010 | 5,405 |

Goodwill of £310,000 arose on the acquisition of the trade and assets of Herion UK Limited, purchased in 1998, the goodwill of £4,302,000 arising on the acquisition of the trade and net assets of IMI Scott Limited, purchased in January 2003, and goodwill of £3,958,000 arising on the acquisition of the trade and net asset of IMI Watson Smith Limited, purchased in March 2005

## 11 Tangible fixed assets

| | Plant and machinery £000 | Assets in course of construction £000 | Total £000 |
|---|---|---|---|
| *Cost* | | | |
| At 1 January 2011 | 71,462 | 1,573 | 73,035 |
| Additions | 1,745 | 2,523 | 4,268 |
| Disposals | (3,764) | (1,141) | (4,905) |
| Transfers | 1,052 | (1,052) | - |
| **At 31 December 2011** | **70,495** | **1,903** | **72,398** |
| *Depreciation and impairment* | | | |
| At 1 January 2011 | 63,680 | - | 63,680 |
| Charge for the year | 2,673 | - | 2,673 |
| Impairment loss | 1,466 | - | 1,466 |
| Disposals | (3,819) | - | (3,819) |
| **At 31 December 2011** | **64,000** | - | **64,000** |
| Net book value | | | |
| **At 31 December 2011** | **6,495** | **1,903** | **8,398** |
| At 31 December 2010 | 7,782 | 1,573 | 9,355 |

## 12 Fixed asset investments

| | Shares in group undertakings £000 |
|---|---|
| *Cost* | |
| At beginning and end of year | 50 |
| *Provision* | |
| At beginning and end of year | - |
| *Net book value* | |
| **At 31 December 2011** | **50** |
| At 31 December 2010 | 50 |

The company owns the whole of the issued ordinary share capital of IMI Scott Limited, a company incorporated in Great Britain and registered in England and Wales The principal activity of IMI Scott Limited is acting as a selling operation for the company

The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare group financial statements because it is included in the consolidated financial statements of IMI plc, which is registered in England and Wales

**13 Stocks**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Raw materials and consumables | 6,102 | 5,765 |
| Work in progress | 4,276 | 4,777 |
| Finished goods | 1,038 | 1,278 |
| | 11,416 | 11,820 |

The replacement cost of stocks are not materially different from the amounts shown above

**14 Debtors**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Trade debtors | 12,018 | 9,895 |
| Amounts owed by group undertakings | 77,847 | 78,528 |
| Deferred taxation | 1,110 | 1,152 |
| Other debtors | 417 | 119 |
| Prepayments and accrued income | 2,247 | 1,267 |
| | 93,639 | 90,961 |

Included within amounts owed by group undertakings is a funding loan of £6,062,000 (2010 £5,678,000) which is due after more than one year Interest is charged at an arms length basis based on an appropriate market rate, which for 2011 was 2% These amounts are unsecured and are due for payment after more than twelve months

**15 Creditors amounts falling due within one year**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Trade creditors | 11,996 | 11,336 |
| Amounts owed to group undertakings | 23,606 | 32,645 |
| Corporation tax | 2,658 | 6,831 |
| Other taxation and social security costs | 457 | 2,002 |
| Other creditors | 101 | 229 |
| Accruals and deferred income | 2,095 | 1,573 |
| | 40,913 | 54,616 |

**16 Creditors amounts falling due after more than one year**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Amounts owed to group undertakings | 6,371 | 6,371 |

The amount owed to a fellow group undertaking is non interest bearing

**17 Provisions for liabilities**

| | Rationalisation | Warranty provision | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| At 1 January 2011 | 906 | 1,472 | 2,378 |
| Profit and loss account charge | 2,451 | 614 | 3,065 |
| Utilised in the year | (607) | (1 329) | (1,936) |
| **At 31 December 2011** | **2,750** | **757** | **3,507** |

Product warranties are given in the normal course of business and cover a period of 2 years On 14 December 2011 the company announced a rationalisation program that will result in the manufacture of a range of industrial fittings and valves being transferred to low cost manufacturing facilities The program also involves the relocation of the UK manufacturing plant A provision of £2,451,000 has been recognised in respect of this at the year end The rationalisation provision is expected to be utilised in 2012 and 2013

**18 Called up share capital**

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| *Authorised* | | |
| 30,033,000 ordinary shares of £1 each (2010 30,033,000 shares of £1 each) | **30,033** | 30,033 |
| *Allotted, called up and fully paid* | | |
| 30,033,000 ordinary shares of £1 each (2010 30,033,000 shares of £1 each) | **30,033** | 30,033 |

**19 Reserves**

| | Profit and loss account |
|---|---|
| | £000 |
| At beginning of year | 26 245 |
| Profit for the year | 14,107 |
| **At end of year** | **40,352** |

