



Buy
Improve
Sell

Melrose Industries PLC

Annual Report
for the year ended 31 December 2016

This has been a tremendous year for Melrose and we are delighted with the performance of Nortek, which is exceeding expectations. All aspects of the business are being improved and its prospects are better than originally thought.



Buy **Improve** **Sell**

Acquiring good quality manufacturing businesses, making operational improvements, realising shareholder value at the appropriate time and then returning this value to shareholders continues to be the fundamentals of the “buy, improve, sell” business strategy that Melrose has followed since being founded in 2003.

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Governance overview



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Cautionary statement

The Strategic Report and certain other sections of this Annual Report contain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Accordingly, readers are cautioned not to place undue reliance on any such forward-looking statements. Subject to compliance with applicable laws and regulations, Melrose does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Annual Report.

The Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

Some financial and other numerical data in this Annual Report and financial statements has been rounded and, as a result, the numerical figures shown as totals may vary slightly from the exact arithmetic aggregation of the figures that precede them.

Performance summary

Following the acquisition of Nortek in August, the continuing operations of the Group now consist of four divisions. Only the four months of trading since the acquisition have been included in these results for the former Nortek businesses, all of which have made a very strong start under Melrose ownership.

Financial

Revenue (£m)

£889.3 million



Underlying⁽¹⁾ operating profit margin⁽²⁾ (%)

11.7%



Underlying⁽¹⁾ operating profit (£m)

£104.1 million



2016 statutory IFRS loss after tax of £39.0 million (2015: £16.3 million)

- (1) Considered by the Board to be the best measure of performance. A reconciliation of statutory profit/(loss) to underlying profit/(loss) is given in the Finance Director's review on page 30.
- (2) Underlying⁽¹⁾ operating profit as a percentage of revenue for the continuing Group.



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Strategy in action

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Divisional review

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Finance Director's review

Acquisition of Nortek

Enterprise value

£2.2 billion

Rights Issue




£1.6 billion

Debt financing

£0.6 billion

A strong track record

Melrose is very pleased with the track record achieved over its 13-year history since floating on AIM in 2003. It has achieved an average annual return on equity investment of 26% since making the first acquisition in 2005, with an increase in operating margins between five and nine percentage points across the businesses sold to date.

	Bought for ⁽¹⁾	Sold for ⁽¹⁾
	£1.8bn August 2012	£3.3bn
	£1.0bn July 2008	£1.8bn Up to 1 March 2017 ⁽²⁾
	£0.4bn May 2005	£0.8bn

As at 1 March 2017, track record for £1 invested in Melrose

Since the first deal in 2005, assuming participation in every fund raising and capital return and dividend receipt.

Investment			Total investment
£1	£11.85		£12.85
Original investment	+ Additional investment in subsequent capital raisings		
Returns			Total returns
£13.24	£1.83	£14.27	£29.34
Capital returns	+ Ordinary dividends	+ Market value of shares held	
Net return			Net return
£16.49			£16.49

(1) Enterprise value.

(2) Brush was also acquired as part of the acquisition of FKI and remains part of the Melrose Group. This calculation includes a consensus value of the Brush business as at 1 March 2017.

(3) Considered by the Board to be the best measure of performance. A reconciliation of statutory profit/(loss) to underlying profit/(loss) is given in the Finance Director's review on page 30.

(4) As at 1 March 2017.

Operational improvements	Shareholder return		Investment in the businesses
Underlying ⁽³⁾ operating margin improvement (percentage points)	Equity rate of return	Shareholder return on original equity	Post-acquisition investment as a percentage of original equity price
+9ppts	33%	2.3x	25%
+5ppts	33%	3.4x	62%
+6ppts	30%	3.0x	51%

Shareholder investment and gain⁽⁴⁾

£4.8bn

Shareholder value created

26%

Average annual return for a shareholder since the first acquisition

2.6x

Average return on equity across all businesses sold

The future

Melrose is well-positioned to create superior shareholder value

Since floating on AIM in 2003, Melrose has raised £3.6 billion from shareholders, and has returned £4.3 billion in cash to investors.

Melrose acquired the former Nortek businesses in August 2016 for an enterprise value of £2.2 billion, which, together with Brush, now comprise the Group. It continues to invest in the “buy, improve, sell” business model, which management believes can create significant further value from similar deals in the future.

Melrose has a simple and transparent executive remuneration framework that is aligned with shareholders’ interests and supports the delivery of the Group’s value creation strategy.

A history of value creation



Chairman's statement

“We rely on shareholder support for our ability to secure acquisitions where we can materially improve businesses and create value for our investors. The progress made at Nortek should give further confidence that our approach can continue to identify new opportunities even in challenging times.”

Christopher Miller, Chairman



I am pleased to report on our 14th set of annual results since flotation in 2003. Since the date of the first acquisition in 2005, Melrose has created net shareholder value of £4.8 billion and achieved an average annual return for a shareholder of 26% (as at 1 March 2017).

Calendar year 2016

2016 has been another successful year. In February 2016, £2.4 billion was returned to shareholders following the sale of Elster in December 2015. In August, Nortek was acquired for £2.2 billion, financed from the net proceeds of a successful Rights Issue raising £1.6 billion, with the balance funded through debt of £0.6 billion.

The presentation of this year's results has been dominated by the Nortek acquisition, which, when combined with Brush, has more than tripled the revenue of the Melrose Group this year.

Melrose Group revenue for the year was £889.3 million (2015: £261.1 million) and, despite declaring a statutory loss before tax of £69.3 million (2015: £30.7 million), the underlying profit before tax was £96.4 million (2015: £2.4 million).

At Nortek, the Security & Smart Technology and Ergonomics divisions performed particularly well, driving outperformance, but all businesses are responding well to the improvement measures we have implemented to date. Brush continues to face challenging end-market conditions but we remain positive about its long-term prospects. Further details of these results are contained in the Chief Executive and Finance Director's reviews.

As ever, I would like to thank all our employees for their efforts in helping to produce this outstanding performance.

Dividend

The Board proposes to pay a final dividend of 1.9 pence per share (2015: 0.5 pence⁽¹⁾), making a total of 2.2 pence for the year (2015: 1.0 pence⁽¹⁾), in line with its progressive annual dividend policy. This will be paid on 16 May 2017 to those shareholders on the register on 7 April 2017, subject to approval at the Annual General Meeting (AGM) on 11 May 2017.

Board matters

Succession planning is critical to maintaining the effectiveness and quality of the Melrose Board and it remains an area of focus for 2017. John Grant will be retiring from the Board at the conclusion of this year's AGM, having held a non-executive position on the Melrose Board since 2006 and is currently senior non-executive Director and Chairman of the Audit Committee. John's experience and judgement have been highly valued by the Board and we thank him for his service.

John will be replaced as senior non-executive Director by Justin Dowley, who will also continue to hold the position of Chairman of the Remuneration Committee. John's position as Chairman of the Audit Committee will be taken up by Liz Hewitt, who will step down as Chairman of the Nomination Committee, to be replaced by David Lis. I congratulate them all on their appointments.

The Board has decided to increase the number of its independent non-executive directors in conjunction with John's replacement and, accordingly, a search is underway for two new non-executive Directors, with appointments expected to be made in the coming months.

Strategy

Consistent with our “buy, improve, sell” strategy, the Nortek businesses have been the subject of significant change and a number of improvements have already been delivered in the short period of Melrose ownership, with more planned for 2017. At Brush, targeted investment in product development continues in order to maximise opportunities in a tough market, with the business focused on becoming the most agile, responsive and cost effective supplier in the industry.

Whilst the implementation of improvements across our existing businesses remains our key area of focus, we continue to see businesses that are candidates for our management and investment methods and are confident we will identify a suitable further opportunity in due course.

Outlook

We continue to operate in an uncertain and challenging environment. Globally, downside risks stem from weak investment and heightened geopolitical uncertainty in major economies.

Against this backdrop we believe that there are some exciting acquisition opportunities and, taken together with the benefits already seen from improvements implemented across Nortek, we are positive about the potential of the Melrose Group for 2017.

Christopher Miller
Chairman
2 March 2017

(1) Adjusted by a bonus factor of 18.8% related to the Rights Issue completed in August 2016.

Chief Executive's review

"2016 has been another highly successful year for Melrose, as Nortek has made a very strong start, with improvements across all three divisions in the short period since our acquisition."

Simon Peckham, Chief Executive



The Melrose Group now consists of four divisions: the Air Management division, which includes the Heating, Ventilation & Air Conditioning (HVAC) and Air Quality & Home Solutions (AQH) businesses; the Security & Smart Technology division, comprising the Security & Control, Core Brands and GTO businesses; the Ergonomics division, which includes the Ergotron business; and the Energy division, which includes the Brush businesses.

The former Nortek businesses have already responded very well to the Melrose model. We moved quickly on completion of the acquisition to remove the Nortek Board, close the Providence headquarters and decentralise all corporate functions, including HR, IT, legal, supply chain and distribution. This provided significant immediate savings, sent a strong and clear message to divisional management and created good momentum for the operational improvement programs in the businesses themselves. As a result, all three divisions have shown gains already in the short four-month period since acquisition and a pleasing level of cash generation. The internal potential margin targets have been increased beyond those perceived at the time of acquisition.

We consolidated the Security & Smart Technology division under the Security & Control management team, bringing Core Brands and GTO under their direction and control, which we think will be of benefit to all three businesses. We have approved approximately £3 million of investment in their production facilities, focusing on improving capacity, technology and safety levels. Further investment has also been made in improving and expanding the Core Brands premium platform ELAN.

The Air Management division is the largest in the Melrose Group. Its businesses have the greatest scope for improvement and have already experienced the most change under our ownership. There has been significant work consolidating two former HVAC businesses under one HVAC management team and integrating previous disparate segments, with more to go in 2017. There has already been good margin and profit growth assisted by the closure of unprofitable businesses and refocusing the sales strategy away from owned retail outfits. Similarly, there has been management change and significant investment across the AQH business as we work hard to improve its manufacturing processes, warehousing and technology.

We have sought to build on the already strong Ergonomics platform through investment in tooling to properly equip the business to access new markets and continue to support it in its ongoing revitalisation of the product range that repositions the business to higher margin lines.

In light of its difficult end market conditions, Brush produced an acceptable operating performance in 2016. Brush continues to undertake appropriate restructuring measures whilst still investing in product development across its businesses.

Outlook

Overall market conditions in 2017 remain difficult to predict, but we are confident that the former Nortek businesses are implementing their operational changes and strategic plans with enthusiasm and are well positioned for growth. End market conditions are likely to remain as challenging for Brush in 2017, but overall, we still see the long-term prospects for Brush remaining positive.

We have now started to review other acquisition opportunities, but will remain as ever disciplined in applying our investment criteria.

Simon Peckham
Chief Executive
2 March 2017

Market overview

This section details the market trends and external factors affecting the growth of each of Melrose's divisions and explores how they are responding to those trends and factors.

Melrose

Market environment for Melrose

Melrose invests in international manufacturing companies and is therefore directly and indirectly impacted by events occurring in the global economy.

The world economy remains uncertain and generally there has been continued nervousness amongst most economic commentators, many of whom are concerned that growth may be difficult to achieve over the near term. This caution applies to most major economies of the world.

Business response

Whilst the implementation of improvements across our existing businesses remains a key area of focus, our progress with the former Nortek businesses means we are also reviewing other acquisition opportunities. We continue to see businesses which are candidates for our management and investment methods and are confident we will identify a suitable further opportunity in due course. Melrose recognises that it may face strong competition from a range of market players.

The Board notes that, as the difficulty in predicting the economic outlook continues, valuations of businesses can decrease, potentially making acquisition opportunities more exciting. The uncertain world economic backdrop could be an opportunity for Melrose to find its next successful acquisition at an attractive price. Furthermore, the Board is confident that the necessary funding will be available to finance this.

❄️ Air Management

Heating, Ventilation & Air Conditioning

HVAC comprises Residential and Commercial HVAC (RCH), which manufactures unitary equipment for the light commercial and residential markets and is a leading provider of commercial unit heaters and manufactured housing HVAC products, and Custom & Commercial Air Solutions (CAS), a leading provider in custom HVAC solutions for commercial buildings and spaces requiring precise temperature and air quality control.

Current market trends

Whilst the market has always been subject to seasonality, four other critical trends are beginning to converge, influencing the HVAC market for commercial and residential buildings.

First, growth of Internet of Things (IoT) products, artificial intelligence and other cloud based systems is driving demand for critical space air conditioning and puts further emphasis on building energy reduction. The continued acceleration of digitalisation, convergence of technologies and connectivity are likely to render markets favourable to HVAC product and solutions offerings.

Second, the continuous regulation of energy and water conservation in buildings driven by global warming and an impending global water shortage. The trend over the past decade for improving energy efficiency and reducing greenhouse gas emissions will continue, while water conservation in buildings will also emerge as an equally important issue. As awareness levels rise around a global water shortage, the industry can expect new regulations for commercial cooling applications to reduce consumption.



Third, the need for suppliers to be agile in responding quickly to customers' need to comply with the changing regulatory environment.

Finally, urbanisation is an overriding trend that bodes well for the business as it will lead to investment in infrastructure, which will increase demand for HVAC's products.

External factors

Custom markets are impacted by both an increase in energy and water efficiency requirements and new building code standards. In addition to efficiency performance, fan control and ventilation standards continue to evolve, with these factors driving the need to incorporate higher performing components. As a result, the market is seeing a growth in demand for configurable rooftop products with improved fan controls, increased efficiency and multi-stage operation.

Business response

The business has invested heavily in research and development to upgrade its product offering to match regulatory, environmental and market demand. At the same time, it has simplified its structure, streamlined processes and remained close to customers to ensure it can react quickly to any changing requirements.

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Finance Director's review

Air Quality & Home Solutions

Air Quality & Home Solutions (AQH) is a global leader in providing residential indoor air quality improvement solutions and a variety of home comfort and convenience products, serving both the new build and renovation markets.

Current market trends

The North American construction market grew in 2016, albeit at a slower rate than market forecast. Consumers seek new solutions to improve the quality of their indoor air as the negative health impact of poor air quality becomes more widely recognised. Air quality and healthy air management is a strategic growth area for AQH based on both building trends and consumer demand.

External factors

Building codes in North America are forcing higher efficiency and more advanced solutions to address indoor air quality concerns as homes become more tightly sealed. Indoor air quality products are common in Canada and are gaining awareness as a whole-home solution in the US. The use of built-in, portable and personal air purification devices is growing at an accelerated pace in Asia Pacific.

Customers in traditional product channels are becoming more flexible and buying in multiple formats, including traditional retailers entering the building maintenance and repair spaces. The customer landscape is also experiencing ongoing consolidation, with increasing emphasis on margin enhancement and omni-channel presence.

Business response

In response to increased demand for air purification products, AQH has formed relationships with many local builders, driving increased sales volume. AQH continues to refresh its product offering, with recent introductions including new bathroom ventilation fan and range hood product lines.



Security & Smart Technology

Our Security & Smart Technology division, consisting of Security & Control (SCS), Core Brands and GTO Access Systems (GTO), is one of the world's largest developers and manufacturers of security, home automation and access control technologies for residential and commercial markets' service providers.

Current market trends

The division operates in a dynamic market, with rapidly advancing technologies, new services entrants, consolidation among traditional service companies and growing global demand. The traditional security services market is evolving to embrace the possibilities of IoT, creating a wider range of offerings and greater focus on software and connectivity. Technology is shifting towards utilising video and audio technologies (including voice control) as a means to sense and control residential and commercial environments.

External factors

The basic security business continues to be the core of service company offerings, with automation/control services added to supplement service customers' sales revenue.

Software is becoming the dominant technological requirement of the division as connectivity and user interfaces become primary competitive differentiators. Smartphone proliferation continues to drive demand for, and lower the initial cost of, home control systems.

Business response

SCS conducted a major product review that has resulted in good margin, high technology additions to its product range, including the 2GIG® Vario Hybrid Security System extension to its existing wireless solutions platform, while Core Brands announced a major update of its premium ELAN home control system. Investments across the business have included a £3 million committed expansion of its production capabilities, coupled with targeted growth of its international sales structure through entry into strategic arrangements with key partners in Europe, Turkey and Latin America.



Market overview

continued

Ergonomics

The Ergonomics division comprises Ergotron, one of the largest ergonomics manufacturers in the world, providing a wide variety of workstations and mounting solutions for computers and displays to promote healthier, more productive environments in healthcare, education, corporate office and home applications.

Current market trends

Ergotron's key product segments are underpinned by strong global technology and wellness trends, including the development of electronic medical records systems, digital learning in education and corporate wellness, which drive a need for sit/stand workstations. Staying on top of these markets requires continuous focus on product research and development.

External factors

Electronic medical record and digital learning regulation and funding varies widely by country and trends are localised. Although the US market is relatively mature and growth is modest, we are seeing new applications for tablets in healthcare that represent new opportunity. Internationally we are likely to see significant growth for the foreseeable future across the sector.

Wellness trends have driven strong interest in sit/stand workstations in the office in the US and other geographies. Public awareness of the benefits of creating workplace cultures of movement is growing and with it investment in ergonomic office equipment.

Business response

In 2016, Ergotron launched a record number of new products, including two families of display arms and mounts. To support future growth the business has accelerated investment in product development, capitalising on the growing usage of mobile devices in healthcare and continued interest in ergonomic workstations in education (with its LearnFit™ line) and wellness (with the WorkFit® series of sit/stand workstations). New product management and engineering personnel have been hired to accelerate the business's penetration of new markets.



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Energy

Brush Turbogenerators (Generators) is the world's largest independent manufacturer of electricity generating equipment for the power generation, industrial, oil & gas and offshore sectors. Brush designs and manufactures systems and power transformers (Transformers) and also produces a wide range of indoor and outdoor medium voltage AC switchgear and low voltage DC switchgear for rail and industrial use (Switchgear).

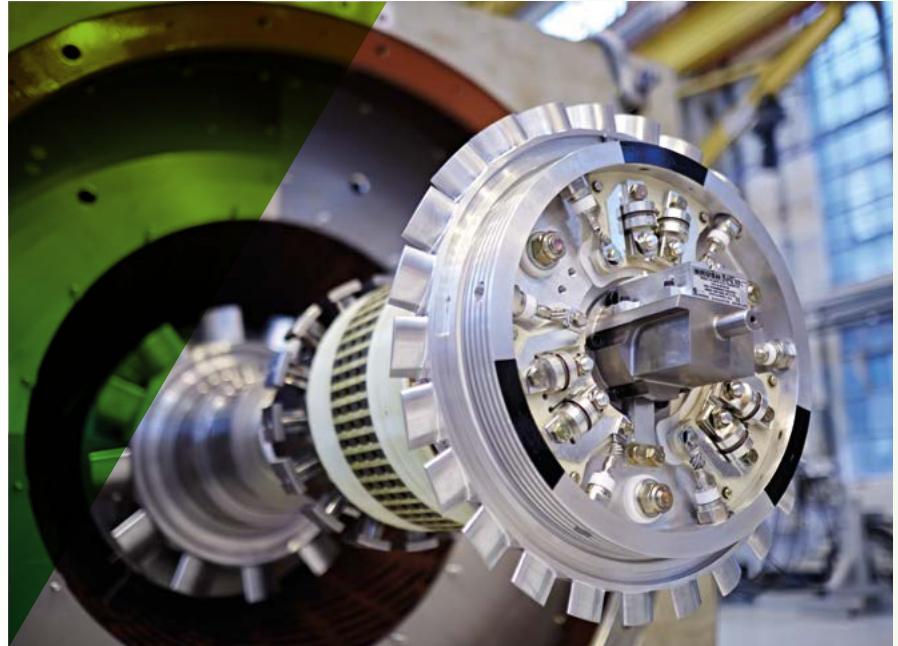
Current market trends

Slower global GDP growth continues to negatively impact the demand for electricity generation. Demand for gas fired electricity generation has been impacted by strong growth in the renewable energy sector, whilst orders for gas turbines remain 50% below peak levels seen in 2008-2011.

The exceptionally low oil & gas prices experienced during the last two years have led to the cancellation or the deferral of many investment projects. However, the recent OPEC agreement to cut output and the subsequent price increase has resulted in a growing number of projects being reactivated. Brush typically supplies generators to the major oil & gas infrastructure OEMs and EPC contractors.

External factors

Some of Brush's businesses have strong UK revenue streams, principally the Switchgear and Transformer businesses which sell to the UK Distribution Network Operators (DNOs). The DNOs are regulated by Ofgem, the UK government regulator for gas and electricity markets, under the eight year RIIO-ED1 network regulation model which runs from 1 April 2015 to 31 March 2023.



The difficult market environment in both the power generation and the oil & gas sectors has resulted in a number of customer and supply side consolidation initiatives within the industry. In addition, lower overall facility utilisation is forcing traditional Brush customers to re-examine their supply chain strategies. Furthermore, both order to delivery lead time and overall response time have shortened dramatically from what was previously traditionally expected in the industry.

In China, the government's 13th five-year plan, which was issued at summary level in March 2016, reinforced its commitment to become a less carbon intensive economy. In particular, the commitment to progressively replace coal fired power generation with alternative forms of energy (including gas) was reaffirmed.

Business response

In addition to action taken to broaden the customer base, management have implemented capacity adjustment actions, including flexible working patterns and targeted shutdowns, in all factories.

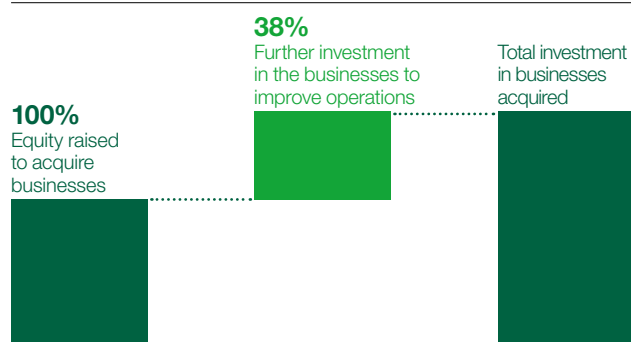
In addition, further fixed cost reduction programs were put in place with the objective of making Brush more agile and better able to respond to the uneven demand which has become a feature of the market. The effect of all of these actions has been to reduce overall Brush headcount by 25% since the beginning of 2015.

Our strategy and business model

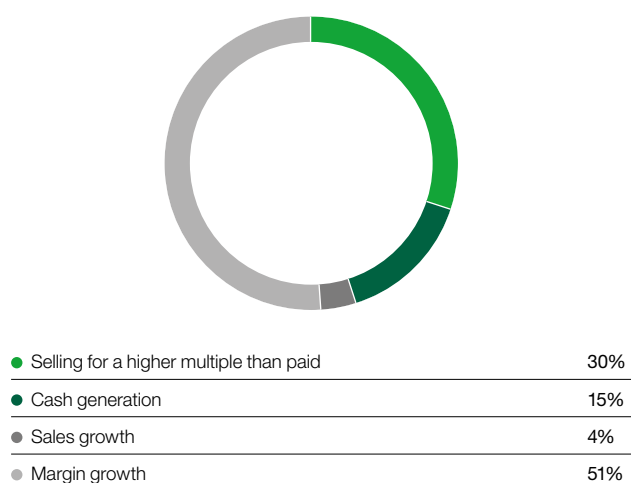
Melrose aims to acquire high-quality manufacturing businesses, with strong fundamentals and the potential for significant development and improvement under Melrose management.

Through investing in businesses, changing management focus and operational improvements, Melrose seeks to increase and realise the value in such businesses at the appropriate time and to return the proceeds to shareholders.

Amount of investment in the businesses⁽¹⁾



How has Melrose created value?⁽¹⁾



⁽¹⁾ In respect of the McKechnie, Dynacast, FKI and Elster acquisitions.

Capital raised from markets

Buy

Improve

Sell

Melrose business principles

Governance

Melrose is led by an experienced management team which has a strong track record in the successful implementation of the Melrose strategy. The Board remains committed to maintaining the high standards of corporate governance required to ensure that Melrose can continue to deliver its strategy to the benefit of shareholders.

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Key performance indicators

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Risk management

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Risks and uncertainties

- Good manufacturing businesses whose performance can be improved
- Use low leverage, with predominantly equity financing

Profit generated by improved performance

- Set strategy and targets and sign off investments
- Drive operational improvements
- Invest in the business
- Change management's strategic focus
- Incentivise well
- Focus on operating cash generation

- Identify the optimal commercial time to sell, often between three and five years, but with flexibility to adapt to market changes and opportunities
- Return value to shareholders from significant disposals

**Melrose
Group
profit
generated**

**Returns to
shareholders**

Aligned interests

The Melrose management own a substantial shareholding in the Company and are subject to minimum share retention restrictions. The Melrose team also partake in long-term incentive arrangements which link remuneration directly to shareholder value, ensuring interests are directly aligned with those of shareholders.

p.72 Directors' remuneration report

Operational and financial efficiency

Melrose is not a passive investor in the businesses it acquires. The leadership team has a hands-on relationship with each acquired business and work closely with them to develop long-term strategic plans, as well as having regular input on restructuring decisions, capital expenditure and working capital management.

p.30 Finance Director's review

Strategy in action

Buy

Acquisition of Nortek

In July 2016, Melrose announced that it had reached an agreement with Nortek, Inc. on the terms of a recommended proposal to acquire, for cash, the entire issued ordinary share capital of Nortek.

The offer price of US\$86 per Nortek share in cash valued the entire issued share capital of Nortek at £1.1 billion, with an enterprise value of £2.2 billion. The acquisition was completed in August 2016.

Melrose financed the acquisition, related expenses and the repayment of part of the existing debt of Nortek from the proceeds of a fully underwritten Rights Issue of 12 new shares at 95 pence each for each 1 existing share held, raising £1.6 billion (net of commission and expenses). The balance of the debt repayment was funded through a new US\$1.25 billion term loan and revolving credit facilities agreement.

Enterprise value**£2.2bn****Rights Issue****£1.6bn****Debt financing****£0.6bn**

“The acquisition of Nortek represents the next chapter in the Melrose story. Since formation we have created £4.8 billion of value for our shareholders and we believe that Nortek presents an excellent opportunity to build on that track record. As a UK-listed business we were gratified by the vote of confidence – from our shareholders and lending institutions – in assembling the equity and debt package within such a short period of time. We believe that we will be able to justify their confidence as we help reinvigorate these fine businesses, and their performance in the first four months of Melrose ownership as set out in this Report demonstrates we are on track.”

Christopher Miller, Chairman

Improve Nortek Central

Upon acquisition we undertook various actions to reduce Nortek's central cost base, including:

- closure of the central headquarters in Providence, Rhode Island shortly after completion and the reorganisation of the businesses into three divisions in the Melrose Group: Air Management; Security & Smart Technology; and Ergonomics;
- decentralisation of head office functions back to the businesses, including HR, IT, legal, supply chain, distribution and benefits administration;
- implementation of Melrose treasury processes for hedging and cash control;
- removal of the Nortek Board, with oversight retained by the Melrose Board; and
- significant de-leveraging of the Nortek businesses, from 5.1x EBITDA⁽¹⁾ to 1.9x EBITDA⁽¹⁾.

£6.3m

Cost saving from removal of Nortek Board

- (1) Underlying⁽²⁾ operating profit before depreciation and amortisation of computer software and development cost.
- (2) Considered by the Board to be the best measure of performance. A reconciliation of statutory profit/(loss) to underlying profit/(loss) is given in the Finance Director's review on page 30.

Strategy in action

continued

Improve

Air Management

At Air Quality & Home Solutions, Melrose has committed to an investment of £10 million to improve manufacturing processes and warehousing, and a further £3 million in clean room production capabilities.

The combination of RCH and CAS into HVAC will capture synergies and eliminate duplicative costs. RCH's loss making UK Eaton-Williams business was closed as part of the restructuring, whilst CAS' central Eden Prairie office was consolidated into RCH's site in O'Fallon, Missouri. Latin America operations were also closed due to minimal growth opportunities.

£10m

committed to improve manufacturing processes and warehousing

Improve

Ergonomics

At Ergotron, investments totalling over £1 million are committed for tooling to enable the business to break into new markets, including large furniture, insertion machines and new carts.

The business is continuing its ongoing review of lower margin product lines and markets. Further, in line with the general trend under Melrose ownership of decentralisation across all former Nortek businesses, warehousing and distribution have been taken in house.

Over £1m

committed for tooling



Improve Security & Smart Technology

Under Melrose ownership, the Security & Control, Core Brands and GTO businesses have been consolidated into one division, Security & Smart Technology.

£3 million has been committed for investment in Security & Control's Shenzhen plant and in new software and technology across the business, whilst Core Brands' premium ELAN family of products has been extended significantly. Security & Control conducted a major product review that resulted in good margin, high technology additions to its product range.

£3m
committed for investment
in Security & Control



Improve Energy

At Generators, the new sales team has successfully diversified the generator customer base by adding five new Brush customers in 2016 including a new US supplier in the fracking industry.

Within Aftermarket, the new state-of-the-art balance pit at Brush's Pittsburgh facility commenced operations in 2016 and has immediately proved a success, increasing sales for the facility by 18%. The facility balanced 22 rotors in its first year of operation, whilst attracting incremental third party rotor balancing work into Pittsburgh, with a capability up to 300MVA. At Switchgear, the "Lightning" low voltage DC circuit breaker product has been selected for the Guangzhou metro project in China, whilst at Transformers, improved manufacturing processes for 33kV and 66kV products have further reduced lead times to enable very short lead time orders to be accepted.

18%
improvement in Pittsburgh
facility sales following new
balance pit investment



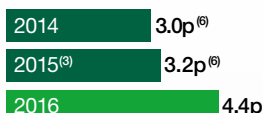
Key performance indicators

In order to support the Group's strategy and to monitor performance, the Board uses a number of financial and non-financial key performance indicators (KPIs). Details of a selection of the KPIs are shown here. Additional business level KPIs are also used, which are relevant to their particular circumstances.

Financial KPIs

Underlying⁽¹⁾ proforma⁽²⁾ diluted earnings per share

4.4p



Method of calculation

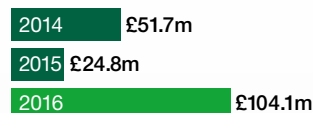
Group underlying⁽¹⁾ profit after tax, attributable to owners of the parent of businesses in existence at each year end, divided by the related diluted number of shares in issue.

Strategic objective

To create consistent and long-term value for shareholders.

Underlying⁽¹⁾ operating profit

£104.1m



Method of calculation

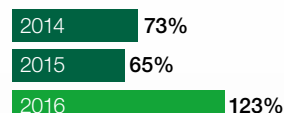
Underlying⁽¹⁾ operating profit for the continuing Group.

Strategic objective

To improve profitability of Group operations.

Cash conversion

123%



Method of calculation

Percentage of underlying⁽¹⁾ EBITDA⁽⁴⁾ conversion to cash for the continuing Group, pre-capital expenditure.

Strategic objective

To ensure businesses are suitably cash generative in order to have adequate cash reserves for the effective running of the Company and for significant capital investment where required.

Non-financial KPIs

Health and safety

Method of calculation

A variety of different health and safety KPIs are used by the businesses owned by the Group from time to time, which are specific to the exact nature of the business and its associated risks.

Strategic objective

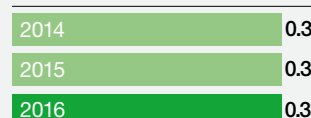
The Company has an objective to stop all preventable accidents.

Performance

The Group's current businesses measure three key health and safety KPIs:

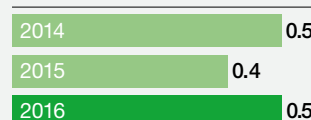
Major accident frequency rate:

Records the number of lost time accidents that have resulted in more than three days off work (defined as 'major' accidents), per 200,000 hours worked:



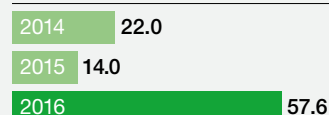
Accident frequency rate:

Records the number of all lost time accidents, both major and minor, per 200,000 hours worked:



Accident severity rate:

Records the average number of days an employee takes off work following an accident at work:



The increase in 2016 is principally due to two incidents at separate Brush plants that each resulted in an employee being off work for an extended period. A full review was conducted and improvements implemented, and health and safety remains a key focus for the business. Further details are provided in the Corporate Social Responsibility report on pages 50 to 51.

To assist with comparison to prior years, the Group health and safety KPIs exclude Nortek (left), which was acquired on 31 August 2016. KPIs for the Nortek businesses in 2016 are as follows:

- (i) major accident frequency rate: 0.5;
- (ii) accident frequency rate: 0.8; and
- (iii) accident severity rate: 13.9.

Further information in relation to the various health and safety initiatives undertaken by the Group's businesses during 2016 can be found within the Corporate Social Responsibility report on pages 50 to 51.

- (1) Considered by the Board to be the best measure of performance. A reconciliation of statutory profit/(loss) to underlying profit/(loss) is given in the Finance Director's review on page 30.
- (2) Calculated using the businesses in existence at each year end using the related diluted number of shares in issue.
- (3) Includes the results of Elster, which was owned until 29 December 2015.
- (4) Underlying⁽¹⁾ operating profit before depreciation and amortisation of computer software and development costs.
- (5) All external debt had been repaid as at 31 December 2015.
- (6) Adjusted by a bonus factor of 18.8% related to the Rights Issue completed in August 2016.

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Risk management

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Risks and uncertainties

Underlying⁽¹⁾ operating profit margin

11.7%

2014	15.9%
2015 ⁽³⁾	9.5%
2016	11.7%

Method of calculation

Underlying⁽¹⁾ operating profit as a percentage of revenue, for the continuing Group.

Strategic objective

To improve profitability of Group operations.

Net debt to underlying⁽¹⁾ EBITDA⁽⁴⁾

1.9x

2014	1.7x
2015 ⁽⁵⁾	n/a
2016	1.9x

Method of calculation

Net debt at average exchange rates divided by underlying⁽¹⁾ EBITDA⁽⁴⁾ for existing businesses at each year end.

Strategic objective

To ensure the Group has suitable amounts of debt and remains within its banking covenants.

Interest cover

20.7x

2014	15.3x
2015	15.3x
2016	20.7x

Method of calculation

Calculated as underlying⁽¹⁾ EBITDA⁽⁴⁾ as a multiple of interest payable on bank loans and overdrafts for the Group during each year.

Strategic objective

To ensure the Group has suitable amounts of debt and remains within its banking covenants.

Final dividend per share

1.9p

2014	1.0p ⁽⁶⁾
2015	0.5p ⁽⁶⁾
2016	1.9p

Method of calculation

Amount declared as payable by way of dividends in terms of pence per share.

Strategic objective

To operate a progressive dividend policy whenever the financial position of the Company, in the opinion of the Board, justifies the payment.

For discussions on the dividend, please refer to the Chairman's statement on page 06.

Environment and energy usage

Method of calculation

Due to the decentralised nature of the Group and differing operations of businesses which the Company may acquire, there are no standardised environmental KPIs used throughout the Group. A range of environmental measures are utilised, including energy consumption, CO₂ emissions, water consumption, water contamination, waste disposal, solid and liquid waste generation, recycling and volatile organic compound emissions.

Strategic objective

Melrose fully understands the importance of the Group's environmental responsibilities and is committed to ensuring that operations have a minimum possible adverse effect on the environment.

Performance

Information in relation to the various environmental initiatives undertaken by our business divisions during 2016 can be found within the Corporate Social Responsibility report on pages 52 and 53. The Group is required to disclose greenhouse gas emissions data for the year ended 31 December 2016. Such data can be found within the Corporate Social Responsibility report on page 52.

Other non-financial KPIs

Due to the diverse nature of the Group, each business acquired by the Group uses a range of its own specific non-financial KPIs, which are used to drive business performance and assist in managing risk. This helps to ensure that the KPIs used are relevant to each business and take into account specific operational and reporting requirements. Such KPIs cover operational, quality, commercial and human resource measures. Further information regarding some of the Group's recent initiatives can be found within the Corporate Social Responsibility report on pages 46 to 53.

Divisional review

Air Management

The Air Management division is the largest in the Melrose Group and has the greatest scope for improvement. It comprises three businesses: Residential & Commercial HVAC (RCH) and Custom & Commercial Air Solutions (CAS), which we have consolidated under one global HVAC management team based in St. Louis, Missouri; and Air Quality & Home Solutions (AQH), which is under new management headquartered in Hartford, Wisconsin.

£416.5m⁽¹⁾

Revenue

£46.8m⁽¹⁾

Underlying operating profit

11.2%⁽¹⁾

Underlying operating margin

(1) Includes results for the four months in 2016 under Melrose ownership.



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Market overview

HVAC

www.nortekair.com



Key strengths

Largest provider of HVAC solutions for manufactured housing and leader in residential ducted inverter solutions for better comfort and energy control.

Provides cutting edge technology for high performance computing solutions, including from array innovations and pioneering unit heaters.

Expert in applied solutions for critical spaces such as operating rooms, pharmaceutical facilities, semi-conductor manufacturing facilities and data centres.

Post Melrose's acquisition, RCH and CAS were combined under a single strengthened management team. Its predominantly North American production is complemented by European facilities in the manufacture and sale of split-system and packaged air conditioners, heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets, along with custom-designed and engineered HVAC products and systems for non-residential applications.

In addition to the business combination, our short period of ownership has seen substantial structural change, including the closures of the Eden Prairie corporate office, the underperforming Eaton-Williams custom commercial business in the UK (with selected profitable product lines transferred within the business internally), and its non-core Latin America operations. These changes have refocused the business towards its higher margin products and markets, making it well positioned to benefit from growth.

Together with the cost saving and efficiency initiatives, we have made significant targeted investments across the business following a manufacturing and product review. This has included approval for a £3 million investment in clean room production capabilities, installation of advanced test systems and other improvements.

Since acquisition, cash flows from this division have been strong, reflecting improvements implemented to streamline material flows through our manufacturing sites and management of supply chain logistics, with further improvements still available.

Outlook

HVAC management is moving at pace to implement their strategic plan and the business is responding well, providing a solid platform and robust momentum for further improvement in 2017 as capital is redeployed to growing profitable parts of the business. After exiting a significant amount of loss making or low margin sales, growth is expected on the underlying businesses. North American building trends are important for HVAC, and upwards projections for school, warehousing and hospital construction are expected to provide a helpful backdrop for higher margin sales growth in 2017 as we seek to implement the rest of the planned operational improvements.

Divisional review

continued

Air Quality & Home Solutions

www.broan-nutone.com

BROAN

ZEPHYR
A Broan Company

NuTone
A Broan Company

VENMAR
A Broan Company

best
A Broan Company

Innergytech
A Broan Company

Key strengths

Leading unit market share and installed base in US residential ventilation fans and range hoods.

Extensive distribution in the US and Canadian retail, appliance, private brands and wholesale channels, driven by strong, long-standing relationships.

Exceptionally strong customer service in North America and Europe.

AQH is a leading manufacturer of ventilation products for the professional remodelling and replacement market, residential new construction market and do-it-yourself market. It supplies to distributors and dealers of electrical and lighting products, kitchen and bathroom dealers, retail home centres and private label customers from its eight manufacturing locations around the world.

Some restructuring and cost saving activities have already been approved under Melrose ownership, including headcount reductions, the consolidation of the Wisconsin warehousing arrangements and upgrades to the Hartford production capabilities. However, the full benefits are yet to be reflected in the 2016 results and there are significant operational improvements due to be made in 2017 and beyond, with new management fully aligned to our program.

We have continued to refresh the product offering of the business, including new bathroom ventilation fan and range hood product lines, which maximise margin enhancement through common platforms and improved design elements and consumer features. This revitalisation of the product portfolio reverses the trend from recent years and will be a key factor in building on the strong market share of the business and driving margin improvement.

We have refocused the business on increasing market penetration in targeted geographies, and we have committed investment of £10 million to improve manufacturing processes and warehousing and to support website and software upgrades. We have also opened two new showrooms in China, one in Beijing and one in Shanghai, reflecting the importance of this growing market to our international sales strategy.

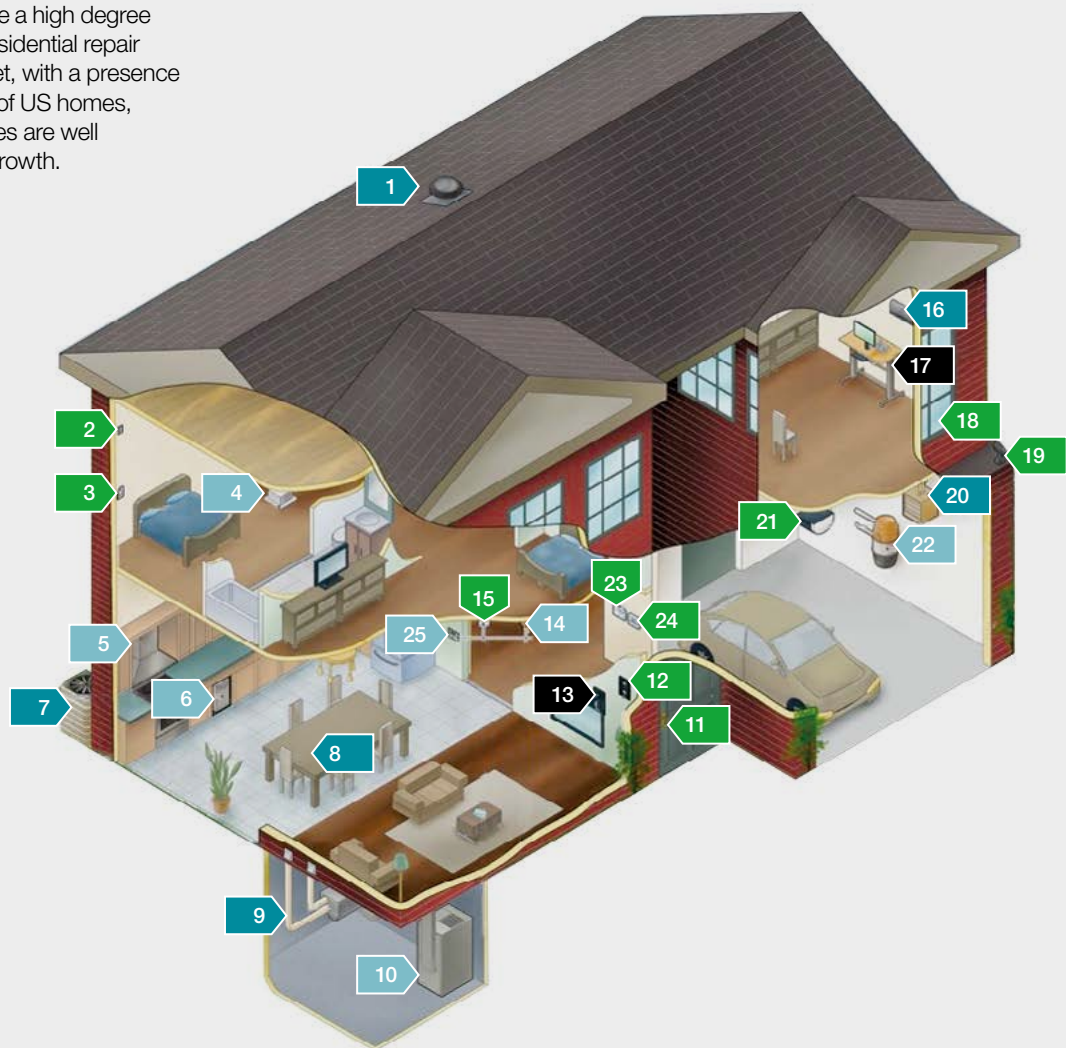
Outlook

We anticipate further growth at AQH this year following modest growth in 2016.

Complementing an improved product offering, key market indicators such as North American housing starts and remodelling forecasts are positive in the short to medium term, driven by a strong labour market and upwards wage trends. Growth in new homes is also expected to continue in China, as greater land supply is made available in order to re-balance supply and demand as well as an increasing demand for clean air in residential dwellings. Further costs savings and new product launches throughout the year are expected to improve the profitability of this sales growth.

Residential market opportunity

The products offered by the former Nortek businesses have a high degree of penetration in the residential repair and remodelling market, with a presence in approximately 80% of US homes, meaning the businesses are well positioned for sector growth.



Air Management

HVAC

1	Attic ventilator
7	Air conditioner/heat pump
8	Data centre/'cloud' cooling
9	Air exchanger
16	Minisplit 'ductless' AC
20	Garage heater

AQH

4	Bath fan
5	Range hood
6	Trash compactor

10	Furnace
14	Door chime
22	Central vac
25	Intercom system

Security & Smart Technology

2	Motion sensor
3	Z Wave lighting controls
11	Remote door locks
12	Built-in speakers
15	Smoke detector/CO ₂ detector

18	Window and door sensors
19	Security camera
21	Garage door operator/controller
23	Security/home automation system
24	Thermostat

Ergonomics

13	TV mount
17	Sit/stand workstation

Divisional review

continued

Security & Smart Technology

£130.4m⁽¹⁾

Revenue

£17.1m⁽¹⁾

Underlying operating profit

13.1%⁽¹⁾

Underlying operating margin



(1) Includes results for the four months in 2016 under Melrose ownership.

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Market overview

Security & Smart Technology

www.nortekcontrol.com
www.corebrands.com
www.gtoaccess.com

Linear

GTO
ACCESS SYSTEMS, LLC

2GIG

CORE
BRANDS

ELAN

GEFEN

Key strengths

Expertise in the design and manufacture of wireless connectivity devices.

Flexibility in developing partnerships with service companies and integrators through standard, specified and customised technology solutions.

Strong brand presence in professional security, integrator and custom installer channels and relationships with top re-sellers.

Our Security & Smart Technology division comprises the Security & Control (SCS), Core Brands and GTO Access Systems (GTO) businesses. These were consolidated under one management team in Carlsbad, California shortly after completion of the Nortek acquisition. It is one of the world's leading developers and manufacturers of security, home automation and access control technologies for the residential and commercial markets, together with audio visual equipment for the residential audio video and professional video markets.

The division operates in a rapidly evolving market in which intellectual property plays a key role, with consumers increasingly demanding a greater focus from manufacturers on software and connectivity as they embrace the possibilities of the IoT. In response, under Melrose ownership the division has improved and accelerated its product development processes and invested in building its patent portfolio.