**20 Commitments**

***(a) Capital commitments***

Capital commitments at the date of the balance sheet, for which no provision has been made in these financial statements, were as follows

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Contracted | **258** | 232 |

**20 Commitments** *(continued)*

***(b) Leasing commitments***

The company was committed to the following annual payments under non-cancellable operating leases which expire

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Land and buildings** | **Other** | Land and buildings | Other |
| | **£000** | **£000** | £000 | £000 |
| Within one year | **-** | **82** | - | 63 |
| Between one to five years | **46** | **469** | - | 432 |
| Over five years | **498** | **-** | 544 | - |
| | **544** | **551** | 544 | 495 |

**21 Contingent Liabilities**

The company is in discussion with HMRC in respect of payments made by a Trust to former employees The company does not currently believe any liability is due in respect of this matter

**22 Pension scheme**

The Company is a member of a larger group-wide pension scheme providing benefits based on final pensionable pay As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS17 *'Retirement Benefits'*, the scheme has been accounted for by the Company as if the scheme were a defined contribution scheme

The latest full actuarial valuation for the larger group-wide pension scheme was carried out on 31 March 2011 and was updated for FRS 17 purposes to the year end by a qualified independent actuary At 31 December 2011 the scheme deficit was £101 5m (2010 £110 4m)

The Company's contribution for the year was £Nil (2010 £2,151,000)

The pension scheme providing benefits on final pensionable pay was closed on 31 December 2010 Active members of the scheme at the date of closure have been invited to join the group's defined contribution scheme

In addition to the final pensionable pay scheme the Company made contributions of £1,024,000 (2010 £121,000) to the group's defined contribution scheme Expected contributions for 2012 are £967,000

Full disclosure of the scheme is contained in the consolidated financial statements of IMI plc

## 23 Share based payments

The Company participates in the following IMI plc Group share-based payment schemes

**SAYE savings-related share option scheme**

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

**Share Incentive Plan (SIP)**

This scheme is open to the majority of the Group's UK employees, including the executive directors This scheme covers two separate opportunities for employees to share in IMI's success Partnership shares – allow employees to sacrifice up to £125 per month from pre tax pay, which is used to buy IMI shares Matching shares may be awarded in respect of partnership shares acquired under the plan although the policy to date has been not to award any matching shares Free shares – allows a grant of shares to employees each year, up to a maximum of 0 6% of salary capped at £3,000 Both the Partnership and Free share schemes are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company

**Performance Share Plan (PSP)**

The performance share plan is open to the Company's executive directors and selected senior managers within the Group For awards granted prior to 2009, 50% of these PSP awards vest subject to EPS growth while the remaining 50% of awards are subject to relative TSR (total shareholder return)

**Share Matching Plan (SMP)**

Executive directors and selected senior managers' annual incentive payments are governed by the individual's achievement of a Share Ownership Guideline (SOG) The SOG is a requirement to hold a percentage of salary as IMI shares, and if achieved, any incentive payment is made in cash If not achieved, a proportion of any earned annual incentive payment will be mandatorily deferred for three years and delivered in IMI shares in the SMP This mandated investment (if the Share Ownership Guideline is not achieved) is matched from 75% up to a maximum of 200% These matching shares can be earned if performance conditions over the three year vesting period are met

Qualifying employees may also elect to voluntarily defer all or part of the remainder of their incentive payment, and invest personal funds, up to a maximum of 100% of their annual incentive opportunity Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the "gross equivalent" number of shares invested in the plan) if performance conditions over the three year vesting period are met

Performance measures for 2009 SMP awards were exceptional, and included ⅓ TSR, ⅓ profit before tax (measured annually) and ⅓ annual priority targets (measured annually) The annual priority targets were weighted equally, in 2009 between cash conversion and profit drop through and, in 2010 and 2011, between cash conversion and return on sales The performance measure for 2010 SMP awards was Group economic value added over the years 2010 to 2012

**Share Option Plan (SOP)**

Share option awards were made from 2009 to selected senior managers and certain other employees under the Share Option Plan adopted in 2009 These awards are not subject to performance conditions, but are subject to a three year vesting period The purpose of the Plan is to give selected IMI employees (who are not executive directors of the Company) the opportunity to share in the benefits of share price growth and to increase their IMI shareholding

## 23 Share based payments *(continued)*

The following share-based plans are no longer operated, but awards are outstanding under them

**Executive Share Option Scheme**

Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005 under the Executive Share Option (1995) Scheme which expired in May 2005 All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in EPS above inflation over a fixed period of three financial years Executive share options expire if not exercised or lapsed within the periods shown below