SCS conducted a major product review that has led to the introduction of good margin, high technology additions to its product range, including the 2GIG® Vario Hybrid Security System extension to its existing wireless solutions platform. Core Brands achieved a pleasing return to profitability under our ownership while continuing its development program, principally centred around the major update of its premium ELAN home control system, which

streamlines management of lighting, security, audio, video and other aspects of the connected home to a single device and was recently awarded Human Interface of the Year at the International Consumer Electronics Show in 2017. GTO settled recent management changes while developing the next generation smart garage door and gate operators equipped with full inter-connectivity.

A strong focus on efficiency programs and cost saving measures across the division, such as the restructure of distribution and logistics arrangements, has been balanced with targeted investments, including a £3 million approved expansion in the production facilities, that have contributed to the improvement in profitability under our stewardship. This has been coupled with an expansion of its international sales structure through entry into strategic arrangements with key partners in Europe, Turkey and Latin America.

Outlook

The controlled expansion of the division's international strategy through key partners is expected to continue to drive profitable growth, supported by further investment in broadening its product offering into the smart ecosystem and sensor markets. An underlying growth in demand for automated security and other home connectivity products has continued to fuel significant technological advancements in the market. We expect this trend to continue in 2017 and the division has a clear technology plan that means it is well positioned to take advantage of these changing market developments.

Divisional review

continued

Ergonomics

£96.0m⁽¹⁾

Revenue

£24.4m⁽¹⁾

Underlying operating profit

25.4%⁽¹⁾

Underlying operating margin



⁽¹⁾ Includes results for the four months in 2016 under Melrose ownership.

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Market overview

Ergotron

www.ergotron.com

ERGOTRON®



Key strengths

Expertise in the design and manufacture of ergonomic technology workstations and computer mounts.

Strong and advanced supply chain, leveraging component suppliers from the global computer industry.

Continuous improvement mindset across the business, with a strong testing regimen to ensure highest quality.

Our Ergonomics division comprises Ergotron, a world leading manufacturer and distributor of innovative products designed with ergonomic features including wall mounts, carts, workstations and stands. The business is headquartered in Minneapolis, USA and is organised into three segments: commercial; original design and manufacture (ODM); and consumer.

Continual refreshment of the product portfolio remains the key to maintaining the business's market-leading position, with developments since our acquisition including design updates to the WorkFit-DL sit/stand desk and the introduction of the ErgotronHome™ line, which delivers elevated work surfaces and other ergonomic products to the home consumer market. The business expects these products to make a strong contribution to divisional sales in 2017. The business continues to maximise its strong intellectual property portfolio to protect its position in the market and license to competitors where appropriate.

Ergotron's commercial business provides display mounts and computer workstations for the rapidly growing healthcare, schools and corporate facilities markets, where employers are increasingly designing workspaces with amenities that support employee wellbeing and productivity. The ODM business designs and manufactures computer display mounts and charging carts for large computer manufacturers,

as well as technology customers, for use in the growing medical equipment sector. The consumer business incorporates sit/stand workstations under the ErgotronHome brand as well as OmniMount, which provides television mounts to electronics and home improvement retailers, predominantly in North America.

The business took the opportunity to reassess its manufacturing strategy following our acquisition, which led to a reorganisation of certain product lines between its facilities. It also redesigned its distribution arrangements to enable direct shipping and implemented a number of operational improvements that have enabled the business to maintain strong margins.

Outlook

Product development has long been a key differentiator for Ergotron, with the constant introduction of new and innovative products whilst exiting older, declining margin products, driving sustained profitability. Under Melrose ownership the business will continue to invest in research and development, with a dedicated research team currently staging new market leading products for 2017 and beyond, yielding a number of concepts which have been met with strong customer interest. New product management and engineering personnel have been hired to accelerate the business's penetration of new markets.

The division is well positioned in the markets it serves, and with growth trends from 2016 expected to continue in 2017, our outlook is positive.



Divisional review

continued

Energy

£246.4m

Revenue

£32.0m

Underlying operating profit

13.0%

Underlying operating margin



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Market overview

Brush

www.brush.eu



Key strengths

Expertise in the innovative design and manufacture of an extensive range of high-quality, 2 and 4-pole, high-voltage generators with production facilities strategically located around the world.

Comprehensive Aftermarket support tailored to meet customers' needs throughout a product's operating life.

Market leading Switchgear and Transformer products in service with UK Distribution Network Operators.

Brush Turbogenerators (Generators) is the world's largest independent manufacturer of electricity generating equipment for the power generation, industrial, oil & gas and offshore sectors. In addition, Brush designs and manufactures systems and power transformers under the brand name Brush Transformers (Transformers) and also produces a wide range of indoor and outdoor medium voltage AC switchgear and low voltage DC switchgear for rail and industrial use under the Hawker Siddeley Switchgear brand name (Switchgear). Finally, Brush's subsidiary, Harrington Generators International, is a specialist UK-based small generator manufacturer supplying the construction, military, telecoms and rail sectors.

Generators is the foremost design, manufacturing and service provider for turbogenerators, principally in the 10 MVA to 300 MVA range, for both gas and steam turbine applications. It serves a globally-diverse customer base. As expected, there was no overall improvement in its end markets in 2016 and, despite strenuous efforts, Generators revenues declined when compared to 2015. Nevertheless, within this challenging environment, Generators produced an acceptable operating performance in 2016.

There was no recovery in the key gas turbine sector with orders running 50% below the peak levels experienced in 2008-2011. Specifically, oil & gas project activity was unusually low, driven by the low oil price and the subsequent cancellation and deferral of many investment projects. These macro elements continued to hamper the Generators business and its Aftermarket business, although the performance of the new rotor balance facility in the USA was positive. The Transformers and Switchgear businesses entered 2016 with low order books, both impacted by delays in the first year of the Office of Gas and Electricity Markets (Ofgem) network regulation model in 2015.

Flexible working patterns, targeted shutdowns and other capacity adjustment actions were taken in all factories, including the mothballing of the China factory. In addition, further fixed cost reduction programs were put in place with the objective of making Brush more agile and better able to respond to the uneven demand which has become a feature of the market. The effect of all of these actions has led to a reshaping of the business and further headcount reductions resulting in staffing levels 25% below those in the business two years ago.

While the Aftermarket business benefited from a solid performance in the USA, with sales up by 18% over the previous year, reasonable second half performances were not enough to overcome slow starts for the Transformer and Switchgear businesses, both of which ended 2016 below the previous year. Nonetheless, Brush continues to invest in product development across all of its businesses, putting it in a position to launch eight new products in Generators and Switchgear during 2017.

Outlook

2017 continues to look very challenging with no improvement expected in the power generation market in 2017, only modest improvement in oil & gas project activity and weakening demand for gas fired electricity generation impacted by strong growth in renewable energy sources. There is some optimism for Aftermarket performance in 2017, whilst both Switchgear and Transformers should benefit from entering the third year of the Ofgem network regulation model in the UK. However, this is not expected to result in upside for the business as a whole for 2017.

Accordingly, Brush will continue to adjust capacity to match market demand where required and implement further operational and process improvements to become even more responsive.

Finance Director's review

“The acquisition of Nortek significantly increased the size of the Melrose Group during 2016 and therefore the results shown for the year ended 31 December 2016 cannot be compared to the results for the year to 31 December 2015 in a meaningful way.”

Geoffrey Martin, Group Finance Director



Acquisition during the year

Nortek was acquired for an enterprise value of £2.2 billion on 31 August 2016. The total transaction costs were £92.1 million which represented 4% of the enterprise value, of which £42.5 million related to the raising of equity, and were offset against share premium, whilst £10.9 million related to bank facility arrangement fees, and have been included within net debt to be amortised over the five-year life of the facility. The remaining £38.7 million of acquisition costs relating to general transaction fees are included within the Income Statement.

The Nortek acquisition and the repayment of its existing bank facilities was funded through a combination of a fully underwritten 12 for 1 Rights Issue and a new US\$1.25 billion bank facility.

The Rights Issue was completed on 24 August 2016 and subsequently 1,741.6 million new ordinary shares in the Company were issued raising £1.6 billion, net of costs. In addition, the new five-year multi-currency bank facility was agreed and is split into a US\$0.35 billion term loan and a US\$0.9 billion revolving credit facility. The details of this facility are included in the liquidity risk management section of this review.

Segmental split of divisions

As a consequence of the Nortek acquisition, the continuing operations of Melrose now consist of four divisions: the Energy division, which includes Brush, along with three divisions acquired with Nortek, namely: the Air Management division, which contains both the Air Quality & Home Solutions business and the Heating, Ventilation & Air Conditioning business; the Security & Smart Technology division, which includes the Security & Control business along with the Core Brands and GTO businesses; and the Ergonomics division, which includes Ergotron.

Melrose Group trading results

For simplicity and clarity and in response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), the format of the Income Statement has been changed in these financial statements to show the unadjusted statutory results of the Group on the face of the Income Statement followed by the underlying results.

The Melrose Board considers the underlying results to be the most suitable measure to monitor how the businesses are performing and consequently underlying operating profit and underlying operating margin are key performance indicators reported to the Board.

These measures are used to partly determine the variable element of remuneration of senior management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. They are also used to value individual businesses as part of the “buy, improve, sell” Melrose strategy model.

In 2016 continuing revenue was £889.3 million (2015: £261.1 million), the statutory operating loss was £61.6 million (2015: profit of £4.8 million) and the statutory loss before tax was £69.3 million (2015: £30.7 million). This includes all trading and non-trading costs.

For the year ended 31 December 2016 the underlying operating profit was £104.1 million (2015: £24.8 million) and the underlying profit before tax was £96.4 million (2015: £2.4 million). The following table reconciles the statutory result to underlying operating profit:

	2016 £m	2015 £m
Statutory operating (loss)/profit	(61.6)	4.8
Restructuring costs	51.4	7.6
Acquisition and disposal costs	38.7	0.3
Amortisation of intangible assets	36.3	8.1
Removal of one-off uplift in the value of inventory	18.2	–
Equity-settled compensation scheme charges	22.8	4.0
Release of fair value provision	(1.7)	–
Adjustments to operating profit	165.7	20.0
Underlying operating profit	104.1	24.8

Restructuring costs in the year ended 31 December 2016 include £31.8 million relating to the closure of the Nortek head office and £13.5 million relating to the restructuring of certain Nortek businesses. Within the Brush business, £6.1 million (2015: £5.9 million) was incurred to align the cost base with the reduced revenue. In addition, in 2015, £1.7 million of restructuring costs related to the introduction of a new holding company for the Group, along with the costs of returning capital to shareholders. These items are excluded from underlying results due to their size and non-trading nature.

Acquisition and disposal costs relate primarily to the acquisition of Nortek in the year. These items are excluded from underlying results due to their size and non-trading nature.

The amortisation of intangible assets acquired in business combinations are excluded from underlying results due to their non-trading nature.

Finished goods and work in progress which are present in a business when acquired are required to be uplifted in value to closer to their selling price. As a result, in the early months following an acquisition, reduced profits are made as the inventory is sold. This one-off effect is excluded from underlying results due to its size and non-recurring nature.

The charge for the Melrose incentive scheme, including its associated employer's tax charge, is excluded from underlying results due to its size and volatility.

The release of a fair value provision is excluded from underlying profit because it was previously booked as a fair value item on the acquisition of FKI.

These results include Nortek for four months of ownership. However, IFRS 3: "Business combinations" requires that the impact on the Group results of the acquisition, as if the acquisition had been made at the start of the year, should be disclosed. This has been calculated and shows that Melrose continuing revenue, including Brush and Nortek for the full year, would have been approximately £2,077 million (or £1,966 million when adjusting for sales channels that have been exited in Nortek) and underlying operating profit approximately £196 million in the year to 31 December 2016, using average exchange rates for the year (US\$1.36/£1).

Underlying results by division

A split of revenue, underlying operating profit and underlying operating profit margin for the continuing Melrose Group in 2016 and 2015 is as follows:

	2016 Revenue £m	2016 Underlying operating profit/ (loss) £m	2016 Underlying operating profit margin %	2015 Revenue £m	2015 Underlying operating profit/ (loss) £m	2015 Underlying operating profit margin %
Air Management	416.5	46.8	11.2	–	–	–
Security & Smart Technology	130.4	17.1	13.1	–	–	–
Ergonomics	96.0	24.4	25.4	–	–	–
Nortek central	–	(2.0)	–	–	–	–
Energy	246.4	32.0	13.0	261.1	38.5	14.7
Central – corporate ⁽¹⁾	–	(14.2)	–	–	(13.7)	–
Continuing Melrose Group	889.3	104.1	11.7	261.1	24.8	9.5

(1) Includes divisional cash based long-term incentive plans

The performance of each of the trading divisions is discussed in detail in the Chief Executive's review.

Central costs were £14.2 million (2015: £13.7 million), which increased towards the end of the year as expected following the acquisition of Nortek.

Finance Director's review

continued

The table below compares the Nortek underlying results for the first four months of Melrose ownership against the Nortek results for the final four months of the year ended 31 December 2015. The results for 2015 are derived from the numbers Nortek announced under previous ownership, prepared under US GAAP, and have been translated from US Dollars to Sterling at constant exchange rates to show comparable year-on-year growth.

	2016 Revenue £m	2016 Underlying operating profit/ (loss) £m	2016 Underlying operating profit margin %	2015 Revenue £m	2015 Underlying operating profit/ (loss) £m	2015 Underlying operating profit margin %
Air Management	416.5	46.8	11.2	441.1	39.1	8.9
Security & Smart Technology	130.4	17.1	13.1	137.6	13.2	9.6
Ergonomics	96.0	24.4	25.4	105.6	23.0	21.8
Nortek central	–	(2.0)	–	–	(11.5)	–
	642.9	86.3	13.4	684.3	63.8	9.3

Finance costs and income

The net finance cost in 2016 was £7.7 million (2015: £35.5 million).

Net interest on external bank loans, overdrafts and cash balances was £5.9 million (2015: £17.8 million). Melrose uses interest rate swaps to fix the majority of the interest rate exposure on its drawn debt. More detail on these swaps is given in the finance cost risk management section of this review.

In addition, a £0.7 million (2015: £15.9 million, including £13.1 million relating to the acceleration of future years charges) amortisation charge relating to the arrangement costs of raising the new bank facility was incurred in 2016.

Also included in net finance costs is a net interest cost on net pension liabilities of £0.9 million (2015: £1.6 million) and a charge for the unwinding of discounts on long-term provisions of £0.2 million (2015: £0.2 million).

Tax

The underlying Income Statement tax rate for the full 12 months was 27.0%. As expected, this rate represents a mixture of profits arising in the UK at low tax rates and in the rest of the world at higher rates, particularly the US with a federal rate of 35%, plus state taxes.

The Statutory Income Statement tax rate was 43.7% and therefore a higher tax rate than would normally be expected. This is principally due to credits arising from the recognition of additional deferred tax assets on UK tax losses, which are more likely to be utilised in the future following the Nortek acquisition.

The corporate tax paid during the year was £5.9 million (2015: £2.8 million). The Melrose Group continues to benefit from the utilisation of pre-existing tax losses, Nortek losses and other deferred tax assets.

The total amount of corporation tax or federal tax losses in the Melrose Group has increased in the year mainly due to the acquisition of Nortek. The total gross tax losses are shown below:

Tax losses	Recognised £m	Unrecognised £m	Total £m
UK	144.8	43.9	188.7
USA	24.1	–	24.1
Rest of World	0.2	61.4	61.6
Total 2016	169.1	105.3	274.4
Total 2015	114.8	69.2	184.0

The Melrose Group's current tax creditor has increased by £6.9 million in the year to £10.2 million, primarily as a result of the acquisition of the Nortek businesses. The net deferred tax position has increased more significantly from a £5.5 million asset to a £144.4 million liability mostly as a result of £163.7 million of net deferred tax liabilities acquired with Nortek. The net liability includes a gross deferred tax liability of £355.4 million in respect of brand names, customer relationships, intellectual property and other intangible assets. The deferred tax liability in respect of intangible assets is not expected to represent a future cash tax payment and will unwind as they are amortised.

Earnings Per Share (EPS) and number of shares in issue

On 28 January 2016, alongside the Return of Capital to shareholders following the sale of Elster, a 7 for 48 share consolidation took place which reduced the number of shares in issue at that time from 995.2 million to 145.1 million. Later in the year, a Rights Issue relating to the Nortek acquisition completed on 24 August 2016, increasing the 145.1 million shares in issue by a factor of 13 resulting in 1,886.7 million shares in issue for the final 130 days of the year.

The calculation of the weighted average number of shares in issue for 2016 requires a Rights Issue bonus factor of 18.8491% to be applied to the number of shares in issue prior to 24 August 2016. This calculation gives a weighted average number of shares of 1,499.3 million for the year which should be used for the basic EPS calculation in 2016. At 31 December 2016, the number of shares expected to be issued in respect of the Melrose share-based compensation scheme is 89.8 million, resulting in the number of shares to be used for diluted EPS in 2016 being 1,589.1 million.

The underlying diluted EPS for the year ended 31 December 2016 was 4.4p (2015: nil p). This includes twelve months of the Brush business and four months of Nortek.

In accordance with IAS 33, two sets of statutory basic and diluted EPS numbers are disclosed on the face of the Income Statement, one for continuing operations and one that also includes discontinued operations. In the year ended 31 December 2016 the diluted EPS for continuing operations was a loss of 2.6p (2015: 0.3p). There were no discontinued operations in 2016 but the diluted EPS including discontinued operations in 2015 was 25.8p.

Cash generation and management

At the start of the year the Melrose Group had net cash in hand of £2,451.4 million. This was prior to returning the Elster sale proceeds to shareholders and before making the early contributions to the Brush UK Pension Plan. After these two payments the proforma opening net cash position was £54.1 million. The movement during the year to a net debt position of £541.5 million at 31 December 2016 is summarised as follows:

Movement in net cash/(debt)	£m
Net cash at 1 January 2016	2,451.4
Return of Capital from the proceeds of the Elster disposal	(2,388.5)
Early contributions to the Brush UK Pension Plan	(8.8)
Proforma net cash at 1 January 2016	54.1
Acquired net debt with Nortek	(1,056.5)
Net repayment, on acquisition, of the Nortek net debt	429.8
Cash inflow from trading, after all costs including tax	86.2
Amounts paid to shareholders	(5.8)
Foreign exchange and other non-cash movements	(49.3)
Closing net debt at 31 December 2016	(541.5)

When Nortek was acquired it had £1,056.5 million of net debt. This included Senior Notes with a fair value of £602.4 million, bank debt of £460.2 million, finance leases and other loans of £3.3 million and cash of £9.4 million. The Senior Notes and bank debt were subsequently repaid and replaced by the new Melrose facility, described in the liquidity risk management sub-section of this review. In total, on acquisition, Nortek net debt was reduced by £429.8 million using part of the proceeds of the Rights Issue as follows:

Net repayment, on acquisition, of the Nortek net debt	£m
Net proceeds from the Rights Issue	1,612.0
Cash payment to Nortek shareholders (including costs)	(1,182.2)
Movement in net debt in funding the Nortek acquisition	429.8

The detail of the cash flow from trading, which included a full year of Brush and four months of ownership of Nortek, is shown below:

Cash flow from trading (after all costs including tax)	£m
Underlying operating profit	104.1
Depreciation ⁽¹⁾	18.1
Working capital movement	28.2
Underlying operating cash flow (pre capex)	150.4
Underlying EBITDA conversion to cash (pre capex) %	123%
Net capital expenditure	(17.1)
Net interest and net tax paid	(8.6)
Defined benefit pension contributions	(1.7)
Other	(36.8)
Cash inflow from trading (after all costs including tax)	86.2

(1) Including amortisation of computer software.

The conversion of underlying operating profit before depreciation and amortisation into cash was 123% in 2016. Within this strong level of cash generation Brush was 89% and Nortek was an encouraging 134% meaning that Nortek net working capital was reduced by £32.2 million, 16%, in the period.

The net capital spend to depreciation ratio was 0.9x in 2016 (being 0.4x in Brush and 1.5x in Nortek) including a healthy investment into the Nortek businesses in the early months.

The Melrose Group's leverage, calculated as net debt divided by underlying operating profit before depreciation and amortisation, both calculated at average exchange rates for the year, was approximately 1.9x at 31 December 2016. This includes eight months of the results of the Nortek businesses under previous ownership.

Fair value exercise

Following the acquisition of Nortek, Melrose has undertaken an extensive review of Nortek's assets, liabilities and accounting policies. This, along with the change from reporting under US GAAP to reporting under IFRS and from US Dollars to Sterling, has resulted in a significant amount of adjustments to the Nortek Balance Sheet.

In addition to a fair value review of all Nortek assets and liabilities at the acquisition date and a review of the accounting policies, Melrose has undertaken significant actions to improve the operational and financial nature of the Nortek Group, discussed further in the Chief Executive's review.

Assets and liabilities

The summary Melrose Group assets and liabilities are shown below:

	2016 £m	2015 £m
Fixed assets (tangible, intangible and goodwill)	2,938.9	385.9
Net working capital	228.2	53.4
Retirement benefit obligations	(33.4)	(17.2)
Provisions	(279.6)	(30.0)
Deferred tax and current tax	(154.6)	2.2
Net derivative financial instruments	4.8	(0.3)
Total	2,704.3	394.0

These assets and liabilities are funded by:

	2016 £m	2015 £m
Net (debt)/cash	(541.5)	2,451.4
Equity	(2,162.8)	(2,845.4)
Total	(2,704.3)	(394.0)

The increase is primarily related to the Rights Issue and the movement from cash in hand to a net debt position as explained earlier in the cash generation and management section of this review.

Finance Director's review

continued

Goodwill, intangible assets and impairment review

The total value of goodwill as at 31 December 2016 was £1,706.0 million (31 December 2015: £198.1 million) and intangible assets acquired with business combinations was £950.1 million (31 December 2015: £73.7 million). These items are split by division as follows:

	Nortek £m	Brush £m	Total £m
Goodwill	1,493.1	212.9	1,706.0
Intangible assets	880.0	70.1	950.1
Total goodwill and intangible assets	2,373.1	283.0	2,656.1

The goodwill and intangible assets have been tested for impairment as at 31 December 2016. The Board is comfortable that no impairment is required.

During 2016, production in the new Brush China factory was reduced because sales orders were not meeting expectations. Despite seeking to resolve current contractual discussions with key customers, at the year end the factory has been mothballed. Based on a review of the potential market and the Chinese government's published future energy strategy and assuming the successful resolution of the contractual discussions, it is believed that there is still a potentially attractive market opportunity for the Brush China factory. This view is supported by commercial arrangements already in place and under discussion.

Because the plant was mothballed at the year end, a review was undertaken to determine whether the carrying value of the Brush China assets could be supported. This concluded that they could be, but it does require the assumption that the Chinese market will grow in the future and the current contractual discussions with key customers will be successfully resolved.

There is obviously uncertainty as to the timing and quantity of future sales for Brush China as well as the resolution of the discussions and therefore there is significant judgement involved in the preparation of this analysis. Should either element not be realised in line with current expectations, it may be that the carrying value of the factory of £37 million cannot be supported at some point in the future and could require a potential impairment to reduce the value of the Brush China assets to a net realisable value of approximately £9 million. This will be kept under review.

More detail on the Brush China situation is included in the notes to the financial statements.

Provisions

Total provisions at 31 December 2016 were £279.6 million (31 December 2015: £30.0 million), a significant increase from the previous year. However, this is to be expected given the acquisition of Nortek. The increase in 2016 included £209.7 million of provisions acquired with Nortek, along with non-underlying charges of £61.4 million primarily relating to restructuring costs and the employer's tax payable on equity-settled compensation schemes, described earlier in this review. The following table summarises the movement in provisions in the year:

	Total £m
At 31 December 2015	30.0
Acquired with Nortek	209.7
Net charge to underlying profit	24.2
Net charge to non-underlying profit	61.4
Spend against provisions	(62.1)
Other (including foreign exchange)	16.4
At 31 December 2016	279.6

Within the £209.7 million of provisions acquired with Nortek were £76.3 million of provisions relating to product warranty and £49.1 million of provisions covering product liability, workers compensation, automotive and group health. The spend on provisions was £62.1 million in the year, whilst the net charge to underlying profit was £24.2 million.

Pensions

At 31 December 2016 the accounting net deficit of the Melrose Group's defined benefit pension plans was £33.4 million (2015: £17.2 million). Total plan assets at 31 December 2016 were £522.6 million (2015: £343.5 million) and total plan liabilities were £556.0 million (2015: £360.7 million). The plan assets and liabilities at 31 December 2016 were split as follows:

	Brush UK Plan £m	Brush US Plan £m	Nortek Plans £m	Total £m
Plan liabilities	(236.4)	(188.1)	(131.5)	(556.0)
Plan assets	253.5	174.9	94.2	522.6
Net surplus/(deficit)	17.1	(13.2)	(37.3)	(33.4)

The values of the Melrose Group plans were updated at 31 December 2016 by independent actuaries to reflect the latest key assumptions. A summary of the assumptions used are shown below:

	2016 UK %	2016 US %	2015 UK %	2015 US %
Discount rate	2.7	3.9	3.7	4.1
Inflation (RPI)	3.3	n/a	3.0	n/a

It is noted that a 0.1 percentage point decrease in the discount rate would increase the pension liabilities of the Melrose Group by £8.0 million, or 1%, and a 0.1 percentage point increase to inflation would increase the liabilities by £4.5 million, or 1%. Furthermore, an increase by one year in the expected life of a 65 year old member would increase the pension liabilities on these plans by £19.4 million, or 3%.

Annual contributions to the Melrose Group defined benefit pension plans are expected to be approximately £4.9 million in 2017.

Financial risk management

The financial risks the Melrose Group faces have been considered and re-evaluated following the acquisition of Nortek and policies have been implemented to best deal with each risk. The most significant financial risks are considered to be liquidity risk, finance cost risk, exchange rate risk, contract and warranty risk and commodity cost risk. These are discussed in turn below.

Liquidity risk management

The Melrose Group's net debt position at 31 December 2016 was £541.5 million compared to a net cash position of £2,451.4 million a year earlier. The prior year cash balance reduced significantly early in 2016 when £2,388.5 million was returned to shareholders and £8.8 million was contributed to the Brush UK Pension Plan. The Melrose Group continued to be in a net cash position during the year until £1,056.5 million of net debt was acquired with Nortek.

Subsequent to the acquisition, Melrose refinanced all of Nortek's debt facilities, which consisted of 8.5% Senior Notes with a principal value of US\$735.0 million which were due to mature in 2021, in addition to a US\$605.4 million Senior Secured Term Loan facility due to mature in 2020. Nortek also held a US\$325.0 million ABL facility which was due to mature in 2021 but this was not drawn against at the date of acquisition. The ABL facility and the Senior Secured Term Loan facility were cancelled immediately on the date of acquisition and on 30 September 2016 the Nortek 8.5% Senior Notes were repaid together with the applicable redemption premium of US\$31.2 million and accrued interest of US\$28.7 million, resulting in a repayment including principal of US\$794.9 million.

A new Melrose five-year multi-currency US\$1.25 billion committed bank facility was entered into on 6 July 2016 to assist with the acquisition of Nortek, which consists of a US\$350 million term loan facility and a US\$900 million revolving credit facility.

As with previous facilities the new facility has two financial covenants. There is a net debt to underlying EBITDA (underlying operating profit before depreciation and amortisation) covenant and an interest cover covenant, both of which are tested half yearly, each June and December.

The first of these covenants is set at a maximum 3.5x leverage for each of the half yearly measurement dates for the remainder of the term. For the year ended 31 December 2016 it was approximately 1.9x, after including the first eight months of Nortek EBITDA, showing significant headroom compared to the covenant test.

The interest cover covenant is set at 4.0x or higher throughout the life of the facility and was 20.7x at 31 December 2016, also affording comfortable headroom compared to the covenant test.

The new facility, to the extent it has been utilised, has been drawn down in US Dollars, the core currency of Nortek, to protect the Melrose Group as efficiently as possible from currency fluctuations on net assets and profit.

In addition, there are a number of uncommitted overdraft, guarantee and borrowing facilities made available to the Melrose Group. These uncommitted facilities have been lightly used.

Cash, deposits and marketable securities amounted to £42.1 million at 31 December 2016 and are offset against gross debt of £583.6 million to arrive at the net debt position of £541.5 million. The combination of this cash and the size of the new facility allows the Directors to consider that the Melrose Group has sufficient access to liquidity for its current needs.

The Board takes careful consideration of counterparty risk with banks when deciding where to place Melrose's cash on deposit.

Finance cost risk management

The new Melrose bank facility carries a cost of LIBOR plus a margin.

In October 2016, the Melrose Group entered into new interest rate swap arrangements to fix the cost of LIBOR. The profile of the interest rate swaps has been designed to hedge, on average, 70% of the interest exposure on the projected gross debt as it reduces over the five-year term. Under the terms of these swap arrangements, the Melrose Group will pay a cost of 1.0% up to 30 June 2018, 1.1% up to 30 June 2019, and 1.2% until the remaining swaps terminate on 6 July 2021.

The margin depends on the Melrose Group leverage, and ranges from 0.85% to 2.00%; as at 31 December 2016 the margin was 1.35%. The interest on the swaps is payable annually in arrears on 1 July. The bank margin is payable monthly.

Exchange rate risk management

The Melrose Group trades in various countries around the world and is exposed to many different foreign currencies. The Melrose Group therefore carries an exchange rate risk that can be categorised into three types; transaction, translation and disposal related risk as described below. The Board policy is designed to protect against the majority of the cash risks but not the non-cash risks.

The most common exchange rate risk is the transaction risk the Group takes when it invoices a sale in a different currency to the one in which its cost of sale is incurred. This is addressed by taking out forward cover against approximately 60% to 80% of the anticipated cash flows over the following twelve months, placed on a rolling quarterly basis and for 100% of each material contract. This does not eliminate the cash risk but does bring some certainty to it.

Exchange rates used in the period

Following the acquisition of Nortek, 81% of the Melrose Group's annual revenue has been denominated in US Dollars and therefore the largest foreign exchange rate exposure is the translation risk from changes in the US Dollar exchange rate relative to Sterling. In addition, the Melrose Group has foreign currency exposure, the

Finance Director's review continued

largest being a transactional exchange rate exposure due to the Nortek US businesses transacting in the Chinese Renminbi. The following exchange rates were used in respect of these two currencies during the year:

US Dollar	Twelve month average rate	Four month average (Nortek businesses)	Closing rate
2016	1.36	1.26	1.23
2015	1.53	N/A	1.47
CNY			
2016	8.99	8.56	8.57
2015	9.60	N/A	9.56

The translation rate risk, being the effect on the results in the year due to the translation movement of exchange rates from one year to the next is shown below. The table below illustrates what the translation movement in revenue and underlying operating profit would have been if the 2015 average exchange rates had been used to calculate the 2016 results rather than the 2016 average exchange rates.

The translation difference in 2016	£m
Revenue decrease	121.3
Underlying operating profit decrease	15.8

For reference, in respect of the continuing Melrose Group, an indication of the short-term exchange rate risk, which shows both translation exchange risk and unhedged transaction exchange rate risk, is as follows:

Sensitivity of profit to translation and unhedged transaction exchange risk	Increase/(decrease) in underlying operating profit £m
For every 10 per cent strengthening of the US Dollar against Sterling	29.4
For every 10 per cent strengthening of the CNY against Sterling	(3.1)

The long-term exchange rate risk, which ignores any hedging instruments, is as follows:

Sensitivity of profit to translation and full transaction exchange rate risk	Increase/(decrease) in underlying operating profit £m
For every 10 per cent strengthening of the US Dollar against Sterling	35.5
For every 10 per cent strengthening of the CNY against Sterling	(15.7)

No specific exchange instruments are used to protect against the translation risk because it is a non-cash risk to the Melrose Group. However, when the Melrose Group has net debt, the hedge of having a matching debt facility funding these foreign currency trading units protects against some of the balance sheet and banking covenant translation risk.

Lastly, and potentially most significantly for Melrose, exchange risk arises when a business that is predominantly based in a foreign currency is sold. The proceeds for those businesses may be received in a foreign currency and therefore an exchange risk might arise if foreign currency proceeds are converted back to Sterling, for instance to pay a dividend to shareholders. Protection against this risk is considered on a case-by-case basis.

Contract and warranty risk

The financial risks connected with contracts and warranties, which include the consideration of warranty terms, duration and any other commercial or legal terms, are considered carefully by Melrose before being entered into.

Commodity cost risk management

As Melrose can own engineering businesses across various sectors the cumulative expenditure on commodities is important. The Melrose Group addresses the risk of base commodity costs increasing by, wherever possible, passing on the cost increases to customers or by having suitable purchase agreements with its suppliers which sometimes fixes the price over some months into the future. These risks are minimised through sourcing policies (including the use of multiple sources, where possible) and procurement contracts where prices are agreed for up to one year to limit exposure to price volatility. On occasions, Melrose does enter into financial instruments on commodities when this is considered to be the most efficient way of protecting against movements.

Going concern

The Melrose Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's review. In addition, the consolidated financial statements, and in particular notes 19 and 24, include details of the Melrose Group's borrowing facilities and hedging activities along with the processes for managing its exposures to credit risk, capital risk, liquidity risk, interest risk, foreign currency risk and commodity cost risk.

The Melrose Group has adequate financial resources and has a consistent cash generation record, and, as a consequence, the Directors believe that the Melrose Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Melrose Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



Geoffrey Martin
Group Finance Director
2 March 2017

Longer-term viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the “Going Concern” provision.

A period of three years is believed to be appropriate for this assessment since this is consistent with the Group’s financing cycle, whereby on average the Group has refinanced debt in line with this timescale.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities, as they fall due, up to December 2019.

The Directors’ assessment has been made by reference to the Group’s financial position as at 31 December 2016, its prospects, the Group’s strategy, the Board’s risk appetite and the Group’s principal risks and their management, all of which are described in the Strategic Report.

The Directors’ assessment of the Group’s viability is supported by comprehensive and detailed analysis and modelling. The model underpinning this statement is stress-tested, proven and is frequently used by management when determining working capital requirements for transactions and corporate restructuring. The main assumptions included in the model relate to forecast revenue, operating margins and cash generation. The model includes three years of forecast data from the Group’s business assets and incorporates agreed sensitivities for economic risk, foreign exchange risk and liquidity risk⁽¹⁾ (each of which have been considered both individually and in combination by the Board), together with expected achievable mitigating actions, from the working capital model to create severe, but plausible, scenarios. These scenarios sensitise the main assumptions noted above.

In preparing this statement, the following qualifications and assumptions are made:

- (i) the viability model is based on the Group as at the date of this Annual Report with no consideration of any further acquisitions or future disposals of continuing businesses. We note future acquisitions would be based on the same proven business model applied previously, with related bank debt and equity raised to support the acquisition with sufficient headroom to cover business risks; and
- (ii) financing arrangements and bank covenant testing are in line with the current facility which is committed for the period under review.

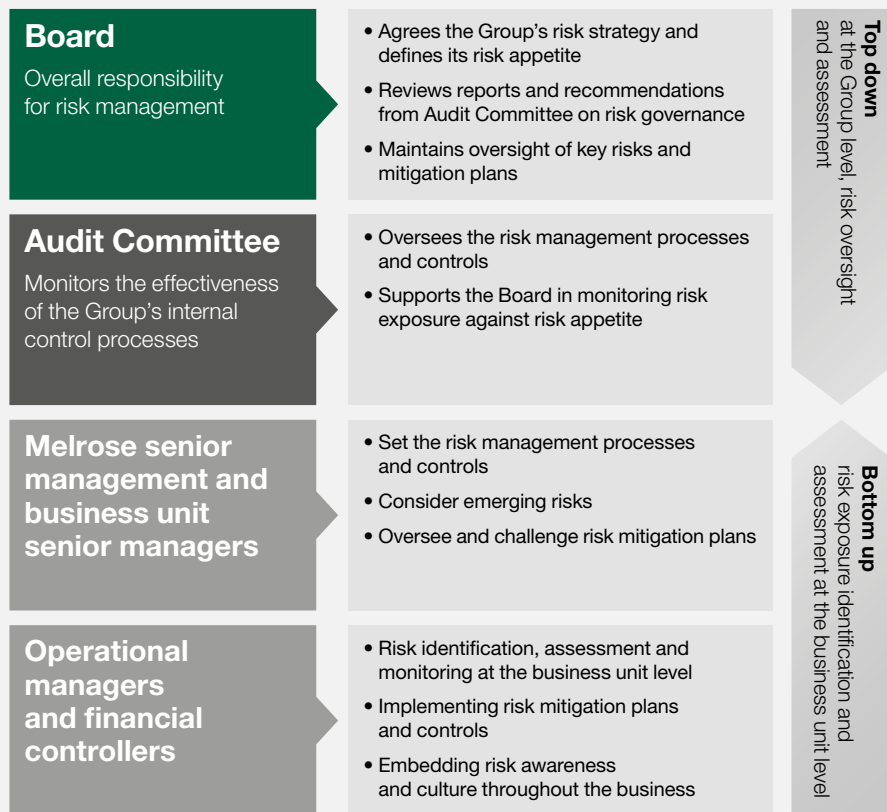
(1) For further details on the economic risk, foreign exchange risk and liquidity risk, and the mitigating actions being taken by management, please refer to the Risks and uncertainties section of the Strategic Report on pages 40 to 45.

Risk management

The Board recognises that operating in a dynamic and rapidly evolving commercial environment requires a pragmatic, flexible and responsive risk management framework that changes with the business and provides management with a comprehensive view of the Group's risk profile at any given time.

Risk management responsibilities

The Board, having overall responsibility for risk management, has approved a formalised, but pragmatic, Group risk management framework.



The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and that these systems, which are subject to regular monitoring and review, have been in place for the year under review and up to the date of approval of the Annual Report and financial statements.

The Board further confirms that the systems, processes and controls in place accord with the guidance contained in the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial Business Reporting".

The Audit Committee monitors the effectiveness of the risk management and internal control processes implemented across the Group, through regular updates and discussions with management and a review of the key findings presented by the external and internal auditors. The Board is responsible for considering the Audit Committee's recommendations and ensuring implementation by management of those recommendations it deems appropriate for the business. A description of the Audit Committee's activities during the year on risk management can be found on page 68.

During 2016, in accordance with provision C.2.3 of the UK Corporate Governance Code, the Audit Committee undertook a robust review of the effectiveness of the Group's risk management and internal control systems, covering all material controls including financial, operational and compliance controls. The Audit Committee reported its findings to the Board. From this review of the risk management and internal control systems, the Board did not identify, nor was it advised of, any failings or weaknesses which it would determine to be significant. The Board concluded that the Group's risk management and internal control systems and processes were operating effectively and therefore a confirmation in respect of necessary actions to be undertaken has not been considered appropriate.

The Board's risk management assessment undertaken in 2016, following the acquisition of Nortek, Inc., has resulted in certain changes to our principal risks and uncertainties. These changes are detailed in the principal risks and uncertainties table on pages 40 to 45.

Risk management strategy and framework

The objectives of the Directors and senior management are to safeguard and increase the value of the business and assets of the Group. Achievement of these objectives requires the development of policies and appropriate internal control frameworks to ensure the Group's resources are managed properly and any key risks are identified and mitigated, where possible.

The Board recognises that it is ultimately responsible for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives. It also recognises the need to define a risk appetite for the Group, to maintain sound risk management and internal control systems and to monitor its risk exposures and mitigations to ensure that the nature and extent of risks taken by the Group are consistent and aligned with its strategic objectives.

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Risks and uncertainties

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Governance overview

Risk management framework



The Group operates on a decentralised basis and the Board has established an organisational structure with clear reporting procedures, lines of responsibility and delegated authority, as depicted in the diagram on the previous page. Consistent with this, the Group operates a top-down/ bottom-up approach to risk management, comprising Board and senior management oversight coupled with bottom-up risk management embedded in the day-to-day activities of its individual businesses.

Risk appetite

The Board has undertaken a comprehensive exercise to consider its risk appetite across a number of key business risk areas. The results of this review indicate the relative appetite of the Board across the risk factors at a specific point in time. Any material changes in risk factors will impact the Board's assessment of its risk appetite.

The Board has a higher risk appetite towards its strategic and operational risks and a balanced appetite towards macro-economic and political risk. The Board seeks to minimise all health and safety risks and has a low risk appetite in relation to legal, compliance and regulatory risk. Similarly, a conservative appetite is indicated by the Board with respect to pension and finance-related risks.

The results of the risk appetite review will support the Board's decision making processes during 2017. It is the intention to undertake a review of the Board's risk appetite at least annually.

Risk management actions

Following a root and branch audit and review of the risk management framework and the underlying processes in operation in every business across the Melrose Group, the results were presented to the Board and an action plan setting out key risk management priorities was agreed.

During 2016, the Board continued to deliver on these priorities across the Group, utilising and updating where necessary the enhanced risk management framework implemented in 2015. Specific actions undertaken during the year include:

- reviewing and reaffirming the Board's risk appetite;
- implementing the risk management governance framework across all Nortek business divisions. This framework defines the Melrose principles for risk management and sets the standards for the identification, evaluation, prioritisation, recording, review and reporting of risks and their management or mitigation throughout the organisation;
- cascading the Melrose risk register template and risk profile mapping application throughout the Nortek business divisions. These provide the Board with greater levels of detail and visibility on the risk management systems and processes in place, and illustrate each principal risk facing the Group from both a gross risk (pre-mitigation) and net risk (post-mitigation) position. The risk mapping application provides Directors with a clear risk profile for the Group and enables the Board to determine the degree to which its profile is aligned with its risk appetite;
- updating and rolling out across the Nortek divisions the Group-wide education and training program focused on instilling and embedding a culture of effective risk management; and
- reviewing and improving the Group's processes around the assessment of principal risks and the monitoring and reporting of the Group's risk management performance.

Assessment of principal risks

During the year the Board undertook a robust, in-depth and comprehensive assessment of the principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model, its future performance, solvency or liquidity.

A summary of the principal risks and uncertainties that could impact on the Group's performance is shown on pages 40 to 45. Further information detailing the internal control and risk management policies and procedures operated within the Group is shown on page 65 of the Corporate Governance Report.

Risk management priorities for 2017

Sound progress has been made during 2016 in respect of the Group's risk management processes. However, the Board recognises that Melrose cannot be complacent. In 2017, management will continue to focus on refining the risk management framework and on embedding a culture of effective risk management across the Group to ensure that risks and opportunities are identified and managed to support the delivery of long-term value creation. Further resources will be devoted to strengthening the mechanisms for providing independent assurance on the effectiveness of the Group's risk management governance, processes and controls.

Risks and uncertainties

The table below lists the principal risks and uncertainties that may affect the Group and highlights the mitigating actions that are being taken. The content of the table, however, is not intended to be an exhaustive list of all the risks and uncertainties that may arise and nor is the order of the list intended to be any indication of priority.

A risk management and internal controls framework is in place within the Group to ensure that such risks and uncertainties can be identified and, where possible, managed suitably. Each Group business maintains a risk register which is reviewed regularly by both the management of the business and the Melrose Board.

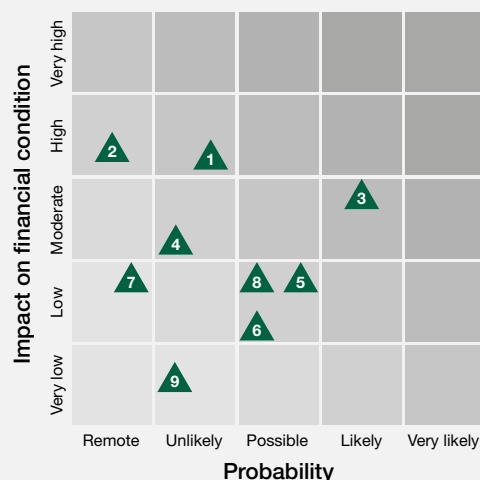
Key risk	Description and impact
Strategic risk	
Acquisition of new businesses and improvement strategies	<p>The success of the Group's acquisition strategy depends on identifying available and suitable targets, obtaining any consents or authorisations required to carry out an acquisition and procuring the necessary financing, be this from equity, debt or a combination of the two. In making acquisitions, there is a risk of unforeseen liabilities being later discovered which were not uncovered or known at the time of the due diligence process.</p> <p>Further, as per the Group's strategy to buy and improve high-quality but underperforming manufacturing businesses, once an acquisition is completed, there are risks that the Group will not succeed. These risks include driving strategic operational improvements to achieve the expected post-acquisition trading results or value as they were originally anticipated, that the acquired products and technologies may not be successful or that the business may require significantly greater resources and investment than anticipated. If anticipated benefits are not realised or trading by acquired businesses falls below expectations, it may be necessary to impair the carrying value of these assets. The Group's return on shareholder investment may fall if acquisition hurdle rates are not met. The Group's financial performance may suffer from goodwill or other acquisition-related impairment charges, or from the identification of additional liabilities not known at the time of the acquisition.</p>
Timing of disposals	<p>In line with our strategy and depending where the Group is within the "buy, improve, sell" cycle, the expected timing of any disposal of businesses is considered as a principal risk which could have a material impact on the Group strategy. Further, due to the Group's global operations, there may be a significant impact on timing of disposal due to political and macroeconomic factors. Depending on the timings of disposals and nature of businesses' operations there may be long-term liabilities which could be retained by the Group following a disposal. Insufficient allowance for such retained liabilities may affect the Group's financial position.</p>
Operational risk	
Economic and political	<p>The Group operates, through manufacturing and/or sales facilities, in numerous countries and is affected by global economic conditions. Businesses are also affected by government spending priorities and the willingness of governments to commit substantial resources. Current global economic and financial market conditions, including any fluctuation in commodity prices (in particular, the prices of oil and gas), the potential for a significant and prolonged global recession and any uncertainty in the political environment may materially and adversely affect the Group's operational performance, financial condition and could have significant impact on timing of acquisitions and disposals.</p> <p>Following the EU referendum on 23 June 2016 there has been some uncertainty in the UK regarding the nature of Brexit and what this will mean for business and the economy. However, following the acquisition of Nortek in August 2016 the majority of the Group's revenue is generated in North America, where any effects are expected to be minimal, and the Group remains agile and well positioned to deal with any short-term uncertainty in the UK.</p> <p>A recession may also materially affect customers, suppliers and other parties with which the Group does business. Adverse economic and financial market conditions may cause customers to terminate existing orders, to reduce their purchases from the Group, or to be unable to meet their obligations to pay outstanding debts to the Group. These market conditions may also cause our suppliers to be unable to meet their commitments to the Group or to change the credit terms they extend to the Group's businesses.</p>

(1) Comprises executive Directors and Melrose senior management.

Strategic risk profile

Our updated view of the current strategic risk profile is shown below. The residual risk scores have been calculated on a post-mitigation basis.

No	Risk rating	Risk title	Risk trend since last Annual Report
1	High	Acquisition of new businesses and improvement strategies	→ No change
2	Moderate	Timing of disposals	→ No change
3	Moderate	Economic and political	↑ Increase
4	Moderate	Loss of key management	→ No change
5	Moderate	Legal, regulatory and environmental	↑ Increase
6	Low	Information security and cyber threat	↑ Increase
7	Low	Foreign exchange rate	↑ Increase
8	Low	Pensions	→ No change
9	Low	Liquidity	→ No change



Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
<ul style="list-style-type: none"> Structured and focused due diligence undertaken on all acquisitions. Focus on acquisition targets that have strong headline fundamentals, high-quality products and leading market share but which are underperforming their potential and ability to generate sustainable cash flows and profit growth. Hands-on role taken by Directors and other senior employees of the Group. Promptly following completion of an acquisition, executive management work with the business management teams to develop and implement strategic plans, particularly focused on restructuring opportunities, investment, capital expenditure and working capital management that will deliver the anticipated operational improvement. 	Executive management ⁽¹⁾	→	Following the acquisition of Nortek, the Group is currently actively searching for its next acquisition.	<div>Buy</div> <div>Improve</div> <div>Sell</div>
<ul style="list-style-type: none"> Directors are experienced in judging and regularly reviewing the appropriate time in a business cycle for a disposal to realise maximum value for shareholders. Each disposal is assessed on its merits, with a key focus on a clean disposal. Following the acquisition of Nortek in 2016, Melrose is seeking improvements to the business and sale at the appropriate time, maximising return to shareholders. 	Executive management ⁽¹⁾	→	Melrose remains flexible in the timing of disposals.	<div>Buy</div> <div>Improve</div> <div>Sell</div>
<ul style="list-style-type: none"> Regular monitoring of order books and other leading indicators, to ensure the Group and each of its businesses can respond quickly to any adverse trading conditions. This includes the identification of cost reduction and efficiency measures. Finance for acquisitions is readily available to the Group from banking syndicates. This has proven to be available to the Group even during periods of economic downturn, for example during the global financial crisis in 2008. 	Executive management ⁽¹⁾	↑	With the acquisition of Nortek, the Group has increased its global presence and 2016 witnessed geopolitical uncertainty in major economies, a trend that may continue into 2017. However, the Board notes that economic uncertainty can depress business valuations and this may increase the number of potential acquisition opportunities for Melrose.	<div>Buy</div> <div>Improve</div> <div>Sell</div>

Risks and uncertainties

continued

Key risk	Description and impact
Operational risk continued	
Loss of key management	<p>The success of the Group is built upon strong management teams. As a result, the loss of key personnel could have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact the reputation of the Group or lead to a disruption in the leadership of the business. Competition for personnel is intense and the Group may not be successful in attracting or retaining qualified personnel, particularly engineering professionals. The loss of key employees, the Group's inability to attract new and adequately-trained employees or a delay in hiring key personnel could seriously harm the Group's business. Over time, the Group's competitive advantage is defined by the quality of its people; should the Group fail to attract, develop and retain key talent, the competitive advantage will erode, leading to weaker growth potential or returns.</p>
Compliance and ethical risk	
Legal, regulatory and environmental	<p>There is a risk that the Group may not always be in complete compliance with laws, regulations or permits, for example concerning environmental requirements. The Group could be held responsible for liabilities and consequences arising from past or future environmental damage, including potentially significant remedial costs. There can also be no assurance that any provisions for expected environmental liabilities and remediation costs will adequately cover these liabilities or costs. Potential exposure to such risks has increased following the Nortek acquisition due to the increased size and complexity of the Group's operations.</p> <p>The Group operates in highly-regulated sectors. In addition, new legislation, regulations or certification requirements may require additional expense, restrict commercial flexibility and business strategies or introduce additional liabilities for the Group or Directors. For example, the Group's operations are subject to anti-bribery and anti-corruption, anti-money laundering, competition, anti-trust and trade compliance laws and regulations. Failure to comply with certain regulations may result in significant financial penalties, debarment from government contracts and/or reputational damage and impact the Group's business strategy.</p>
Information security and cyber threat	<p>Information security and cyber threats are currently a priority across all industries and remain a key UK government agenda item. Like many businesses, Melrose recognises that the Group may have a potential exposure in this area. Potential exposure to such risks has increased following the Nortek acquisition, due to the increased size and complexity of the Group's operations and the nature of the product portfolio.</p>

(1) Comprises executive Directors and Melrose senior management.

Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
<ul style="list-style-type: none"> Succession planning within the Group and its businesses is coordinated via the Nomination Committee in conjunction with the Board and includes all Directors and senior employees. The Company recognises that, as with most businesses, particularly those operating within a technical field, it is dependent on Directors and employees with particular managerial, engineering or technical skills. Appropriate remuneration packages and long-term incentive arrangements are offered in an effort to attract and retain such individuals. 	Nomination Committee and executive management ⁽¹⁾	→	Succession planning remains a core focus for the Nomination Committee and the Board. Succession planning of executive Directors and senior management, together with visibility of potential successors within the Group, has been selected as an area for targeted management focus during 2017.	<div>Buy</div> <div>Improve</div> <div>Sell</div>
<ul style="list-style-type: none"> Regular monitoring of legal and regulatory matters at both a Group and business level. Consultation with external advisers where necessary. Creation of a robust legal control framework based on business facing divisional legal functions, with clear reporting lines to executive management and underpinned by comprehensive corporate governance and compliance procedures at both a Group and business level. Following reviews undertaken in the past two years, the Group has a robust and comprehensive compliance framework. This framework was successfully implemented across the Nortek divisions shortly after acquisition. Due diligence processes during the acquisition stage seek to identify legal, regulatory and environmental risks. At the business level, controls are in place to prevent such risks from crystallising. Any environmental risks that crystallise are subject to mitigation by specialist consultants engaged for this purpose. External consultants assist the Group in complying with new and emerging environmental regulations. Insurance cover mitigates certain levels of risk. 	Executive management ⁽¹⁾	↑	The acquisition of Nortek has expanded the Group's portfolio and therefore increased exposure to a wider range of legal, regulatory and environmental risks.	<div>Buy</div> <div>Improve</div> <div>Sell</div>
<ul style="list-style-type: none"> Management continues to work with information security consultants to better understand the extent to which the Group is exposed to cyber security risk and to ensure appropriate mitigations are in place. Management has developed an information security strategy to mitigate the Group's exposure to cyber risk. This strategy, which follows the UK government's recommended steps to cyber security, covers all the relevant security areas, including: network security; malware protection; active monitoring of information systems and networks; home and mobile working; and incident management. This strategy has been successfully implemented across the former Nortek businesses following acquisition and subject to regular monitoring, together with the Group's Business Continuity and Disaster Recovery policies and procedures, supplementing those already in place. 	Executive management ⁽¹⁾	↑	<p>Information security and cyber threats are currently a priority across all industries. Cyber security breaches of the Group's IT systems could result in the misappropriation of confidential information belonging to it or its customers, suppliers or employees.</p> <p>In response to the increased sophistication of information security and cyber threats, the Group has worked, and continues to work, with external consultants to implement a Group-wide strategy to aid the prevention, identification and mitigation of any threats.</p>	<div>Buy</div> <div>Improve</div> <div>Sell</div>

Risks and uncertainties

continued

Key risk	Description and impact
Financial risk	
Foreign exchange	<p>Due to the global nature of operations and volatility in the foreign exchange market, exchange rate fluctuations have and could continue to have a material impact on the reported results of the Group.</p> <p>The Group is exposed to three types of currency risk: transaction risk, translation risk and risk that when a business that is predominantly based in a foreign currency is sold, it is sold in that foreign currency. The Group's reported results will fluctuate as average exchange rates change. The Group's reported net assets will fluctuate as the year-end exchange rate changes.</p>
Pensions	<p>Any shortfall in the Group's pension schemes may require additional funding. As at 31 December 2016, the Brush plans were in a net surplus of £3.9 million on an accounting basis and the newly acquired Nortek plans had a deficit of £37.3 million. Changes in discount rates, inflation, asset values or mortality assumptions could lead to a materially higher deficit. For example, the cost of a buyout on a discontinued basis uses more conservative assumptions and is likely to be significantly higher than the accounting deficit. Alternatively, if the plans are managed on an ongoing basis, there is a risk that the plans' assets, such as investments in equity and debt securities, will not be sufficient to cover the value of the retirement benefits to be provided under the plans.</p> <p>The Group supports Trustee actions to match the nature and duration of assets held against the plans' liabilities. Nevertheless, the matching is never perfect so deficits could increase. The implications of a higher pension deficit include a direct impact on valuation, credit rating and potential additional funding requirements at subsequent triennial reviews. In the event of a major disposal that generates significant cash proceeds which are returned to the shareholders, the Group may be required to make additional cash payments to the plans or provide additional security.</p>
Liquidity	<p>The ability to raise debt or to refinance existing borrowings in the bank or capital markets is dependent on market conditions and the proper functioning of financial markets. As set out in more detail in the Finance Director's review on page 30, a new US\$1.25 billion term loan and revolving credit facility agreement was entered into, which has been partly utilised. Furthermore, in line with the Group's strategy, investment is made in the businesses (capital expenditure in excess of depreciation) and there is a requirement to assess liquidity and headroom when new businesses are acquired. In addition, the Group may be unable to refinance its debt when it falls due.</p>

Mitigation	Responsibility	Risk trend	Trend commentary	Strategic priorities
<ul style="list-style-type: none"> The Group policy is to protect against the majority of foreign exchange risk which affects cash, by hedging such risks with financial instruments. Protection against specific transaction risks is taken by the Board on a case-by-case basis. 	Executive management ⁽¹⁾	↑	Group results are reported in Sterling but a large proportion of its revenues are denominated in currencies other than Sterling. Following the Nortek acquisition, movements between the US Dollar and Sterling and Renminbi and Sterling could have a material adverse effect on Group results, whilst exposure remains through Brush against the Czech Koruna and the Euro.	<div>Buy</div> <div>Improve</div> <div>Sell</div>
<ul style="list-style-type: none"> The Group's key funded pension plans, including the Nortek plans, are closed to new entrants and future service accrual. Long-term funding arrangements are agreed with the plans and reviewed following completion of actuarial valuations. Active management of pension plan assets. 	Executive management ⁽¹⁾	→	<p>The position with regards to the Brush plan remained constant from 2015.</p> <p>The acquisition of additional pension plan obligations with Nortek increases the size of the financial risk but does not materially alter the complexity, nor the process of managing the liabilities.</p>	<div>Buy</div> <div>Improve</div> <div>Sell</div>
<ul style="list-style-type: none"> To ensure it has comprehensive and timely visibility of the liquidity position, the Group conducts monthly reviews of its cash forecast, which are in turn revised quarterly. The Group operates cash management mechanisms, including cash pooling across the Group and maintenance of revolving credit facilities to mitigate the risk of any liquidity issues. The Group operates a conservative level of headroom across its financing covenants which is designed to avoid the need for any unplanned refinancing requirements. This is set out in more detail in the Finance Director's review on page 30. Executive management actively manages its debt bank syndicate to ensure it is well positioned to revisit its funding structure. Should the Group require access to further funding, it is anticipated that funding shall remain accessible from financial institutions or from the market. 	Executive management ⁽¹⁾	→	The Group is satisfied that it has adequate resources available to meet its liabilities arising out of the Nortek acquisition.	<div>Buy</div> <div>Improve</div> <div>Sell</div>

Corporate Social Responsibility

Melrose supports and monitors the Corporate Social Responsibility policies, practices and initiatives across its businesses.



Reflecting the decentralised nature of the Group, responsibility for the adoption of policies, practices and initiatives sits at a divisional unit level. This ensures that rigorous and targeted policies and procedures are implemented that meet local regulatory requirements and guidance, whilst also taking into account the size and nature of the businesses.

The information set out in this Corporate Social Responsibility Report focuses on the initiatives taken during 2016 by each of the four divisions that now make up the Melrose Group. The policies, practices and initiatives set out in this Report are indicative of the approach taken with any new business Melrose acquires.

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Corporate Social Responsibility

continued

1

Employment matters

The Group recognises its responsibilities for the fair treatment of all its current and potential employees, in accordance with legislation applicable to the territories within which it operates, together with relevant guidance on good practice where appropriate.

Employee policies

As part of the Group's decentralised approach, each of Melrose's businesses is responsible for setting and measuring its own employment and employee related KPIs and, as such, these can vary throughout the Group. However, such measurements will generally include absenteeism, punctuality, headcount and employee relations issues. Any concerns or adverse trends are responded to in a timely manner.

Equal opportunities for appropriate training, career development and promotion are available to all employees within the Group regardless of any disability, gender, religion, race, nationality, sexual orientation or age.

Applications for employment by disabled persons are always fully and fairly considered by the Group and are considered on merit, with regard only to the job-specific requirements and the relevant applicant's aptitude and ability to carry out the role. Where reasonable to do so, arrangements will be made to both enable disabled persons to carry out a specific role and, where practicable, make every effort to provide continued employment in the same role or suitable alternative role for employees who are disabled during their period of employment.

It is the Group's policy that in recruitment, training, career development and promotion, the treatment of disabled persons should, as far as possible, be identical to that of other employees. Melrose is proud to be a member of the Business Disability Forum, a not-for-profit member organisation that works with the business community to understand the changes required in the workplace in order that disabled persons are treated fairly, so that they can contribute to business success, to society and to economic growth.

Employee involvement, consultation and development

The Group places great importance on good labour relations, employee engagement and employee development. The responsibility for the implementation and management of employment practices rests with local management, in a manner appropriate to each business.

A culture of clear communication and employee consultation and engagement is inherent across the Group. Employee briefing sessions with employee representatives are held on a regular basis to communicate strategy, key changes, financial results, achievements and other important issues to employees, and to receive feedback from them on these issues. Regular appraisals, employee surveys, notice boards, team meetings, suggestion boxes and newsletters are also used to communicate and engage with employees, and to solicit their feedback on issues of concern to them.

Extensive training is available to all staff and is actively encouraged to ensure that a high standard of skill is maintained across the Group. Inter-departmental training programs are also put in place across the Group to ensure that skills are shared between operations. The importance of training extends beyond on-the-job training and also focuses on enhancing personal development. In addition, apprenticeship programs help to assist with training a new generation of employees and to ensure knowledge is retained within the businesses. Employees across the Group are encouraged to think innovatively and to have regard for both financial and economic factors affecting the Group.

The Group regards employee training and advancement as an essential element of industrial relations.

Employee initiatives

During 2016, a range of employee related initiatives were implemented across the Group:

- Within the Security & Smart Technology division, employee engagement is a key focus, with feedback as to how best to maximise involvement regularly obtained from the workforce. One key outcome from an engagement survey was the establishment of the Inventor Award Program, which recognises the technological contributions which result in original inventions. In the short time this program has been established, the business has had 35 invention ideas submitted, of which nine have been moved forward with patent filings.
- High value is also placed on career succession and planning at Security & Smart Technology. The division has taken steps to communicate and develop a culture where employees are able to grow and develop their careers. This begins from hire, where the business establishes career paths, current and future openings and actively seeks out qualified internal candidates. The division annually utilises its organisational capability review process to identify high potential employees and align them with learning and growth opportunities.
- Within our Ergonomics division, Ergotron has conducted over 30 training programs globally with over 1,000 employees participating. Topics have included leadership and management skills training, product and marketing training, system, process and program training in addition to benefits and wellness training. The business has also launched a North American mentoring program which will be expanded globally and provides employees opportunities to enhance their learning through the educational reimbursement program.

- Ergotron has established individual and team recognition programs across the business, honouring employees annually for efforts and accomplishments achieved in line with their values. The business recognises years of service and rewards for the hard work and contributions of its global, committed employees. Global sales, marketing and service, special projects, team and individual achievements, combined with honouring years of service and appreciation awards, resulted in over 600 recognised employees.
- Ergotron has a strong belief in providing avenues for employees to have a healthy lifestyle including conducting over 50 global wellness and employee events last year. These events included team competitions, participating in numerous charitable activities and employee and family outings. In its China facility alone, over 900 employees and family members participated in these types of events.
- Brush continues to take the health and well-being of its employees seriously and has further developed and enhanced its Occupational Health Service during the year, which is available to employees five days a week. The service can make referrals to doctors, physiotherapists or counselling services, as required, ensuring that the business supports its employees throughout any periods of absence or illness. Health promotion is a key feature of the service, which is continually developing through awareness campaigns and has had a positive impact on both the employees and the business as a whole.

Charitable achievements

Relay for Life

A team from Air Management took part in the Relay for Life, an event in which team members take turns navigating a designated route to raise money for the American Cancer Society. The American Cancer Society is a nationwide, community-based voluntary health organisation dedicated to eliminating cancer as a major health problem.

Heart Walks

Since 2012, Ergotron has made a commitment to sponsor and participate in the American Heart Association's (AHA) Heart Walks throughout the US. AHA is an organisation whose mission is to improve the lives of all Americans and help people understand the importance of healthy lifestyle choices, which aligns with the Ergotron mission of promoting a healthy environment for life and work. Teams from the business's Twin Cities, Phoenix and Tualatin offices have raised over US\$100,000 and look forward to the fund raising activities and the Heart Walk every year.



Corporate Social Responsibility

continued

2

Gender diversity

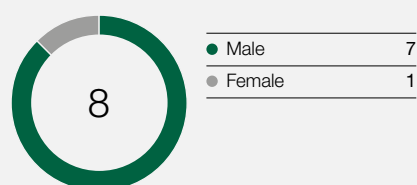
The charts opposite show the total number of males and females working within the Group as at 31 December 2016.

Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation. The Board recognises the importance of diversity throughout the workforce and the Board is committed to equality of opportunity for all employees.

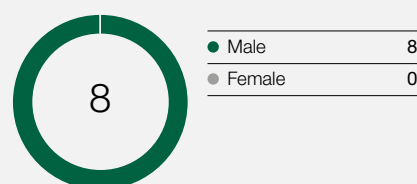
The Group currently takes into account a variety of factors before determining suitability for vacancies, including relevant skills to perform the role, experience and knowledge. The most important priority, however, has been and will continue to be ensuring that the best candidate is selected, and this approach will remain in place going forward.

Melrose notes the recommendations of Lord Davies' review, "Women on Boards" and continues to encourage gender diversity throughout the Group. Although not appropriate to set specific gender diversity targets at Board level and throughout the Group's workforce due to Melrose's strategic business model and frequent turnover of businesses, Melrose is actively engaged in finding ways to increase the Group's gender diversity.

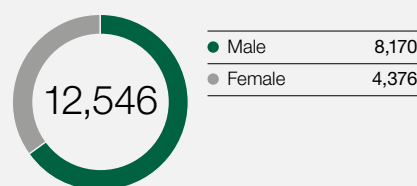
Melrose Board



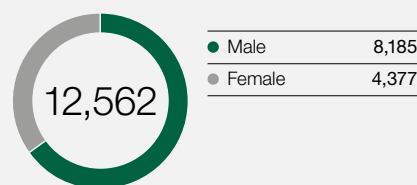
Senior managers⁽¹⁾



Other Group employees



Total Group employees



(1) Defined as senior head office employees of Melrose, located in the London, Birmingham and Atlanta offices.

3

Health and safety

The Board is committed to minimising the health and safety risks that each Group employee is exposed to by promoting the effective use and management of business-specific policies and procedures.

The Group has a policy to ensure that the Directors are made aware of any serious health and safety incidents, wherever they occur in the world, without delay, to ensure that suitable investigations and corrective action can be organised. Current events and issues relating to health and safety matters are also discussed within the Group at quarterly Board meetings of the Company.

Each division is responsible for setting its own detailed arrangements concerning health and safety policies and procedures, in accordance with local health and safety legislation. As a general rule, they strive to achieve best practice in terms of what is suitable and practical for the size and nature of their operations. Defined and business-specific health and safety key performance indicators are also used. Reports detailing each division's performance in relation to three health and safety KPIs (major accident frequency rate, accident frequency rate and accident severity rate) are presented to the Melrose Board and reviewed at each quarterly Board meeting.

The increase in the accident severity rate at Brush was the only item of concern for the Board during 2016, and it sought a detailed explanation from the business of both the root cause and its response. Although the incidents were very unfortunate for all involved, the Board was satisfied with Brush's comprehensive response. It has also been a reminder of the necessity for constant diligence and striving to improve health and safety standards.

For more information on the Group's health and safety KPIs, see the key performance indicators section on page 18 of the Strategic Report.

A number of sites within the Group hold the ISO 18001 certification, the internationally

recognised assessment standard for occupational health and safety management systems, including Brush's manufacturing locations in the UK and the Czech Republic, AQH's facilities in Italy and Poland and Ergotron's APAC-region sites. The Air Management division's Tualatin, Oregon facility earned its fourth year SHARP Award (Safety & Health Achievement Recognition Program). SHARP is an intensive, five-year safety program that will conclude with full certification at the end of 2017. The division is currently evaluating its Okarche, Oklahoma facility for SHARP readiness and plans to pursue first steps in 2017.

Within the Air Management division, employees are instructed to report all near misses and minor injuries, and if an incident occurs immediate notification is required to the Plant Manager, Group Health & Safety Manager and Group VP of Operations. Plant managers are accountable at monthly group strategy deployment meetings for the identification and evaluation of root causes and counter measures related to health and safety indicators. There is a significant commitment from management throughout the division, with safety performance criteria incorporated into operations managers' annual objectives.

The Security & Smart Technology manufacturing facility has a health and safety manager responsible for co-ordinating its safety program on-site, together with a dedicated health and safety committee composed of heads of departments. The committee is responsible for providing assistance in the event of an incident, reporting any incidents to the local authority, meeting weekly to review health and safety indicators and conducting a comprehensive annual audit. Health and safety data is reported centrally within the division on a monthly basis. At GTO's facility in Michigan, a dedicated safety team conducts bi-annual audits to identify any potential issues and take corrective action where necessary, while at its Tallahassee location, a safety committee holds quarterly meetings.

The Ergonomics division has implemented a continuous improvement program, driving safety standards across the business and actively seeking improvement suggestions from its employee base. A culture of

promoting safety has been established across the business, with improved training programs being undertaken by the workforce and enhanced personal protective equipment implemented. Managers are provided with health and safety reports to ensure matters are given high visibility and any necessary improvements are authorised and implemented quickly.

At Brush, divisional managers are responsible for ensuring that health and safety remains a key focus and that active procedures and monitoring systems are in place which were reviewed and updated in response to the incidents leading to the increase in the accident severity rate in 2016. Detailed health and safety plans are set by Brush management each year to determine annual targets and improvement initiatives. Brush also has health and safety committees, which meet on a regular basis and are made up of representatives from both management and shop floor level personnel. Each of the committees has wide-ranging responsibilities which vary between operations and include the review of reported incidents and the monitoring of incident trends. These committees are also responsible for ensuring that corrective measures are implemented when accidents occur and that all incidents, whether or not they are deemed reportable under local legislation, are given due attention.

During 2016, a range of health and safety initiatives were implemented across the Group, some of which are listed below:

- At the end of the year, each of AQH's manufacturing locations conducted an extensive external safety audit consisting of over 500 detailed subject matter questions. The business is in the process of finalising actions to prioritise and address open items. Follow-up "cross-facility" audits will be conducted later in 2017 by the Group Health & Safety Manager and peer personnel.
- At Air Management, the business implemented monthly safety committee meetings at its Okarche and Oklahoma City facilities, mirroring programs already established at its Canada and Tualatin plants. Air Management also introduced cut and strain awareness training (these

being the two most frequent injury types at all plants in 2016). This reflects a focused approach to educate and reduce these occurrences. Forklift and high lift training is also being rolled out at Oklahoma and Canada sites, together with incentive programs to encourage positive safety behaviour and improve attendance.

- Air Management has commenced the process of establishing a safety counsel across all plants to collectively work on projects that will drive continuous improvement in its safety program, with participants being nominated by their managers as empowered representatives. Key areas of focus for the counsel in 2017 will include specific safety challenges at each site, the identification of any shortcomings in the business' approach to safety and the identification of areas that would benefit from a collective approach.
- Within Security & Smart Technology, GTO's Michigan facility implemented 65 improvements during 2016, while a separate ergonomics improvement team researched and implemented seven actions designed to reduce ergonomic injuries at the facility. Regular health and safety inspections were conducted by the health and safety team across the division throughout the year and the annual internal audit process was effectively implemented.
- At Brush, the recently implemented behavioural safety program continued to improve the already strong health and safety culture within the business. The program focuses on developing a proactive approach among Brush employees so that they increase their responsibility and accountability for their own, and their working group's, actions while ensuring they intervene at the earliest opportunity to stop hazardous acts or correct any unsafe conditions.

Following these initiatives, among others, the Group has recognised the benefits of a workforce engaged in matters of health and safety, management teams committed to the continuous improvement of health and safety standards throughout the Group's businesses and a recognition that a strong health and safety focus can have a positive impact on growth and brand value.

Corporate Social Responsibility

continued

4

The environment

The Melrose Board fully understands the importance of the Group's environmental responsibilities and is committed to ensuring that operations have the minimum possible adverse effect on the environment.

Although there are no Group-wide standardised environmental KPIs reflecting the Group's decentralised nature, it nonetheless ensures businesses understand the importance of monitoring the impact of their operations on the environment. A range of KPIs are used as environmental measures, including energy consumption, CO₂ emissions, water consumption, water contamination, waste disposal, solid and liquid waste generation, recycling and volatile organic compound emissions. These KPIs are then used to plan for ongoing improvements.

During the year, the Company continued to comply with the ongoing annual reporting requirements of the UK's Carbon Reduction Commitment Energy Efficiency Scheme.

Environmental initiatives

During 2016, a range of environmental initiatives were implemented within the Group's divisions. Some of these are listed below:

- Security & Smart Technology continued to manage the division's disposal processes for waste and recyclables, and complied with all applicable hazardous materials disposal/recycling requirements. GTO specifically focused on water and energy conservation by replacing overhead lighting, remodelling restrooms, installing solar operated gates and the retrofit of the facility's air handler. A number of objectives have been established for 2017, including continued focus on energy conservation.

- Ergotron added the environmental certification ISO14001:2004 to its locations in Minnesota, EMEA, and APAC. The division focused throughout the year on reducing its impact on the environment, resulting in 97% of waste materials at its EMEA and Minnesota locations being recycled. APAC locations introduced returnable bins with some suppliers to avoid waste.
- Brush continued its focus on making further energy savings, including in gas and electricity consumption. Through more effective energy management and greater employee engagement, electricity consumption for lighting at its Czech operations was reduced by 24%, whilst heating consumption was the lowest in the location's history. Lighting initiatives across the Loughborough site continue with ad hoc upgrades which continue to generate savings for the business. Targets for 2017 include a review of packaging to reduce waste disposal.

Greenhouse gas emissions

The Group is required to measure and report its direct and indirect greenhouse gas (GHG) emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The GHG reporting period is aligned to the Company's financial reporting year.

The data has been prepared in accordance with the principles and requirements of the Greenhouse Gas Protocol, Corporate Accounting and Reporting Standard (Revised Edition) 2004 for Scope 1 and Scope 2 emissions and the Department for Environment, Food & Rural Affairs (DEFRA) guidance on how to measure and report on greenhouse gas emissions, as first published in 2013 and subsequently updated.

We have reported on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

The reported emissions cover all continuing operations of the Group as at 1 January 2016. Emissions from entities acquired during the financial year ended 31 December 2016 are not accounted for in the reported GHG data. Therefore, for example, data from the former Nortek businesses has not been included within the reported GHG data this year, as this business was acquired during the year.

Global GHG emissions data (tonnes CO₂e⁽¹⁾ unless stated)

Emissions sources:	Year ended 31 December 2016	Year ended 31 December 2015	Change
Combustion of fuel & operation of facilities	7,122	8,825	-19.3%
UK Electricity	3,717	4,053	-8.3%
Overseas Electricity, heat and steam ⁽²⁾	9,008	8,719	+3.3%
Total purchased electricity	10,689	11,043	-3%
Other purchased energy	2,035	1,729	+17.2%
Company's chosen intensity measurement: Emissions reported above normalised to tonnes per £1,000 turnover ⁽²⁾	0.081	0.083	-2.4%

(1) CO₂e – carbon dioxide equivalent, this figure includes greenhouse gases in addition to carbon dioxide.

(2) The emissions associated with overseas electricity are presented in tonnes carbon dioxide only as per the DEFRA guidance.

All material emissions from within the organisational and operational scope and boundaries of the Group are reported. The emissions from owned vehicle transport (i.e. Group-owned cars and vans, lorries and fork lift trucks) and the emissions associated with refrigeration have been excluded from the report on a de minimis basis. The GHG emissions from these sources have been estimated to account for less than 1% of the total Melrose Group emissions reported on an individual basis and as a combined total to account for less than 2% of the total Melrose Group GHG emissions reported.

Given that the Melrose business model is to acquire and divest businesses over a three-to-five-year time frame, there may be significant year-on-year changes in the reported emissions data which may not reflect the underlying GHG performance of the Group's businesses.

5 Supply chain assurance

Each of the businesses is responsible for the management of its supplier base, including the application of the appropriate policy, which best suits the geographical and operational diversity of the Group.

The security, assurance and ethical compliance of business supply chains are very important to Melrose and its businesses. Responsibility for the implementation and management of all supplier-related policies rests with local management. Such policies are used in a manner appropriate to the size and complexity of the business and also take into account the nature and geographical representation of key suppliers. A supplier approval process exists within all business divisions, which is linked to specific and tailored supplier assessments and due diligence requirements utilising third party resources and the implementation of appropriate terms and conditions for the protection of the Group.

6 Human rights and ethical standards

Sound business ethics and integrity are core to the Group's values and a high importance is placed on dealings with all employees, customers, suppliers and other stakeholders.

The decentralised nature of the Group means there is no over-arching policy currently in place with regard to human rights, however Melrose is committed to good practice in respect of human rights. Employees across the Group are required, at all times, to exhibit the highest levels of integrity and to maintain the highest ethical standards in business affairs. The full text of the Melrose Code of Ethics, which all employees of the Group are required to familiarise themselves with, can be found on the Company's website at www.melroseplc.net/about-us/code-of-ethics

In addition to the Melrose Code of Ethics, each Group business is expected to have its own code of ethics dealing with matters such as human rights. All business-specific

employee policies are prepared locally within each business in order to ensure compliance with local laws and standards as a minimum. Responsibility for the communication and implementation of such policies rests with the relevant senior managers within the Group's businesses.

Finally, in advance of the need for the Company to report in accordance with the Modern Slavery Act 2015, the Group is taking steps to put in place effective and proportionate procedures to ensure that there are no forms of modern slavery in the Group's business or supply chains. It is expected that a full statement will be prepared and published on the Group's website during the current financial year.

The Strategic Report, as set out on pages 02 to 53, has been approved by the Board
On behalf of the Board



Simon Peckham
Chief Executive
2 March 2017

Governance overview

“The Board remains committed to maintaining the high standards of corporate governance required to ensure that the Company can continue to deliver on its strategic goals and to achieve long-term success for the benefit of its shareholders.”

Christopher Miller, Executive Chairman



Introduction from the Chairman

As part of this approach, the Board supports, applies and complies with the Main Principles, the Supporting Principles and the respective related provisions of corporate governance contained in the UK Corporate Governance Code (the “UK Code”) issued by the Financial Reporting Council (the “FRC”) and available to view on the FRC’s website at www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx

In support of this commitment, the Board carried out a number of key governance activities during 2016 designed to ensure that Melrose remains compliant with the provisions of the UK Code and also to enable continuous improvement in line with best practice corporate governance guidelines.

Succession planning

Succession planning was an area of focus for Melrose in 2016 and a dedicated Board session was held to review the leadership needs of the Group, present and future, together with the skills and experiences needed from its Directors going forward. We recognise that succession planning is an ongoing process and is critical to maintaining an effective and high-quality board.

With this in mind, a number of changes to the Board are planned during 2017. John Grant will be retiring from the Board at the conclusion of this year’s Annual General Meeting (AGM), to be held on 11 May 2017. John has held a non-executive position on the Melrose Board since 2006 and his advice and extensive financial experience have been invaluable to Melrose; we wish him every success in the future.

John will be replaced as senior non-executive Director by Justin Dowley, who will also continue to hold the position of Chairman of the Remuneration Committee. John’s position as Chairman of the Audit Committee will be taken up by Liz Hewitt, who will step down as Chairman of the Nomination Committee, to be replaced by David Lis.

The Nomination Committee has determined that in seeking a replacement for John, the number of non-executive Directors serving on the Board will be increased to five so that there are a majority of independents serving on the Board, and a search and selection specialist has been engaged to support the recruitment process. Appointments are expected to be made in the coming months.

Remuneration

The Directors’ Remuneration Report is set out on pages 72 to 84. Following the introduction of a new holding company for the Group in November 2015, we were required to seek shareholder approval for the Directors’ Remuneration Policy at last year’s AGM which remains unchanged.

The Company’s existing long-term incentive plan, the 2012 Incentive Plan, will crystallise on 31 May 2017 and, subject to shareholder

approval at a general meeting to be held immediately following the 2017 AGM on 11 May 2017 (the General Meeting), be replaced by a new scheme, the 2017 Incentive Plan, on equivalent economic terms. Accordingly, at the General Meeting shareholder approval will be sought for a new Directors’ Remuneration Policy to be adopted in order to incorporate, and allow for awards to be made under, the 2017 Incentive Plan. The 2017 Incentive Plan will be on equivalent economic principles as the 2012 Incentive Plan with additional, shareholder focussed features, and its terms are set out in the circular posted to shareholders with or prior to this Report (the “Circular”). The proposed new Directors’ Remuneration Policy for which shareholder approval will be sought at the General Meeting is set out in the annex to the Circular. The only change to that Policy as compared to the Policy approved at the 2016 AGM is to reflect the inclusion of the 2017 Incentive Plan. All other elements remain the same as approved at the 2016 AGM. In addition, our remuneration philosophy remains unchanged; executive remuneration should be simple, transparent, support the delivery of the Melrose value creation strategy and only pay for performance.

Risk management and compliance

During 2016, the Melrose risk management framework was implemented across the newly acquired Nortek business divisions, and the Group’s compliance policies were comprehensively reviewed and updated to ensure their effectiveness for the enlarged Group. Taken together, these initiatives have ensured the former Nortek businesses’ effectiveness at identifying and managing risks and have promoted and embedded a more risk-aware culture. Further details on the Group’s management of risk can be found on pages 40 to 45 of this Annual Report.

Melrose’s reputation for acting responsibly plays a critical role in its success as a business and its ability to generate shareholder value. We maintain high standards of ethical conduct and take a zero tolerance approach to bribery, corruption and other unethical or illegal practices. Supporting our updated compliance policies are a comprehensive online training platform and an industry-leading whistleblowing reporting facility. The integrity of the compliance framework is further reinforced by the use of independent assurance and compliance audits.

Engagement with shareholders

During 2016, the Company continued its program of engagement with major investors and the governance bodies in respect of our Remuneration Policy and incentive arrangements. The Board is pleased with the support and constructive feedback throughout these discussions and it is our intention to continue this program for the foreseeable future.

Christopher Miller
Executive Chairman
2 March 2017

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Audit Committee report

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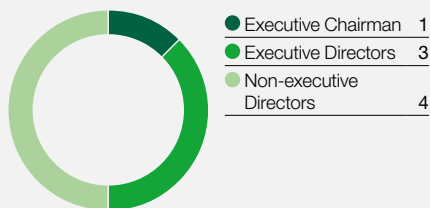
Nomination Committee report

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Directors' remuneration report

Board structure

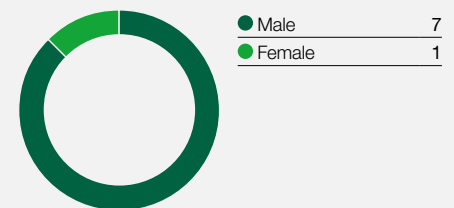
Board composition



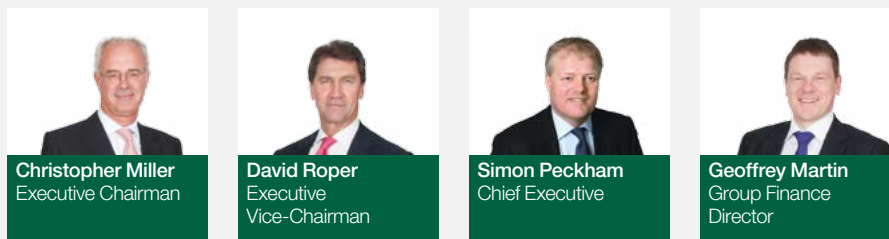
Industry background



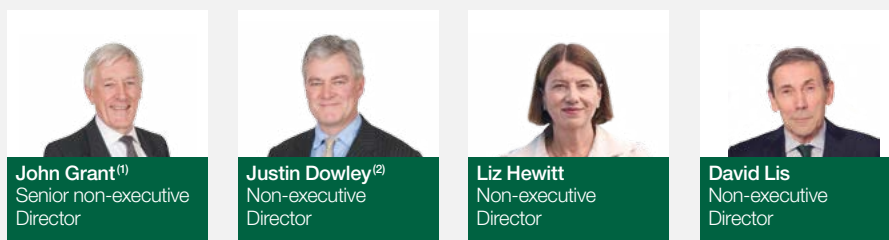
Board diversity



Executive Directors



Non-executive Directors



Main responsibilities of the Board:

- Effectively manage and control the Company via a formal schedule of matters reserved for its decision
- Determine and review Company strategy and policy
- Consider acquisitions, disposals and requests for major capital expenditure
- Review trading performance
- Ensure that adequate funding and personnel are in place
- Maintain sound internal control systems
- Report to shareholders and give consideration to all other significant financial matters
- Review the Group's risk management and internal control systems
- Determine the nature and extent of the risks the Group is willing to take
- Agree the Group's governance framework and approve Group governance policies

Audit Committee

John Grant
Chairman

Justin Dowley

Liz Hewitt

David Lis

Nomination Committee

Liz Hewitt
Chairman

John Grant

Justin Dowley

David Lis

Christopher Miller

Remuneration Committee

Justin Dowley
Chairman

John Grant

Liz Hewitt

David Lis

(1) John Grant assumed the position of Senior non-executive Director at the conclusion of the 2016 AGM and will be retiring from the Board at the conclusion of the 2017 AGM.

(2) Subject to shareholder approval of Justin Dowley's re-election at the 2017 AGM, he will assume the position of Senior non-executive Director at the conclusion of the 2017 AGM.

Board of Directors



Christopher Miller
Executive Chairman

Year appointed

Appointed as Executive Chairman on 29 May 2003.

Skills and experience

Christopher's long-standing involvement in manufacturing industries and private investment brings a wealth of experience to the Board.

A chartered accountant, Christopher qualified with Coopers & Lybrand, following which he was an Associate Director of Hanson plc. In September 1988, Christopher joined the board of Wassall PLC as its Chief Executive. Between October 2000 and May 2003, Christopher was involved in private investment activities.

Board meetings attended
4/4

Business reviews attended
2/3

Other significant appointments
–

Committee membership
• Nomination

Independent
Not applicable



David Roper
Executive Vice-Chairman

Year appointed

Appointed as Executive Vice-Chairman on 9 May 2012, having previously served as Chief Executive from May 2003.

Skills and experience

From a wide range of roles in corporate finance, private investment and management in manufacturing industries, David brings significant investment, financial and operational expertise.

A chartered accountant, David qualified with Peat Marwick Mitchell, following which he worked in the corporate finance divisions of S.G. Warburg, BZW and Dillon Read. In September 1988, David was appointed to the board of Wassall PLC, before becoming its deputy Chief Executive in 1993. Between 2000 and 2003, David was involved in private investment activities and served as a non-executive Director on the boards of two companies in France.

Board meetings attended
4/4

Business reviews attended
3/3

Other significant appointments
• Trustee of E-ACT, an independent sponsor of state-funded educational academies.

Committee membership
–

Independent
Not applicable



Simon Peckham
Chief Executive

Year appointed

Appointed as Chief Executive on 9 May 2012, having previously served as Chief Operating Officer from May 2003.

Skills and experience

Simon provides widespread expertise in corporate finance, mergers and acquisitions, strategy and operations.

Simon qualified as a solicitor in 1986, before moving to Wassall PLC in 1990, where he became an executive Director in 1999. Between October 2000 and May 2003, Simon worked for the equity finance division of The Royal Bank of Scotland where he was involved in several high profile transactions.

Board meetings attended
4/4

Business reviews attended
3/3

Other significant appointments
–

Committee membership
–

Independent
Not applicable



Geoffrey Martin
Group Finance Director

Year appointed

Appointed as Group Finance Director on 7 July 2005.

Skills and experience

Geoffrey provides considerable public company experience and expertise in corporate finance, raising equity finance and financial strategy.

A chartered accountant, Geoffrey qualified with Coopers & Lybrand, where he worked within the corporate finance and audit departments. In 1996, Geoffrey joined Royal Doulton PLC, serving as Group Finance Director from October 2000 until June 2005. During this time, Geoffrey was involved in a number of projects, including raising public equity, debt refinancing and the restructuring and outsourcing of the manufacturing and supply chain.

Board meetings attended
4/4

Business reviews attended
3/3

Other significant appointments
–

Committee membership
–

Independent
Not applicable

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Audit Committee report

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Nomination Committee report

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Directors' Remuneration report



John Grant⁽¹⁾
Senior non-executive Director

Year appointed

Appointed as Senior non-executive Director on 11 May 2016, having previously served as non-executive Director since 1 August 2006.

Skills and experience

Following a variety of senior roles within the automotive industry, John brings financial expertise and global executive experience to the Board.

John was Chief Executive of Ascot Plc between 1997 and 2000. Prior to that, he was Group Finance Director of Lucas Industries Plc (subsequently LucasVarity Plc) between 1992 and 1996. He also previously held several senior strategy and finance positions with Ford Motor Company both in Europe and the US.

Board meetings attended

4/4

Business reviews attended

3/3

Other significant appointments

- Senior Independent Director of MHP S.A
- Non-executive Director of Augean Plc
- Chairman of British Racing Drivers' Limited

Committee membership

- Audit (Chairman)
- Nomination
- Remuneration

Independent

Yes⁽³⁾



Justin Dowley⁽²⁾
Non-executive Director

Year appointed

Appointed as a non-executive Director on 1 September 2011.

Skills and experience

Justin has extensive experience with over 35 years spent within the banking, investment and asset management sector.

A chartered accountant, Justin qualified with Price Waterhouse and was latterly Vice Chairman of EMEA Investment Banking, a division of Nomura International plc. He was also a founder partner of Tricorn Partners, Head of Investment Banking at Merrill Lynch Europe and a director of Morgan Grenfell.

Board meetings attended

4/4

Business reviews attended

3/3

Other significant appointments

- Non-executive Director of Novae Group plc, Scottish Mortgage Investment Trust PLC
- Director of a number of private companies.
- Steward of the Jockey Club

Committee membership

- Audit
- Nomination
- Remuneration (Chairman)⁽²⁾

Independent

Yes⁽³⁾



Liz Hewitt⁽²⁾
Non-executive Director

Year appointed

Appointed as a non-executive Director on 8 October 2013.

Skills and experience

Liz has extensive business, financial and investment experience gained from a number of senior roles in international companies.

A chartered accountant, Liz qualified with Arthur Andersen & Co., following which she held a variety of positions within Gartmore Investment Management, CVC and 3i Group plc. Between 2004 and 2011, Liz was the Group Director of Corporate Affairs for Smith & Nephew plc, following a secondment to the Department for Business, Innovation and Skills and the HM Treasury, where Liz worked to establish The Enterprise Capital Fund.

Board meetings attended

4/4

Business reviews attended

3/3

Other significant appointments

- Non-executive Director of Novo Nordisk A/S and Savills plc.
- Member of the House of Lords Commission

Committee membership

- Audit
- Nomination (Chairman)⁽²⁾
- Remuneration

Independent

Yes⁽³⁾



David Lis⁽²⁾
Non-executive Director

Year appointed

Appointed as a non-executive Director on 12 May 2016.

Skills and experience

David has held several senior roles in investment and fund management and brings extensive financial experience to the Board.

David commenced his career at NatWest, and held positions at J Rothschild Investment Management and Morgan Grenfell after which David founded Windsor Investment Management. David joined Norwich Union Investment Management in 1997 (later merging to form Aviva Investors), before becoming Head of Equities in 2012 and latterly Chief Investment Officer, Equities and Multi Assets, until his retirement in March 2016.

Board meetings attended

3/3⁽⁴⁾

Business reviews attended

1/1⁽⁴⁾

Other significant appointments

- Director of the Investor Forum
- Non-executive Director of Electra Private Equity PLC and BCA Marketplace plc

Committee membership

- Audit
- Nomination⁽²⁾
- Remuneration

Independent

Yes⁽³⁾

(1) John Grant assumed the position of Senior non-executive Director at the conclusion of the 2016 AGM and will be retiring from the Board with effect from the conclusion of the 2017 AGM.

(2) Following John Grant's retirement at the conclusion of the 2017 AGM, John will be replaced as Senior non-executive Director by Justin Dowley, who will continue to hold the position of Chairman of the Remuneration Committee, and John's position as Chairman of the Audit Committee will be taken up by Liz Hewitt, who will step down as Chairman of the Nomination Committee, to be replaced by David Lis.

(3) Details on the consideration given by the Board to the independence of its non-executive Directors, in light of the UK Corporate Governance Code, are provided on page 62 of the Corporate Governance Report.

(4) David Lis was appointed as a non-executive Director with effect from 12 May 2016.

Directors' report

The Directors of Melrose Industries PLC present their Annual Report and audited financial statements of the Group for the year ended 31 December 2016.

Incorporated information

The Corporate Governance Report on pages 62 to 65, the Finance Director's review on pages 30 to 36 and the Corporate Social Responsibility section of the Strategic Report on pages 46 to 53 are each incorporated by reference into this Directors' Report.