**Deferred Bonus Plan (DBP)**

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

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

**Analysis of options granted**

| | Employee SAYE options | | | Executive Options | | |
|---|---|---|---|---|---|---|
| | Number of options | Weighted Average Option Price | Normal Exercisable Date | Number of options | Weighted Average Option Price | Normal Exercisable Date |
| 2004 | 180,545 | 289p | 2007-2009 | 45,000 | 358p | 2007-2014 |
| 2005 | 117,322 | 380p | 2008-2010 | 42,000 | 421p | 2008-2015 |
| 2006 | 94,845 | 495p | 2009-2011 | - | - | - |
| 2007 | 89,185 | 517p | 2010-2012 | - | - | - |
| 2008 | 115,363 | 391p | 2011-2013 | - | - | - |
| 2009 | 314,903 | 201p | 2012-2014 | - | - | - |
| 2010 | 55,344 | 511p | 2013-2015 | - | - | - |
| **2011** | **37,844** | **849p** | **2014-2016** | **-** | **-** | **-** |

| | Performance Share Plan (1) | | Deferred Bonus Plan (1) | | Share Matching Plan (1) | |
|---|---|---|---|---|---|---|
| | Number of awards | Normal Exercisable Date | Number of awards | Normal Exercisable Date | Number of awards | Normal Exercisable Date |
| 2006 | 24,900 | 2009 | 1,412 | 2009 | - | - |
| 2007 | 22,450 | 2010 | 2,358 | 2010 | - | - |
| 2008 | 23,700 | 2011 | 900 | 2011 | - | - |
| 2009 | - | - | - | - | 18,916 | 2012 |
| 2010 | - | - | - | - | 19,401 | 2013 |
| **2011** | **-** | **-** | **-** | **-** | **17,930** | **2014** |

| | Share Option Plan | | |
|---|---|---|---|
| | Number of awards | Weighted average option price | Normal Exercisable Date |
| 2009 | 137,500 | 441p | 2012 |
| 2010 | 118,500 | 645p | 2013 |
| **2011** | **113,000** | **972p** | **2014** |

(1) These options were granted at an option price of £nil

**23 Share based payments** *(continued)*

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

| | Options without performance conditions | | | Options with performance conditions |
|---|---|---|---|---|
| | Number of options | Range of option prices | Weighted Average Option Price | Number of options |
| Outstanding at 1 January 2010 | 662,316 | 201-517p | 326p | 61,039 |
| Exercisable at 1 January 2010 | 64,100 | 257-495p | 411p | 3,156 |
| Granted | 173,844 | 511-645p | 602p | 19,401 |
| Exercised | 84,774 | 201-517p | 377p | 10,453 |
| Lapsed | 67,352 | 201-517p | 355p | 4,934 |
| Outstanding at 31 December 2010 | 684,034 | 201-645p | 387p | 65,053 |
| Exercisable at 31 December 2010 | 12,818 | 380-517p | 393p | 4,507 |
| **Granted** | **150,844** | **849-972p** | **941p** | **17,930** |
| **Exercised** | **40,938** | **201-495p** | **418p** | **24,841** |
| **Lapsed** | **22,366** | **201-849p** | **386p** | **1,895** |
| **Outstanding at 31 December 2011** | **771,574** | **201-849p** | **493p** | **56,247** |
| **Exercisable at 31 December 2011** | **9,787** | **391-511p** | **434p** | **-** |

Share options previously reported as Employee SAYE options and Executive options have been combined within Options without performance conditions The options previously reported as Performance Share Plan options and Deferred Bonus Plan options have been combined within Options with performance conditions In both cases these schemes have substantially similar arrangements Options with performance conditions were granted with an option price of £nil

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is 5 21 years (2010 5 35 years)

The weighted average share price at the date of exercise of share options exercised during the period was £9 84 (2010 £6 95)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted The estimate of the fair value of the services received is measured based on a Black-Scholes option pricing model The assumptions used for grants in 2011 included a dividend yield of 3 3% (2010 3 7%), expected share price volatility of 30% (2010 30%), a weighted average expected life of 3 7 years (2010 3 6 years) and a weighted average interest rate of 2 1% (2010 2 0%) The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

The total expenses recognised for the year arising from share based payments are as follows

| | **2011** | 2010 |
|---|---|---|
| | **£000** | £000 |
| Equity settled share based payment expense recognised in the profit and loss account | **339** | 218 |

**24. Related party transactions**

The company has taken advantage of the exemption available under FRS8 *'Related Party Transactions'* not to disclose transactions between the company and other fellow subsidiaries and group undertakings of IMI plc

**25 Ultimate parent company**

The ultimate parent company is IMI plc which is registered in England and Wales The immediate parent undertaking is IMI Kynoch Limited which is registered in England and Wales IMI plc is the smallest and largest group in which the results of the company are consolidated

A copy of the financial statements of both companies can be obtained from The Company Secretary, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham B37 7XZ