Disclosures elsewhere in the Annual Report are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of the Companies Act 2006 (the Act) and of the Disclosure and Transparency Rules (the DTRs) and the Listing Rules of the Financial Conduct Authority.

AGM

The Annual General Meeting of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.00 a.m. on 11 May 2017 (the AGM). The notice convening the meeting is shown on pages 147 to 152 and includes full details of the resolutions to be proposed, together with explanatory notes in relation to such resolutions (the AGM Notice).

Directors

The Directors of the Company as at the date of this Annual Report, together with their biographical details, can be found on pages 56 and 57.

During 2016, Perry Crosthwaite retired from the Board with effect from the conclusion of the 2016 AGM on 11 May 2016, having held a non-executive position since 2005. David Lis was appointed as a non-executive Director with effect from 12 May 2016.

Anticipated changes to the Board during the year are set out in the Governance overview on pages 54 to 55. Details of Directors' service contracts are set out in the Directors' Remuneration Report on pages 80 and 81 of the 2015 Annual Report.

The statement of Directors' responsibilities in relation to the consolidated financial statements is set out on page 85, which is incorporated into this Directors' Report by reference.

Appointment and removal of Directors and their powers

The Company's articles of association (Articles) give the Directors the power to appoint and replace other Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board.

Pursuant to the Articles and in line with the UK Corporate Governance Code, all of the Directors of the Company are required to stand for re-election on an annual basis. All current Directors of the Company will be standing for re-election by the shareholders at the forthcoming AGM, with the exception of John Grant, who will be retiring from office with effect from the conclusion of the AGM.

The Directors are responsible for managing the business of the Company and exercise their powers in accordance with the Articles, directions given by special resolution and any relevant statutes and regulations.

Insurance and indemnities

In accordance with the Articles and the indemnity provisions of the Act, the Directors have the benefit of an indemnity from the Company in respect of any liabilities incurred as a result of their office. This indemnity is provided both within the Articles and through a separate deed of indemnity between the Company and each of the Directors.

The Company has taken out an insurance policy in respect of those liabilities for which the Directors may not be indemnified. Neither the indemnities nor the insurance provides cover in the event that a Director is proved to have acted dishonestly or fraudulently.

Capital structure

The Company's issued share capital and changes to it during the financial year are detailed below and in note 25 to the financial statements (which are incorporated by reference into this report).

In December 2015, the Company completed the disposal of its Elster business to a subsidiary of Honeywell International Inc., for cash consideration of £3.3 billion. In accordance with its strategy to return value to shareholders, the Company returned approximately £2.4 billion of the proceeds for the disposal to shareholders (the Return of Capital).

In order to realise the Return of Capital, holders of ordinary shares in the Company as at 5.00 p.m. on the record date, 26 January 2016, received one B share with a nominal value of 240 pence each in the capital of the Company for every ordinary share held as at that date. The B shares were not admitted to listing or dealing on any exchange.

On 27 January 2016, the High Court of England and Wales approved the cancellation of the B shares. On 5 February 2016, cheques representing the nominal value of the B shares (240 pence each) were dispatched to their holdings and CREST accounts were credited with the proceeds, as appropriate.

Following the Return of Capital, the ordinary share capital of the Company was sub-divided and consolidated (the Share Capital Consolidation). This was to ensure that, so far as possible, the market price of an ordinary share in the Company remained approximately the same before and after the Return of Capital and, so far as possible, historical per share data remained comparable against future per share data.

The Share Capital Consolidation was effected by the sub-division of each existing ordinary share of 1 penny in the capital of the Company into seven shares of 1/7 pence each and consolidating 48 shares resulting from such sub-division into one new ordinary share of 48/7 pence in the capital of the Company (the New Ordinary Shares). The record date for the Share Capital Consolidation was 6.00 p.m. on 27 January 2016 and the New Ordinary Shares were admitted to listing and trading from 8.00 a.m. on 28 January 2016. Subject to allowance for fractional entitlements, shareholders continued to own approximately the same proportion of the ordinary share capital of the Company before and after the Share Capital Consolidation.

The Return of Capital and the Share Capital Consolidation were approved by shareholders of the Company at a general meeting of the Company held on 2 October 2015 and by shareholders of the then parent company of the Group at a general meeting of that company held on 29 October 2015.

In connection with the acquisition of Nortek, Inc., which completed on 31 August 2016, the Company raised £1,612 million (net of commissions and expenses) by way of a fully underwritten rights issue of 1,741,612,236 ordinary shares of 48/7 pence each in the capital of the Company issued pursuant to the Rights Issue (New Melrose Shares) (equating to a basis of 12 New Melrose Shares for every one existing share held) at 95 pence per share (the Rights Issue). The admission of the New Melrose Shares (issued in connection with the Rights Issue) to listing and to trading nil paid on the main market on the London Stock Exchange plc was effective on 9 August 2016 (Admission) and dealings commenced on that date. On 24 August 2016, the Company announced that it had

received valid acceptances in respect of 1,689,589,213 New Melrose Shares offered pursuant to the Rights Issue, and further that subscribers had been procured for the remaining 52,023,023 New Melrose Shares for which acceptances were not received.

As set out in detail on pages 43 to 46 of the prospectus published by the Company on 6 July 2016 in connection with the Rights Issue, upon completion of the acquisition of Nortek on 31 August 2016 the listing of the Company's ordinary shares on the premium segment of the Official List was cancelled, and on that date the Company announced that its ordinary shares had been re-admitted to the standard segment of the Official List (Readmission).

The table below shows details of the Company's issued share capital as at: 31 December 2015; immediately following the Share Capital Consolidation becoming effective on 28 January 2016; immediately following Admission on 9 August 2016; immediately following Readmission on 31 August 2016; and as at 31 December 2016.

Share class	31 December 2015	28 January 2016 (Post the Share Capital Consolidation)	9 August 2016 (Post Admission)	31 August 2016 (Post Readmission)	31 December 2016
Ordinary shares of 1 penny each	995,206,966 ⁽¹⁾	Nil	Nil	Nil	Nil
Ordinary shares of 48/7 pence each	Nil	145,134,353	1,886,746,589 ⁽²⁾	1,886,746,589 ⁽²⁾	1,886,746,589 ⁽²⁾

- (1) Fractional entitlements resulting from the Share Capital Consolidation effective on 28 January 2016 were aggregated and sold in the market. The aggregated proceeds of sale, net of commission, were donated to a charity nominated by the Board, the Motor Neurone Disease Association. In order to ensure that the aggregate of all fractional entitlements to be sold in the market added up to a whole number of new ordinary shares, 26 existing ordinary shares were allotted and issued to Investec Bank plc on 26 January 2016 at 281.0 pence per share, being the closing middle-market price of an existing ordinary share on 26 January 2016. These ordinary shares were issued pursuant to the authority granted by the Company's shareholders in accordance with section 551 and section 570 of the Act at a general meeting of the Company held on 2 October 2015. The terms of this issue were fixed on 26 January 2016 following a meeting of the Board. These existing ordinary shares were not entitled to participate in the Return of Capital, but were subject to the Share Capital Consolidation.
- (2) These ordinary shares were issued pursuant to the general authorities granted by the Company's shareholders in accordance with section 551 of the Act at a general meeting of the Company held on 25 July 2016. The terms of this issue were fixed on 8 August 2016 following a meeting of a transaction committee of the Board.

Details of the 2012 Incentive Plan are set out on pages 76 and 77 of the Directors' Remuneration Report and note 22 to the financial statements, which are incorporated by reference into this report.

Shareholders' voting rights

Subject to any special rights or restrictions as to voting attached to any class of shares by or in accordance with the Articles, at a general meeting of the Company each member who holds ordinary shares in the Company and who is present (in person or by proxy) at such meeting is entitled to:

- on a show of hands, one vote; and
- on a poll, one vote for every ordinary share held by them.

There are currently no special rights or restrictions as to voting attached to any class of shares.

The Company is not aware of any agreements between shareholders that restrict voting rights attached to the ordinary shares in the Company.

Where any call or other amount due and payable in respect of an ordinary share remains unpaid, the holder of such shares shall not be entitled to vote or attend any general meeting of the Company in respect of those shares. As at 2 March 2017, all ordinary shares issued by the Company are fully paid.

Details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the 2017 AGM are set out in the AGM Notice on pages 147 to 152.

Restrictions on transfer of ordinary shares

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company, aside from the usual restrictions applicable where shares are not fully paid up, if entitled to do so under the Uncertificated Securities Regulations 2001, where the transfer instrument does not comply with the requirements of the Articles or, in exceptional circumstances, where approved by the UK Listing Authority provided such refusal would not disturb the market in such shares. Restrictions may also be imposed by laws and regulations (such as insider trading and market abuse provisions). Directors and certain senior employees of the Group may also be subject to internal approvals before dealing in ordinary shares of the Company and minimum share holding requirements.

The Company is not aware of any agreements between shareholders that restrict the transfer of ordinary shares in the Company.

Articles of association

The Articles may only be amended by a special resolution at a general meeting of the shareholders of the Company. There are no amendments proposed to be made to the Articles at the forthcoming AGM. However, the AGM will be immediately followed by a General Meeting to approve the 2017 Incentive Plan on equivalent economic principles as the 2012 Incentive Plan with additional, shareholder focussed features when the 2012 Incentive Plan expires on 31 May 2017. Further details are set out in the Directors' Remuneration Report on page 82.

Directors' report

continued

Substantial shareholdings

As at 31 December 2016, the following voting interests in the ordinary share capital of the Company, disclosable under DTR 5, had been notified to the Directors.

Shareholder	Shareholding	% of ordinary share capital as at 31 December 2016
Fidelity Management & Research Company	170,378,038	9.03%
Old Mutual	156,460,263	8.29%
Columbia Threadneedle Investments	117,048,297	6.20%
BlackRock Inc	92,944,584	4.93%
Dimensional Fund Advisors	78,915,792	4.18%

Between 1 January 2017 and 1 March 2017, the following voting interests in the ordinary share capital of the Company, disclosable under DTR 5, were notified to the Directors:

Shareholder	Shareholding ⁽¹⁾	% of ordinary share capital as at date of disclosure ⁽¹⁾
Artemis Investment Management	93,899,567	4.98%
Aviva plc	57,828,273	3.06%

(1) Since the acquisition date, the shareholders' interests in the Company may have changed.

Shareholder dividend

The Directors are pleased to recommend the payment of a final dividend of 1.9 pence per share (2015: 0.5⁽²⁾ pence) to be paid on 16 May 2017 to ordinary shareholders on the register of members of the Company at the close of trading on 7 April 2017. This dividend recommendation will be put to shareholders at the forthcoming AGM of the Company, to be held on 11 May 2017. Subject to shareholder approval being obtained at the AGM for the final dividend, this will mean a full year 2016 dividend of 2.2 pence per share (2015: 1.0⁽²⁾ pence).

Following the disposal of the Elster business in December 2015, the Company returned approximately £2.4 billion from the proceeds of the disposal to shareholders, by way of the Return of Capital. The Return of Capital and the Share Capital Consolidation were approved by shareholders of the Company at a general meeting of the Company held on 2 October 2015 and by shareholders of Melrose Holdings Limited at a general meeting of Melrose Holdings Limited held on 29 October 2015. The Return of Capital is not included in the full year dividend figure stated above.

For discussions on the Board's intentions with regards to the dividend policy, please see the Chairman's statement on page 6, which is incorporated into this report by reference.

The Company offers a Dividend Reinvestment Plan (DRIP) which gives shareholders the opportunity to use their dividend payments to purchase further ordinary shares in the Company. Further details about the DRIP and its terms and conditions can be found within the Investors section of the Company's website at www.melroseplc.net

Ability to purchase own shares

Pursuant to sections 693 and 701 of the Act and a special resolution passed at a general meeting of the Company on 25 July 2016, the Company is authorised to make market purchases of up to 188,674,658 of its ordinary shares, representing approximately 10% of the issued share capital of the Company immediately following the Rights Issue. The Company has not made any purchases of its own shares pursuant to this authority.

This authority will expire at the end of this year's AGM, at which the Company is seeking approval to make market purchases of its ordinary shares up to the same number, thereby renewing the authority. The full text of the resolution, together with minimum and maximum price requirements, is set out in the AGM Notice on pages 147 to 152.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Company, including the financial risk management objectives and policies (including in relation to hedging) of the Company and the exposure of the Company to price risk, credit risk, liquidity risk, cash flow risk, exchange rate risk, contract and warranty risk and commodity cost risk, can be found in the Finance Director's review on pages 30 to 36, the risks and uncertainties section of the Strategic Report on pages 40 to 45 and in note 24 to the financial statements, which are incorporated by reference into this Directors' Report.

Research and development activities

The industries in which the Melrose Group invests are highly competitive and the businesses within the Group are encouraged to research and develop new and innovative product lines and processes in order to meet customer demands in a continuously evolving environment.

An example of the types of new products being launched within the former Nortek businesses include AQH's intermediate range hood product line, as noted in the Divisional reviews on pages 20 to 29, which are incorporated by reference into this Directors' Report.

Business review and risks

A review of the Group's performance, the key risks and uncertainties facing the Group and details on the likely development of the Group can be found in the Chairman's statement on page 6 and the Strategic Report on pages 2 to 53 of this Annual Report (including the longer-term viability statement on page 37 and the risks and uncertainties section on pages 40 to 45) which are incorporated into this Directors' Report by reference.

Employees

Details in relation to employment policies, employee involvement, consultation and development, together with details of some of the human resource improvement initiatives implemented during 2016, are shown on pages 46 to 53 of the Corporate Social Responsibility section of the Strategic Report and on page 70 of the Nomination Committee Report, which are incorporated by reference into this Directors' Report.

(2) Adjusted by a bonus factor of 18.8% related to the Rights Issue completed in August 2016.

Environmental

Details of the Group's environmental initiatives, greenhouse gas emissions and the methodology used to calculate such emissions are set out on pages 52 and 53 of the Corporate Social Responsibility section of the Strategic Report, which is incorporated by reference into this Directors' Report.

Political donations

The Group's policy is not to make any political donations and there were no political donations made during the year ended 31 December 2016 (2015: nil).

Branches

The Melrose Group and its businesses operate across various jurisdictions. Other than the Ergonomics division, which has a registered branch of Ergotron, Inc. in the Netherlands called Ergotron Computer Mounting Solutions Limited, the Group has no registered branches.

Disclosures required under Listing Rule 9.8.4R

Other than the following, no further information is required to be disclosed by the Company in respect of Listing Rule 9.8.4R:

- details of the 2012 Incentive Plan, which are set out on pages 76 to 77 of the Directors' Remuneration Report and note 22 to the financial statements (incorporated by reference into this report); and
- details of an allotment of ordinary shares to Investec Bank plc, as part of the Share Capital Consolidation, which are set out on page 59 of this Directors' Report.

Significant agreements and change of control

With the exception of the Group's banking facilities, the 2012 Incentive Plan (including the options granted under this plan) and the divisional management long-term incentive plans, there are no other agreements that would have a significant effect upon a change of control of Melrose Industries PLC as at 1 March 2017.

In July 2016, as part of the process to acquire Nortek, the Group entered into a US\$1,250 million term loan and revolving credit facilities.

In the event of a change of control of the Company following a takeover bid, the Company and lenders under the facility agreement are obliged to enter into negotiations to determine whether, and if so how, to continue with the facility. There is no obligation for the lenders to continue to make the facility available for more than 30 days beyond any change of control. Failure to reach agreement with parties on revised terms could require an acquirer to put in place replacement facilities.

In the event of a takeover of the Company, options granted under the 2012 Incentive Plan would be exercised and any 2012 incentive shares resulting from such exercise, or that had previously been issued, would convert into ordinary shares in the Company or an entitlement to a dividend paid in cash, the rate of conversion being based upon the offer price of the Company's ordinary shares as calculated on the date of the change of control of the Company. If the offer price, or any element of the offer price, is not in cash, the Remuneration Committee will determine the value of the non-cash element, having been advised by a reputable investment bank that such valuation is fair and reasonable.

Following the acquisition of Nortek, divisional long-term incentive plans are being finalised for certain businesses. These plans are on similar terms to previous divisional schemes used to incentivise business level senior management to deliver value for shareholders, and typically contain change of control provisions that would be triggered by a change of control of the Company.

Auditor

So far as each Director is aware, there is no relevant audit information (being information that is needed by the Company's auditor to prepare its report) of which the Company's auditor is unaware. Each Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

On behalf of the Board, the Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, for the year ended 31 December 2016 and concluded that the external auditor was in all respects effective. Deloitte LLP has expressed its willingness to continue in office as auditor of the Group. Accordingly, resolutions will be proposed at this year's AGM for the reappointment of Deloitte LLP as auditor of the Group and to authorise the Audit Committee to determine its remuneration.

Approval

Approved by the Board and signed on its behalf by:



Jonathon Crawford
Company Secretary
2 March 2017

Corporate governance report

In line with the UK Corporate Governance Code (the Code) and the Listing Rules issued by the Financial Conduct Authority, this section of the Annual Report details the ways in which the Company has applied and complied with the principles and provisions of the Code during the year ended 31 December 2016.

In April 2016, the Financial Reporting Council (FRC) amended the Code, a copy of which is available at www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2016.pdf

The Audit Committee Report, Nomination Committee Report, Directors' Remuneration Report and the risk management and risks and uncertainties sections of the Strategic Report also form part of this Corporate Governance Report.

As set out in detail on page 12 of the circular published by the Company on 6 July 2016 in connection with the acquisition of Nortek ("Circular"), the transaction was a reverse takeover for the purpose of the Listing Rules. As a result, on completion on 31 August 2016 the listing of the Company's ordinary shares on the premium segment of the Official List was cancelled, and on that date the Company announced that its ordinary shares had been re-admitted to the standard segment of the Official List ("Readmission").

Notwithstanding its Standard Listing, as indicated on page 12 of the Circular the Company is complying on a voluntary basis with obligations applicable to it were it a Premium Listed company, including the provisions of the Code.

Having stated that it was the Company's intention to transfer to the Premium List as soon as practicable, the Company expects to publish an intention to transfer announcement in March 2017 following its approval by the UKLA, formally commencing this process which will be complete 20 business days after publication, upon which the Company's shares will be included in the premium segment again.

Statement of compliance

Throughout the year ended 31 December 2016, the Company has applied and complied with the main principles, the supporting principles and the respective related provisions of the Code, with the exception of the following:

- D.1.1 Schedule A of the Code recommends that grants under executive share options and other long-term investment plans should normally be phased, rather than awarded in one block. Grants under the 2012 Incentive Plan, details of which are set out on pages 76 to 77 of the Directors' Remuneration Report in the Annual Report for the year ended 31 December 2015, were awarded in one block, rather than phased. The 2012 Incentive Plan was recommended as being in the best interests of shareholders as a whole by the Board and was approved by shareholders at a general meeting held on 11 April 2012.

All other aspects of the executive Directors' remuneration fully comply with Schedule A of the Code. Furthermore, the Remuneration Committee has determined that grants under the new 2017 Incentive Plan, which, subject to shareholder approval, is proposed to replace the 2012 Incentive Plan on its crystallisation on 31 May 2017, will be phased rather than awarded in one block. The 2017 Incentive Plan will be put to shareholders for approval at the General Meeting immediately following the AGM.

Main Principle A: Leadership

The Board

Details of the structure of the Board and its key responsibilities are shown on page 55.

There were four formally-scheduled Board meetings held during the year and the attendance of each Director at these meetings is shown on pages 56 to 57. In addition, a number of unscheduled Board meetings were held during the year in connection with corporate transactions, for example in relation to the acquisition of Nortek Inc. and the associated Rights Issue.

In addition, business review meetings are held between scheduled Board meetings. There were three business review meetings held during the year. The attendance of each Director at these review meetings is set out on pages 56 to 57. These meetings are critical to providing the Directors with a comprehensive understanding of the current performance of, and the key issues affecting, the Group's businesses, without the formality or rigidity of a Board meeting. Chief executives and other senior management from the Melrose businesses are periodically invited to attend and present to these meetings, providing the Directors with an opportunity to discuss each business directly and to develop relationships with their leadership teams.

A pack of briefing papers and an agenda are provided to each Director in advance of each Board, Committee or business review meeting. The Directors are able to seek further clarification and information on any matter from any other Director, the Company Secretary or any other employee of the Group whenever necessary. Decisions are taken by the Board in conjunction with the recommendations of its Committees and advice from external consultants, advisers and senior management.

The Board has a fully-encrypted electronic board portal system, enabling Board, Committee and review papers to be delivered securely and efficiently to Directors. This facilitates a faster and more secure distribution of information, accessed using electronic tablets and reduced resource usage.

The Company Secretary is responsible for advising and supporting the Chairman and the Board on corporate governance matters as well as ensuring a smooth flow of information to enable effective decision making. All Directors have access to the advice and services of the Company Secretary and, through him, have access to independent professional advice in respect of their duties, at the Company's expense. The Company Secretary acts as secretary to the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee.

In accordance with its Articles and in compliance with the Companies Act 2006, the Company has granted a qualifying third party indemnity to each Director. This indemnity is provided both within the Company's Articles and through a separate deed of indemnity between the Company and each of the Directors. The Company also maintains Directors' and Officers' liability insurance.

Chairman, Vice-Chairman and Chief Executive

The roles of Chairman and Vice-Chairman are, and will remain, separate to that of the Chief Executive of the Company, in accordance with best practice and Board policy.

The Chairman, with the assistance of the Vice-Chairman, is responsible for leadership of the Board. The Chairman sets the Board agenda and ensures that adequate time is given to the discussion of issues, particularly those of a strategic nature.

Responsibility for ensuring effective communications are made to shareholders rests with the Chairman, Vice-Chairman and the two other executive Directors.

The Board notes, and confirms its satisfaction with, the choice of an executive Chairman. Christopher Miller, the current executive Chairman of the Group, is one of the founding members of Melrose, having been a Director since its incorporation in 2003. Christopher's long-standing involvement brings a wealth of experience to the Board and his oversight of corporate governance and compliance matters complements the work of the Group's non-executive Directors. Christopher continues to play an active role in identifying and evaluating new opportunities for the Group.

The Chief Executive is responsible for strategic direction and decisions involving the day-to-day management of the Company.

Non-executive Directors

The Company's non-executive Directors are encouraged to, and do, scrutinise the performance of the executive Directors in all areas, including on strategy, risks and financial information, through their roles on the Company's Committees, at the Board's scheduled meetings and review sessions and on an ad hoc basis.

Main Principle B: Effectiveness

Board composition

As at 2 March 2017, the Board comprised an executive Chairman, three other executive Directors and four non-executive Directors. The Board believes that the Directors possess diverse business experience in areas complementary to the activities of the Company. Biographies of the Directors are shown on pages 56 and 57 and on the Company's corporate website at www.melroseplc.net

These biographies identify any other significant appointments held by the Directors. None of the executive Directors hold non-executive positions outside the Company.

The Board and the Nomination Committee undertake an annual review of the time commitment required from both the executive and non-executive Directors. The consensus view between the Directors is that the current time commitment is appropriate.

The Board notes that, unless a replacement has already been secured, following John Grant's retirement as a non-executive Director at the conclusion of this year's AGM, the Board will consist of an executive Chairman, three other executive Directors and three non-executive Directors and, as a result, will therefore temporarily have a greater proportion of executive Directors to non-executive Directors. The Nomination Committee has determined that in securing a replacement for Mr Grant the number of non-executive Directors serving on the Board will be increased to five so that there are a majority of independents serving on the Board. Stonehaven Associates, search and selection specialists, have been engaged to support the recruitment process. Aside from their assistance with the recruitment process, Stonehaven Associates have no other connection with the Company.

The Nomination Committee has agreed upon selection criteria for the roles, which have formed the basis of a shortlist. The Nomination Committee is currently in the process of working through such a shortlist, using a rigorous and comprehensive weighted scoring system to select the candidate most appropriate for the position. Appointments are expected to be made in the coming months.

Whilst the recruitment process continues, the Board is satisfied that there will be sufficient challenge by non-executive Directors of executive management in meetings of the Board and that no individual or small group of individuals dominates its decision making.

Non-executive Director independence

In accordance with the provisions of the Code, consideration has been given to the independence of all non-executive Directors. The Board considers all of the non-executive Directors to be independent.

Under the Code, the Board is required to state its reasons if it determines that a Director is independent notwithstanding the existence of any circumstances which may appear relevant to its determination.

John Grant, currently the Board's senior non-executive Director, will retire from his position at the conclusion of this year's AGM, having served three three-year terms as a non-executive Director. John's role as a non-executive Director, and in particular the length of his time in office, has been closely monitored by the Board. Even though John has served as a non-executive Director for more than nine years since the date of his first election, the Board has determined that he continues to maintain his independence. In addition, the Board has continued to benefit from John's invaluable experience in financial and other corporate matters. John will be replaced in the position of senior non-executive Director by Justin Dowley.

The non-executive Directors are not entitled to any cash bonus or shares under the 2012 Incentive Plan.

Board induction, training and support

A full and formal induction program tailored to the needs of individual Directors is provided for new Directors joining the Board.

The primary aim of the induction program is to introduce new Directors to, and educate new Directors about, the Group's businesses, its operations and its governance arrangements. Individual induction requirements are monitored by the Chairman and the Company Secretary to ensure that new Directors gain sufficient knowledge to enable them to contribute to the Board's deliberations as quickly as possible.

Board evaluation

Evaluation approach and process

During 2016, the Chairman held meetings with each of the Directors, including the senior non-executive Director, to discuss the performance of individual Directors and the Board as a whole.

In view of the fact that two of the evaluation exercises undertaken in the previous three years had been externally facilitated (supported by Lintstock Limited, a specialist governance consultancy), the Board decided that a more free-ranging discussion was merited for 2016.

A range of topics were discussed including: Board mix, profile and diversity, succession planning, risk and internal controls, strategy, Board processes, future investor strategy and the Group's preparedness at managing the cyber risks facing the business.

The discussion also included a review of the actions agreed following the 2015 Board evaluation, and the steps taken in 2016 to address these needs.

Actions agreed from 2015 evaluation	What we have delivered in 2016
To focus on succession planning for the executive Directors and senior management and the Board's visibility of potential successors within the Group, and to further scrutinise the composition, expertise and diversity of the Board.	Executive succession planning, talent management and senior executive career planning were considered by the Board throughout the year, and the composition, expertise and diversity of the Board were subject to continuous review. Accordingly, it has been decided to increase the number of independent non-executive Directors to five so that they are a majority of the Board. It is intended that these issues remain a core focus for the Board and that they be reviewed on at least an annual basis.

Corporate governance report continued

Actions agreed from 2015 evaluation	What we have delivered in 2016
To continue to focus on risk management and internal control and, in particular, further embedding a culture of effective risk management across the Group.	The Board and the Audit Committee monitored throughout the year the key elements of the Melrose risk management framework and its application to the Group, including the updated risk strategy, best practice risk register with risk mapping and profiling application, education and training programs and audit and assurance processes. The implementation of these elements across the newly acquired Nortek business divisions was an area of particular focus.

Outputs of the evaluation

Overall, the Board was satisfied with its performance, and agreed that the Chairman and the senior non-executive Director continued to be very effective.

In order to continue and further enhance the Board's effectiveness, the following areas were designated as the subject of management focus during 2017:

- executive Director succession and managing the succession of non-executive Directors;
- risk management and internal control and to delineate accountabilities between the Board and the Audit Committee; and
- to continue visits to major operating units to ensure that the Board maintains sound knowledge of the businesses within the Group and is visible to the operations.

It was further recognised that cyber risk was an increasing area of concern and would be focused on in 2017.

In accordance with the provisions of the Code, it is anticipated that externally-facilitated Board evaluations will be carried out at least once every three years. The scope for each evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the evaluations are implemented and that year-on-year progress is measured and reported upon.

Annual re-election of Directors

Pursuant to the Company's Articles of Association and in accordance with the provisions of the Code, all of the Directors stood for re-election at the 2016 Annual General Meeting. With the exception of John Grant, who will be retiring from office with effect from the conclusion of the meeting, and David Lis who is standing for election for the first time since his appointment took effect on 12 May 2016, all current Directors of the Company will be standing for re-election by shareholders at this year's Annual General Meeting.

Following performance evaluations of each of the Directors and having carefully considered the commitments required and the contributions made by each Director, the Chairman is of the opinion that each Director's performance continues to be effective and continues to demonstrate commitment to the role. Similarly, following performance evaluations of the Chairman and having carefully considered the commitments required and the contributions made by the Chairman, the non-executive Directors, led by the senior non-executive Director, are of the opinion that the Chairman's performance continues to be effective and that he continues to demonstrate commitment to the role.

Attendance of Directors at meetings

The following table shows the attendance of each of the Directors at the scheduled meetings of the Board and its Committees held

during the year. The quorum necessary for the transaction of business by the Board and each of its Committees is two. Briefing papers and meeting agendas are provided to each Director in advance of each meeting. Decisions are taken by the Board in conjunction with the recommendations of its Committees and advice from external advisers and senior management as appropriate. The representations of any Director who is unable to attend a meeting of the Board or a standing Committee are duly considered by those Directors in attendance.

The table also shows attendance at business review meetings held between scheduled Board meetings.

Attendance of Directors

	Board	Audit	Nomination	Remuneration	Business
Number of meetings ⁽¹⁾	4	3	2	2	3
Christopher Miller	4	–	2	–	2
David Roper	4	–	–	–	3
Simon Peckham	4	–	–	–	3
Geoffrey Martin	4	3 ⁽²⁾	–	–	3
Perry Crosthwaite ⁽³⁾	1	1	–	1	2
John Grant	4	3	2	2	3
Justin Dowley	4	3	2	2	3
Liz Hewitt	4	3	2	2	3
David Lis ⁽⁴⁾	3	2	2	1	1

(1) In addition, ad hoc meetings are held from time to time which are attended by a quorum of Directors and are convened to deal with specific items of business.

(2) Geoffrey Martin attends by invitation.

(3) Perry Crosthwaite retired as a non-executive Director with effect from the conclusion of the 2016 AGM on 11 May 2016. Mr Crosthwaite attended all Board and Committee meetings held during the period 1 January 2016 to 11 May 2016.

(4) David Lis was appointed as a non-executive Director with effect from 12 May 2016. Mr Lis attended all Board and Committee meetings held during the period 12 May 2016 to 31 December 2016.

Main Principle C: Accountability

Objectives and policy

The objectives of the Directors and senior management are to safeguard and increase the value of the business and assets of the Group for the benefit of its shareholders. Achievement of their objectives requires the development of policies and appropriate internal control frameworks to ensure the Group's resources are managed properly and any key risks are identified and mitigated where possible.

The Board is ultimately responsible for the development of the Group's overall risk management policies and system of internal control frameworks and for reviewing their respective effectiveness, while the role of senior management is to implement these policies and frameworks across the Group's business operations. The Directors recognise that the systems and processes established by the Board are designed to manage, rather than eliminate, the risk of failing to achieve business objectives and cannot provide absolute assurance against material financial misstatement or loss.

The Board is committed to satisfying the internal control guidance for Directors set out in the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In accordance with this guidance, the Board assumes ultimate responsibility for risk management and internal controls, including determining the nature and extent of the principal risks it is willing

to take to achieve its strategic objectives (its “risk appetite”) and ensuring an appropriate culture has been embedded throughout the organisation. The establishment of a revised risk management and internal control system has been complemented by ongoing monitoring and review, to ensure the Company is able to adapt to an evolving risk environment.

A separate Audit Committee Report is set out on pages 66 to 69 and provides details of the role and activities of the Committee and its relationship with the internal and external auditors.

Managing and controlling risk

Since 2014, the Group’s approach to risk management has been reviewed and enhanced. The systems, processes and controls in place accord with the Code and the FRC’s updated guidance. Details on the Group’s risk management strategy are set out on pages 38 to 39.

Further information regarding the Group’s financial risk objectives and policies can be found in the Finance Director’s review on pages 30 to 36. A summary of the principal risks and uncertainties that could impact upon the Group’s performance is set out on pages 40 to 45.

Internal financial controls and reporting

The Group has a comprehensive system for assessing the effectiveness of the Group’s internal controls, including strategic business planning and regular monitoring and reporting of financial performance. A detailed annual budget is prepared by senior management and thereafter is reviewed and formally adopted by the Board.

The budget and other targets are regularly updated via a rolling forecast process and regular business review meetings are held with the involvement of senior management to assess performance. The results of these reviews are in turn reported to and discussed by the Board at each meeting. As discussed in the Audit Committee Report on page 69, the Group engages BM Howarth as internal auditor. A total of two internal audit visits, covering 32% of Group turnover prior to the acquisition of Nortek, were completed prior to 30 June 2016. In addition, as part of the fair value exercise carried out on the acquisition of Nortek, the internal auditors visited 37 sites, accounting for 100% of turnover of the former Nortek businesses.

The Directors are pleased to report that there were no material deficiencies and that the majority of the recommendations presented in the internal audit reports have now been, or are in the process of being, implemented.

The Board confirms that, from the review of internal controls, it has not determined any significant failings or weaknesses that it considers to require remedial action. The Board also confirms that it has not been advised of any material weaknesses in the internal control systems that relate to financial reporting.

The Audit Committee also monitors the effectiveness of the internal control process implemented across the Group through a review of the key findings presented by the external and internal auditors. Management is responsible for ensuring that the Audit Committee’s recommendations in respect of internal controls and risk management are implemented.

Compliance and ethics

The Company takes very seriously its responsibilities under the laws and regulations in the countries and jurisdictions in which the

Group operates and has in place appropriate measures to ensure compliance. A compliance framework is in place comprising a suite of policies governing anti-bribery and anti-corruption, money laundering, competition, trade compliance, data privacy, whistleblowing, document retention and joint ventures. These policies were reviewed and updated following the acquisition of Nortek and are in place within each business. They apply to all directors, employees (whether permanent, fixed-term, or temporary), pension trustees, consultants and other business advisers, contractors, trainees, volunteers, business agents, distributors, joint venture partners or any other person working for or performing a service on behalf of the Company, its subsidiaries and/or associated companies in which the Company or any of its subsidiaries has a majority interest.

In addition, in conjunction with their internal audit function, BM Howarth conduct compliance audits across the Group and its businesses to identify any areas for improvement. Furthermore, an anti-bribery and anti-corruption assurance exercise is undertaken by the Group on an annual basis.

During 2016, the Company implemented its externally-hosted whistleblowing hotline across the Nortek divisions, together with a roll-out of its online compliance training platform, covering topics such as antitrust, trade compliance and export controls, data privacy, anti-bribery and anti-corruption and anti-money laundering.

During the year 685 modules of the training platform were completed by employees of the Group.

Main Principle D: Remuneration

Details regarding Directors’ remuneration, both generally and in relation to the requirements of the Code, are set out in the Directors’ Remuneration Report, which is presented in the following two sections:

- the annual statement from the Chairman of the Remuneration Committee, which can be found on pages 72 to 75; and
- the Annual Report on Remuneration, which can be found on pages 76 to 81.

The Directors’ Remuneration Policy remains unchanged and therefore is not included within the Report, but can be found on pages 72 to 84 of the 2015 Annual Report.

Main Principle E: Relations with shareholders

Through regular meetings and presentations between the executive Directors, analysts and institutional shareholders, including those following the announcements of the Company’s annual and interim results, the Company seeks to build on a mutual understanding of objectives with its shareholders. The non-executive Directors are available to meet institutional shareholders should there be unresolved matters shareholders wish to bring to their attention. The views of key analysts and shareholders are generally reported to the Board directly by individual Directors or via the Company’s brokers. This helps to ensure that all members of the Board develop an understanding of the views and any concerns of shareholders.

The Board welcomes the attendance of shareholders at the Annual General Meeting, the notice for which can be found on pages 147 to 152. The Annual General Meeting provides all shareholders with the opportunity to attend and vote on the matters put to shareholders, either in person or by proxy. The results of the voting on each of the resolutions proposed will be announced shortly after the Annual General Meeting has concluded, via the Melrose corporate website at www.melroseplc.net

Audit Committee report

John Grant
Audit Committee
Chairman



The responsibilities of the Audit Committee (the Committee) include overseeing financial reporting, risk management and internal controls, in addition to making recommendations to the Board regarding the appointment of the Company's internal and external auditors.

Member	No. of meetings
John Grant (Chairman)	3/3
Perry Crosthwaite ⁽¹⁾	1/1
Justin Dowley	3/3
Liz Hewitt	3/3
David Lis ⁽²⁾	2/2

(1) Retired from the Audit Committee with effect from the conclusion of the 2016 AGM on 11 May 2016.

(2) Appointed to the Audit Committee with effect from 12 May 2016.

Role and responsibilities

The Committee's role and responsibilities are set out in its terms of reference. These were updated in December 2016 in line with best practice and are available on the Company's website and from the Company Secretary at the Company's registered office. In discharging its duties, the Committee embraces its role of protecting the interests of shareholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit. The responsibilities of the Committee include:

- reviewing and monitoring the integrity of the financial statements of the Group, including the Annual Report and interim report, and reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain;
- keeping under review the effectiveness of the Group's financial reporting, risk management and internal control systems and compliance controls;
- monitoring and evaluating the effectiveness of the internal audit function;
- reviewing and challenging the going concern assumption and the assessment forming the basis of the longer-term viability statement;
- focusing and challenging the consistency of accounting policies, methods used to account for significant or unusual transactions and compliance with accounting standards;

- reviewing the Group's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting, in accordance with the Company's whistleblowing policy;
- assessing annually the external auditor's independence and objectivity, taking into account relevant UK law, regulation, the Ethical Standards and other professional requirements and the relationship with the auditors as a whole, including the provision of any non-audit services;
- developing, implementing and monitoring the Group's policy on external audit and for overseeing the objectivity and effectiveness of the auditor; and
- reviewing and considering the Annual Report and financial statements to ensure that it is fair, balanced and understandable and advising the Board on whether it can state that this is the case.

Composition

Each member of the Committee is deemed to be independent by the Company and brings recent and relevant financial experience from senior executive and non-executive positions as described in their biographies on pages 56 to 57.

Perry Crosthwaite stepped down from the Committee following his retirement from the Board with effect from the conclusion of the 2016 AGM on 11 May 2016 and David Lis was appointed to the Committee in his place.

The Company Secretary acts as secretary to the Committee.

The Committee invites the Group Finance Director, the Head of Financial Reporting and senior representatives of the external and internal auditors to attend meetings where appropriate to the business being considered. The Committee has the right to invite any other Directors and/or employees to attend meetings where this is considered appropriate. In addition, the Committee meets at least once per year with both the external and internal auditors without management present.

Summary of meetings in the year

The Committee is expected to meet not less than three times a year. In 2016, the Committee met in March, July and November. The scheduling of these meetings is designed to be aligned with the financial reporting timetable, thereby enabling the Committee to review the Annual Report and financial statements, the interim financial report and the audit plan ahead of the year-end audit and to maintain a view of the internal controls and processes throughout the year.

The attendance of its members at these meetings is shown in the table opposite.

Significant issues related to the financial statements

In discharging its duties under its terms of reference, the Committee undertook the following recurring activities that receive annual scrutiny:

- reviewed the Annual Report and financial statements and interim financial report, including the going concern assumption and the assessment forming the basis of the longer-term viability statement. As part of this review the Committee received reports from the external auditor on their audit of the Annual Report and financial statements and their review of the interim financial report;
- considered the processes in place to generate forecasts of cash flows and accounting valuation information, including the reasonableness and consistent use of assumptions;

- reviewed the effectiveness of the Group's risk management and internal controls and disclosures made in the Annual Report and financial statements on this matter;
- considered the Annual Report and financial statements in the context of being fair, balanced and understandable and reviewed the content of a paper prepared by management with regard to this principle in relation to the 2016 Annual Report and financial statements. The Committee advised the Board that, in its view, the 2016 Annual Report and financial statements when taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- reviewed and agreed the scope of the audit work to be undertaken by the internal auditor and the external auditor.

In addition to these matters, the Committee considered the following significant issues in relation to the financial statements during the year:

The Audit Committee's activities during 2016

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
<p>Acquisition of Nortek</p> <p>The Nortek acquisition was completed on 31 August 2016, and therefore the consolidated Group accounts include Nortek results for the period 31 August to 31 December 2016.</p> <p>Judgement was required in identifying the fair value of the assets and liabilities acquired.</p> <p>(Refer to note 12)</p>	<p>A detailed opening balance sheet review of Nortek was undertaken by management with assistance from internal auditors BM Howarth and external valuation specialists with a view to identifying fair value adjustments. Further, in order to gain assurances over the opening balance sheet position and to audit all material fair value adjustments, Deloitte visited the eleven most material Nortek sites. The Committee considered the methodology used and key judgements and estimates involved in the identification and measurement of the acquired assets and liabilities and concluded that they were appropriate.</p>
<p>Impairment of goodwill, intangible assets and other fixed assets</p> <p>The judgements in relation to goodwill impairment testing relate to the assumptions applied in calculating the value in use of the cash-generating units being tested for impairment. In particular, the Committee considered the Brush China assets in connection with impairment testing. The key assumptions applied in the calculation relate to the future performance expectations of the cash-generating units.</p> <p>The Committee has also considered the related disclosures within the financial statements.</p> <p>(Refer to notes 3 and 12)</p>	<p>Budget plans prepared by management, which support the future performance expectations used in the calculation, were approved by the executive Directors. The Committee challenged the outcome of the impairment review performed by management.</p> <p>The impairment review was also an area of focus for the external auditor, who reported their findings to the Committee.</p> <p>The Committee considered management's approach, the assumptions applied in relation to the impairment of goodwill, intangible assets and other fixed assets and related disclosures and, having taken input from the external auditor, agreed with management's impairment assessment.</p>
<p>Provisions for legal and environmental claims, other provisions and contingent liabilities</p> <p>The level of provisioning for legal and environmental claims and other provisions requires significant judgement.</p> <p>Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.</p> <p>(Refer to notes 3 and 20)</p>	<p>The Committee considered management's proposed provisioning in respect of these legal and environmental claims and other provisions including the key judgements made and relevant legal advice, together with new provisions and contingent liabilities recognised on the acquisition of the former Nortek businesses.</p> <p>The external auditor also reported on all material provisions to the Committee.</p> <p>Having considered the matter and sought guidance from the external auditor, the Committee concluded that management's proposed provisioning and the associated disclosures in the Annual Report were appropriate.</p>
<p>Classification of non-underlying items</p> <p>The reporting, classification and consistency of non-underlying items, specifically restructuring, were an area of continued focus for the Committee.</p> <p>(Refer to note 6)</p>	<p>The Committee considered the nature, classification and consistency of non-underlying items. These items were detailed in the external auditor's paper to the Committee. Having sought guidance from the external auditor, the Committee considered that the Company's current reporting practice as to non-underlying items was clear, transparent and appropriate, thereby assisting shareholders in measuring the ongoing performance of the Company. The Committee therefore concluded that these non-underlying items were appropriately captured and disclosed.</p>
<p>Taxation risks and recognition of deferred tax assets</p> <p>Judgement is required in determining the Group's income statement tax charge and its provision for income taxes including estimating tax provisions where additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. Judgement is also required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits.</p> <p>(Refer to notes 3, 8 and 21)</p>	<p>Management's taxation judgements, accounting treatment and the appropriateness of tax disclosures have been reviewed by the Committee.</p> <p>The Committee reviewed the tax implications of corporate transactions undertaken during the year. The tax risks and provisions, particularly those relating to audits by non-UK tax authorities, were also examined. The Committee also reviewed the Group's recognised UK deferred tax asset and the key judgements which underpinned this.</p> <p>Having taken input from the external auditor, the Committee agreed with management's proposed treatment of tax risks and deferred tax assets.</p>

Audit Committee report

continued

The Audit Committee's activities during 2016

Significant issue considered by the Audit Committee	How the issue was addressed by the Audit Committee
Non-audit fees Under new EU and Competition Commission rules, effective from 17 June 2016, new restrictions on non-audit services now apply.	The Committee considered the application of the new rules to the Group, noting in particular the cap on permitted non-audit services of 70% of average audit fees over a three-year period, to be first applied in December 2020, with fees in 2017, 2018 and 2019 being relevant. To ensure compliance with these regulatory developments, revisions were made to the Group's Non-Audit Services Policy and the revised policy adopted by the Board.
Risk management and internal control Monitored the risk management and the internal control systems and conducted a review of their effectiveness.	The Committee received updates during the year from senior management on the Company's risk management framework and internal control systems. The Committee also received a presentation from senior management on the risk management framework and on the financial, operational and compliance controls in place. The Committee considered the risk management and internal control systems and concluded that they were effective and reported this to the Board.
Going concern and viability Assessment of the going concern assumptions and the basis of the viability statement.	The Committee reviewed and supported management's recommendation to prepare the financial statements on a going concern basis. The Committee also considered papers prepared by management detailing the qualifications, assumptions, scenario modelling, sensitivity analysis and judgements which underpinned the longer-term viability statement to be included in the 2016 Annual Report. The Committee concurred with the assumptions and judgements made by management and concluded that the longer-term viability statement was appropriate.

Risk management and internal control

During 2016, the Committee monitored the effectiveness of the Group's risk management and internal control systems through regular updates from management and a review of the key findings presented by the external and internal auditors.

In accordance with provision C.2.3 of the UK Corporate Governance Code, the Board instructed the Committee to undertake a review of the effectiveness of the Group's risk management and internal control systems, covering all material controls including financial, operational and compliance controls.

This review took the form of management presentations followed by a Committee discussion. The Company Secretary briefed the Committee on the key elements of the Melrose risk management framework including an updated risk strategy, a best practice risk register with risk mapping and profiling application, an education and training program and an audit and assurance process, as well as a confirmation to the Committee that this has been implemented across the newly acquired Nortek business units. Management then reported on the Group's internal control systems. Samples of both Group and business unit controls, including financial, operational and compliance controls, were presented and examined. The Group's risk management and internal control systems were reviewed and the Committee concluded that these systems were effective. The Committee reported its conclusions to the Board at the next scheduled Board meeting.

External audit

Appointment, re-appointment and assessment of effectiveness

The Committee reviews and makes recommendations with regard to the re-appointment of the external auditor. In making these recommendations, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the external auditor's re-appointment.

The Committee has reviewed the external auditor's performance and effectiveness. For 2016, a series of questions covering the key areas of the audit process that the Committee is expected to have an opinion over were put to the Committee, including:

- the calibre, continuity, experience, resources and technical and industry knowledge of the engagement partner and of the wider external audit team;
- the planning and execution of the audit process;
- the quality and timeliness of communications from the external auditor;
- the quality of support provided to the Committee by the external audit partner;
- the degree to which the external auditor and the audit process have contributed to improvements in financial reporting to Melrose's shareholders; and
- the external auditor's independence and objectivity.

The Committee, along with relevant members of the management team, were requested to complete a questionnaire containing these questions. The Company Secretary subsequently produced a report summarising the responses. Based on this report, the Committee concluded that the quality of the external audit team remains very high, the external audit process is operating effectively and Deloitte LLP continues to prove effective in its role as external auditor.

As detailed below the Committee regularly monitors the objectivity and independence of the external auditor. Deloitte LLP was appointed in 2003 when the Company commenced trading and the external audit has not been formally tendered since then. The Committee is satisfied that the effectiveness and independence of the external auditor are not impaired in any way. There are no legal or contractual obligations that restrict the Group's capacity to recommend a particular firm for appointment as auditor and therefore a resolution proposing the re-appointment of Deloitte LLP as external auditor will be put to the shareholders at the 2017 Annual General Meeting.

Audit tendering

The Committee has considered the audit tendering provisions outlined in the UK Corporate Governance Code. The Committee has also reviewed the guidance provided by the European Commission and the Competition and Markets Authority (CMA). It is the Committee's understanding that under the CMA and the EU rules rotation of the external audit firm is required by 2024. It is the Committee's intention to put the external audit out to tender in accordance with the CMA and the EU timeframes.

The current audit engagement partner was appointed in 2015 and is not due to rotate until the year ending 31 December 2019. The Committee remains satisfied with the quality, integrity and the effectiveness of the work undertaken by Deloitte LLP on behalf of the Melrose shareholders. Accordingly, it is not proposed to put the audit out to tender at the present time but the matter will be kept under review.

Non-audit services

Under new EU and Competition Commission rules, effective from 17 June 2016, new restrictions on non-audit services now apply, which cap the level of permissible non-audit services awarded to the external auditor at 70% of the average audit fee for the previous three years. The cap applies prospectively and so will first apply in respect of the Company's 2020 financial year, with fees in 2017, 2018 and 2019 being relevant.

A policy on the engagement of the external auditor for the supply of non-audit services is in place to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. In accordance with best practice FRC guidelines, the Company policy in relation to non-audit services is kept under regular review (it was revised in 2016). The policy outlines which non-audit services are pre-approved (being those which are routine in nature, with a fee that is not significant in the context of the audit or audit-related services), which services require the prior approval of the Committee and which services the auditor is excluded from providing. The general principle is that the audit firm should not be requested to carry out non-audit services on any activity of the Company where the audit firm may, in the future, be required to give an audit opinion.

During 2016, the main non-audit services provided by Deloitte LLP were in relation to the Group's acquisition of Nortek, taxation advice, compliance and planning services. With effect from year-end, Deloitte are now no longer providing taxation advice.

An analysis of the fees earned by the external auditors for audit and non-audit services can be found in note 7 to the consolidated financial statements.

Auditor objectivity and independence

The Committee carries out regular reviews to ensure that auditor objectivity and independence are maintained at all times. A different senior partner oversaw the taxation audit of the Company to those working on the non-audit taxation services provided in 2016.

No fees were paid to Deloitte LLP on a contingent basis. Based on these strict procedures, the Committee remains confident that auditor objectivity and independence have been maintained but accepts that non-audit work should be controlled to ensure that it does not compromise the auditor's position.

At each year end, Deloitte LLP submits a letter setting out how it believes its independence and objectivity have been maintained. As noted above, Deloitte LLP is also required to rotate the audit partner responsible for the Group audit every five years and significant subsidiary audits every five years.

Internal audit

Due to the size and complexity of the Group, it is appropriate for an internal audit program to be used within the business. BM Howarth, an external firm, provides internal audit services to the Group. A rotation program is in place, such that every business unit will have an internal audit at least once every three years, with the largest sites being reviewed at least once every two years. The rotation program allows divisional management's actions and responses to be followed up on a timely basis. The internal audit programme of planned visits is discussed and agreed with the Committee during the year.

The internal auditor's remit includes assessment of the effectiveness of internal control systems, compliance with the Group's Policies and Procedures Manual and a review of the businesses' Balance Sheets. A report of key findings and recommendations is presented to the Group Finance Director and the Head of Financial Reporting, followed by a meeting to discuss these key findings and to agree on resulting actions. Site visits were conducted by BM Howarth across Brush, with a report due in March 2017. As part of producing the acquisition opening balance, BM Howarth assisted management by visiting all material Nortek sites to ensure all assets and liabilities were appropriately identified, recognised and recorded at fair value.

A review of the internal audit process and scope of work covered by the internal auditor is the responsibility of the Committee, to ensure their objectives, level of authority and resources are appropriate for the nature of the businesses under review. A report of significant findings is presented by the internal auditor to the Committee at each meeting and implementation of recommendations by the Board is followed up at the subsequent Committee meeting. The Committee also reviews BM Howarth's performance against the agreed internal audit program.



John Grant
Chairman, Audit Committee
2 March 2017

Nomination Committee report

Liz Hewitt
Nomination Committee
Chairman



The Nomination Committee (the Committee) has overall responsibility for making recommendations to the Board on all new appointments to the Board and for ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence, diversity and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Member	No. of meetings
Liz Hewitt (Chairman)	2/2
Justin Dowley	2/2
John Grant	2/2
David Lis ⁽¹⁾	2/2
Christopher Miller	2/2
Perry Crosthwaite ⁽²⁾	–

- (1) Appointed to the Nomination Committee with effect from 12 May 2016.
(2) Retired from the Nomination Committee with effect from the conclusion of the 2016 AGM on 11 May 2016.

“Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation.”

Discharge of responsibilities

The Committee discharges its responsibilities through:

- regularly reviewing the size, structure and composition of the Board and by providing recommendations to the Board of any adjustments that may be necessary from time to time;
- giving full consideration to succession planning in order to ensure an optimum balance of executive and non-executive Directors in terms of skills, experience and diversity;
- keeping under review the leadership needs of the business; and
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the markets in which it operates.

The Committee is expected to meet not less than twice a year and during 2016 the Committee met twice. The attendance of its members at these Committee meetings is shown in the table opposite.

The Committee's terms of reference, which were last revised in August 2014, are available to view on the Company's website at www.melroseplc.net/about-us/governance/nomination-committee

Further details regarding the composition, diversity policy and the 2016 activities of the Committee are set out below.

Composition

In compliance with the UK Corporate Governance Code, the majority of the members of the Committee were independent non-executive Directors throughout 2016. The Committee was chaired by Liz Hewitt. John Grant and Justin Dowley also served on the Committee throughout the year. Perry Crosthwaite served on the Committee until stepping down in May and being replaced by David Lis (see below for further details regarding the appointment of Mr Lis). Christopher Miller, Executive Chairman of the Board, was also a member of the Committee throughout the year.

The Company Secretary acts as secretary to the Committee. On occasion, the Committee invites the Chief Executive, the Executive Vice-Chairman and the Group Finance Director to attend discussions where their input is required.

In line with the succession planning responsibilities of the Committee, the decision was taken in early 2016 to recruit another non-executive Director to the Board in order to take account of the impending retirement of Mr Crosthwaite at the conclusion of the 2016 AGM, having served on the Board and various committees for the past 10 years. Following this process, the Committee recommended to the Board the appointment of Mr Lis. In accordance with the articles, Mr Lis was formally appointed on 12 May 2016 and is standing for election at the 2017 AGM.

Diversity

Melrose is a meritocracy and individual performance is the key determinant in any appointment, irrespective of ethnicity, gender or other characteristic, trait or orientation. The Board recognises the importance of diversity throughout the workforce, be it geographical, cultural or market-aligned and encompassing gender, race, sexual orientation and disability, and the Board is committed to equality of opportunity for all employees. For example, Melrose is proud to support the Business Disability Forum, a body committed to understanding the changes required in the workplace so that disabled people are treated fairly and they can contribute to business success, to society and to economic growth.

The Committee currently takes into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience and knowledge. The most important priority of the Committee, however, has been and will continue to be ensuring that the best candidate is selected to join the Board and this approach will remain in place going forward.

The Committee will endeavour to pursue diversity, including gender diversity, throughout the Melrose Group and notes the recommendations of Lord Davies' review, "Women on Boards" and continues to encourage gender diversity throughout the Group. Although not appropriate to set specific gender diversity targets at Board level and throughout the Group's workforce due to Melrose's strategic business model and frequent turnover of businesses, Melrose is actively engaged in finding ways to increase the Group's gender diversity.

What the Committee did in 2016

The principal focus of the Committee during 2016 has been to consider the items set out below:

- the Committee considered the composition and balance of the Board and the timing of future Board changes and reviewed the succession plans in place in respect of executive Directors and non-executive Directors in conjunction with the provisions of the UK Corporate Governance Code. In particular, it was agreed that action would be required to replace John Grant who, having served more than three, three-year terms as a non-executive Director, would stand down from the Board following the conclusion of the 2017 AGM. The Committee has determined that in securing a replacement for John Grant it would increase the number of non-executive directors to five, so there will be a majority of independents serving on the Board. The recruitment process is underway and an executive search and selection specialist has been appointed to assist the Committee. Appointments are expected to be made in the coming months;
- the existing time commitment of the Company's non-executive Directors was reviewed and confirmed as appropriate;
- the Committee membership was reviewed and a recommendation made to the Board that, subject to the appointment of two new non-executive Directors, no changes would be required to be made in 2017;
- consideration was given to the re-appointment of the Directors before making a recommendation to the Board regarding each Director's re-election at the 2017 AGM, with the exception of Mr Grant, who will be retiring from office at the conclusion of the 2017 AGM;

- a review of the leadership requirements of Melrose, both executive and non-executive, was undertaken and this confirmed that the existing management team is appropriate for the Group. This review also demonstrated that appropriate and effective leadership is in place within the businesses and that processes are in place to ensure that performance is reviewed regularly against operational and financial criteria;
- the Committee examined the career planning and talent management programs in operation across the Group and concluded that these were appropriate for the needs of the business;
- the Committee reviewed and re-affirmed the principles underlying the Company's diversity policy; and
- the Committee's terms of reference were reviewed during the year and it was determined that these were in line with best practice.



Liz Hewitt

Chairman, Nomination Committee

2 March 2017

Directors' remuneration report

Justin Dowley
Remuneration Committee
Chairman



The Board has delegated to the Remuneration Committee (the Committee) responsibility for overseeing the remuneration of the Company's Directors, Company Secretary and other senior employees.

Member	No. of meetings
Justin Dowley (Chairman)	2/2
Perry Crosthwaite ⁽¹⁾	1/1
John Grant	2/2
Liz Hewitt	2/2
David Lis ⁽²⁾	1/1

(1) Retired from the Remuneration Committee with effect from the conclusion of the 2016 AGM on 11 May 2016.

(2) Appointed to the Remuneration Committee with effect from 12 May 2016.

"Melrose's remuneration philosophy is that executive remuneration should be simple and transparent, support the delivery of the business strategy and pay for performance."

Dear Shareholder,

On behalf of the Board, I am pleased to present our report on Directors' remuneration at the end of yet another highly successful year, the highlights of which have been the return of £2.4 billion to shareholders in February 2016 following the disposal of Elster in December 2015, and the acquisition of Nortek, Inc. in August for an enterprise value of £2.2 billion.

This report includes the Annual Report on Remuneration, which provides details on the amounts earned in respect of the year ended 31 December 2016 and will be subject to an advisory vote at the AGM to be held on 11 May 2017.

The existing Directors' Remuneration Policy was approved by shareholders at the 2016 AGM and took binding effect from the conclusion of that meeting, with 96.34% of votes cast in favour. Full details of the existing Remuneration Policy are set out on pages 76 to 81 of the Company's 2015 Annual Report which is available on the Company's website at www.melroseplc.net

Shareholder approval of a revised Directors' Remuneration Policy is not sought at the 2017 Annual General Meeting. However, the existing instalment of the Company's long-term incentive arrangements, the 2012 Incentive Plan, will crystallise on 31 May 2017 and, subject to shareholder approval at a general meeting to be held immediately following the 2017 AGM on 11 May 2017 (the General Meeting), will be replaced by a new scheme, the 2017 Incentive Plan. The 2017 Incentive Plan will be on equivalent economic principles but with additional shareholder focused features to the 2012 Incentive Plan, and its terms are set out in the circular posted to shareholders with or prior to this report in connection with the General Meeting (the Circular). Accordingly, at the General Meeting shareholder approval will be sought for a revised Directors' Remuneration Policy to be adopted in order to incorporate, and allow for awards to be made under the 2017 Incentive Plan, and the proposed revised Directors' Remuneration Policy will be set out in the annex to the Circular. The only changes to that Policy as compared to the Policy approved at the 2016 AGM are to reflect the inclusion of the 2017 Incentive Plan, whilst continuing to allow for crystallisation of the 2012 Incentive Plan.

Performance in 2016

2016 was another very strong year for Melrose and marked another milestone in our “buy, improve, sell” strategy:

- In accordance with our strategy, following the disposal of Elster in December 2015, the Board in February returned £2.4 billion of the disposal proceeds to shareholders, equivalent to 240 pence per ordinary share.
- Nortek was acquired in August in a deal with an enterprise value of £2.2 billion, financed from the proceeds of a fully underwritten Rights Issue which raised £1.6 billion, with the balance funded through debt of £0.6 billion.
- Operational improvement measures have been implemented across the former Nortek businesses, which resulted in margin improvement of 4.1 ppts⁽¹⁾.

Since the date of the first acquisition in 2005, Melrose has created net shareholder value of £4.8 billion and achieved an average annual return for a shareholder of 26% (as at 1 March 2017).

It is with this performance in mind, and in line with Melrose's remuneration philosophy of pay for performance, that the Committee has taken its decisions in respect of executive Directors' remuneration arrangements for 2016 and 2017.

Our remuneration structure for executive Directors

Melrose's remuneration philosophy is that executive remuneration should be simple and transparent, support the delivery of the business strategy and pay for performance. This philosophy is reflected in our remuneration structure.

The Committee feels strongly that rewards should be linked to generation and delivery of real returns to shareholders.

- **Base salary:** Base salaries are paid in line with a market-competitive range compared with companies of similar size and complexity. Since flotation in 2003, all current executive Directors have received the same annual increases to base salary. In the last seven years these increases have averaged 3%.
- **Pension:** Pension contributions/salary supplements for executive Directors are payable at the level of 15% of base salary, which is considered modest for a business of the size and complexity of Melrose. No executive Director participates in, or has ever participated in, any Group defined benefit pension scheme.
- **Annual bonus:** The maximum bonus payable is set at 100% of base salary. All Directors who participate in the annual bonus scheme receive the same percentage bonus. In the last seven years, the average percentage of base salary payable has been 86%. The maximum opportunity is deliberately positioned below the median maximum opportunity for FTSE 250 companies.

- **Long-term incentives – 2012 to 2017:** The only long-term incentive arrangement in which the executive Directors have participated in the period of 2012 to 2017 is the 2012 Incentive Plan which was approved by shareholders by special resolution at a general meeting held on 11 April 2012. Entitlements under the 2012 Incentive Plan were awarded in April 2012. Any payment made will be dependent upon shareholder value generated over a five-year time period. The long-term incentive arrangements are intended to directly align our executive Directors' incentive arrangements with the interests of shareholders by linking remuneration specifically to shareholder value. The structure of the 2012 Incentive Plan is designed to ensure that only once shareholder value has achieved compound annual growth in excess of the Retail Prices Index (RPI) + 2% does the 2012 Incentive Plan have any value at all. This means that the 2012 Incentive Plan has a minimum growth requirement (effectively a charge) which requires the net invested capital to be inflated by RPI + 2% per annum. The value payable to management under the 2012 Incentive Plan comprises 7.5% of value created in excess of these amounts. The 2012 Incentive Plan is then paid out to participants in predetermined proportions, either in ordinary shares or (and only in certain circumstances, which are within the complete control of the Remuneration Committee) as a cash payment, with the total being equal in value to 7.5% of the increase in shareholder value in excess of the minimum growth requirement from the commencement of the plan to 31 May 2017. The formula by which growth is calculated, as set out in the Company's articles of association, takes account of every change to the capital structure and dividend payment.

We have included on pages 76 to 77 an illustration of how any increase in value would be shared between shareholders and participants in the plan, which indicates the creation of £2.5 billion of shareholder value over the performance period of the 2012 Incentive Plan to 31 December 2016.

- **Long-term incentives – 2017:** Subject to approval by shareholders of the 2017 Incentive Plan and related revision to the new Directors' Remuneration Policy at the General Meeting, the only long-term incentive arrangements in which executive Directors will participate, following the crystallisation of the 2012 Incentive Plan, is the 2017 Incentive Plan.

The Remuneration Committee strongly believes that this simple and transparent incentive framework is aligned with the Company's strategy for creating value for shareholders. We believe that this remuneration strategy has also directly driven historical outperformance when compared with our competitors, supported the Company's success and has led to increased shareholder value. In this regard, our remuneration arrangements are tailored to the culture and strategy of the Company and provide a strong platform for the ongoing long-term success of the Company.

⁽¹⁾ Calculated by comparing profit margin across the Nortek divisions in the four months of ownership in 2016 against the equivalent four month period in 2015.

Directors' remuneration report continued

Through a combination of grants under the Remuneration Policy and their own self-funded purchases of shares, the executive Directors have built significant shareholdings in the Company. As at 31 December 2016, the Chairman and Chief Executive held 88 and 34 times their base salary, respectively, in Melrose Shares. The table below shows the number of ordinary shares held by the executive Directors as at 31 December 2016 and the value of each executive Director's shareholding at that date as a multiple of their 2016 base salary. Other than to satisfy tax obligations following the crystallisation of the 2009 Incentive Plan, none of the executive Directors have sold any shares in the Company within the last six years. Further details on Directors' shareholdings are given on page 80.

Executive Director	Number of shares held as at 31 December 2016	Value of shares held at 31 December 2016 ⁽¹⁾ (£)	Value of shares held at 31 December 2016 as a multiple of 2016 base salary
Christopher Miller	20,504,193 ⁽²⁾	40,547,042	88x
David Roper	10,125,813	20,023,795	43x
Simon Peckham	8,010,496	15,840,756	34x
Geoffrey Martin	4,140,187	8,187,220	22x

(1) For these purposes, the value of a share is 197.75 pence, being the closing mid-market price on 30 December 2016, the last business day prior to 31 December 2016.

(2) As at 31 December 2016, the interest of Christopher Miller included 8,750,000 ordinary shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

Internal Company rules on shareholdings are extended to senior Melrose management in addition to the executive Directors in order that appropriate remuneration principles are applied to senior management on a similar basis to executive Directors.

Our remuneration structure for non-executive Directors

A simple remuneration structure is applied for the non-executive Directors. Non-executive Directors are paid fees to reflect market conditions and to attract individuals with appropriate knowledge and expertise. Fees for non-executive Directors are determined by the executive Directors and non-executive Directors do not participate in the Company's pension arrangements, the annual bonus or long-term incentive arrangements.

2016 key decisions and incentive pay-outs

The Remuneration Committee remains committed to a responsible approach to executive pay. As described in the Strategic Report section of this Annual Report, the Company had a successful year, with the return of £2.4 billion to shareholders in February, the acquisition of Nortek in August for an enterprise value of £2.2 billion and the significant operational improvements already implemented across the Nortek businesses in the short period of ownership since. The executive Directors' remuneration rewards that performance.

Annual bonuses for executive Directors are calculated using two elements, 80% being based on diluted earnings per share growth and 20% based on a strategic element. The maximum bonus opportunity is set at 100% of base salary, which is below the maximum median annual bonus opportunity for FTSE 250 companies, and reflects the participation of the Chief Executive and Group Finance Director in the 2012 Incentive Plan. The Chairman and the Vice-Chairman do not participate in the annual bonus scheme.

Having listened to our investors and a number of corporate governance advisers, and in the interests of transparency, details are included on the objectives and deliverables and on how the Remuneration Committee determined the level of award under the 2016 annual bonus. The threshold, target and maximum performance levels relating to the acquisition of Nortek and its improvement are, however, commercially sensitive and are not reported. Further detail on the determination of the annual award is set out on page 79.

In line with increases in previous years, an increase of 3% was made to the executive Directors' salaries with effect from 1 January 2016. This is consistent with the salary rises awarded to the wider head office population, other than where such employees' salaries have been increased on a different basis to reflect individual circumstances, such as promotions. Non-executive Directors' basic fees also increased by 3% with effect from January 2016. However, the additional fees payable to the committee chairmen and the senior non-executive Director were left unchanged.

Awards under the 2012 Incentive Plan were made in April 2012 and are due to crystallise in May 2017. Accordingly, no executive Director received any payout under a long-term incentive plan during the period 2012 to 2016.

Approach to Directors' remuneration for 2017

The existing Directors' Remuneration Policy as set out on pages 76 to 81 of the 2015 Annual Report continues to apply until the General Meeting, at which it is intended to be revised in order to incorporate, and allow for awards to be made under, the 2017 Incentive Plan.

The proposed new Directors' Remuneration Policy which will apply to Directors' remuneration for 2017 from the General Meeting is as set out in the annex to the Circular. This revised policy is consistent with the existing policy in all material respects, but updated to include the 2017 Incentive Plan. Other than with respect to the 2017 Incentive Plan, details of how the policy will be applied in practice for 2017 are set out below. The application of the policy in respect of the 2017 Incentive Plan is set out in the Circular.

Executive Directors' base salaries have been increased by 3%, with effect from 1 January 2017. This is consistent with the salary rises awarded to the wider head office population, other than where such employees' salaries have been increased on a different basis to reflect individual circumstances, such as promotions. Non-executive Directors' basic fees for 2017 have also been increased by 3%, with effect from 1 January 2017. However, the additional fees payable to the committee chairmen and the senior non-executive Director are viewed as appropriate and have been left unchanged.

The overall framework for the executive Directors' annual bonus arrangements for 2017 will remain the same as in 2016, with a maximum bonus opportunity of 100% of salary, 80% of which is based on financial performance metrics and 20% of which is based on strategic performance metrics.

Business unit long-term incentive plans

Long-term incentive plans are put in place for the leadership of the Group's businesses with payouts based on the performance of their respective businesses.

Shareholder engagement

We remain committed to maintaining an open and transparent engagement with our investors. We believe that a key objective of the Directors' Remuneration Report is to communicate clearly how much our executive Directors are earning and how this is clearly linked to performance. Members of the Remuneration Committee are engaged in an ongoing dialogue with corporate governance advisory agencies and investors in order to better understand their views on Melrose's approach to executive remuneration.



Justin Dowley

Chairman, Remuneration Committee

2 March 2017

Directors' remuneration report

continued

Annual Report on Remuneration

Melrose's remuneration philosophy is that executive remuneration should be simple and transparent, support the delivery of the business strategy and pay for performance. This philosophy is reflected in our remuneration structure, whereby:

- salary element of remuneration is positioned in line with the market;
- annual incentive remuneration (annual bonus) is positioned below the median maximum opportunity for FTSE 250 companies; and
- long-term incentive remuneration is intended to directly align executive Directors' remuneration with that of shareholders by connecting remuneration specifically to shareholder value.

The Remuneration Committee strongly believes that this simple and transparent incentive framework is aligned with the Company's strategy for creation of shareholder value and that our remuneration arrangements are tailored to the culture and strategy of the Company.

The Annual Report on Remuneration sets out the amounts earned by Directors in 2016 as a result of the application of our remuneration philosophy and in accordance with the Directors' Remuneration Policy approved by shareholders at the 2016 AGM. It also indicates how that philosophy will be applied in 2017, subject to shareholder approval at the General Meeting of the 2017 Incentive Plan and the related revision to the Directors' Remuneration Policy.

Theoretical value under the 2012 Incentive Plan if crystallised on 31 December 2016 rather than on the 2017 scheduled payment date

2012
Invested capital from (and including) March 2012 up to (and including) December 2016 ⁽¹⁾
£853,915,965
Index adjustment/Minimum return
£368,410,340
Indexed capital⁽¹⁾
£1,222,326,305
2016
Number of issued ordinary shares on 31 December 2016
1,886,746,589
Average price of an ordinary share for 40 business days prior to 31 December 2016
£1.8055
Deemed market capitalisation of Melrose based on average price of an ordinary share for 40 business days prior to 31 December 2016
£3,406,520,965
Overall increase in value for shareholders since 22 March 2012
£2,184,194,660
Theoretical value to management and shareholder dilution calculated at 31 December 2016 (illustrative only)
7.5% of increase in value
£163,814,600⁽²⁾
Theoretical total number of new shares issued under the 2012 Incentive Plan ⁽³⁾
90,730,878
Theoretical dilution to shareholders due to the 2012 Incentive Plan⁽⁴⁾
4.59%

The 2012 Incentive Plan

In the interests of transparency and to illustrate how the 2012 Incentive Plan may operate, we have set out here an illustration of how the growth in value of the Company over the period from the start of the plan in March 2012 might translate into value earned by participants in that plan, calculated in accordance with the principles in the Company's Articles of Association, but assuming a trigger date of 31 December 2016.

It is important to note that this illustration is theoretical only and the value derived under the 2012 Incentive Plan will be entirely determined by reference to the value that will be delivered to shareholders over the full period to date of crystallisation.

The calculation of the growth in value of the Company for the purposes of the 2012 Incentive Plan shall be determined in accordance with the formula set out in the Company's Articles of Association. Those Articles provide that the net investment is increased by a minimum growth threshold of RPI + 2% per annum. Equally, the net shareholder returns are treated as increased by the RPI + 2% per annum amount. Participants in the plan are entitled to 7.5% of the increase in shareholder value after taking into account these amounts.

The formula by which the growth in value is calculated, as set out in the Company's Articles of Association, takes account of every change to the capital structure of, and dividend payment by, the Company. In this way, the participants will only receive a share of returns over and above that adjusted level.

- (1) Calculated in accordance with the invested capital post return table on page 77.
- (2) Under the 2012 Incentive Plan, a maximum of 50,000 options may be awarded to participants. Christopher Miller, David Roper, Simon Peckham and Geoffrey Martin have each been awarded 8,500 options under the 2012 Incentive Plan, representing 17% individually or 68% in aggregate of the total unvested interests under the plan. Therefore, of the stated theoretical value to management, 68% would be to the benefit of the four executive Directors.
- (3) The number of shares to be issued in accordance with this calculation differs from the diluted number of shares of 89.8 million disclosed in note 11 to the financial statements. The difference arises due to the requirements of IAS 33 which stipulate that unrecognised future service costs for long-term incentive plans (calculated in accordance with IFRS 2) should be deducted from the calculation of diluted shares for the purposes of earnings per share calculations.
- (4) This is a theoretical dilution calculated by taking the theoretical total number of new shares issued under the 2012 Incentive Plan as a percentage of the aggregate of the number of issued ordinary shares on 31 December 2016 and the theoretical total number of new shares issued under the 2012 Incentive Plan. The 2012 Incentive Plan is subject to an actual dilution cap calculated in accordance with the Articles of Association as set out on page 77.

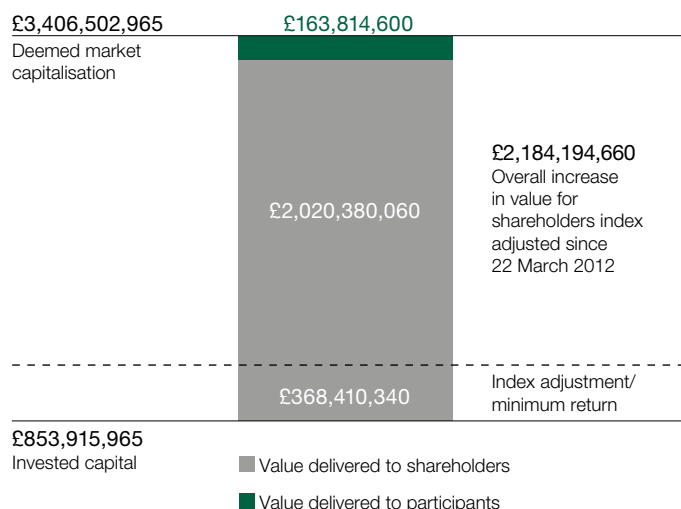
Calculation of invested capital

Invested capital post return	Net shareholder investment (non-adjusted) (£)	Net shareholder investment inflated at RPI + 2% per annum to 31 December 2016 (£)	Implied index adjustment
Initial invested capital – March 2012 ⁽¹⁾	1,518,492,691	1,856,603,450	1.223x
Dividend – May 2012	(32,840,728)	(39,599,943)	1.206x
New share issue – August 2012	1,199,073,594	1,441,057,292	1.202x
Dividend – October 2012	(32,932,303)	(39,115,204)	1.188x
Dividend – May 2013	(63,331,352)	(72,808,295)	1.150x
Dividend – October 2013	(34,832,243)	(39,344,422)	1.130x
Capital return – February 2014	(595,314,707)	(666,193,076)	1.119x
Dividend – May 2014	(53,588,067)	(58,962,593)	1.100x
Dividend – October 2014	(30,009,317)	(32,510,867)	1.083x
Capital return – February 2015	(200,419,370)	(217,520,031)	1.085x
Dividend – May 2015	(52,745,969)	(56,400,751)	1.069x
Dividend – September 2015	(27,865,795)	(29,399,469)	1.055x
Capital return – February 2016	(2,388,496,718)	(2,508,727,139)	1.050x
Dividend – May 2016	(3,773,493)	(3,905,391)	1.035x
New share issue – August 2016	1,654,531,624	1,691,218,563	1.022x
Dividend – September 2016	(2,031,881)	(2,065,819)	1.017x
Total	853,915,965	1,222,326,305	

(1) Represents the £1,518,492,691 deemed net shareholder investment on an adjusted basis as at 22 March 2012.

The chart below represents how the illustrative calculation of the increase in the value of the Company, relevant for the purposes of the 2012 Incentive Plan, is shared between participants in the 2012 Incentive Plan and the Company's shareholders.

Share of illustrative increase in value, under the 2012 Incentive Plan, if crystallised on 31 December 2016



Based on this illustration, if the entitlements under the 2012 Incentive Plan were to have been settled in ordinary shares of 48/7 pence each (being the nominal value of ordinary shares on 31 December 2016), this would have resulted in the issue to the participants of 90,730,878 ordinary shares (i.e. £163,814,600 (7.5% of the illustrative index adjusted increase in value) divided by £1.8055 (the average price of an ordinary share for 40 business days prior to 31 December 2016)). The number of ordinary shares issued to satisfy entitlements under the 2012 Incentive Plan shall not exceed 5% of the aggregate number of shares in issue on 22 March 2012 plus 5% of any additional shares issued by the Company after that date.

Directors' remuneration report

continued

Single total figure of remuneration (audited information)

Year ended 31 December 2016

	Total salary and fees £'000	Taxable benefits £'000	Annual bonus £'000	Long-term incentives ⁽¹⁾ £'000	Pension related benefits ⁽²⁾ £'000	Total £'000
Christopher Miller	461	19	–	–	69	549
David Roper	461	18	–	–	69	548
Simon Peckham	461	19	438	–	69	987
Geoffrey Martin	369	27	351	–	56	803
Perry Crosthwaite ⁽³⁾⁽⁴⁾	26	–	–	–	–	26
John Grant ⁽³⁾⁽⁵⁾	79	–	–	–	–	79
Justin Dowley ⁽⁶⁾	76	–	–	–	–	76
Liz Hewitt ⁽⁷⁾	68	–	–	–	–	68
David Lis ⁽⁸⁾	42	–	–	–	–	42
Total	2,043	83	789	–	263	3,178

(1) The Company's long-term incentive arrangement for Directors is the 2012 Incentive Plan. This five-year plan is scheduled to crystallise in 2017 and, accordingly, no value was vested to participants in respect of the year to 31 December 2016.

(2) Of the £263,025 attributable to pension contributions, £253,650 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £9,375 was paid into the Directors' individual nominated private pension plans.

(3) Includes £5,000 per annum in recognition of the role of senior non-executive Director, pro-rated for time served.

(4) Perry Crosthwaite retired as a non-executive Director of the Company with effect from 11 May 2016 and the fees referred to above reflect his fees for the period 1 January 2016 to 11 May 2016.

(5) Includes £10,000 per annum in recognition of chairmanship of the Audit Committee.

(6) Includes £10,000 per annum in recognition of chairmanship of the Remuneration Committee.

(7) Includes £2,500 per annum in recognition of chairmanship of the Nomination Committee.

(8) David Lis was appointed as non-executive Director of the Company with effect from 12 May 2016 and the fees referred to above reflect his fees for the period 12 May 2016 to 31 December 2016.

Year ended 31 December 2015

	Total salary and fees £'000	Taxable benefits £'000	Annual bonus £'000	Long-term incentives ⁽¹⁾ £'000	Pension related benefits ⁽²⁾ £'000	Total £'000
Christopher Miller	448	18	–	–	67	533
David Roper	448	18	–	–	67	533
Simon Peckham	448	19	394	–	67	929
Geoffrey Martin	359	25	315	–	54	753
Perry Crosthwaite ⁽³⁾	69	–	–	–	–	69
John Grant ⁽⁴⁾	74	–	–	–	–	74
Justin Dowley ⁽⁵⁾	74	–	–	–	–	74
Liz Hewitt ⁽⁶⁾	66	–	–	–	–	66
Total	1,986	80	710	–	255	3,031

(1) The Company's long-term incentive arrangement for Directors is the 2012 Incentive Plan. This five-year plan is scheduled to crystallise in 2017 and, accordingly, no value was vested to participants in respect of the year to 31 December 2015.

(2) Of the £255,330 attributable to pension contributions, £217,830 was paid as a supplement to base salary in lieu of pension arrangements. The balance of £37,500 was paid into the Directors' individual nominated private pension plans.

(3) Includes £5,000 per annum in recognition of the role of senior non-executive Director.

(4) Includes £10,000 per annum in recognition of chairmanship of the Audit Committee.

(5) Includes £10,000 per annum in recognition of chairmanship of the Remuneration Committee.

(6) Includes £2,500 per annum in recognition of the chairmanship of the Nomination Committee.

Base salary

Salaries are fixed at a level which is in line with a market competitive range compared with companies of similar size and complexity. Each executive Director received an increase in base salary of approximately 3% effective from 1 January 2016.

Benefits

The range of benefits provided to Directors has not changed since the inception of Melrose and there is no intention to widen the range of benefits Directors may receive. All of the executive Directors received taxable benefits during 2016, being a company car allowance, fuel allowance, private medical insurance, life insurance and group income protection. Geoffrey Martin also received paid train travel to and from London.

Bonus

The maximum bonus opportunity is set below the maximum median annual bonus opportunity for FTSE 250 companies to reflect the participation of the executive Directors in the Company's long-term maximum incentive arrangements. For the year ended 31 December 2016, the maximum bonus opportunity was equal to 100% of base salary. Following the application of the formulaic basis used in previous years and as explained in the table on page 79 of this report, it was determined by the Remuneration Committee that Simon Peckham and Geoffrey Martin (being the only executive Directors participating in the annual bonus plan) should be awarded a bonus of 95% of base salary.

Measure	Performance measure	Weighting	Threshold	Target	Maximum	Actual audited results	Bonus award (% of base salary)
Growth in earnings per share	EPS growth subject to a 5x multiple (capped at 80% base salary)	80%	0%	n/a	100%	Growth in EPS ⁽¹⁾ of 37%, resulting in the maximum award.	80%
Strategic element	Strategic objective set by the Committee:						
	Acquisition of Nortek and the identification of opportunities and implementation of operational improvements across the Group's businesses	20%	Secure next major acquisition target consistent with Melrose criteria. Having secured next acquisition, implement improvement programs across the Melrose divisions.			Nortek acquired on 31 August 2016 for an enterprise value of £2.2 billion, financed through a 12 for 1 Rights Issue raising £1.6 billion and debt of £0.6 billion. Improvement measures as set out in the Divisional Reviews, including those implemented across former Nortek businesses which resulted in margin improvement of 4.1 ppts ⁽²⁾ . Despite improvement actions undertaken at Brush, the results reflect a challenging year.	15%
Total		100%					95%

- (1) Pursuant to applicable International Accounting Standards, for the comparative year ended 31 December 2015, the trading results of Elster were excluded in the earnings per share calculation from continuing operations and the large profit from the disposal of Elster was included in the earnings per share calculation from continuing and discontinued operations. To be consistent with the calculation of the annual bonus in the prior year, the Remuneration Committee determined that the underlying trading results of Elster for the period owned in 2015 should be included in determining performance in that year and, as such, the prior year EPS calculation has been increased to include the trading results of Elster to 29 December 2015. The Rights Issue bonus factor of 18.8491% has been applied to the 2015 EPS calculation to ensure comparability with the EPS calculation in 2016.
- (2) Calculated by comparing profit margin across the Nortek divisions in the four months of ownership in 2016 against the equivalent four-month period in 2015.

The Remuneration Committee is satisfied that, given their significant shareholdings, the interests of executive Directors are aligned with those of shareholders, and therefore considers no bonus deferral provisions to be necessary.

Scheme interests awarded during the year

No awards were granted in the year to Directors under any long-term incentive plan.

Payments to past Directors

No payments were made in the year to any former Director of the Company.

Payments for loss of office

No payments for loss of office were made in the year to any Director.

Statement of Directors' shareholding and share interests (audited information)

As disclosed at the time of the crystallisation of the 2009 Incentive Plan, the executive Directors considered it appropriate that they, together with their immediate families, would hold at least half of the shares acquired pursuant to that crystallisation (after satisfying tax obligations following the crystallisation of that plan and subject to capital adjustments) for the foreseeable future. Accordingly, the Remuneration Committee has adopted the minimum share retention guidelines outlined on the following page in relation to the holding of ordinary shares by executive Directors who participated in the 2009 Incentive Plan and who participate in the 2012 Incentive Plan, reinforcing the executive Directors' long-term stewardship of the Company and long-term investment in the Company's shares.

Directors' remuneration report

continued

No executive Director may dispose of any ordinary shares without the consent of the Remuneration Committee, which will not normally be withheld provided the executive Director holds at least the "minimum number" of ordinary shares referred to in the table below.

Following the return of capital in February 2016 in connection with the disposal of Elster, the ordinary share capital of the Company was sub-divided and consolidated at a ratio of 48:7 (the Share Capital Consolidation) to ensure that, as far as possible, the market price of an ordinary share remained the same after the Share Capital Consolidation. Accordingly, the minimum share retention guidelines were adjusted by the same ratio.

Executive Director	Minimum number of ordinary shares to be held by the executive Directors as at 31 December 2016 ⁽¹⁾	Number of ordinary shares held as at 31 December 2016	Value of ordinary shares held as at 31 December 2016 as a multiple of salary for the year ended 31 December 2016 ⁽³⁾
Christopher Miller	200,492	20,504,193 ⁽²⁾	88x
David Roper	189,034	10,125,813	43x
Simon Peckham	214,829	8,010,496	34x
Geoffrey Martin	120,841	4,140,187	22x

(1) This threshold is subject to the adjustments related to the reductions in capital as the Company returns proceeds to shareholders following the sale of businesses.

(2) As at 31 December 2016, the interest of Christopher Miller included 8,750,000 ordinary shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

(3) For these purposes, the value of a share is 197.75 pence, being the closing mid-market price on 30 December 2016, the last business day prior to 31 December 2016.

As at 31 December 2016, each executive Director held much more than the minimum number of ordinary shares and so satisfied the guidelines. Other than to satisfy tax obligations following the crystallisation of the 2009 Incentive Plan, none of the executive Directors have sold any shares in the Company within the last six years.

Internal Company rules on shareholdings are extended to senior management in addition to the executive Directors, in order that appropriate remuneration principles are applied to senior management on a similar basis to executive Directors.

Directors' shareholding and share interests as at 31 December 2016 (or, if earlier, the date of retirement from the Board)

Director	Type	Ordinary Shares held as at 31 December 2016 (or, if earlier, the date of retirement from the Board)	Vested interests under share schemes	Unvested interests under share schemes	
				Subject to performance conditions	Not subject to performance conditions
Christopher Miller	Ordinary Shares ⁽¹⁾	20,504,193	n/a	n/a	n/a
	Option ⁽²⁾	n/a	n/a	8,500	n/a
David Roper	Ordinary Shares	10,125,813	n/a	n/a	n/a
	Option ⁽²⁾	n/a	n/a	8,500	n/a
Simon Peckham	Ordinary Shares	8,010,496	n/a	n/a	n/a
	Option ⁽²⁾	n/a	n/a	8,500	n/a
Geoffrey Martin	Ordinary Shares	4,140,187	n/a	n/a	n/a
	Option ⁽²⁾	n/a	n/a	8,500	n/a
John Grant	Ordinary Shares	632,637	n/a	n/a	n/a
Justin Dowley	Ordinary Shares	1,050,670	n/a	n/a	n/a
Liz Hewitt	Ordinary Shares	120,877	n/a	n/a	n/a
David Lis	Ordinary Shares	433,947	n/a	n/a	n/a
Perry Crosthwaite ⁽³⁾	Ordinary Shares	25,480	n/a	n/a	n/a

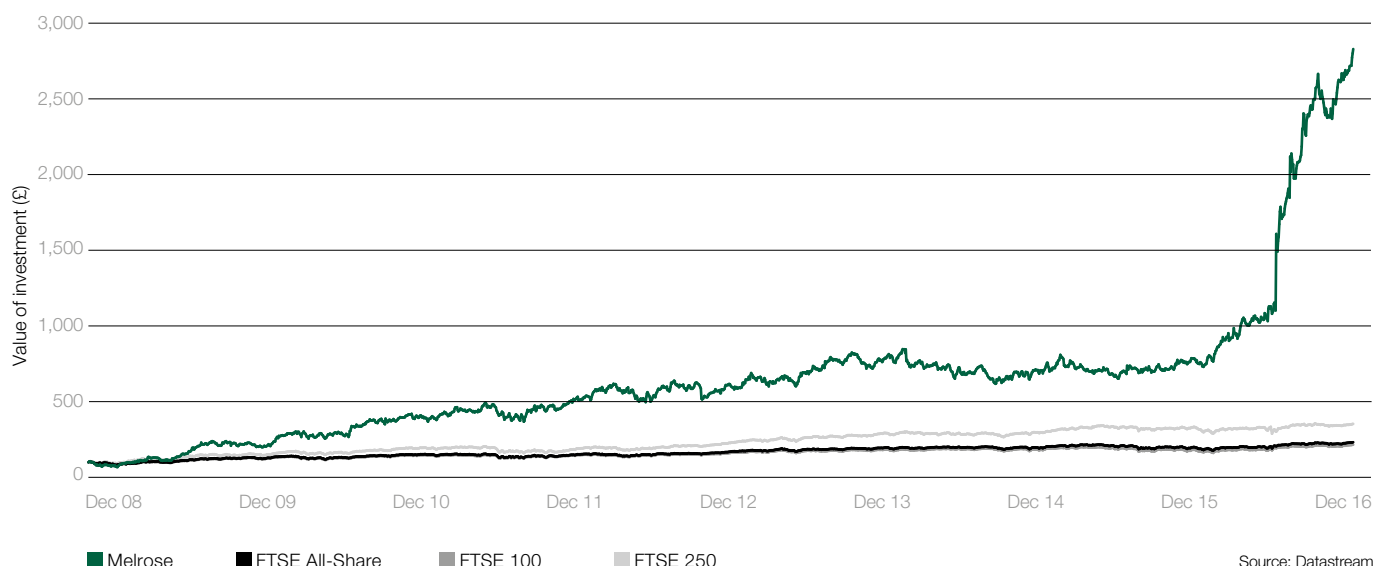
(1) As at 31 December 2016, the interest of Christopher Miller included 8,750,000 ordinary shares held by Harris & Sheldon Investments Limited, a company which is connected with Christopher Miller within the meaning of section 252 of the Companies Act 2006.

(2) Each of these options are over 2012 incentive shares. Although the option can be exercised at any time, the value which may be derived from the shares acquired on exercise will be determined at the relevant trigger date on 31 May 2017. 2012 incentive shares acquired on or before the trigger date may be forfeited in accordance with the Company's articles of association. The option exercise price is £1 per share, which is equal to the nominal value of those shares.

(3) Perry Crosthwaite retired as a non-executive Director of the Company with effect from 11 May 2016.

Performance graph

The total shareholder return graph below shows the value as at 31 December 2016 of £100 invested in the Company on 31 December 2008, compared with £100 invested in the FTSE 100 Index, the FTSE 250 Index or the FTSE All-Share Index. The Remuneration Committee considers the FTSE 100 Index, the FTSE 250 Index and the FTSE All-Share Index to be appropriate indices for the year ended 31 December 2016 for the purposes of this comparison because of the comparable size of the companies which comprise the FTSE 100 Index and the FTSE 250 Index and the broad nature of companies which comprise the FTSE All-Share Index. The data shown below assumes that all cash returns to shareholders made by the Company during this period are reinvested in ordinary shares.



Chief Executive remuneration for previous eight years

In accordance with the regulations governing the reporting of Directors' remuneration which came into effect in October 2013, the total figure of remuneration set out in the table overleaf includes the value of long-term incentive vesting in respect of the financial year. This means that the full value of the crystallisation of the 2009 Incentive Plan on 11 April 2012 is shown for the year ended 31 December 2012 and no value will be reflected in the total figure of remuneration for the 2012 Incentive Plan until the trigger date, which will be May 2017.

The value of the 2009 Incentive Plan was earned over a period of approximately five years. Therefore, in the view of the Remuneration Committee, inclusion of this value in respect of the year ended 31 December 2012 does not give a fair representation of the Chief Executive's yearly remuneration over each of the previous five years. Therefore, an additional column has been added to the table overleaf to show total remuneration excluding the value received on the maturity in April 2012 of the 2009 Incentive Plan. No other long-term incentive plan vested in favour of any executive Director in any of the other years.

The amount of that value shown in respect of David Roper and Simon Peckham for the year ended 31 December 2012 reflects the proportion of that year for which each was the Chief Executive.

Directors' remuneration report

continued

Financial year	Chief Executive	Total remuneration £	Total remuneration excluding the long-term incentive value £	Annual bonus as a percentage of maximum opportunity	Long-term incentives as a percentage of maximum opportunity
Year ended 31 December 2016	Simon Peckham	987,725	987,725	95%	–
Year ended 31 December 2015	Simon Peckham	928,541	928,541	88%	–
Year ended 31 December 2014	Simon Peckham	773,167	773,167	58%	–
Year ended 31 December 2013	Simon Peckham	927,276	927,276	100%	–
Year ended 31 December 2012 ⁽¹⁾	Simon Peckham	20,280,584 ⁽²⁾	489,372	64%	n/a ⁽³⁾
	David Roper	10,915,846 ⁽²⁾	259,040	64%	n/a ⁽³⁾
Year ended 31 December 2011	David Roper	811,152	811,152	84%	–
Year ended 31 December 2010	David Roper	849,341	849,341	100%	–
Year ended 31 December 2009	David Roper	712,372	712,372	70%	–

(1) In the year ending 31 December 2012, David Roper was Chief Executive for the period from 1 January 2012 until 9 May 2012 and Simon Peckham was Chief Executive for the period from 9 May 2012 onwards. In the table above:

- (i) the "Total remuneration" figure shows, in respect of David Roper, his total remuneration in respect of his service in the period 1 January 2012 to 9 May 2012 and in respect of Simon Peckham his total remuneration in respect of his service in the period from 9 May 2012 to 31 December 2012. Included in this figure for each of David Roper and Simon Peckham is the value of the long-term incentives vesting in the year pro-rated to reflect the portion of the year for which he was Chief Executive; and
- (ii) the "Total remuneration excluding the long-term incentive value" shows in respect of each of David Roper and Simon Peckham total remuneration in respect of the period for which he was Chief Executive excluding any value received on the maturity in April 2012 of the 2009 Incentive Plan.
- (2) The value derived in 2012 from the 2009 incentive shares represents the Chief Executive's share, determined in accordance with the terms of those shares, of the shareholder value created over a period of approximately five years.
- (3) On the crystallisation in April 2012 of the 2009 Incentive Plan awarded in 2009, participants as a whole were entitled to 10% of the increase in shareholder value from 18 July 2007 to 23 March 2012. Because the value derived on the crystallisation of the 2009 incentive shares depended upon the shareholder value created over the relevant period, it is not possible to express the value derived as a percentage of the maximum opportunity. The crystallisation of the 2009 incentive shares was satisfied by the conversion of those shares into ordinary shares.

Percentage change in Chief Executive's remuneration

The table below sets out, in relation to salary, taxable benefits and annual bonus, the percentage increase in pay for the Company's Chief Executive compared to the average increase for a group consisting of the Company's senior head office employees, managing directors and finance directors of the Group's businesses and direct senior reports of those managing directors and finance directors. The percentages shown below relate to the financial year ended 2016 as a percentage comparison to the financial year ended 2015. This group of senior management was considered an appropriate comparator group because of their level of seniority and the structure of their remuneration package. The spread of the Company's operations across various countries and industries means that remuneration policies vary to take account of geography and industry such that the Remuneration Committee considers that selecting a wider group of employees would not provide a meaningful comparison.

Element of remuneration	Chief Executive percentage change	Company's senior head office employees, managing directors and finance directors of Group businesses and direct senior reports of those managing directors and finance directors average percentage change ⁽¹⁾
Basic salary	3%	2%
Benefits	0%	-10%
Annual bonus	11%	2%

(1) Excludes the former Nortek businesses, which were acquired on 31 August 2016.

Relative importance of spend on pay

The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the organisation).

Expenditure	Year ended 31 December 2015	Year ended 31 December 2016	Percentage change
Remuneration paid to all employees	£364.5 million	£246.6 million	(32)%
Distributions to shareholders by way of dividend and share buy back	£281.0 million ⁽¹⁾	£2,394.3 million ⁽²⁾	752%

(1) The figure for year ended 2015 includes the return of capital to shareholders in February 2015.

(2) The figure for year ended 2016 includes the return of capital to shareholders in February 2016.

Implementation of Directors' Remuneration Policy for the financial year commencing on 1 January 2017

The Remuneration Committee strongly believes that its remuneration framework is aligned with the Company's strategy for creation of shareholder value and no structural changes to the Directors' remuneration arrangements are proposed for 2017. The 2017 Incentive Plan will be implemented subject to and following shareholder approval at the General Meeting and the Directors' Remuneration Policy will be revised accordingly. Details of its proposed implementation are set out in the Circular. Our approach to other elements of remuneration in 2017 is set out opposite and in the annex to the Circular.

Executive directors' salaries

Executive Directors' salaries have increased by 3% with effect from January 2017. This is consistent with the salary rises awarded to the wider head office population, other than where other such employees' salaries have been increased on a different basis to reflect individual circumstances such as promotions, as shown in the following table.

Executive Director	2016 salary £'000	2017 salary £'000	Percentage increase
Christopher Miller	461	475	3%
David Roper	461	475	3%
Simon Peckham	461	475	3%
Geoffrey Martin	369	380	3%

Bonus arrangements for 2017

The overall framework for Simon Peckham's and Geoffrey Martin's (the only participating executive Directors) annual bonus arrangements for 2017 will remain the same as in 2016, with a maximum bonus opportunity of 100% of salary, based on financial performance metrics as regards 80% of the opportunity and strategic performance metrics as regards the balance. The Remuneration Committee considers that the strategic performance measures are commercially sensitive but will disclose the nature of those measures on a retrospective basis, where appropriate, on a similar basis to the disclosure on page 79 in respect of the annual bonus for the year ending 31 December 2016.

Non-executive Directors' fees

Non-executive Directors' basic fees have been increased by 3% with effect from January 2017. The non-executive Director fee levels for 2016 and 2017 are set out in the table below.

Fee element	Previous fee with effect from January 2016	Fee with effect from January 2017
Basic non-executive Director fee	£65,714	£67,685
Additional fee for holding the chairmanship of the Remuneration Committee	£10,000	£10,000
Additional fee for holding the chairmanship of the Audit Committee	£10,000	£10,000
Additional fee for holding the chairmanship of the Nomination Committee	£2,500	£2,500
Additional fee for holding the position of senior non-executive Director	£5,000	£5,000

Consideration by the Directors of matters relating to Directors' remuneration**The responsibilities of the Remuneration Committee**

The Remuneration Committee is responsible for, among other things:

- considering and making recommendations to the Board on the framework for the remuneration of the Company's executive Directors, the Company Secretary and other senior employees;
- ensuring that the executive Directors and senior employees are provided with appropriate annual incentives to encourage enhanced performance and that they are rewarded for their individual contributions to the success of the Company, noting any major changes in employee benefit structures throughout the Group and ensuring that executive Director remuneration practice is consistent with any such changes;
- approving the structure of, and determining targets for, any performance-related pay schemes (including bonus schemes) and any material long-term incentive plans operated by the Company;
- reviewing the structure of all share incentive plans operated by the Company for approval by the Board; and
- reviewing, on an annual basis, remuneration trends across the Group and obtaining reliable and up-to-date information about the remuneration of Directors and senior employees in other companies of comparable scale and complexity.

Full details can be found in the terms of reference available in the Investor section of the Melrose website at www.melroseplc.net

Fees for non-executive Directors are determined by the executive Directors.

The members of the Remuneration Committee

The members of the Remuneration Committee during the year were Justin Dowley (Committee Chairman), John Grant, Liz Hewitt and David Lis (appointed to the Remuneration Committee with effect from 11 May 2016 following the conclusion of the 2016 AGM). Perry Crosthwaite was a member of the Remuneration Committee from 1 January 2016 until his retirement from the Board following the conclusion of the 2016 AGM on 11 May 2016. The Company regards all members of the Remuneration Committee as independent non-executive Directors; the composition of the Remuneration Committee is therefore in accordance with the UK Corporate Governance Code. During the year, the Remuneration Committee met twice.

Directors' remuneration report

continued

Advisers to the Remuneration Committee

During the year, the Remuneration Committee received advice on the remuneration reporting regulations and preparation of the Directors' Remuneration Report from Deloitte LLP. Deloitte LLP was appointed by the Company Secretary on behalf of the Remuneration Committee. Deloitte LLP's fees for this advice were £6,000, which were charged on a time/cost basis. As the external auditor to the Company, Deloitte LLP also provides certain other services (as described on page 69 of this Annual Report and financial statements).

Deloitte LLP is a member of the Remuneration Consultants' Group, and as such chooses to operate pursuant to a code of conduct that requires remuneration advice to be given objectively and independently. The Remuneration Committee is satisfied that the advice provided by Deloitte LLP in relation to remuneration matters is objective and independent.

Statement of voting at general meeting

The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the resolution to approve the Directors' Remuneration Report and the Directors' Remuneration Policy at the Company's Annual General Meeting held on 11 May 2016:

	Votes cast for the resolution	Percentage of votes cast for the resolution	Votes against the resolution	Percentage of votes cast against the resolution	Total votes cast	Votes withheld
Resolution to approve the Directors' Remuneration Report for the year ended 31 December 2015	105,357,174	97.36%	2,858,772	2.64%	108,215,946	1,504,214
Resolution to approve the Directors' Remuneration Policy	105,688,102	96.34%	4,015,782	3.66%	109,703,884	16,276

The Remuneration Committee noted the strong support given by shareholders to the Directors' Remuneration Report and Directors' Remuneration Policy.

Approval

This report was approved by the Board and signed on its behalf by:



Justin Dowley

Chairman, Remuneration Committee

2 March 2017

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 the parent company 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 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.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board



Geoffrey Martin
Group Finance Director
2 March 2017

Simon Peckham
Chief Executive
2 March 2017

Financials

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Independent auditor's report to the members of Melrose Industries PLC

Opinion on financial statements of Melrose Industries PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated and Company Statements of Changes in Equity, the related notes 1 to 30 to the consolidated financial statements and the related notes 1 to 8 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Summary of our audit approach

Key risks	<p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none"> • Acquisition accounting; focused on the valuation of intangible assets and fair value of provisions • Carrying value of goodwill and other non-current assets • Classification of non-underlying items
Materiality	<p>The materiality that we used in the current year was £11 million which has taken into consideration revenue, underlying profit before tax and net assets of the enlarged Group following the acquisition of the Nortek business during the year.</p>
Scoping	<p>Full scope audit work was completed on 12 components and the head office function, and specified audit procedures over certain balances were performed on five components. In total our scope represented 82% of Group revenue, 86% of Group operating profit and 92% of Group net assets.</p>
Significant changes in our approach	<p>Following the significant change in the structure of the Group as a result of the disposal of the Elster group and the acquisition of the Nortek group, we have revised our audit scoping, materiality basis and consideration of the risks most specific to the Group. Particularly, we have considered the risk in relation to the acquisition of Nortek group in the current year.</p>

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 38 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 40 to 45 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 85 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent auditor's report to the members of Melrose Industries PLC continued

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk	Key observations
Acquisition accounting; focused on the valuation of intangible assets and fair value of provisions		
<p>The Group completed the acquisition of Nortek Inc. on 31 August 2016. The Group applied IFRS 3, Business Combinations, to identify and value the identifiable net assets of the acquired business at this date.</p> <p>The valuation of intangible assets of £868.4 million arising on the acquisition is considered to be a key risk as the valuation is based on a number of assumptions such as discount rate and growth rate which are subject to significant judgement.</p> <p>There is also considered to be a key risk in determining the fair value of acquired provisions and contingent liabilities of £209.7 million due to the judgements required in valuing liabilities of inherently uncertain outcome, such as the outcome of warranty, legal and product liability claims against the acquired group.</p>	<p>We have evaluated management's determination of the fair value of the net assets acquired, focussing on the valuation of intangible assets and provisions recognised at the acquisition date.</p> <p>We challenged management's methodology and assumptions underlying the valuation of intangible assets by:</p> <ul style="list-style-type: none"> consulting with our internal valuation specialists to assess and recalculate the discount rate and growth rate used based on external market data, and comparing these rates to the rates used by management and the Group's external valuation expert. involving our internal valuation specialists to evaluate the valuation methodology used by management and the Group's external valuation expert. checking the calculations of the valuations by performing parallel valuations based on the same underlying data. <p>We challenged management's methodology and assumptions underlying the valuation of provisions and contingent liabilities acquired by:</p> <ul style="list-style-type: none"> challenging the reasonableness of and verifying inputs used to calculate the valuation of provisions and contingent liabilities; we assessed the level of historical warranty claims and obtained the specific warranty terms and conditions provided in order to ascertain whether the warranty provisions held were sufficient to cover all obligations in existence at the acquisition date, in light of known claims and standard warranty periods provided; we reviewed the nature and timings of formal restructuring plans, in order to determine that these relate to pre-acquisition restructurings; holding discussions with the Group's internal and external lawyers; reviewing third party correspondence including legal confirmations; and involving our actuarial specialists to review the approach and methodology used to calculate the product liability provision and the approach for selecting key assumptions. 	<p>Based on our detailed audit work performed, we consider that management's key judgements and assumptions used in the valuations of net assets at the acquisition date fall within an acceptable range.</p>

Risk	How the scope of our audit responded to the risk	Key observations
Carrying value of goodwill and other non-current assets		
<p>The carrying value of goodwill in the Energy group of cash-generating units (the Energy group) as at 31 December 2016 was £212.9 million and the carrying value of the Brush China assets as at 31 December 2016 was £34.4 million.</p> <p>Management perform an impairment review for all goodwill balances on an annual basis and for other assets whenever an indication of impairment is identified. We consider there to be a risk of material misstatement in Energy group goodwill and intangibles and Brush China assets as a result of the application of management judgement and estimation in performing the impairment reviews, in particular in relation to the forecasting of future cash flows, the growth rate and the selection of an appropriate discount rate, as detailed within note 12 to the consolidated financial statements.</p> <p>The future market for generators in China is also considered a significant judgement within the assessment of the recoverability of Brush China assets, as detailed within key sources of estimation uncertainty in note 3 to the financial statements and in the Audit Committee Report.</p>	<p>We challenged the reasonableness of the assumptions which underpin management's forecasts with reference to the recent and historical trading performance of the Energy group, as well as the current contractual arrangements and external market data. For Brush China, we challenged the reasonableness of the significant judgement relating to the future market for generators in China by assessing the Group's contractual arrangements in place and under discussions, as well as considering the external future market indicators for generators in China.</p> <p>We validated the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions and understood the underlying process used to determine the risk adjusted cash flow projections.</p> <p>Our procedures included consulting with our valuation specialists to assess the discount rates applied to future cash flows and benchmarking assumptions such as the growth rates and discount rates to external macro-economic and market data.</p> <p>Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired by performing sensitivity analysis on the key assumptions, we considered the likelihood of such a movement in those assumptions arising.</p> <p>We have reviewed the disclosures in note 12 in relation to the impact of a reasonable possible change, and also the key sources of estimation uncertainty disclosure in note 3 for Brush China.</p>	<p>Based on our detailed audit work performed, we concur with the key judgements and assumptions in the impairment models and with the disclosures in the financial statements. Based on management's current expectation the assets remain supportable.</p>
Classification of non-underlying items		
<p>Management has changed the presentation of the Consolidated Income Statement in the current year to show a consolidated statutory format with no underlying adjustments. Separately, underlying results are shown underneath the Consolidated Income statement.</p> <p>New guidance has been issued by the European Securities and Markets Authority on the presentation of alternative performance measures. There is a risk around presentation and consistency of costs and income within non-underlying items, which is a key determinant in the assessment of the quality of the Group's underlying earnings. The non-underlying operating costs for the year ended 31 December 2016 were £165.7 million for the Group.</p> <p>Note 2 includes the Group's accounting policy for non-underlying items and the note 6 includes further details on the non-underlying items.</p>	<p>A sample of non-underlying items, including all material items, have been agreed to source documentation and evaluated by the component and Group audit teams as to their nature in order to assess whether they are in line with the Group's accounting policy, and also to assess consistency of non-underlying items between periods in the financial statements.</p> <p>We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items and how non-underlying results are reconciled to statutory results.</p>	<p>We consider the disclosure of non-underlying items to be in line with the Group's accounting policies and that the presentation of non-underlying items is consistent between the periods presented.</p>

Our prior year audit report also included risks relating to the disposal of the Elster group and recognition and measurement of provisions. The disposal was completed in 2015 and is therefore not considered to be a key risk in 2016. We have however assessed the recognition and measurement of provisions and contingent liabilities acquired from the Nortek group, as detailed above.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Melrose Industries PLC continued

Our application of materiality

We define materiality as the magnitude of misstatements in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £11 million (2015: £11 million), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.

When determining materiality in the current year, we considered a range of benchmarks due to the impact of the timing of the acquisition of Nortek Inc.

The Nortek acquisition has resulted in only four months of Nortek trading being recorded within the Group's financial results for 2016, whilst the assets and liabilities for the acquired business will be recorded on the balance sheet at the year-end, including newly created goodwill and intangible assets. Therefore, in addition to considering revenue (materiality equates to 1% of revenue) and the underlying profit before tax (materiality equates to 11% of underlying profit before tax), we have placed increased emphasis on a net assets benchmark (materiality equates to 0.5% of net assets) in determining our materiality. This approach differs from previous periods where materiality was based solely on underlying profit before tax.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000 (2015: £250,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group is organised into an Energy division and the three divisions acquired from the Nortek acquisition.

Our Group audit scope focused primarily on audit work at 17 components (2015: 22 including Elster), of which four relate to components which form part of the legacy Energy division, six relate to Air Management, four relate to Security & Smart Technology, two relate to the Ergonomics division and one relates to the Nortek head office function. The change in the number of components reflects the disposal of the Elster division, the acquisition of the Nortek group and our risk assessment in the current year.

The extent of our testing was based on our assessment of the risks of material misstatement and on the materiality of the Group's business operations at these locations. In total our scope represented 82% of Group revenue, 86% of Group operating profit and 92% of Group net assets.

Energy division

In respect of the Energy division, all four components were subject to a full audit (2015: 4). These four components accounted for 81% of the Energy division's revenue and 79% of the Energy division's underlying operating profit and divisional costs (before central costs). The work performed at these four components together with the work performed centrally by the Group audit team accounted for 98% of the Energy division net assets.

Our work at the four components forming part of the Energy division was principally performed to levels of materiality applicable to each individual entity which were lower than group materiality and ranged between £0.4 million and £3.3 million.

In 2015, these four components accounted for 86% of the revenue and 93% of the underlying operating profit and divisional costs (before central costs) of the Energy division.

Nortek group

For the newly acquired Nortek group, eight components were subject to a full audit and five were subject to specified audit procedures on certain balances that represent a risk to the Group.

The 13 newly acquired components subject to full audit and specified audit procedures accounted for 82% of revenue and 78% of underlying operating profit and divisional costs (before central costs). The work performed at these components together with the work performed centrally by the Group audit team accounted for 92% of the acquired net assets at 31 December 2016.

Our work and audit procedures at the newly acquired Nortek components were performed at levels of materiality which were lower than group materiality, determined by reference to the relative scale of the business concerned, and ranged between £2.8 million and £3.9 million.

Involvement in the work of component auditors and work performed at group level

The senior statutory auditor or other senior members of the Group audit team visited eight of the largest components for the audit (2015: 8). The senior statutory auditor also held close meetings which covered all businesses. In years when we do not visit a component within our Group audit scope; we will include the component audit team in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' Remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Other matter

Although not required to do so, the Directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

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 Group's and the Parent 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 Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Stephen Griggs, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, UK
2 March 2017

Consolidated Income Statement

	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations			
Revenue	4,5	889.3	261.1
Cost of sales		(626.0)	(179.0)
Gross profit		263.3	82.1
Net operating expenses	7	(324.9)	(77.3)
Operating (loss)/profit		(61.6)	4.8
Finance costs	7	(9.5)	(45.6)
Finance income	7	1.8	10.1
Loss before tax		(69.3)	(30.7)
Tax	8	30.3	14.4
Loss for the year from continuing operations		(39.0)	(16.3)
Discontinued operations			
Profit for the year from discontinued operations	9	–	1,424.3
(Loss)/profit for the year		(39.0)	1,408.0
Attributable to:			
Owners of the parent		(39.0)	1,407.1
Non-controlling interests		–	0.9
		(39.0)	1,408.0
Earnings per share			
Continuing operations:			
– Basic	11	(2.6)p	(0.3)p
– Diluted	11	(2.6)p	(0.3)p
Continuing and discontinued operations:			
– Basic	11	(2.6)p	26.4p
– Diluted	11	(2.6)p	25.8p
Underlying Results			
Underlying operating profit	5,6	104.1	24.8
Underlying profit before tax	6	96.4	2.4
Underlying profit/(loss) after tax	6	70.4	(1.4)
Underlying diluted earnings per share – continuing	11	4.4p	Nil p

Consolidated Statement of Comprehensive Income

		Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
	Notes		
(Loss)/profit for the year		(39.0)	1,408.0
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement gain on retirement benefit obligations	23	22.7	57.5
Income tax charge relating to items that will not be reclassified	8	(3.3)	(6.0)
		19.4	51.5
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		104.3	(30.8)
Currency translation on non-controlling interests		–	0.2
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	–	123.7
Gains/(losses) on cash flow hedges		5.3	(2.8)
Transfer to Income Statement on cash flow hedges		0.3	3.7
Income tax credit/(charge) relating to items that may be reclassified	8	5.4	(1.0)
		115.3	93.0
Other comprehensive income after tax		134.7	144.5
Total comprehensive income for the year		95.7	1,552.5
Attributable to:			
Owners of the parent		95.7	1,551.4
Non-controlling interests		–	1.1
		95.7	1,552.5

Consolidated Statement of Cash Flows

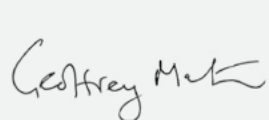
	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Net cash from/(used in) operating activities from continuing operations	26	50.6	(57.8)
Net cash from operating activities from discontinued operations	26	–	89.2
Net cash from operating activities		50.6	31.4
Investing activities			
Disposal of businesses		–	3,381.0
Disposal costs		(0.1)	(25.6)
Net cash disposed		–	(93.5)
Purchase of property, plant and equipment		(16.8)	(17.4)
Proceeds from disposal of property, plant and equipment		0.3	–
Purchase of computer software and development costs		(0.6)	(0.3)
Dividends received from joint ventures	14	0.9	0.3
Acquisition of subsidiaries		(1,130.0)	–
Cash acquired on acquisition of subsidiaries	12	9.4	–
Interest received		1.8	10.1
Net cash (used in)/from investing activities from continuing operations		(1,135.1)	3,254.6
Net cash used in investing activities from discontinued operations	26	–	(38.7)
Net cash (used in)/from investing activities		(1,135.1)	3,215.9
Financing activities			
Return of Capital		(2,388.5)	(200.4)
Net proceeds from Rights Issue	25	1,612.0	–
Repayment of borrowings		(1,092.4)	(595.1)
New bank loans raised		557.4	–
Costs of raising debt finance		(10.9)	–
Dividends paid	10	(5.8)	(80.6)
Net cash used in financing activities from continuing operations		(1,328.2)	(876.1)
Net cash used in financing activities from discontinued operations	26	–	–
Net cash used in financing activities		(1,328.2)	(876.1)
Net (decrease)/increase in cash and cash equivalents		(2,412.7)	2,371.2
Cash and cash equivalents at the beginning of the year	26	2,451.4	70.5
Effect of foreign exchange rate changes	26	3.4	9.7
Cash and cash equivalents at the end of the year	17,26	42.1	2,451.4

As at 31 December 2016, the Group had net debt of £541.5 million (31 December 2015: net cash of £2,451.4 million). A reconciliation of the movement in net debt is shown in note 26.

Consolidated Balance Sheet

	Notes	31 December 2016 £m	31 December 2015 £m
Non-current assets			
Goodwill and other intangible assets	12	2,667.0	273.0
Property, plant and equipment	13	271.9	112.9
Interests in joint ventures	14	–	–
Deferred tax assets	21	49.3	25.7
Derivative financial assets	24	5.2	–
Trade and other receivables	16	5.2	1.1
		2,998.6	412.7
Current assets			
Inventories	15	297.3	55.6
Trade and other receivables	16	365.8	67.9
Derivative financial assets	24	3.8	1.2
Cash and cash equivalents	17	42.1	2,451.4
		709.0	2,576.1
Total assets	5	3,707.6	2,988.8
Current liabilities			
Trade and other payables	18	426.4	71.2
Interest-bearing loans and borrowings	19	0.5	–
Derivative financial liabilities	24	4.2	1.5
Current tax liabilities		10.2	3.3
Provisions	20	138.1	12.0
		579.4	88.0
Net current assets		129.6	2,488.1
Non-current liabilities			
Trade and other payables	18	13.7	–
Interest-bearing loans and borrowings	19	583.1	–
Deferred tax liabilities	21	193.7	20.2
Retirement benefit obligations	23	33.4	17.2
Provisions	20	141.5	18.0
		965.4	55.4
Total liabilities	5	1,544.8	143.4
Net assets		2,162.8	2,845.4
Equity			
Issued share capital	25	129.4	10.0
Share premium account		1,492.6	–
Merger reserve		112.4	2,500.9
Other reserves		(2,329.9)	(2,329.9)
Hedging reserve		4.5	–
Translation reserve		67.8	(37.8)
Retained earnings		2,686.0	2,702.2
Equity attributable to owners of the parent		2,162.8	2,845.4
Non-controlling interests		–	–
Total equity		2,162.8	2,845.4

The financial statements were approved and authorised for issue by the Board of Directors on 2 March 2017 and were signed on its behalf by:



Geoffrey Martin
Group Finance Director
2 March 2017



Simon Peckham
Chief Executive
2 March 2017

Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non- controlling interests £m	Total equity £m
At 1 January 2015	263.8	–	2,500.9	(2,329.9)	(0.5)	(130.7)	1,267.5	1,571.1	2.6	1,573.7
Profit for the year	–	–	–	–	–	–	1,407.1	1,407.1	0.9	1,408.0
Other comprehensive income	–	–	–	–	0.5	92.9	50.9	144.3	0.2	144.5
Total comprehensive income	–	–	–	–	0.5	92.9	1,458.0	1,551.4	1.1	1,552.5
Return of Capital	–	–	–	–	–	–	(200.4)	(200.4)	–	(200.4)
Dividends paid	–	–	–	–	–	–	(80.6)	(80.6)	(0.4)	(81.0)
Capital reduction	(253.8)	–	–	–	–	–	253.8	–	–	–
Credit to equity for equity-settled share- based payments	–	–	–	–	–	–	4.0	4.0	–	4.0
Purchase of non- controlling interests	–	–	–	–	–	–	(0.1)	(0.1)	(1.4)	(1.5)
Disposal of non-controlling interests	–	–	–	–	–	–	–	–	(1.9)	(1.9)
At 31 December 2015	10.0	–	2,500.9	(2,329.9)	–	(37.8)	2,702.2	2,845.4	–	2,845.4
Loss for the year	–	–	–	–	–	–	(39.0)	(39.0)	–	(39.0)
Other comprehensive income	–	–	–	–	4.5	105.6	24.6	134.7	–	134.7
Total comprehensive income/(expense)	–	–	–	–	4.5	105.6	(14.4)	95.7	–	95.7
Return of Capital	–	–	(2,388.5)	–	–	–	–	(2,388.5)	–	(2,388.5)
Issue of new shares	119.4	1,492.6	–	–	–	–	–	1,612.0	–	1,612.0
Dividends paid	–	–	–	–	–	–	(5.8)	(5.8)	–	(5.8)
Credit to equity for equity-settled share- based payments	–	–	–	–	–	–	4.0	4.0	–	4.0
At 31 December 2016	129.4	1,492.6	112.4	(2,329.9)	4.5	67.8	2,686.0	2,162.8	–	2,162.8

Notes to the financial statements

1. Corporate information

Melrose Industries PLC (the Company) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities are set out in note 5 and in the Divisional review section on pages 20 to 29.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 2 March 2017.

These financial statements are presented in pounds Sterling which is the currency of the primary economic environment in which the Company is based. Foreign operations are included in accordance with the policies set out in note 2.

On 31 August 2016 the Group acquired 100 per cent of the issued share capital and obtained control of Nortek Inc. (Nortek) for cash consideration of £1,093.1 million (note 12).

Nortek is a leading diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions.

The results of Nortek are included in the consolidated financial statements of the Group for the four month period from the date of acquisition.

1.1 New Standards and Interpretations affecting amounts, presentation or disclosure reported in the current year

In the current financial year, the Group has adopted a number of new or revised Standards and Interpretations, none of which significantly affected the amounts reported in these financial statements. Details of the Standards and Interpretations that were adopted are set out in section 1.2.

1.2 New Standards and Interpretations adopted with no significant effect on financial statements

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements:

- Annual improvements to IFRSs: 2012-14 cycle
- Amendments to IAS 1: Disclosure initiative
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27: Equity method in separate financial statements
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the consolidation exemption
- Amendments to IFRS 11: Accounting for acquisitions of interests in joint operations

1.3 New Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations are in issue but not yet effective (and in some cases have not been adopted by the EU):

- IFRS 9: Financial instruments
- IFRS 15: Revenue from contracts with customers
- IFRS 16: Leases
- Amendments to IAS 7: Disclosure initiative
- Amendments to IAS 12: Recognition of deferred tax losses
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions
- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
- Annual improvements to IFRSs: 2014-16 cycle
- Clarifications to IFRS 15: Revenue from contracts with customers

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 will impact the recognition of leases. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed, which is planned to be undertaken in the next 12 months.

2. Summary of significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments which are recognised at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are consistent with the prior year and are set out below.

Alternative performance measures

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), additional information on the APMs used by the Group is provided below. The APMs used by the Group are:

- Underlying operating profit/(loss)
- Underlying profit/(loss) before tax
- Underlying profit/(loss) after tax
- Underlying diluted earnings per share
- Underlying profit/(loss) conversion to cash

A reconciliation between statutory reported measures and the underlying measures listed above is shown in notes 6 and 11 to these financial statements.

Underlying profit/(loss) excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition. These items are not included in the performance measures the Board uses to monitor the performance of the Group.

The underlying measures are used to partly determine the variable element of remuneration of senior Management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The underlying measures are also used to value individual businesses as part of the “buy, improve, sell” Melrose strategy model.

Underlying profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided.

Basis of consolidation

The Group financial statements include the results of the parent undertaking and all of its subsidiary undertakings. The results of businesses acquired during the period are included from the effective date of acquisition and for those sold during the period to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is initially measured at the non-controlling interests' proportion of the share of the fair value of the acquiree's identifiable net assets.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained on page 36 of the Finance Director's review.

Notes to the financial statements

continued

2. Summary of significant accounting policies (continued)

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the fair value of assets transferred, the liabilities incurred or assumed at the date of exchange of control and equity instruments issued by the Group in exchange for control of the acquiree. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Costs directly attributable to business combinations are recognised as an expense in the Income Statement as incurred.

The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition except those where specific guidance is provided by IFRSs. Non-current assets and directly attributable liabilities that are classified as held for sale in accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", are recognised and measured at fair value less costs to sell. Also, deferred tax assets and liabilities are recognised and measured in accordance with IAS 12: "Income taxes", liabilities and assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 (revised): "Employee benefits" and liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payments awards are measured in accordance with IFRS 2: "Share-based payment". Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts where appropriate. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill on acquisition is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units acquired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the Income Statement and is not subsequently reversed. When there is a disposal of a cash-generating unit, goodwill relating to the operation disposed of is taken into account in determining the gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposed of and the operation retained.

Joint ventures

A joint venture is an entity which is not a subsidiary undertaking but the interest of the Group is that of a partner in a business over which the Group exercises joint control. The results, assets and liabilities of joint ventures are accounted for using the equity method of accounting.

2. Summary of significant accounting policies (continued)

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, customs duties and sales related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The nature of agreements into which the Group enters means that:

- Certain of the Group's arrangements with its customers are multiple-element arrangements that can include any combination of products and services such as extended warranties, installation and start up testing as deliverables. With the exception of certain extended warranty arrangements, substantially all of the deliverables within the Group's multiple element arrangements are delivered within a one year period. Revenue for any undelivered-elements are deferred until delivery occurs. The Group allocates revenue to multiple element arrangements based on the relative fair value of each element's estimated selling price.
- The service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.
- Aftermarket activities generally relate to the provision of spare parts, repairs and the rebuild of equipment. Revenue on the provision of parts is recognised in accordance with the policy on the sale of goods and revenue for repairs and rebuild is recognised upon completion of the activity.

Cash discounts, volume rebates and other customer incentive programs are based upon certain percentages agreed upon with the Group's various customers, which are typically earned by the customer over an annual period. The Group records periodic estimates for these amounts based upon the historical results to date, estimated future results through the end of the contract period, and the contractual provisions of the customer agreements. These are recorded as of the later of the date at which the revenues are recognised or the incentive is offered and are generally recorded as a reduction of sales at the time of sale based upon the estimated future outcome.

The significant majority of the Group's revenue is recognised on a sale of goods basis.

The specific methods used to recognise the different forms of revenue earned by the Group are as follows:

Sale of goods

Revenue is recognised when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms are recognised as revenue when the Group has completed the primary duties required to transfer risks as stipulated in those terms. Sales made outside of such terms are generally recognised on delivery to the customer. 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.

Provision of services

As noted above, because revenue from the rendering of services is usually not significant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

Construction contracts

Revenue from significant contracts, without discrete elements, is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms and the costs incurred on the contract at the Balance Sheet date in comparison to the total forecast costs of the contract. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Variations in contract work, claims and incentive payments are included in revenue from construction contracts when the amount can be measured reliably and its receipt is considered probable. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that it is probable that the customer will accept the claim. Incentive payments are included when a contract is sufficiently advanced that it is probable that the performance standards triggering the incentive will be achieved.

Notes to the financial statements

continued

2. Summary of significant accounting policies (continued)

Profit attributable to contract activity is recognised if the final outcome of such contracts can be reliably assessed. Where this is not the case contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recovered. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Issue costs of loans

The finance cost recognised in the Income Statement in respect of the issue costs of borrowings is allocated to periods over the terms of the instrument using the effective interest rate method.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bring the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold land	nil
Freehold buildings and long leasehold property	over expected economic life not exceeding 50 years
Short leasehold property	over the term of the lease
Plant and equipment	3-12 years

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists an impairment review is performed and, where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or costs and the carrying amount of the item) is included in the Income Statement in the year that the item is derecognised.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

On acquisition of businesses, separately identifiable intangible assets are initially recorded at their fair value at the acquisition date.

Access to the use of brands and intellectual property are valued using a "relief from royalty" method which determines the net present value of future additional cash flows arising from the use of the intangible asset.

Customer relationships are valued on the basis of the net present value of the future additional cash flows arising from customer relationships with appropriate allowance for attrition of customers.

2. Summary of significant accounting policies (continued)

Technology assets are valued using a replacement cost approach.

Amortisation of intangible assets is recorded in administration expenses in the Income Statement and is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

Customer relationships	20 years or less
Brands and intellectual property	20 years or less
Technology	5 years or less
Order backlog	1 year or less
Computer software	5 years or less
Development costs	5 years or less

Computer software is initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets are tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

Costs relating to clearly defined and identifiable development projects are capitalised when there is a technical degree of exploitation, adequacy of resources and a potential market or development possibility in the undertaking that are recognisable; and where it is the intention to produce, market or execute the project. A correlation must also exist between the costs incurred and future benefits and those costs can be measured reliably. Capitalised costs are expensed on a straight-line basis over their useful lives of five years or less. Costs not meeting such criteria are expensed as incurred.

Inventories

Inventories are valued at the lower of cost and net realisable value and measured using a first in, first out basis. Cost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their current state under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be incurred to completion and disposal. Provisions are made for obsolescence or other expected losses where necessary.

Trade and other receivables

Trade receivables and other receivables are measured and carried at amortised cost using the effective interest method, less any impairment. The carrying amount of other receivables is reduced by the impairment loss directly and a charge is recorded in the Income Statement. For trade receivables, the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting receipts, an increase in the number of delayed receipts in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash in hand, current balances with banks and similar institutions and short-term deposits which are readily convertible to cash which are subject to insignificant risks of changes in value.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowings.

Notes to the financial statements

continued

2. Summary of significant accounting policies (continued)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments throughout the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity risks, arising from operating and financing activities. The Group does not hold or issue derivative financial instruments for trading purposes. Details of derivative financial instruments are disclosed in note 24 of the financial statements.

Derivative financial instruments are recognised and stated at fair value. Their fair value is recalculated at each reporting date. The accounting treatment for the resulting gain or loss will depend on whether the derivative meets the criteria to qualify for hedge accounting.

Where derivatives do not meet the criteria to qualify for hedge accounting, any gains or losses on the revaluation to fair value at the period end are recognised immediately in the Income Statement. Where derivatives do meet the criteria to qualify for hedge accounting, recognition of any resulting gain or loss on revaluation depends on the nature of the hedge relationship and the item being hedged.

Derivative financial instruments with maturity dates of less than one year from the period end date are classified as current in the Balance Sheet.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument and to show that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

The Group designates certain hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedge

Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

2. Summary of significant accounting policies (continued)

Cash flow hedge

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to the variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted cash flow.

The effective portion of any gain or loss from revaluing the derivative financial instrument is recognised in the Statement of Comprehensive Income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts previously recognised in the Statement of Comprehensive Income and accumulated in equity are recycled to the Income Statement in the periods when the hedged item is recognised in the Income Statement or when the forecast transaction is no longer expected to occur. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedges of net investments in foreign operations

Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in foreign operations. The effective element of any foreign exchange gain or loss from revaluing the derivative at a reporting period end is recognised in the Statement of Comprehensive Income. Any ineffective element is recognised immediately in the Income Statement.

Gains and losses accumulated in equity are recognised immediately in the Income Statement when the foreign operation is disposed of or when the hedge is no longer expected to occur.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, using the Directors' best estimate of the expenditure required to settle the Group's obligation.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Environmental liabilities

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

Employee related

Liabilities for health and workers compensation expenses are provided for based on the total liabilities that are able to be estimated and are probable as of the balance sheet date.

Product liability

Provisions are recorded for product and general liability claims which are probable and for which the cost can be reliably estimated.

Notes to the financial statements

continued

2. Summary of significant accounting policies (continued)

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. As the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18.

Pensions and other retirement benefits

The Group operates defined benefit pension plans and defined contribution plans, some of which require contributions to be made to administered funds separate from the Group.

For the defined benefit pension and retirement benefit plans, plan assets are measured at fair value and plan liabilities are measured on an actuarial basis and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. Any assets resulting from this calculation are limited to past service cost plus the present value of available refunds and reductions in future contributions to the plan. The present value of the defined benefit obligation, and the related current service cost and past service cost, are measured using the projected unit credit method.

The service cost of providing pension and other retirement benefits to employees for the period is charged to the Income Statement.

Net interest expense on net defined benefit obligations is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit obligations at the beginning of the year. Net interest expense is recognised within finance costs.

Remeasurement gains and losses comprise actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest). Remeasurement gains and losses, and taxation thereon, are recognised in full in the Statement of Comprehensive Income in the period in which they occur and are not subsequently recycled.

Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan obligations and actual experience during the period or changes in the actuarial assumptions used in the valuation of the plan obligations.

For defined contribution plans, contributions payable are charged to the Income Statement as an operating expense when employees have rendered services entitling them to the contributions.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Income Statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Income Statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the Statement of Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate). Such translation differences are recognised as income or as expenses in the period in which the related operation is disposed of. Any exchange differences that have previously been attributed to non-controlling interests are derecognised but they are not reclassified to the Income Statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate prevailing at the Balance Sheet date.

2. Summary of significant accounting policies (continued)

Taxation

The tax expense is based on the taxable profits for the period and represents the sum of the tax paid or currently payable and deferred tax.

Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises on the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- where the timing of the reversal of the temporary differences associated with investments in subsidiaries and interests in joint ventures can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the relevant Balance Sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tax relating to items recognised directly in other comprehensive income is recognised in the Statement of Comprehensive Income and not in the Income Statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Share-based payments

The Group has applied the requirements of IFRS 2: "Share-based payment". The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instrument excluding the effect of non-market based vesting conditions at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Notes to the financial statements

continued

2. Summary of significant accounting policies (continued)

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Non-current assets and businesses held for sale

Non-current assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and businesses are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset or business is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-current assets

Goodwill and intangible assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired and at least annually. Such events and circumstances include the effects of restructuring initiated by management.

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Management draw upon experience as well as external resources in making these estimates.

The carrying amount of goodwill and other intangible assets (not including computer software and development costs) at the Balance Sheet date was £2,656.1 million (31 December 2015: £271.8 million). At 31 December 2016 and 2015, the Group recognised no impairment loss in respect of these assets. Further detail, which includes sensitivity analysis, is shown in note 12.

Brush China

The Group's assets in Brush China remained mothballed at the year end as production was reduced during 2016. The value in use calculation prepared by management to estimate the recoverable amount of the Brush China business supported the carrying amount of the Brush China assets which were £37.0 million as at 31 December 2016. However, significant uncertainty remains and the determination as to whether these assets were impaired at 31 December 2016 involved management judgement on highly uncertain matters, particularly with respect to the level of demand for generators in the Chinese market, the successful resolution of current customer discussions, and therefore the timing and quantity of forecast unit sales, as well as long-term growth rates and discount factors.

Should the resolution of customer discussions or the level of demand for generators not be realised in line with current expectations and should the China plant continue to remain mothballed there is a worst case risk that a full impairment could potentially be required which would reduce the value of the Brush China assets to a net realisable value of approximately £9 million.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)**Assumptions used to determine the carrying amount of the Group's defined benefit obligation**

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition judgement is made in determining mortality rate assumptions to be used when valuing the Group's defined benefit obligations. At 31 December 2016, the Group's retirement benefit obligation deficit was £33.4 million (31 December 2015: £17.2 million). A sensitivity analysis on the principal assumptions used to determine the Group's defined benefit obligations is shown in note 23.

Taxation

The Group is subject to income tax in most of the jurisdictions in which it operates. Management is required to exercise judgement in determining the Group's provision for income taxes. Management's judgement is required in estimating tax provisions where management believe it is probable that additional current tax will become payable in the future following the audit by the tax authorities of previously filed tax returns. Such provisions are measured based on management's best estimates of the amounts payable. Management's judgement is also required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits and the expected timing of future disposals. While the Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected. Further details are provided in note 21.

Provisions

The quantification of certain liabilities within provisions (environmental remediation obligations and future costs and settlements in relation to certain legal claims) have been estimated using the best information available. However, such liabilities depend on the actions of third parties and on the specific circumstances pertaining to each obligation, neither of which is controlled by the Group. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided. Further details are set out in note 20.

4. Revenue

An analysis of the Group's revenue, as defined by IAS 18: "Revenue", is as follows:

	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations			
Revenue from the sale of goods		807.8	212.0
Revenue recognised on long-term contracts		3.0	5.9
Revenue from the provision of services		78.5	43.2
Revenue	5	889.3	261.1
Finance income	7	1.8	10.1
Total revenue from continuing operations as defined by IAS 18		891.1	271.2
Discontinued operations			
Revenue from the sale of goods		–	1,056.4
Revenue recognised on long-term contracts		–	0.6
Revenue from the provision of services		–	52.8
Revenue	5,9	–	1,109.8
Finance income		–	0.6
Total revenue from discontinued operations as defined by IAS 18		–	1,110.4
Total revenue as defined by IAS 18		891.1	1,381.6

Notes to the financial statements

continued

5. Segment information

Segment information is presented in accordance with IFRS 8: "Operating segments" which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Board in order to allocate resources to the segments and assess their performance. The Group's reportable operating segments under IFRS 8 are as follows:

Energy – includes the Brush business, a specialist supplier of energy industrial products to the global market.

Air Management – includes the Air Quality & Home Solutions business (AQH), a leading manufacturer of ventilation products for the professional remodelling and replacement markets, residential new construction market, and do-it-yourself market. This division also includes the Heating, Ventilation & Air Conditioning business (HVAC) which manufactures and sells split-system and packaged air conditioners, heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets, along with custom-designed and engineered HVAC products and systems for non-residential applications.

Security & Smart Technology – includes the Security & Control business (SCS) along with the Core Brands and GTO Access Systems businesses. These businesses are manufacturers and distributors of products designed to provide convenience and security primarily for residential applications and audio visual equipment for the residential audio video and professional video market.

Ergonomics – includes the Ergotron business, a manufacturer and distributor of innovative products designed with ergonomic features including wall mounts, carts, arms, desk mounts, workstations and stands that attach to or support a variety of display devices such as notebook computers, computer monitors and flat panel displays.

In addition, there are central cost centres which are also separately reported to the Board. The central corporate cost centre which contains the Melrose Group head office costs along with charges related to the divisional management long-term incentive plans and the remaining Nortek central cost centre.

The discontinued segment in 2015 comprises the Elster disposal group and the Prelok business. The Elster disposal group included the Gas, Electricity and Water segments and their related central costs. The Elster group also contained the Elster divisional long-term incentive plans, the FKI UK defined benefit pension plan and the McKechnie UK defined benefit pension plan.

Transfer prices between business units are set on an arm's length basis in a manner similar to transactions with third parties.

No single customer contributed 10% or more to the Group's revenue in 2016. In 2015, revenues of approximately £67.0 million arose from the Group's largest customer in that year.

The Group's geographical segments are determined by the location of the Group's non-current assets and, for revenue, the location of external customers. Inter-segment sales are not material and have not been disclosed.

Segment revenues and results

The following tables present the revenue, results and certain asset and liability information regarding the Group's operating segments and central cost centres for the year ended 31 December 2016 and the comparative year.

	Notes	Segment revenue from external customers	
		Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations			
Energy		246.4	261.1
Air Management		416.5	–
Security & Smart Technology		130.4	–
Ergonomics		96.0	–
Nortek total		642.9	–
Total continuing operations	4	889.3	261.1
Discontinued operations	4,9	–	1,109.8
Total revenue		889.3	1,370.9

5. Segment information (continued)

	Segment results		
	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations			
Energy		32.0	38.5
Air Management		46.8	–
Security & Smart Technology		17.1	–
Ergonomics		24.4	–
Nortek central		(2.0)	–
Nortek total		86.3	–
Central – corporate ⁽¹⁾		(14.2)	(13.7)
Underlying operating profit	6	104.1	24.8
Items not affecting underlying operating profit	6	(165.7)	(20.0)
Operating (loss)/profit	6	(61.6)	4.8
Finance costs	7	(9.5)	(45.6)
Finance income	7	1.8	10.1
Loss before tax		(69.3)	(30.7)
Tax	8	30.3	14.4
Profit for the year from discontinued operations	9	–	1,424.3
(Loss)/profit for the year		(39.0)	1,408.0

(1) Includes £nil (2015: £1.0 million) of costs relating to divisional Long Term Incentive Plans.

	Total assets		Total liabilities	
	31 December 2016 £m	31 December 2015 £m	31 December 2016 £m	31 December 2015 £m
Continuing operations				
Energy	549.2	496.9	97.8	103.7
Air Management	1,630.0	–	558.2	–
Security & Smart Technology	690.0	–	158.5	–
Ergonomics	756.5	–	144.6	–
Nortek central	5.3	–	(31.0) ⁽¹⁾	–
Nortek total	3,081.8	–	830.3	–
Central – corporate	76.6	2,491.9	616.7	39.7
Total continuing operations	3,707.6	2,988.8	1,544.8	143.4
Discontinued operations	–	–	–	–
Total	3,707.6	2,988.8	1,544.8	143.4

(1) IAS 12 requires the set off of deferred tax assets and liabilities in the same tax jurisdiction. The £31.0 million negative balance within Nortek central liabilities represents £85.5 million of Nortek central deferred tax assets which have been treated as negative liabilities to represent the required offset, and £54.5 million of other Nortek central liabilities.

	Capital expenditure ⁽¹⁾		Depreciation ⁽¹⁾	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations				
Energy	3.6	16.8	9.0	7.5
Air Management	10.3	–	6.4	–
Security & Smart Technology	1.8	–	1.0	–
Ergonomics	1.1	–	1.0	–
Nortek Central	0.1	–	0.5	–
Nortek total	13.3	–	8.9	–
Central – corporate	–	–	0.2	0.6
Total continuing operations	16.9	16.8	18.1	8.1
Discontinued operations	–	39.9	–	11.9
Total	16.9	56.7	18.1	20.0

(1) Including computer software and development costs.

Notes to the financial statements

continued

5. Segment information (continued)

Geographical information

The Group operates in various geographical areas around the world. The Group's country of domicile is the UK and the Group's revenues and non-current assets in Europe and North America are also considered to be material.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding interests in joint ventures, deferred tax assets, derivative financial assets and non-current trade and other receivables) by geographical location are detailed below:

	Revenue ⁽¹⁾ from external customers		Non-current assets	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	31 December 2016 £m	31 December 2015 £m
Continuing operations				
UK	88.9	83.2	183.3	189.3
Europe	82.3	66.3	181.4	146.9
North America	638.8	57.4	2,537.8	23.6
Other	79.3	54.2	36.4	26.1
Total continuing operations	889.3	261.1	2,938.9	385.9
Discontinued operations	–	1,109.8	–	–
Total	889.3	1,370.9	2,938.9	385.9

(1) Revenue is presented by destination.

6. Reconciliation between profit and underlying profit

As described in note 2, underlying profit/(loss) is the alternative performance measure used by the Board to monitor the underlying trading performance of the Group. A reconciliation between the statutory (loss)/profit and underlying profit for 2015 and 2016 is shown below:

		Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations	Notes		
Operating (loss)/profit		(61.6)	4.8
Restructuring costs	a	51.4	7.6
Acquisition and disposal costs	b	38.7	0.3
Amortisation of intangible assets	c	36.3	8.1
Removal of one-off uplift in value of inventory	d	18.2	–
Melrose equity-settled compensation scheme	e	22.8	4.0
Release of fair value provision	f	(1.7)	–
Total adjustments to operating (loss)/profit ⁽¹⁾		165.7	20.0
Underlying operating profit		104.1	24.8

(1) Of the adjustments to operating (loss)/profit, £18.2 million (2015: £nil) relating to the sale of inventory revalued in business combinations has been charged to cost of sales, with the balance of £147.5 million (2015: £20.0 million) included within net operating expenses.

- Restructuring costs in the year ended 31 December 2016 include £31.8 million relating to the closure of the Nortek head office and £13.5 million relating to the restructuring of certain Nortek businesses. Within the Brush business, £6.1 million (2015: £5.9 million) was incurred to align the cost base with the reduced revenue. In addition, in 2015, £1.7 million of restructuring costs related to the introduction of a new holding company for the Group, along with the costs of returning capital to shareholders. These items are excluded from underlying results due to their size and non-trading nature.
- Acquisition and disposal costs relate primarily to the acquisition of Nortek in the year. These items are excluded from underlying results due to their size and non-trading nature.
- The amortisation of intangible assets acquired in business combinations are excluded from underlying results due to their non-trading nature.
- Finished goods and work in progress which are present in a business when acquired are required to be uplifted in value to closer to their selling price. As a result, in the early months following an acquisition, reduced profits are made as the inventory is sold. This one-off effect is excluded from underlying results due to its size and non-recurring nature.
- The charge for the Melrose incentive scheme, including its associated employer's tax charge, is excluded from underlying results due to its size and volatility.
- The release of a fair value provision is excluded from underlying profit because it was previously booked as a fair value item on the acquisition of FKI.

6. Reconciliation between profit and underlying profit (continued)

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations			
Loss before tax		(69.3)	(30.7)
Adjustments to operating (loss)/profit per above		165.7	20.0
Accelerated future year charges following repayment of debt	g	–	13.1
Adjustments to loss before tax		165.7	33.1
Underlying profit before tax		96.4	2.4

g. Following the disposal of Elster in 2015, all existing bank facilities at that time were repaid and all unamortised bank fees were written off because of their size and non-trading nature.

	Notes	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations			
Loss for the year		(39.0)	(16.3)
Adjustments to loss before tax per above		165.7	33.1
Incremental deferred tax asset recognition on UK losses	h	(10.4)	(14.5)
Tax effect of adjustments to underlying profit before tax	8	(45.9)	(3.7)
Adjustments to loss for the year		109.4	14.9
Underlying profit/(loss) for the year		70.4	(1.4)

h. Relating to the recognition of deferred tax assets on UK tax losses which are now considered accessible following acquisition and disposal activities. This is excluded from underlying results due to its size, volatility and non-trading nature.

7. Revenues and expenses

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Net operating expenses comprise:						
Selling and distribution costs	(76.7)	(15.7)	–	(91.5)	(76.7)	(107.2)
Administration expenses ⁽¹⁾	(249.1)	(61.9)	–	(123.1)	(249.1)	(185.0)
Share of results of joint ventures (note 14)	0.9	0.3	–	2.0	0.9	2.3
Total net operating expenses	(324.9)	(77.3)	–	(212.6)	(324.9)	(289.9)

(1) Includes £147.5 million (2015: £20.0 million) of non-underlying costs.

Notes to the financial statements

continued

7. Revenues and expenses (continued)

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Operating profit is stated after charging/(crediting):						
Cost of inventories	626.0	179.0	–	674.1	626.0	853.1
Amortisation of intangible assets acquired in business combinations (note 12)	36.3	8.1	–	23.5	36.3	31.6
Depreciation and impairment	18.4	7.6	–	10.0	18.4	17.6
Amortisation and impairment of computer software and development costs (note 12)	7.5	0.5	–	1.9	7.5	2.4
Operating lease expense	10.7	1.4	–	7.1	10.7	8.5
Staff costs	246.6	95.1	–	269.4	246.6	364.5
Research and development costs	3.9	1.6	–	10.1	3.9	11.7
Profit on disposal of property, plant and equipment	–	–	–	(0.6)	–	(0.6)
Loss on disposal of computer software and development costs	0.2	–	–	–	0.2	–
Expense of writing down inventory to net realisable value	9.3	1.0	–	2.6	9.3	3.6
Reversals of previous write downs of inventory	(6.6)	(0.1)	–	(4.3)	(6.6)	(4.4)
Impairment recognised on trade receivables	3.7	1.0	–	2.7	3.7	3.7
Impairment reversed on trade receivables	(1.1)	(0.2)	–	(1.9)	(1.1)	(2.1)

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	1.8	1.3
Fees payable to the auditor for the audit of the Nortek acquisition Balance Sheet	0.5	–
Total fees payable for the audit of the Company's annual accounts	2.3	1.3
Fees payable to the Company's auditor and their associates for other audit services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	0.5	1.0
Total audit fees⁽¹⁾	2.8	2.3
Audit-related assurance services:		
Review of the half year interim statement	0.1	0.1
Non-statutory audit of certain of the Company's businesses	0.1	0.2
Other assurance services	0.4	0.1
Total audit-related assurance services	0.6	0.4
Total audit and audit-related assurance services	3.4	2.7
Taxation compliance services	0.1	0.1
Other taxation advisory services	0.9	0.5
Corporate finance services	1.8	0.2
Total audit and non-audit fees	6.2	3.5

(1) Includes £nil (2015: £1.2 million) of audit fees shown within discontinued operations.

Details of the Company's policy on the use of auditors for non-audit services and how auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on page 69. No services were provided pursuant to contingent fee arrangements.

7. Revenues and expenses (continued)

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Staff costs during the year (including executive Directors)		
Wages and salaries	204.9	77.4
Social security costs ⁽¹⁾	31.7	9.9
Pension costs (note 23)		
– defined benefit plans	0.1	–
– defined contribution plans	5.9	3.8
Share-based compensation expense	4.0	4.0
Total continuing staff costs	246.6	95.1
Discontinued staff costs ⁽²⁾	–	269.4
Total staff costs	246.6	364.5

(1) Includes the employer's tax charge on the change in value of the Melrose equity-settled incentive scheme (note 6).

(2) Includes £nil (2015: £2.9 million) of defined contribution pension costs and £nil (2015: £2.2 million) of defined benefit pension costs.

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Average monthly number of persons employed (including executive Directors)		
Energy	2,107	2,460
Air Management	6,743	–
Security & Smart Technology	2,602	–
Ergonomics	1,546	–
Nortek central ⁽¹⁾	86	–
Central – corporate	30	34
Total continuing operations	13,114	2,494
Discontinued operations	–	6,701
Total average number of persons employed	13,114	9,195

(1) At 31 December 2016, 10 Nortek central employees remained within the Group.

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Finance costs and income			
Interest on bank loans and overdrafts		(7.7)	(27.9)
Amortisation of costs of raising finance		(0.7)	(15.9)
Net interest cost on pensions		(0.9)	(1.6)
Unwind of discount on provisions		(0.2)	(0.2)
Total finance costs ⁽¹⁾		(9.5)	(45.6)
Finance income		1.8	10.1
Total continuing operations		(7.7)	(35.5)
Discontinued operations ⁽²⁾	9	–	(5.3)
Total net finance costs		(7.7)	(40.8)

(1) Includes finance costs of £nil (2015: £13.1 million) in respect of accelerated future year charges following the repayment of all external debt facilities.

(2) Includes £nil (2015: £3.7 million) net interest cost in relation to pensions.

Notes to the financial statements

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8. Tax

	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Analysis of charge/(credit) in year:						
Current tax	3.0	2.9	–	46.5	3.0	49.4
Deferred tax	(33.3)	(17.3)	–	2.8	(33.3)	(14.5)
Total income tax (credit)/charge	(30.3)	(14.4)	–	49.3	(30.3)	34.9

The total income tax credit in respect of continuing operations of £30.3 million (2015: £14.4 million) includes a tax credit classified as non-underlying tax of £10.4 million (2015: £14.5 million), being the recognition of additional tax losses now considered accessible following acquisition and disposal activities, and a tax credit in respect of the items described as non-underlying in note 6 of £45.9 million (2015: £3.7 million). The tax credit on non-underlying items comprises £18.2 million (2015: £0.4 million) in respect of restructuring costs, £3.9 million (2015: £nil) in respect of acquisition and disposal costs, £12.8 million (2015: £2.1 million) in respect of amortisation of intangible assets, £6.8 million (2015: £nil) in respect of the required uplift in the value of inventory acquired with Nortek, £4.5 million (2015: £0.8 million) in respect of the Melrose equity-settled compensation scheme charge and a charge of £0.3 million (2015: credit of £0.4 million) in respect of other items.

A further change to the main rate of UK corporation tax was enacted in the Finance Act 2016. The UK corporation tax rate will reduce to 19% from 1 April 2017 with a further reduction to 17% from 1 April 2020. The impact of the future rate changes, which have been reflected within these financial statements, have reduced the deferred tax asset by £0.4 million.

Changes to the UK loss utilisation and interest deduction rules have been proposed and will take effect on 1 April 2017. These changes have not yet been substantively enacted, so the effect of these changes has not been recognised within these financial statements. The impact is likely to result in an increase in the deferred tax asset of £17.0 million, due to the increased flexibility over the utilisation of losses expected to crystallise after March 2017.

The tax (credit)/charge for the year for both continuing and discontinued operations can be reconciled to the (loss)/profit per the Income Statement as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
(Loss)/profit on ordinary activities before tax:		
Continuing operations	(69.3)	(30.7)
Discontinued operations (note 9)	–	217.8
	(69.3)	187.1
Tax on (loss)/profit on ordinary activities at weighted average rate 40.82% (2015: 31.54%)	(28.3)	59.0
Tax effect of:		
Disallowable expenses within underlying items	1.6	2.2
Disallowable items in respect of acquisition related costs	7.3	–
Temporary differences not recognised in deferred tax	2.7	(4.3)
Tax credits, withholding taxes and other rate differences	(0.2)	(1.3)
Prior year tax adjustments	(3.0)	(4.6)
Tax credit classified as non-underlying (note 6)	(10.4)	(16.1)
Total tax (credit)/charge for the year	(30.3)	34.9

The reconciliation has been performed at a blended Group tax rate of 40.82% (2015: 31.54%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose.

In addition to the amount charged to the Income Statement, a tax credit of £2.1 million (2015: charge of £7.0 million) has been recognised directly in the Consolidated Statement of Comprehensive Income. This represents a tax charge of £3.3 million (2015: £6.0 million) in respect of retirement benefit obligations, a tax charge of £1.1 million (2015: £0.4 million) in respect of movements on cash flow hedges, a tax credit of £1.3 million (2015: charge of £0.6 million) in respect of tax charged on foreign exchange gains and a tax credit of £5.2 million (2015: £nil) in respect of share based payments.

9. Discontinued operations

Disposal of businesses

On 29 December 2015, the Group completed the sale of the Elster disposal group (note 5) for cash consideration of £3,380.8 million. The costs charged to the Income Statement associated with the disposal in 2015 were £25.6 million. The profit on disposal was £1,256.3 million after the recycling of cumulative translation differences of £123.8 million.

On 18 December 2015, the smaller Prelok business, previously shown within the Energy segment, was disposed of for a loss of £0.5 million.

Financial performance of discontinued operations:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Revenue	–	1,109.8
Operating costs	–	(886.7)
Operating profit	–	223.1
Net finance costs	–	(5.3)
Profit before tax	–	217.8
Tax	–	(49.3)
Profit after tax	–	168.5
Cumulative translation differences recycled on disposals	–	(123.7)
Gain on disposal of net assets of discontinued operations	–	1,379.5
Profit for the year from discontinued operations	–	1,424.3
Attributable to:		
Owners of the parent	–	1,423.4
Non-controlling interests	–	0.9
	–	1,424.3

10. Dividends

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Final dividend for the year ended 31 December 2014 paid of 5.3p (1.0)p ⁽¹⁾	–	52.7
Interim dividend for the year ended 31 December 2015 paid of 2.8p (0.5)p ⁽¹⁾	–	27.9
Final dividend for the year ended 31 December 2015 paid of 2.6p (0.5)p ⁽¹⁾	3.8	–
Interim dividend for the year ended 31 December 2016 paid of 1.4p (0.3)p ⁽¹⁾	2.0	–
	5.8	80.6

(1) Adjusted to include the effects of the Rights Issue (note 11).

Proposed final dividend for the year ended 31 December 2016 of 1.9p per share (2015: 0.5p per share⁽¹⁾) totalling £35.8 million (2015: £3.8 million).

The final dividend of 1.9p was proposed by the Board on 2 March 2017 and, in accordance with IAS 10: "Events after the reporting period", has not been included as a liability in these financial statements.

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11. Earnings per share

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Earnings attributable to owners of the parent		
(Loss)/profit for the purposes of earnings per share	(39.0)	1,407.1
Less: profit for the year from discontinued operations (note 9)	–	(1,423.4)
Earnings for basis of earnings per share from continuing operations	(39.0)	(16.3)

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share including the effects of the Rights Issue ⁽¹⁾ (million)	1,499.3	5,336.6
Further shares for the purposes of diluted earnings per share including the effects of the Rights Issue ⁽¹⁾ (million)	89.8	109.8
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)	1,589.1	5,446.4

(1) On 24 August 2016, a 12 for 1, fully underwritten, Rights Issue was completed by Melrose Industries PLC and subsequently 1,741.6 million new Ordinary Shares were issued raising £1,654.5 million to part fund the acquisition of the Nortek Group. In accordance with IAS 33, a bonus factor associated with the issue of the new share capital of 18.8491% has been applied to the number of Ordinary Shares in issue prior to 24 August 2016 (including comparative periods presented) for the purposes of earnings per share calculations.

On 20 February 2015 the number of Ordinary Shares in issue was consolidated in a ratio of 13 for 14, which reduced the number of Ordinary Shares in issue from 1,071.8 million to 995.2 million.

On 28 January 2016 the number of Ordinary Shares in issue was consolidated in a ratio of 7 for 48, which reduced the number of Ordinary Shares in issue from 995.2 million to 145.1 million.

	Year ended 31 December 2016 pence	Year ended 31 December 2015 pence
Earnings per share		
Basic earnings per share		
From continuing and discontinued operations	(2.6)	26.4
From continuing operations	(2.6)	(0.3)
From discontinued operations	–	26.7
Diluted earnings per share		
From continuing and discontinued operations	(2.6)	25.8
From continuing operations	(2.6)	(0.3)
From discontinued operations	–	26.1

	Note	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Underlying earnings			
Underlying earnings for the basis of underlying earnings per share from continuing operations	6	70.4	(1.4)

	Year ended 31 December 2016 pence	Year ended 31 December 2015 pence
Underlying earnings per share		
Underlying basic earnings per share – continuing	4.7p	Nil p
Underlying diluted earnings per share – continuing	4.4p	Nil p

12. Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Brands and intellectual property £m	Other ⁽¹⁾ £m	Computer software and development costs £m	Total £m
Cost						
At 1 January 2015	1,516.7	836.9	181.7	–	33.7	2,569.0
Additions	–	–	–	–	6.2	6.2
Disposals	–	–	–	–	(0.1)	(0.1)
Exchange adjustments	(68.6)	(42.8)	(5.4)	–	(3.9)	(120.7)
Transfer to held for sale ⁽²⁾	(1,250.0)	(765.7)	(69.9)	–	(31.4)	(2,117.0)
At 31 December 2015	198.1	28.4	106.4	–	4.5	337.4
Acquisition of businesses	1,402.7	556.4	266.5	29.7	15.8	2,271.1
Additions	–	–	–	–	0.6	0.6
Disposals	–	–	–	–	(0.2)	(0.2)
Exchange adjustments	105.2	37.8	25.1	1.9	1.5	171.5
At 31 December 2016	1,706.0	622.6	398.0	31.6	22.2	2,780.4
Amortisation						
At 1 January 2015	–	(117.6)	(41.2)	–	(9.1)	(167.9)
Charge for the year	–	(24.1)	(7.5)	–	(2.4)	(34.0)
Disposals	–	–	–	–	0.1	0.1
Exchange adjustments	–	6.0	1.1	–	2.5	9.6
Transfer to held for sale ⁽²⁾	–	114.4	7.8	–	5.6	127.8
At 31 December 2015	–	(21.3)	(39.8)	–	(3.3)	(64.4)
Charge for the year	–	(18.7)	(11.5)	(6.1)	(2.2)	(38.5)
Impairments ⁽³⁾	–	–	–	–	(5.3)	(5.3)
Exchange adjustments	–	(1.3)	(3.2)	(0.2)	(0.5)	(5.2)
At 31 December 2016	–	(41.3)	(54.5)	(6.3)	(11.3)	(113.4)
Net book value						
At 31 December 2016	1,706.0	581.3	343.5	25.3	10.9	2,667.0
At 31 December 2015	198.1	7.1	66.6	–	1.2	273.0
At 1 January 2015	1,516.7	719.3	140.5	–	24.6	2,401.1

(1) Other includes technology and order backlog intangible assets acquired with the Nortek businesses.

(2) Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

(3) Impairment of computer software relates to the closure of Nortek head office.

The goodwill generated as a result of major acquisitions (which includes Nortek in the year) represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The carrying value of goodwill includes a premium, paid in order to secure shareholder agreement to the business combination, that is less than the value that the Directors believed could be added to the acquired businesses through the application of their specialist turnaround experience.

The goodwill arising on bolt on acquisitions is attributable to the anticipated profitability and cash flows arising from the businesses acquired, synergies as a result of the complementary nature of the business with existing Melrose businesses, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group.

The future improvements applied to the acquired businesses, (which includes Nortek in the year) achieved through a combination of revised strategic direction, operational improvements and investment, are expected to result in improved profitability of the acquired businesses during the period of ownership and are also expected to result in enhanced disposal proceeds when the acquired businesses are ultimately disposed. The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

Notes to the financial statements

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12. Goodwill and other intangible assets (continued)

Goodwill acquired in business combinations has been allocated to the businesses, each of which comprises several cash-generating units, as follows:

	31 December 2016 £m	31 December 2015 £m
Continuing operations		
Energy	212.9	198.1
Air Management	697.2	–
Security & Smart Technology	347.2	–
Ergonomics	448.7	–
Nortek total	1,493.1	–
Total continuing operations	1,706.0	198.1

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Value in use calculations are used to determine the recoverable amount of goodwill allocated to each group of cash-generating units (CGUs) which use the latest approved forecasts extrapolated to perpetuity using growth rates shown below, and which do not exceed the long-term growth rate for the relevant market. Based on impairment testing completed at the year end, no impairment was identified. The basis of these impairment tests and the key assumptions are set out in the table below:

Group of CGUs	Basis of valuation	Carrying value of goodwill £m	Pre-tax discount rates ⁽¹⁾	Period of forecast	Key assumptions applied in the forecast cash flow projections ⁽²⁾	Long-term growth rates ⁽²⁾
31 December 2016						
Energy	Value in use	212.9	11.0%	5 years	Revenue growth, operating margins	2.2%
Air Management	Value in use	697.2	12.8%	4 years	Revenue growth, operating margins	3.0%
Security & Smart Technology	Value in use	347.2	12.7%	4 years	Revenue growth, operating margins	3.0%
Ergonomics	Value in use	448.7	12.6%	4 years	Revenue growth, operating margins	3.0%
31 December 2015						
Energy	Value in use	198.1	11.1%	3 years	Revenue growth, operating margins	2.3%

(1) Pre-tax risk adjusted discount rates

Cash flows are discounted using a pre-tax discount rate specific to each group of CGUs. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. In determining the cost of equity, the Capital Asset Pricing Model (CAPM) has been used. Under CAPM, the cost of equity is determined by adding a risk premium to the risk free rate to reflect the additional risk associated with investing outside of lending to a country. The risk free rate for the Energy group of CGUs is based on the cost of UK Government bonds, whilst the risk free rate for the Air Management, Security & Smart Technology and Ergonomics groups of CGUs are based on the cost of US Government bonds. The premium is based on an industry adjustment (Beta) to the expected return of the equity market above the risk free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and geographies on average.

(2) Assumptions applied in financial forecasts

The Group prepares cash flow forecasts derived from financial budgets and medium-term forecasts. The key assumptions used in forecasting pre-tax cash flows relate to future budgeted revenue and operating margins likely to be achieved and the likely rates of long-term growth by market sector. Underlying factors in determining the values assigned to each key assumption are shown below:

Revenue growth and operating margins

Revenue growth assumptions in the forecast period are based on financial budgets and medium-term forecasts by management, taking into account industry growth rates and management's historical experience in the context of wider industry and economic conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performance, historical growth rates, projections of developments in key markets, secured orders and orders likely to be achieved in the short to medium-term given trends in the relevant market sector.

12. Goodwill and other intangible assets (continued)

Operating margins have been forecast based on historical levels achieved considering the likely impact of changing economic environments and competitive landscapes on volumes and revenues and the impact of management actions on costs. Projected margins reflect the impact of all initiated projects to improve operational efficiency and leverage scale. The projections do not include the impact of future restructuring projects to which the Group is not yet committed. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

Brush is a supplier of turbogenerators for the power generation, industrial, Oil & Gas and offshore sectors and a leading supplier of switchgear, transformers and other power infrastructure equipment. The key drivers for revenues and operating margins are i) original equipment investments in the global power market, both new capacity (mainly emerging markets) and replacement capacity (mainly in mature markets) ii) growth in service requirements of a growing installed base and iii) new product introduction. Independent forecasts of growth in these power generation markets have been used to derive revenue growth assumptions. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

Nortek is a diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions.

Air Management is a leading provider of residential indoor air quality improvement solutions, home comfort and convenience products and heating, ventilation and air conditioning equipment for both residential and commercial markets. The key drivers for revenue and operating margins are the levels of residential remodelling and replacement activity and the levels of residential and non-residential new construction in the markets in which Air Management operates. New residential and non-residential construction activity and, to a lesser extent, residential remodelling and replacement activity are affected by seasonality and cyclical factors such as interest rates, credit availability, inflation, consumer spending, employment levels and other macroeconomic factors.

Security & Smart Technology is a leading developer and manufacturer of security, home automation and access control technologies for residential and commercial markets' service providers. The key driver for revenue and operating margins is global demand for security and home automation products. Consumer spending, employment levels, regulation, technological advancements and the evolution of the traditional security market towards home automation and other macroeconomic factors influence demand for these products.

The Ergonomics segment includes Ergotron, one of the world's largest manufacturers of computer ergonomics equipment. Ergotron provides a wide variety of solutions to healthcare, education, corporate office and home applications. The key driver for revenue and operating margins is demand for technology and wellness products in the markets in which Ergotron operates. Seasonal factors, public authority spending, corporate and consumer spending, employment levels, the public awareness of wellness, regulation, technological advancements and other macroeconomic factors influence demand for these products.

(3) Long-term growth rates

Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and a long-term growth rate forecast and further take into account the international presence and the markets in which each business operates.

Energy group of CGUs – Brush China

The goodwill related to the Energy group of CGUs is tested for impairment by comparing the carrying amount of the Energy group against recoverable amounts of the Energy CGUs. As disclosed within note 3, determination of the Brush China recoverable amount involved management judgement on highly uncertain matters, particularly with respect to the level of demand for generators in the Chinese market, the successful resolution of current customer discussions, and therefore the timing and quantity of forecast unit sales, as well as long term growth rates and discount factors. The value in use model prepared for Brush China was prepared using cash flow projections to the end of the life of the Brush China factory, was discounted at a pre-tax discount rate of 11.7% and used sale price and cost inflation data from available market sources.

Sensitivity analysis

The forecasts, prepared using a methodology required by IAS 36: "Impairment of assets", show headroom of £95.4 million above the carrying amount for the Energy group of CGUs. In accordance with IAS 36 a sensitivity analysis has been undertaken and a reasonably possible increase in the discount rate from 11.0% to 12.8% would reduce headroom to £nil. A reasonably possible decrease in revenue in 2017 of 19% from 2016 revenue of £246.4 million (on a constant currency basis) would also reduce headroom to £nil. The recoverable amounts of the Air Management, Security & Smart Technology, and Ergonomics groups of CGUs are higher than the recent acquisition date fair values of these groups of CGUs, and as a result, no sensitivity analysis has been disclosed.

Notes to the financial statements

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12. Goodwill and other intangible assets (continued)

Allocation of significant intangible assets

The allocation of significant customer relationships, brands and intellectual property is as follows:

	Customer relationships				Brands and intellectual property			
	Remaining amortisation period		Net book value		Remaining amortisation period		Net book value	
	31 December 2016 years	31 December 2015 years	31 December 2016 £m	31 December 2015 £m	31 December 2016 years	31 December 2015 years	31 December 2016 £m	31 December 2015 £m
AQH	14	–	213.0	–	15	–	65.9	–
HVAC	11	–	117.7	–	15	–	84.6	–
SCS	14	–	130.4	–	15	–	30.0	–
Ergotron	10	–	115.7	–	18	–	97.4	–
Brush	2	3	4.5	7.1	12	13	65.6	66.6
			581.3	7.1			343.5	66.6

Acquisition of businesses

On 31 August 2016 the Group acquired 100 per cent of the issued share capital and obtained control of Nortek Inc. (Nortek) for cash consideration of £1,093.1 million.

Nortek is a leading diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions (note 5).

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below. Fair values are provisional as of 31 December 2016 and are based on the information held to date. Should additional information come to light that would require adjustment to the fair values recognised in the table below, such adjustments would be recorded if material.

	Fair value £m
Nortek	
Property, plant and equipment	143.3
Intangible assets, computer software and development costs	868.4
Interests in joint ventures	3.0
Inventories	255.6
Trade and other receivables	301.5
Cash and cash equivalents	9.4
Trade and other payables	(360.4)
Provisions	(209.7)
Deferred tax	(163.7)
Retirement benefit obligations	(42.2)
Current tax	(9.4)
Interest-bearing loans and borrowings	(1,065.9)
Net liabilities	(270.1)
Total consideration	1,093.1
Goodwill	1,363.2
Amounts recycled to goodwill	39.5
Total goodwill	1,402.7
Total consideration satisfied by:	
Cash consideration	1,093.1

Acquisition related costs charged through the Income Statement amount to £38.7 million (note 6).

The fair value of financial assets include gross trade and other receivables of £318.3 million. The best estimate at acquisition date of the contractual cash flows not to be collected is £16.8 million.

Amounts recycled to goodwill of £39.5 million relates to the impact of the Group's hedging strategy to fix the cash cost of the consideration at the date of the acquisition announcement. The difference between the cash cost based on the exchange rate on the date of completion and the exchange rate entered into to hedge the transaction, representing the effective element of the hedge, has been recycled to goodwill.

Nortek contributed £642.9 million to revenue and £86.3 million to underlying operating profit for the four month period between the date of acquisition and the Balance Sheet date.

12. Goodwill and other intangible assets (continued)

If the acquisition of Nortek had been completed on the first day of the financial year, Group revenues would have been approximately £2,077 million and Group underlying operating profit would have been approximately £196 million.

The goodwill arising on acquisition of Nortek is attributable to the anticipated profitability and cash flows arising from the businesses acquired, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group, and which, as described earlier in this note, the Group expects to realise through a combination of revised strategic direction, operational improvements and investment. None of the goodwill is expected to be deductible for income tax purposes.

Contingent liabilities acquired in respect of warranty obligations of £7.6 million and legal claims of £15.2 million have been recognised within provisions, none of which were utilised in the period. The majority of expenditure is expected to be incurred over the next five years.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2015	86.5	191.9	278.4
Additions	5.9	23.7	29.6
Disposals	(1.1)	(1.8)	(2.9)
Disposal of businesses	–	(2.5)	(2.5)
Exchange adjustments	(2.9)	(8.5)	(11.4)
Transfer to held for sale ⁽¹⁾	(35.6)	(114.3)	(149.9)
At 31 December 2015	52.8	88.5	141.3
Additions	1.6	14.7	16.3
Disposals	–	(0.5)	(0.5)
Acquisition of businesses	74.3	69.0	143.3
Exchange adjustments	10.2	14.7	24.9
At 31 December 2016	138.9	186.4	325.3
Accumulated depreciation and impairment			
At 1 January 2015	(9.6)	(69.2)	(78.8)
Charge for the year	(2.3)	(15.3)	(17.6)
Disposals	0.5	1.3	1.8
Disposal of businesses	–	2.3	2.3
Exchange adjustments	0.5	4.2	4.7
Transfer to held for sale ⁽¹⁾	6.6	52.6	59.2
At 31 December 2015	(4.3)	(24.1)	(28.4)
Charge for the year	(2.6)	(13.3)	(15.9)
Disposals	–	0.2	0.2
Impairments ⁽²⁾	(2.2)	(0.3)	(2.5)
Exchange adjustments	(2.0)	(4.8)	(6.8)
At 31 December 2016	(11.1)	(42.3)	(53.4)
Net book value			
At 31 December 2016	127.8	144.1	271.9
At 31 December 2015	48.5	64.4	112.9
At 1 January 2015	76.9	122.7	199.6

(1) Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

(2) The impairment charges in the year relate to the closure of the Nortek head office.

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14. Interests in joint ventures

	31 December 2016 £m	31 December 2015 £m
Aggregated amounts relating to joint ventures:		
Share of assets	2.6	2.4
Share of liabilities	(2.6)	(2.4)
Interests in joint ventures	–	–
Share of joint venture revenues	1.9	1.7
Share of results of joint ventures	0.9	0.3
Dividends received from joint ventures	(0.9)	(0.3)

A list of subsidiaries and significant holdings including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

15. Inventories

	31 December 2016 £m	31 December 2015 £m
Raw materials	74.9	14.0
Work in progress	48.4	31.4
Finished goods	174.0	10.2
	297.3	55.6

The Directors consider that there is no material difference between the Balance Sheet value of inventories and their replacement cost.

Construction contracts

	31 December 2016 £m	31 December 2015 £m
Contracts in progress at the Balance Sheet date:		
Amounts due from contract customers included in other receivables	2.3	4.3
	2.3	4.3
Contract costs incurred plus recognised profit less recognised losses to date	2.3	7.5
Less: progress billings	–	(3.2)
	2.3	4.3

The average life of contracts is one to two years (31 December 2015: one to two years).

16. Trade and other receivables

	31 December 2016 £m	31 December 2015 £m
Current		
Trade receivables	348.4	58.1
Allowance for doubtful receivables	(18.3)	(0.8)
Other receivables	15.2	4.3
Prepayments	20.5	6.3
	365.8	67.9

Trade receivables are non interest-bearing. Credit terms offered to customers vary upon the country of operation but are generally between 30 and 90 days.

	31 December 2016 £m	31 December 2015 £m
Non-current		
Other receivables	5.2	1.1

16. Trade and other receivables (continued)

An allowance has been made for estimated irrecoverable amounts with reference to past default experience and management's assessment of credit worthiness, an analysis of which is as follows:

	Nortek £m	Energy £m	Discontinued £m	Total £m
At 1 January 2015	–	0.2	7.2	7.4
Income Statement charge	–	0.8	0.8	1.6
Utilised	–	(0.2)	(0.6)	(0.8)
Exchange differences	–	–	(0.7)	(0.7)
Transfer to held for sale ⁽¹⁾	–	–	(6.7)	(6.7)
At 31 December 2015	–	0.8	–	0.8
Acquisition of businesses	16.8	–	–	16.8
Income Statement charge	2.2	0.4	–	2.6
Utilised	(2.6)	(0.3)	–	(2.9)
Exchange differences	0.9	0.1	–	1.0
At 31 December 2016	17.3	1.0	–	18.3

(1) Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

The concentration of credit risk is limited due to the large number of customers and because they are unrelated to each other. Credit control procedures are implemented to ensure that sales are only made to organisations that are willing and able to pay for them. Such procedures include the establishment and review of customer credit limits and terms. The Group does not hold any collateral or any other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The ageing of impaired trade receivables past due is as follows:

	31 December 2016 £m	31 December 2015 £m
Ageing of impaired trade receivables past due		
0 – 30 days	8.6	–
31 – 60 days	6.2	–
60+ days	3.5	0.8
	18.3	0.8

Included in the Group's trade receivables balance are overdue trade receivables with a carrying amount of £62.5 million (31 December 2015: £13.6 million) against which an appropriate provision of £18.3 million (31 December 2015: £0.8 million) is held.

The balance deemed recoverable of £44.2 million (31 December 2015: £12.8 million) is past due as follows:

	31 December 2016 £m	31 December 2015 £m
0 – 30 days	41.9	5.6
31 – 60 days	0.9	2.6
60+ days	1.4	4.6
	44.2	12.8

The Directors consider that the carrying amount of trade and other receivables, including amounts not past due and not impaired, approximates to their fair value.

17. Cash and cash equivalents

	31 December 2016 £m	31 December 2015 £m
Cash and cash equivalents	42.1	2,451.4

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates. The carrying amount of these assets is considered to be equal to their fair value. The high value in cash and cash equivalents at 31 December 2015 primarily related to the receipt of funds as a result of the proceeds from the disposal of the Elster disposal group. The associated capital return to shareholders took place in January 2016 and reduced cash back to normal operating levels.

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18. Trade and other payables

	31 December 2016 £m	31 December 2015 £m
Current		
Trade payables	230.2	30.3
Other payables	22.6	12.2
Other taxes and social security	7.4	0.9
Accruals	166.2	27.8
	426.4	71.2

Trade payables are non interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade and other payables is 66 days (2015: 68 days).

	31 December 2016 £m	31 December 2015 £m
Non-current		
Other payables	9.6	–
Accruals	4.1	–
	13.7	–

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details of the Group's exposure to credit, liquidity, interest rate and foreign currency risk are included in note 24.

	Current		Non-current		Total	
	31 December 2016 £m	31 December 2015 £m	31 December 2016 £m	31 December 2015 £m	31 December 2016 £m	31 December 2015 £m
Floating rate obligations						
Bank borrowings – US Dollar loan	–	–	590.5	–	590.5	–
Fixed rate obligations						
Bank borrowings – Euro loan	–	–	1.7	–	1.7	–
Finance leases						
Finance leases	0.5	–	1.1	–	1.6	–
	0.5	–	593.3	–	593.8	–
Unamortised finance costs	–	–	(10.2)	–	(10.2)	–
Total interest-bearing loans and borrowings	0.5	–	583.1	–	583.6	–

As at 1 January 2016, the Group held a £200 million Sterling multi-currency revolving credit facility that was undrawn. This facility was due to mature on 11 July 2019.

On 6 July 2016 a new five year multi-currency US\$1.25 billion committed bank facility was entered into to assist with the acquisition of Nortek and the £200 million revolving credit facility was subsequently cancelled. The new facility consists of a US\$350 million term loan facility and a US\$900 million revolving credit facility.

The US\$350 million term loan facility was fully drawn at 31 December 2016. The drawdowns under the revolving credit facility as of 31 December 2016 were US\$379 million.

Throughout the year, the Group remained compliant with all covenants under the facilities disclosed above. A number of companies are guarantors under the new bank facility.

Drawdowns under the new facility bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio, ranging between 0.85% and 2.00% (31 December 2015: range between 0.75% to 1.90%). The margin as at 31 December 2016 was 1.35% (31 December 2015: 1.55%).

19. Interest-bearing loans and borrowings (continued)**Maturity of financial liabilities**

The table below shows the maturity profile of anticipated future cash flows, including interest, on an undiscounted basis in relation to the Group's financial liabilities. The amounts shown therefore differ from the carrying value and fair value of the Group's financial liabilities. The contractual terms of derivative liabilities requires gross settlement. Note 24 provides details on notional amounts, and therefore, gross settlements, of material currency pairs.

	Interest-bearing loans and borrowings £m	Derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
Within one year	15.2	4.2	419.0	438.4
In one to two years	18.6	–	13.7	32.3
In two to five years	644.9	–	–	644.9
After five years	0.8	–	–	0.8
Effect of financing rates	(95.9)	–	–	(95.9)
31 December 2016	583.6	4.2	432.7	1,020.5
Within one year	–	1.5	70.3	71.8
In one to two years	–	–	–	–
In two to five years	–	–	–	–
Effect of financing rates	–	–	–	–
31 December 2015	–	1.5	70.3	71.8

20. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Warranty related costs £m	Product liability £m	Employee related £m	Other £m	Total £m
At 1 January 2016	5.0	16.8	2.8	–	–	5.4	30.0
Acquisition of businesses	10.2	49.0	76.3	37.8	11.3	25.1	209.7
Utilised	(1.9)	(4.8)	(7.9)	(1.9)	(16.0)	(29.6)	(62.1)
Net charge to operating profit ⁽¹⁾	5.3	2.3	6.4	4.4	12.9	54.3	85.6
Transfer from accruals	–	–	2.5	–	–	0.3	2.8
Unwind of discount	0.1	0.1	–	–	–	–	0.2
Exchange differences	1.0	3.0	4.9	2.2	0.7	1.6	13.4
At 31 December 2016	19.7	66.4	85.0	42.5	8.9	57.1	279.6
Current	4.9	32.6	33.3	11.5	5.4	50.4	138.1
Non-current	14.8	33.8	51.7	31.0	3.5	6.7	141.5
	19.7	66.4	85.0	42.5	8.9	57.1	279.6

(1) Includes £61.4 million of restructuring charges and other non-underlying items and £24.2 million charged through underlying operating profit.

The provision for surplus leasehold property costs represents the estimated net payments payable over the term of these leases together with any dilapidation costs. This is expected to result in cash expenditure over the next one to eight years.

Environmental and legal costs provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims. Due to their nature, it is not possible to predict precisely when these provisions will be utilised.

The provision for warranty related costs represents the best estimate of the expenditure required to settle the Group's obligations, based on past experiences. Warranty terms are, on average, between one and five years.

The employee related provision relates to the estimated cost of the Group's health insurance and workers compensation plans. The product liability provision relates to the estimated cost of future product and general liabilities claims. Due to their nature it is not possible to predict precisely when these provisions will be utilised.

Other provisions relate to costs that will be incurred in respect of restructuring programmes, usually resulting in cash spend within one year. In addition other provisions include long term incentive plans for divisional senior management and the employer tax on equity-settled incentive schemes which are expected to result in cash expenditure over the next five years.

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2015: 3%).

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21. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

	Deferred tax assets		Deferred tax liabilities		
	Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2015	68.7	(7.5)	(259.8)	(267.3)	(198.6)
Credit to income	22.1	1.0	9.5	10.5	32.6
Charge to other comprehensive income	(0.5)	(5.2)	–	(5.2)	(5.7)
Transfer to held for sale ⁽¹⁾	(61.9)	5.2	224.1	229.3	167.4
Exchange differences	(2.7)	–	12.5	12.5	9.8
At 31 December 2015	25.7	(6.5)	(13.7)	(20.2)	5.5
Acquisition	168.2	–	(331.9)	(331.9)	(163.7)
Credit/(charge) to income	22.8	(2.3)	12.8	10.5	33.3
Credit/(charge) to other comprehensive income	4.8	(2.7)	–	(2.7)	2.1
Exchange differences	1.2	(0.2)	(22.6)	(22.8)	(21.6)
	222.7	(11.7)	(355.4)	(367.1)	(144.4)
Set off of assets and liabilities ⁽²⁾	(173.4)	–	173.4	173.4	–
Net amount at 31 December 2016	49.3	(11.7)	(182.0)	(193.7)	(144.4)

(1) Transfers to assets and liabilities held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

(2) Set off of deferred tax assets and liabilities in accordance with IAS 12 within the Nortek US Federal tax group.

As at 31 December 2016, the Group had gross unused federal and corporate losses of £274.4 million (31 December 2015: £184.0 million) available for offset against future profits. At 31 December 2016, a £34.9 million deferred tax asset (31 December 2015: £21.2 million) in respect of £169.1 million (31 December 2015: £114.8 million) of these gross losses was recognised in the Balance Sheet. No asset was recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams. The majority of these losses may be carried forward indefinitely subject to certain continuity of business requirements. In addition a deferred tax asset has been recognised on certain federal tax credits and state tax losses with a net tax value of £31.8 million (2015: £nil).

A net deferred tax asset of £5.5 million (31 December 2015: liabilities of £0.3 million) was recognised in respect of Group retirement benefit obligations.

As at 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was £187.5 million (31 December 2015: £99.5 million) on which deferred tax liabilities not recognised were £33.8 million (31 December 2015: £nil). No liability is recognised in respect of £170.3 million (2015: £99.5 million) of the temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. Share-based payments

Melrose Incentive Plan

The Company has 50,000 options (31 December 2015: 50,000 options) in issue which enable the holders of these options to subscribe for 2012 Incentive Shares. These options are held by Directors and senior employees. Further details of the 2012 Melrose Incentive Plan are provided in the Directors' Remuneration Report on pages 76 to 77.

The inputs into the Black Scholes model that were used to fair value the plan when it was originally established in 2012 were as follows:

	Valuation assumptions ⁽¹⁾
Weighted average share price	£0.43
Weighted average exercise price	£0.54
Expected volatility	30%
Expected life as at inception	5.0 years
Risk free interest	1.0%

(1) Adjusted to include the effects of the Rights Issue (note 11).

22. Share-based payments (continued)

Expected volatility was determined by calculating the historical volatility of the Company's share price.

The Group recognised an IFRS 2 charge of £4.0 million (2015: £4.0 million) in the year ended 31 December 2016 in relation to the equity-settled 2012 Melrose Incentive Plan.

23. Retirement benefit obligations

Defined contribution plans

The Group operates defined contribution plans for qualifying employees across several jurisdictions. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The total costs charged in relation to the continuing businesses during the year of £5.9 million (2015: £3.8 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors defined benefit plans for qualifying employees of certain subsidiaries. The funded defined benefit plans are administered by a separate fund that is legally separated from the Group. The trustees of the funds are required by law to act in the interest of the fund and of all relevant stakeholders in the plans. The trustees of the pension funds are responsible for the investment policy with regard to the assets of the fund.

During the year, a number of plans were acquired as part of the acquisition of Nortek. Plans acquired include the funded Nortek, Inc. Retirement Plan, the unfunded Nortek Supplemental Executive Retirement Plans and the unfunded post retirement medical benefits in the US, the Eaton-Williams Group Pension and Assurance Scheme in the UK and a number of small funded and unfunded defined arrangements across Europe.

The most significant defined benefit pension plans in the Group at 31 December 2016 were:

- The Brush Group (2013) (Brush UK) Pension Plan, which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits for existing members.
- The Brush Aftermarket North America, Inc. (Brush US) Group Pension Plan which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits for existing members.
- The Nortek, Inc. (Nortek US) Retirement Plan, which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits to existing members.

The cost of the Group's defined benefit plans are determined in accordance with IAS 19 (revised): "Employee benefits" using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US.

The valuation of the Brush UK Pension Plan was based on a full actuarial valuation as of 31 December 2013, updated at 31 December 2016 by independent actuaries. The Brush US Pension Plan valuation was based on a full actuarial valuation as of 31 December 2015, updated at 31 December 2016 by independent actuaries. The Nortek US Pension Plan valuation was based on a full actuarial valuation as of 1 January 2016, updated at 31 December 2016 by independent actuaries.

The Group contributed £10.5 million (2015: £5.1 million) to the defined benefit pension plans in the year ended 31 December 2016.

Following agreement with the Brush Group (2013) Pension Plan Trustees, the Group contributed £8.8 million early to the Brush UK Pension Plan in the year ended 31 December 2016. No contributions are expected to be made in the year ending 31 December 2017. The Group expects to contribute approximately £0.1 million to the Brush US Pension Plan in the year ending 31 December 2017. The Group expects to contribute approximately £3.7 million to the Nortek US Plan in the year ending 31 December 2017.

In total, the Group expects to contribute approximately £4.9 million to its defined benefit plans in the year ending 31 December 2017.

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23. Retirement benefit obligations (continued)

Actuarial assumptions

The major assumptions used by the actuaries in calculating the Group's pension liabilities are as set out below:

	31 December 2016		31 December 2015	
	UK Plans % p.a.	US Plans % p.a.	Brush UK Plan % p.a.	Brush US Plan % p.a.
Rate of increase in salaries	n/a	n/a	n/a	n/a
Rate of increase in pensions in payment	3.3	n/a	3.0	n/a
Discount rate	2.7	3.9	3.7	4.1
RPI inflation assumption	3.3	n/a	3.0	n/a
CPI inflation assumption	2.2	n/a	1.9	n/a

Mortality

Brush UK Pension Plan

Mortality assumptions for the Brush UK Pension Plan, as at 31 December 2016 were based on the Self Administered Pension Scheme (SAPS) "S1" base tables with a scaling factor of 110%, which reflected the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation (CMI) improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

The assumptions were that a member currently aged 65 will live on average for a further 21.4 years (31 December 2015: 21.4 years) if they are male and for a further 23.6 years (31 December 2015: 23.6 years) if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 22.8 years (31 December 2015: 23.0 years) after retirement if they are male and for a further 25.1 years (31 December 2015: 25.5 years) after retirement if they are female.

The mortality assumptions were consistent with those adopted for the full valuation as at 31 December 2013.

Brush US Pension Plan

The mortality assumptions adopted as at 31 December 2016 were set to reflect the Group's best estimate view of life expectancies of members of the pension arrangement. Each assumption reflected the characteristics of the membership of the Brush US Pension Plan.

The assumptions were that a member currently aged 65 will live on average for a further 19.9 years (31 December 2015: 20.3 years) if they are male and for a further 21.9 years (31 December 2015: 22.3 years) if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 21.5 years (31 December 2015: 22.0 years) after retirement if they are male and for a further 23.5 years (31 December 2015: 23.9 years) after retirement if they are female.

The mortality assumptions were consistent with those adopted for the full valuation as at 31 December 2015.

Nortek US Pension Plan

The mortality assumptions adopted as at 31 December 2016 were set to reflect the Group's best estimate view of life expectancies of members of the pension arrangement. Each assumption reflected the characteristics of the membership of the Nortek US Pension Plan.

The assumptions were that a member currently aged 65 will live on average for a further 20.2 years if they are male and for a further 22.3 years if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 21.8 years after retirement if they are male and for a further 23.9 years after retirement if they are female.

The mortality assumptions were consistent with those adopted for the full valuation as at 1 January 2016.

23. Retirement benefit obligations (continued)

Balance Sheet disclosures

The amount recognised in the Balance Sheet arising from net liabilities in respect of defined benefit plans was as follows:

	31 December 2016 £m	31 December 2015 £m
Present value of funded defined benefit obligations	(549.1)	(360.7)
Fair value of plan assets	522.6	343.5
Funded status	(26.5)	(17.2)
Present value of unfunded defined benefit obligations	(6.9)	–
Net liabilities	(33.4)	(17.2)

The plan liabilities and assets at 31 December 2016 were split by plan as follows:

	Brush UK Plan £m	Brush US Plan £m	Nortek US Plan £m	Nortek European Plans £m	Total £m
Plan liabilities	(236.4)	(188.1)	(95.5)	(36.0)	(556.0)
Plan assets	253.5	174.9	73.6	20.6	522.6
Net assets/(liabilities)	17.1	(13.2)	(21.9)	(15.4)	(33.4)

The major categories and fair values of plan assets at the end of the reporting period for each category were as follows:

	31 December 2016 £m	31 December 2015 £m
Equities	152.4	129.2
Government bonds	107.1	80.1
Corporate bonds	155.0	122.2
Property	6.7	5.7
Other ⁽¹⁾	101.4	6.3
Total	522.6	343.5

(1) At 31 December 2016, £73.6 million of assets in relation to the Nortek US Plan were held in cash as they were in the process of being transferred to the new plan custodian. The investment strategy is now approximately 60% equities and 40% bonds.

The assets were well diversified and the majority of plan assets had quoted prices in active markets. All government bonds were issued by reputable governments and were generally AA rated or higher. Interest rate and inflation rate swaps were also employed to complement the role of fixed and index-linked bond holdings for liability risk management.

The trustees continually review whether the chosen investment strategy is appropriate with a view to providing the pension benefits and to ensure appropriate matching of risk and return profiles. The main strategic policies included maintaining an appropriate asset mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results were regularly reviewed.

There was no self investment (other than in relevant tracker funds) either in the Group's own financial instruments or property or other assets used by the Group.

Notes to the financial statements

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23. Retirement benefit obligations (continued)

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
At beginning of year	360.7	1,343.7
Acquisition of businesses	136.3	–
Current service cost	0.1	1.0
Past service cost	–	(2.2)
Interest cost on obligations	15.4	29.4
Terminations	–	(2.6)
Remeasurement gains – demographic	(6.1)	(19.2)
Remeasurement losses/(gains) – financial	42.1	(39.8)
Remeasurement gains – experience	(2.8)	(7.2)
Benefits paid out of plan assets	(26.6)	(56.1)
Benefits paid out of Group assets for unfunded plans	(0.5)	(4.8)
Currency translation differences	37.4	0.9
Transfer to held for sale ⁽¹⁾	–	(882.4)
At end of year	556.0	360.7

(1) Transferred to liabilities held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

The defined benefit plan liabilities were 2% (31 December 2015: nil%) in respect of active plan participants, 53% (31 December 2015: 53%) in respect of deferred plan participants and 45% (31 December 2015: 47%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2016 was 14.4 years (31 December 2015: 15.0 years).

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
At beginning of year	343.5	1,125.2
Acquisition of businesses	94.1	–
Interest income on plan assets	14.5	25.7
Return on plan assets, excluding interest income	55.9	(24.4)
Contributions	10.0	15.4
Benefits paid out of plan assets	(26.6)	(56.1)
Plan administrative costs	(1.9)	(2.2)
Currency translation differences	33.1	8.5
Transfer to held for sale ⁽¹⁾	–	(748.6)
At end of year	522.6	343.5

(1) Transferred to liabilities held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

The actual return on plan assets was a gain of £70.4 million (2015: £1.3 million).

23. Retirement benefit obligations (continued)

Income Statement disclosures

Amounts recognised in the Income Statement in respect of these defined benefit plans were as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations		
Included within underlying operating profit:		
– current service cost	0.1	–
– past service cost	–	(2.2)
– plan administrative costs	1.9	1.3
Included within net finance costs:		
– interest cost on defined benefit obligations	15.4	14.5
– interest income on plan assets	(14.5)	(12.9)
Discontinued operations		
Included within operating profit:		
– current service cost	–	2.2
– past service cost	–	(0.1)
– plan administrative expenses	–	2.7
– terminations	–	(2.6)
Included within net finance costs:		
– interest cost on defined benefit obligations	–	30.0
– interest income on plan assets	–	(26.3)

Statement of Comprehensive Income disclosures

Amounts recognised in the Statement of Comprehensive Income in respect of these defined benefit plans were as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Return on plan assets, excluding amounts included in net interest expense	55.9	(38.2)
Actuarial gains arising from changes in demographic assumptions	6.1	31.9
Actuarial (losses)/gains arising from changes in financial assumptions	(42.1)	48.7
Actuarial gains arising from experience adjustments	2.8	15.1
Net remeasurement gain on retirement benefit obligations	22.7	57.5

Risks and sensitivities

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, salary risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or plan specific risks.

A sensitivity analysis on the principal assumptions used to measure the plan liabilities at the year end was as follows:

	Change in assumption	Decrease/(increase) to plan liabilities £m	Increase/(decrease) to profit before tax £m
Discount rate	Increase by 0.10%	7.7	0.2
	Decrease by 0.10%	(8.0)	(0.2)
Inflation assumption ⁽¹⁾	Increase by 0.10%	(4.5)	n/a
	Decrease by 0.10%	1.8	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(19.4)	n/a
	Decrease by 1 year	18.5	n/a

(1) The inflation sensitivity encompasses the impact on pension increases, where applicable.

The sensitivity analysis above was determined based on reasonable possible changes to the respective assumptions, while holding all other assumptions constant. There has been no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Notes to the financial statements

continued

23. Retirement benefit obligations (continued)

The sensitivities were based on the relevant assumptions and membership profile as at 31 December 2016 and were applied to the obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of the assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

24. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values at 31 December 2016 and 31 December 2015:

	Nortek £m	Energy £m	Central £m	Total £m
31 December 2016				
Financial assets				
Cash and cash equivalents	–	–	42.1	42.1
Net trade receivables	259.7	70.2	0.2	330.1
Derivative financial assets	1.0	0.9	7.1	9.0
Financial liabilities				
Interest-bearing loans and borrowings	(3.3)	–	(580.3)	(583.6)
Derivative financial liabilities	(1.5)	(1.7)	(1.0)	(4.2)
Other financial liabilities	(357.6)	(55.4)	(19.7)	(432.7)
31 December 2015				
Financial assets				
Cash and cash equivalents	–	–	2,451.4	2,451.4
Net trade receivables	–	56.5	0.8	57.3
Derivative financial assets	–	1.0	0.2	1.2
Financial liabilities				
Derivative financial liabilities	–	(1.3)	(0.2)	(1.5)
Other financial liabilities	–	(60.8)	(9.5)	(70.3)

Credit risk

The Group considers its maximum exposure to credit risk was as follows:

	Nortek £m	Energy £m	Central £m	Total £m
31 December 2016				
Financial assets				
Cash and cash equivalents	–	–	42.1	42.1
Net trade receivables	259.7	70.2	0.2	330.1
Derivative financial assets	1.0	0.9	7.1	9.0
31 December 2015				
Financial assets				
Cash and cash equivalents	–	–	2,451.4	2,451.4
Net trade receivables	–	56.5	0.8	57.3
Derivative financial assets	–	1.0	0.2	1.2

The Group's principal financial assets were cash and cash equivalents, trade receivables and derivative financial assets which represented the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk on cash and cash equivalents and derivative financial assets was limited because the counterparties were banks with strong credit ratings assigned by international credit rating agencies. The Group's credit risk was primarily attributable to its trade receivables. The amounts presented in the Consolidated Balance Sheet were net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Note 16 provides further details regarding the recovery of trade receivables.

24. Financial instruments and risk management (continued)

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern.

The capital structure of the Group as at 31 December 2016 consists of net debt, which includes the borrowings disclosed in note 19, after deducting cash and cash equivalents and equity attributable to equity holders of the parent, comprising Issued share capital, Reserves and Retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Liquidity risk

The Group's policy for managing liquidity rate risk is set out in the Finance Director's review.

Fair values

The Directors consider that the financial assets and liabilities have fair values not materially different to the carrying values.

Foreign exchange contracts

As at 31 December 2016, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1.0 million equivalent were as follows:

	31 December 2016 Selling currency millions	31 December 2016 Average hedged rate	31 December 2015 Selling currency millions	31 December 2015 Average hedged rate
Sell Australian Dollar/Buy Sterling	AUD 6.1	GBP/AUD 1.74	–	–
Sell Canadian Dollar/Buy US Dollar	CAD 19.7	USD/CAD 1.32	–	–
Sell Chinese Renminbi/Buy Euro	–	–	CNY 33.5	EUR/CNY 7.11
Sell Czech Koruna/Buy Sterling	–	–	CZK 139.2	GBP/CZK 37.65
Sell Euro/Buy Czech Koruna	EUR 31.3	EUR/CZK 26.89	EUR 20.7	EUR/CZK 27.08
Sell Euro/Buy Sterling	EUR 14.4	GBP/EUR 1.17	EUR 8.8	GBP/EUR 1.38
Sell Euro/Buy Polish Zloty	EUR 1.2	EUR/PLN 4.33	–	–
Sell Euro/Buy US Dollar	EUR 12.6	EUR/USD 1.13	–	–
Sell Sterling/Buy Czech Koruna	GBP 3.8	GBP/CZK 31.95	GBP 14.6	GBP/CZK 37.13
Sell Sterling/Buy Euro	GBP 15.3	GBP/EUR 1.16	GBP 13.9	GBP/EUR 1.38
Sell Sterling/Buy US Dollar	GBP 5.0	GBP/USD 1.26	–	–
Sell US Dollar/Buy Canadian Dollar	USD 22.6	USD/CAD 1.32	–	–
Sell US Dollar/Buy Chinese Renminbi	USD 142.3	USD/CNY 7.10	–	–
Sell US Dollar/Buy Euro	USD 2.7	EUR/USD 1.12	–	–
Sell US Dollar/Buy Czech Koruna	–	–	USD 4.1	USD/CZK 25.08
Sell US Dollar/Buy Mexican Peso	USD 14.7	USD/MXN 19.69	–	–
Sell US Dollar/Buy Polish Zloty	USD 1.7	USD/PLN 3.87	–	–
Sell US Dollar/Buy Sterling	USD 15.0	GBP/USD 1.34	USD 25.9	GBP/USD 1.54

The foreign exchange contracts all mature between January 2017 and December 2017.

The fair value of the contracts at 31 December 2016 was a net liability of £2.3 million (31 December 2015: £0.3 million).

Hedge of net investments in foreign entities

Included in interest bearing loans at 31 December 2016 were the following amounts which were designated as hedges of net investments in the Group's subsidiaries in the USA and were being used to reduce the exposure to the foreign exchange risks.

Borrowings in local currency designated as hedges of net investments:

	31 December 2016 £m	31 December 2015 £m
US Dollar	590.5	–

Interest rate sensitivity analysis

Assuming the net debt (31 December 2015: cash) held as at the Balance Sheet date was outstanding for the whole year, a one percentage point rise in market interest rates for all currencies would increase/(decrease) profit before tax by the following amounts:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Sterling	(0.1)	24.5
US Dollar	(1.4)	–
	(1.5)	24.5

Notes to the financial statements

continued

24. Financial instruments and risk management (continued)

The interest rate sensitivity of Sterling at 31 December 2015 included the impact of the Group holding the cash proceeds from the disposal of the Elster businesses. Adjusting for the Return of Capital which took place in February 2016, the sensitivity for Sterling would have been £0.6 million.

Interest rate risk management

The Group's policy for managing interest rate risk is set out in the Finance Director's review.

In October 2016 the Group entered into new interest rate swap arrangements. The profile of the interest rate swaps have been designed to hedge on average 70% of the interest exposure on the projected gross debt as it reduces over the 5 year term. Under the terms of these swap arrangements, the Group will pay 1.0% up to 30 June 2018, 1.1% up to 30 June 2019, and 1.2% until the remaining swaps terminate on 6 July 2021. The interest on the swaps is payable annually in arrears on 1 July. The bank margin is payable monthly.

The interest swaps are designated as cash flow hedges and were highly effective throughout 2016. The fair value of the contracts at 31 December 2016 was a net asset of £7.1 million (31 December 2015: £nil).

Foreign currency risk

The Group's policy for managing foreign currency risk is set out in the Finance Director's review on pages 30 to 36.

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7: "Financial instruments: Disclosures" as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10 per cent strengthening of the US Dollar, Euro and Chinese Renminbi against Sterling compared to the year end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a notable impact are noted here:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
US Dollar	(7.4)	0.1
Euro	0.6	0.4
Chinese Renminbi	(1.3)	—

The relatively high sensitivity on the US Dollar is due to a currency swap for £55.0 million, that was put in place ahead of the year end, to swap excess Sterling cash in order to temporarily reduce the US Dollar debt. Adjusting for the currency swap, the sensitivity on the US Dollar at 31 December 2016 would be a loss of £1.3 million.

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group equity caused by a 10 per cent strengthening of the US Dollar, Euro and Chinese Renminbi against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant.

	31 December 2016 £m	31 December 2015 £m
US Dollar	12.1	(0.5)
Euro	(1.6)	(0.2)
Chinese Renminbi	8.8	—

In addition, the change in equity due to a 10 per cent strengthening of the US Dollar against Sterling for the translation of net investment hedging instruments would be a decrease of £65.6 million (31 December 2015: £nil). However, there would be no overall effect on equity because there would be an offset in the currency translation of the foreign operation.

24. Financial instruments and risk management (continued)**Fair value measurements recognised in the Balance Sheet**

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts.

Interest rate swap contracts are measured using yield curves derived from quoted interest rates.

The following table sets out the Group's assets and liabilities that are measured and recognised at fair value:

	31 December 2016 Current £m	31 December 2016 Non-current £m	31 December 2016 Total £m	31 December 2015 Current £m	31 December 2015 Non-current £m	31 December 2015 Total £m
Recurring fair value measurements						
Derivative financial assets						
Foreign currency forward contracts	1.9	–	1.9	1.2	–	1.2
Interest rate swaps	1.9	5.2	7.1	–	–	–
Total recurring financial assets	3.8	5.2	9.0	1.2	–	1.2
Derivative financial liabilities						
Foreign currency forward contracts	(4.2)	–	(4.2)	(1.5)	–	(1.5)
Interest rate swaps	–	–	–	–	–	–
Total recurring financial liabilities	(4.2)	–	(4.2)	(1.5)	–	(1.5)

The fair value of these financial instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they are therefore categorised within Level 2 of the fair value hierarchy set out in IFRS 13: "Fair value measurement". The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer to occur. There have been no transfers between levels in the year.

25. Issued capital and reserves

	31 December 2016 £m	31 December 2015 £m
Share Capital		
Allotted, called-up and fully paid		
1,886,746,589 (31 December 2015: 995,206,966) Ordinary Shares of 48/7p each (31 December 2015: 1p each)	129.4	10.0
	129.4	10.0

The rights of each class of share are described in the Directors' Report.

On 27 January 2016 the Court approved a proposal to return £2,388.5 million to shareholders.

In conjunction with this Return of Capital, on 28 January 2016 the number of Ordinary Shares in issue was consolidated in a ratio of 7 for 48 in order to maintain comparability of the Company's share price before and after the Return of Capital. On 28 January 2016 the number of Ordinary Shares in issue became 145,134,353 each with a nominal value of 48/7 pence.

On 24 August 2016 a 12 for 1, fully underwritten, Rights Issue was completed by Melrose Industries PLC and 1,741,612,236 Ordinary Shares were issued raising £1,654.5 million to part fund the acquisition of Nortek. This resulted in an increase to nominal Share Capital of £119.4 million and an increase to the share premium account, after deducting associated costs of £42.5 million, of £1,492.6 million.

Notes to the financial statements

continued

25. Issued capital and reserves (continued)

Translation reserve

The Translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Hedging reserve

The Hedging reserve represents the cumulative fair value gains and losses on derivative financial instruments for which cash flow hedge accounting has been applied.

Merger reserve and Other reserves

The Merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries. Other reserves comprise accumulated adjustments in respect of Group reconstructions.

26. Cash flow statement

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Reconciliation of underlying operating profit to cash generated by continuing operations		
Underlying operating profit from continuing operations	104.1	24.8
Adjustments for:		
Depreciation of property, plant and equipment	15.9	7.6
Amortisation of computer software and development costs	2.2	0.5
Restructuring costs paid and movements in provisions	(37.6)	(32.8)
Defined benefit pension contributions paid	(10.5)	(5.1)
Decrease/(increase) in inventories	15.0	(9.9)
Decrease in receivables	22.5	10.8
Decrease in payables	(9.3)	(12.3)
Acquisition costs	(41.3)	–
Tax paid	(5.9)	(2.8)
Interest paid	(4.5)	(38.6)
Net cash from/(used in) operating activities from continuing operations	50.6	(57.8)

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Cash flow from discontinued operations		
Cash generated from discontinued operations	–	172.9
Defined benefit pension contributions paid	–	(30.1)
Tax paid	–	(51.2)
Interest paid	–	(1.6)
Acquisition costs	–	(0.8)
Net cash from operating activities from discontinued operations	–	89.2
Purchase of property, plant and equipment	–	(26.0)
Proceeds from disposal of property, plant and equipment	–	1.7
Purchase of computer software and development costs	–	(15.5)
Purchase of non-controlling interests	–	(1.5)
Dividends received from joint ventures	–	2.2
Dividends paid to non-controlling interests	–	(0.4)
Interest received	–	0.8
Net cash used in investing activities from discontinued operations	–	(38.7)
Net cash used in financing activities from discontinued operations	–	–

26. Cash flow statement (continued)**Net debt reconciliation**

	31 December 2015 £m	Cash flow £m	Acquisitions £m	Other non-cash movements £m	Foreign exchange difference £m	31 December 2016 £m
Cash	2,451.4	(1,250.8)	(1,161.9)	–	3.4	42.1
External debt	–	535.0	(1,064.3)	5.4	(58.1)	(582.0)
Finance leases	–	–	(1.6)	–	–	(1.6)
Net cash/(debt)	2,451.4	(715.8)	(2,227.8)	5.4	(54.7)	(541.5)

27. Commitments and contingencies

Future total minimum rentals payable under non-cancellable operating leases were as follows:

	31 December 2016 £m	31 December 2015 £m
Amounts payable:		
Within one year	21.9	2.2
After one year but within five years	55.1	1.1
Over five years	24.0	–
	101.0	3.3

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length. Plant, machinery and vehicle leases typically run for periods of up to five years. The increase in minimum rentals payable under non-cancellable operating leases during the year was primarily as a result of the acquisition of Nortek.

Capital commitments

At 31 December 2016, there were commitments of £2.4 million (31 December 2015: £0.8 million) relating to the acquisition of new plant and machinery.

28. Related parties

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

The Group did not enter into any significant transactions in the ordinary course of business with joint ventures during the current or prior year.

Sales to and purchases from Group companies are priced on an arm's length basis and generally are settled on 30 day terms.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: "Related party disclosures". Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on page 78.

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Short-term employee benefits	3.2	3.0
Share-based payments	2.7	2.7
	5.9	5.7

Notes to the financial statements

continued

29. Post Balance Sheet events

There are no post balance sheet events which require disclosure.

30. Contingent liabilities

As described in note 12, certain contingent legal and warranty liabilities were identified as part of the fair value review of the acquisition Balance Sheet. Whilst it is difficult to reasonably estimate the timing and ultimate outcome of these claims, the Directors' best estimate has been included in the Balance Sheet where they existed at the time of acquisition and hence were recognised in accordance with IFRS 3: "Business combinations". Where a provision has been recognised, information regarding the different categories of such liabilities and the amount and timing of outflows is included within note 20.

Given the nature of the Group's business many of the Group's products have a large installed base, and any recalls or reworks related to such products could be particularly costly. The costs of product recalls or reworks are not always covered by insurance. Recalls or reworks may have a material adverse effect on the Group's financial condition, results of operations and cash flows.

The Group has contingent liabilities representing guarantees and contract bonds given in the ordinary course of business on behalf of trading subsidiaries. No losses are anticipated to arise on these contingent liabilities. The Group does not have any other significant contingent liabilities.

Company Balance Sheet for Melrose Industries PLC


	Notes	31 December 2016 £m	31 December 2015 £m
Fixed assets			
Investment in subsidiaries	3	2,209.9	2,764.8
		2,209.9	2,764.8
Debtors: amounts falling due within one year	4	14.1	–
Creditors: amounts falling due within one year	5	(1.0)	(0.3)
Net current assets/(liabilities)		13.1	(0.3)
Total assets less current liabilities		2,223.0	2,764.5
Provisions	6	(12.8)	–
Net assets		2,210.2	2,764.5
Capital and reserves			
Issued share capital	7	129.4	10.0
Share premium account		1,492.6	–
Merger reserve		112.4	2,500.9
Retained earnings		475.8	253.6
Shareholders' funds		2,210.2	2,764.5

The Company reported a profit for the financial year ended 31 December 2016 of £224.0 million (period ended 31 December 2015: loss of £0.7 million).

The financial statements were approved by the Board of Directors on 2 March 2017 and were signed on its behalf by:



Geoffrey Martin
Group Finance Director



Simon Peckham
Chief Executive

Registered number: 09800044

Company Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Retained earnings £m	Total equity £m
At beginning of period	–	–	–	–	–
Loss for the period (note 2)	–	–	–	(0.7)	(0.7)
Total comprehensive expense	–	–	–	(0.7)	(0.7)
Issue of share capital	263.8	–	2,500.9	–	2,764.7
Capital reduction	(253.8)	–	–	253.8	–
Credit to equity for equity-settled share-based payments	–	–	–	0.5	0.5
At 31 December 2015	10.0	–	2,500.9	253.6	2,764.5
Profit for the year (note 2)	–	–	–	224.0	224.0
Total comprehensive income	–	–	–	224.0	224.0
Return of Capital	–	–	(2,388.5)	–	(2,388.5)
Issue of new shares (note 7)	119.4	1,492.6	–	–	1,612.0
Dividends paid	–	–	–	(5.8)	(5.8)
Credit to equity for equity-settled share-based payments	–	–	–	4.0	4.0
At 31 December 2016	129.4	1,492.6	112.4	475.8	2,210.2

Notes to the Company Balance Sheet

1. Significant accounting policies

Basis of accounting

Melrose Industries PLC ("the Company") is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the back cover. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 2 to 53.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Melrose Industries PLC is considered to be pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

Melrose Industries PLC meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Melrose Industries PLC is consolidated in its Group financial statements. Exemptions have been taken in these separate Company financial statements in relation to share-based payments, presentation of a cash flow statement, the remuneration of key management personnel and financial instruments.

The principal accounting policies are consistent with the prior period and are summarised below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' statement of going concern on page 36 of the Finance Director's review.

Investments

Investments in subsidiaries are measured at cost less impairment.

For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

Impairment of assets

Assets are assessed for indicators of impairment at each Balance Sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. The required disclosures are included in the Group consolidated financial statements.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Where equity-settled share-based payments are made available to employees of the Company's subsidiaries, these are treated as increases in equity over the vesting period of the award with a corresponding increase in the Company's investment in subsidiaries.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

1. Significant accounting policies (continued)**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Profit for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account for the year. Melrose Industries PLC reported a profit for the financial year ended 31 December 2016 of £224.0 million (period ended 31 December 2015: loss of £0.7 million).

The auditor's remuneration for audit services to the Company is disclosed in note 7 to the Group consolidated financial statements.

Directors' remuneration is disclosed in the Directors' Remuneration Report on pages 72 to 84. There were no other employees of the Company in the year.

3. Investment in subsidiaries

	£m
At 1 January 2016	2,764.8
Additions	1,609.9
Impairments	(2,164.8)
At 31 December 2016	2,209.9

Following the Return of Capital on 27 January 2016 as explained in note 7, the carrying value of the Company's investment in its directly owned subsidiary Melrose Holdings Limited was considered to be impaired by an amount of £2,164.8 million.

During the year, the Company increased its investment in Melrose Holdings Limited by £1,609.9 million, £1.3 million of this addition related to equity-settled share-based payments that were made available to employees of subsidiaries.

The following subsidiaries and significant holdings were owned by the Company as at 31 December 2016:

	Equity interest %
Argentina	
Corrientes Avenue 311, 7, Capital Federal, 1043	
Nordyne Argentina SRL	100
Australia	
2 Frawley Avenue, Narangba, Queensland, 4504	
Bristol Meci Australasia Pty Limited	100
Hawker Siddeley Switchgear Pty Limited	100
U 2 11-21 Forge St, Blacktown, New South Wales, 2148	
Nortek Australia Pty Limited	100
Belgium	
Jean en Maurits Sabbestraat 130A/A000, 8930 Menen	
Nortek Global HVAC Belgium NV	100
Brazil	
Rod. Br 101 Norte, Serra Pelada, Espirito Santo, 29161-901	
Nordyne do Brasil Distribuidora de Ar Condicionado Ltda	100
British Virgin Islands	
Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola	
Nortek Trading Limited	100

	Equity interest %
Canada	
Edmonton, Alberta, T5J 3N6	
Brush Canada Services Inc./Services Brush Canada Inc.	100
1 Germain Street, Suite 1500, Saint John, New Brunswick, E2L 4H8	
2GIG Technologies Canada, Inc.	100
1140 Tristar Drive, Mississauga, Ontario, L5T 1H9	
Broan-NuTone Canada ULC	100
1300 – 1969 Upper Water Street, Purdy's Wharf Tower II, Halifax, Nova Scotia, B3J 2V1	
Ergotron Canada Corporation	100
605 Rue Rocheleau, Drummondville, Quebec, J2C 6L8	
Innergy Tech, Inc.	100
1502D Quebec Avenue, Saskatoon, Saskatchewan, S7K 1V7	
Nortek Air Solutions Canada, Inc.	100
9100 Rue du Parcours, Montreal, Quebec, H1J 2Z1	
Nortek Air Solutions Quebec, Inc.	100
550 Lemire Boulevard, Drummondville, Quebec, J2C 7W9	
Venmar Ventilation ULC	100

Notes to the Company Balance Sheet

continued

3. Investment in subsidiaries (continued)

	Equity interest %
China	
8 Changhong Road, Changshu Economic Development Zone, Jiangsu Province, 215500	
Brush Electrical Machines (Changshu) Co. Limited	100
Building 2 558 Taibo Road, Anting Town, Jiading District, Shanghai, Shanghai 201814	
FKI Engineering Shanghai Limited	100
Zone 6, Daxin Jituan, Chenjiang Town, Huicheng District, Guangdong, 516229	
Broan Building Products (Huizhou) Co Limited	100
The 3rd Industry Area, Juzhou Shijie, Dongguan, Guangdong	
Dongguan Ergotron Precision Technology Co Limited	100
Dongguan Ergotron Precision Technology Design Services Co Limited	100
172 Hangcheng Avenue, Bao'an District, Shenzhen Shi, Guangdong Sheng, 518126	
Linear Electronics (Shenzhen) Co Limited	100
Room 28D2, 895 Yan'an West Road, Changning District, Shanghai	
Nortek (Shanghai) Trading Co Limited	100
TV One (Shanghai) Electronics Technology Co Limited	100
Colombia	
1301, 13/F Bank of America Tower, 12 Harcourt Road, Central	
MiOS Colombia	25
Czech Republic	
Edvarda Beneše 564/39, Doudlevice, 301 00 Plzeň	
Brush SEM s.r.o.	100
France	
44 Rue du Louvre, 75001 Paris	
Ergotron France SARL	100
Z.I. de Rosarge, 230, rue de la Dombes, Les Echets, 01706 Miribel Cedex, Lyon	
Nortek Global HVAC France SAS	100
Germany	
Konrad-Adenauer Straße 13, 50996, Köln	
Best Deutschland GmbH	100
Teichhörn 4-6, 24119, Kronshagen	
Ergotron Deutschland GmbH	100
Nymphenburger Straße 3c, D-80335, München	
Gefen Europe GmbH	100
Hong Kong	
8/F Gloucester Tower, The Landmark, 15 Queen's Road, Central	
FKI Switchgear (Hong Kong) Limited	100
28/F Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai	
Broan-NuTone (HK) Limited	100
6 Sun Yip Street, 19/F Honour Industrial Centre, Chai Wan	
Linear HK Manufacturing Limited	100
1301 13/F Bank of America Tower, 12 Harcourt Road, Central	
MiOS Hong Kong	25
MiOS Limited	25

	Equity interest %
Italy	
Via Verdi, 34, 60043 Cerreto d'Esi, Ancona	
Best SPA	100
Japan	
1139 The Soho, 2-7-4, Aomi, Koto-Ku, Tokyo, 135-0064	
Brush Japan KK	100
Shiroyama Trust Tower, 4-3-1, Toranomon, Minato-ku, Tokyo	
Ergotron Japan KK	100
Malta	
Marsa Industrial Estate, Marsa, MRS 3000	
Mediterranean Power Electric Company Limited	26
Mexico	
Avenue de los Olivos 100-A, Parque Industrial El Bajio, Tecata, Baja California, 21438	
Broan Building Products-Mexico S de RL de CV	100
Vicente Guerrero 2822, Anáhuac, 64500 San Nicolas delos Graza, Nuevo Leon	
Miller de Mexico S de RL de CV	100
Nortek Global HVAC de Mexico SA de RL de CV	100
Poland	
UL Pyskowicka 19, 41807, Zabrze, Silesia	
Best Poland Sp.zo.o	100
Romania	
Bulevardul Poitiers, Iași	
MiOS Romania SRL	25
Saudi Arabia	
P.O.Box 2091, Riyadh 11451	
Huntair Arabia	49
Taiwan	
16F-4, NO.75, Sec.1, Xintai 5th Road, Xizhi District, New Taipei City, 22101	
TV One Limited	100
The Netherlands	
Beeldschermweg 3, 3821 AH Amersfoort	
Ergotron Nederland BV	100
Ringdijk 390B, 2983 GS, Postbus 3007, 2980 DA, Ridderkerk	
Brush HMA BV	100
Strawinskylaan 3127 8e Verdiepin, Amsterdam, Noord-Holland, 1077 ZX	
CES Holding BV	100
Nortek Holding BV	100
Nortek International Holdings BV	100

3. Investment in subsidiaries (continued)

	Equity interest %
United Kingdom	
11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT	
Alcester Capricorn	100
Alcester EP1 Limited	100
Alcester Number 1 Limited	100
Alcester Overseas Limited	100
Alcester Plastics Company Limited	100
Ambi-Rad Group Limited	100
Brush Electrical Engineering Company Limited	100
Brush Electrical Machines Limited	100
Brush Holdings Limited	100
Brush Properties Limited	100
Brush Scheme Trustees Limited	100
Brush Switchgear Limited	100
Brush Transformers Limited	100
Colmore Lifting Limited	100
Colmore Overseas Holdings Limited	100
Danks Holdings Limited	100
Eachairn Aerospace Holdings Limited	100
Eaton-Williams (Millbank) Limited	100
Eaton-Williams Exports Limited	100
Eaton-Williams Group Limited	100
Eaton-Williams Holdings Limited	100
Eaton-Williams Limited	100
Eaton-Williams Products Limited	100
Eaton-Williams Service Limited	100
Edenaire Limited	100
Electro Dynamic Limited	100
Ergotron UK Limited	100
FKI Distribution Limited	100
FKI Plan Trustees Limited	100
Hamsard 2246	100
Harrington Generators International Limited	100
Hawker Siddeley Switchgear Limited	100
McKechnie 2005 Pension Scheme Trustee Limited	100
McKechnie Employee Services Limited	100
Melrose Holdings Limited	100
Melrose PFG Company Number 1 Limited	100
Melrose PLC	100
Melrose UK 4 Limited	100
Melrose UK Holdings Limited	100
Melrose USD 1 Limited	100
Nortek (UK) Limited	100
Nortek Global HVAC (UK) Limited	100
Precision Air Control Limited	100
Precision House Management Services Limited	100
Prelok Limited	100
Reznor (UK) Limited	100
Sageford UK Limited	100
Vapac Humidity Control Limited	100
Whipp & Bourne Limited	100

	Equity interest %
USA	
601 Braddock Avenue, Turtle Creek, Pittsburgh, Pennsylvania, 15145	
Brush Aftermarket North America Inc.	100
Generator and Motor Services of Pennsylvania, LLC	100
15110 Northwest Freeway, Suite 150, Houston, Texas, 77040	
Brush Turbogenerators Inc.	100
421 West Main Street, Franklin, Frankfort, Kentucky, 40601	
Barcom Asia Holdings, LLC	100
Barcom China Holdings, LLC	100
2711 Centerville Road, Suite 400, New Castle, Wilmington, Delaware	
BNSS LP, Inc.	100
926 West State Street, Hartford, Wisconsin, 53027	
Broan-NuTone, LLC	100
1800 South McDowell Boulevard, Petaluma, California, 94954	
Core Brands, LLC	100
1181 Trapp Road, Eagan, Minnesota, 55121	
Ergotron, Inc.	100
3121 Hartsfield Road, Tallahassee, Florida, 32303	
GTO Access Systems, LLC	100
19855 South West 124th Avenue, Tualatin, Oregon, 97062	
Huntair Middle East Holdings, Inc.	100
2077 Convention Center Concourse, Suite 175, Atlanta, Georgia, 30337	
Linear HK, LLC	100
Melrose North America, Inc.	100
Nortek Distribution Services, LLC	100
Nortek Global HVAC de Puerto Rico, LLC	100
Nortek Global HVAC, Latin America, Inc.	100
Nortek Home Control Holdings, LLC	100
Nortek, Inc.	100
Nortek International, Inc.	100
Nortek Shared Services, LLC	100
1950 Camino Vida Roble, Suite 150, Carlsbad, California, 92008	
Nortek Security & Control, LLC	100
2547 Three Mile Road, Grand Rapids, Michigan	
Operator Speciality Company, Inc.	100
390 Kansas Street, San Francisco, California 94103	
Pacific Zephyr Range Hood, Inc.	100
2277 Harbor Bay Parkway, Alameda, California, 94502	
Zephyr Ventilation, LLC	100
8000 Phoenix Parkway, O'Fallon, Missouri, 63368	
Nortek Air Solutions, LLC	100
Nortek Global HVAC, LLC	100

Each of the subsidiaries listed are included in the consolidated financial statements of the Company and are held in each case by a subsidiary undertaking, except for Melrose Holdings Limited which is held directly by Melrose Industries PLC.

Notes to the Company Balance Sheet

continued

4. Debtors

	31 December 2016 £m	31 December 2015 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	14.1	–
	14.1	–

The Directors consider that amounts owed by Group undertakings approximate to their fair value.

5. Creditors

	31 December 2016 £m	31 December 2015 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	–	0.2
Accruals and other payables	1.0	0.1
	1.0	0.3

6. Provisions

	Incentive plan related £m	Total £m
At 1 January 2016	–	–
Charge to income statement	12.8	12.8
At 31 December 2016	12.8	12.8

The provision for incentive plan related costs relates to employer national insurance costs which are expected to be incurred when the Melrose incentive plan matures. Further details of this plan are set out in the Directors' Remuneration Report. The costs are expected to be incurred in less than one year.

7. Issued share capital

	31 December 2016 £m	31 December 2015 £m
Share Capital		
Allotted, called up and fully paid		
1,886,746,589 (31 December 2015: 995,206,966) Ordinary Shares of 48/7p each (31 December 2015: 1p each)	129.4	10.0
	129.4	10.0

The rights of each class of share are described in the Directors' Report.

On 27 January 2016 the Court approved a proposal to return £2,388.5 million to shareholders.

In conjunction with this Return of Capital, on 28 January 2016 the number of Ordinary Shares in issue was consolidated in a ratio of 7 for 48 in order to maintain comparability of the Company's share price before and after the Return of Capital. On 28 January 2016 the number of Ordinary Shares in issue became 145,134,353 each with a nominal value of 48/7 pence.

On 24 August 2016 a 12 for 1, fully underwritten, Rights Issue was completed by Melrose Industries PLC and 1,741,612,236 Ordinary Shares were issued raising £1,654.5 million to part fund the acquisition of Nortek. This resulted in an increase to nominal Share Capital of £119.4 million and an increase to the share premium account, after deducting associated costs of £42.5 million, of £1,492.6 million.

8. Related party transactions

The Company has taken the exemption in FRS 102.33: "Related party information" not to disclose intercompany balances and transactions in the year with fully owned subsidiary undertakings.

Notice of Annual General Meeting

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank, solicitor, accountant, fund manager or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred or sell or otherwise transfer all of your shares in Melrose Industries PLC (the "Company"), please send this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Notice is given that the Annual General Meeting of the Company will be held at Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL at 11.00 a.m. on 11 May 2017 for the purposes set out below. Resolutions 1 to 13 (inclusive) will be proposed as ordinary resolutions and resolutions 14 to 17 (inclusive) as special resolutions.

Ordinary resolutions

1. To receive the Company's audited financial statements for the financial year ended 31 December 2016, together with the Directors' Report, Strategic Report and the Auditor's Report on those financial statements.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2016, as set out on pages 72 to 75 of the Company's 2016 Annual Report.
3. To declare a final dividend of 1.9 pence per ordinary share for the year ended 31 December 2016.
4. To re-elect Christopher Miller as a Director of the Company.
5. To re-elect David Roper as a Director of the Company.
6. To re-elect Simon Peckham as a Director of the Company.
7. To re-elect Geoffrey Martin as a Director of the Company.
8. To re-elect Justin Dowley as a Director of the Company.
9. To re-elect Liz Hewitt as a Director of the Company.
10. To elect David Lis as a Director of the Company.
11. To re-appoint Deloitte LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid.
12. To authorise the Audit Committee to determine the remuneration of the auditor of the Company.
13. That, in accordance with section 551 of the Companies Act 2006 (the "Act"), the directors of the Company (the "Directors") be and are generally and unconditionally authorised to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company ("Rights"):
 - (A) up to an aggregate nominal amount of £43,125,636; and
 - (B) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £86,251,272 (such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph (A) of this resolution) in connection with an offer by way of a Rights Issue:
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of any territory or any other matter, such authorities to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2018, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or Rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

14. That, subject to the passing of resolution 13, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 13 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited:
 - (A) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted under paragraph (B) of resolution 13, such power shall be limited to the allotment of equity securities in connection with an offer by way of a Rights Issue only):
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

Notice of Annual General Meeting

continued

(B) to the allotment (otherwise than in circumstances set out in paragraph (A) of this resolution) of equity securities pursuant to the authority granted by paragraph (A) of resolution 13 or sale of treasury shares up to a nominal amount of £6,468,845,

such powers to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2018, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares sold) after the power expires and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

15. That, subject to the passing of resolution 13 and in addition to any power granted under resolution 14, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authorities granted by resolution 13 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be:

(A) limited to the allotment of equity securities pursuant to the authority granted by sub paragraph (A) of resolution 13 or sale of treasury shares up to a nominal amount of £6,468,845; and

(B) used only for the purposes of financing (or refinancing, if the authority is to be used within six months of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice of the Annual General Meeting,

such powers to expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2018, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares sold) after the power expires and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this authority has expired.

16. That the Company be and is generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693 of the Act) of ordinary shares in the capital of the Company provided that:

(A) the maximum aggregate number of ordinary shares authorised to be purchased is 188,674,658;

(B) the minimum price which may be paid for an ordinary share is the nominal value of an ordinary share at the time of such purchase;

(C) the maximum price which may be paid for an ordinary share is not more than the higher of:

(i) 105% of the average of the middle-market quotation for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, in each case, exclusive of expenses;

(D) this authority shall expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2018;

(E) the Company may make a contract of purchase of ordinary shares under this authority which would or might be executed wholly or partly after the expiry of this authority, and may make a purchase of ordinary shares in pursuance of any such contract; and

(F) any ordinary shares purchased pursuant to this authority may either be held as treasury shares or cancelled by the Company, depending on which course of action is considered by the Directors to be in the best interests of shareholders at the time.

17. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Recommendation

The Board believes that each of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors unanimously recommend that ordinary shareholders vote in favour of all of the resolutions proposed, as the Directors intend to do in respect of their own beneficial holdings.

By order of the Board



Jonathon Crawford
Company Secretary

7 April 2017

Registered Office:
11th Floor The Colmore Building
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

Explanatory notes to the proposed resolutions

Resolutions 1 to 13 (inclusive) are proposed as ordinary resolutions, which means that for each of those resolutions to be passed, more than half the votes cast must be cast in favour of the resolution. Resolutions 14 to 17 (inclusive) are proposed as special resolutions, which means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be cast in favour of the resolution.

Resolution 1 – Receipt of 2016 Annual Report and financial statements

The Directors are required to lay the Company's financial statements, the Strategic Report and the Directors' and auditor's reports on those financial statements (collectively, the "2016 Annual Report") before shareholders each year at the Annual General Meeting ("AGM").

Resolution 2 – Approval of Directors' remuneration report

The Directors' remuneration report (the "Directors' Remuneration Report") is presented in two sections:

- the annual statement from the Chairman of the Remuneration Committee; and
- the annual report on remuneration.

The annual statement from the Chairman of the Remuneration Committee, set out on pages 72 to 75 of the 2016 Annual Report, summarises, for the year ended 31 December 2016, the major decisions taken on Directors' remuneration, any substantial changes relating to Directors' remuneration made during the year and the context in which those changes occurred and decisions that have been taken.

The annual report on remuneration, set out on pages 72 to 84 of the 2016 Annual Report, provides details of the remuneration paid to Directors in respect of the year ended 31 December 2016, including base salary, taxable benefits, short-term incentives, long-term incentives vested in the year, pension-related benefits, any other items in the nature of remuneration and any sum(s) recovered or withheld during the year in respect of amounts paid in earlier years.

The Directors' Remuneration Report is subject to an annual advisory shareholder vote by way of an ordinary resolution. Resolution 2 is to approve the Directors' Remuneration Report.

Resolution 3 – Declaration of final dividend

The Board is recommending, and shareholders are being asked to approve, the declaration of a final dividend of 1.9 pence per ordinary share for the year ended 31 December 2016. The final dividend will, subject to shareholder approval, be paid on 16 May 2017 to the holders of ordinary shares whose names are recorded on the register of members of the Company at the close of business on 7 April 2017.

Resolutions 4 to 9 (inclusive) – Re-election of Directors

In accordance with the UK Corporate Governance Code (the "Code") and the Company's Articles of Association (the "Articles"), every Director (with the exception of the senior non-executive director, John Grant, who will retire at the conclusion of the AGM and will not stand for re-election) will stand for re-election at the AGM. Biographical details of each Director can be found on pages 56 and 57 of the 2016 Annual Report. All of the non-executive Directors standing for re-election are currently considered independent under the Code.

Resolution 10 – Election of Director

In accordance with the Articles, David Lis is standing for election as a Director of the Company following his appointment to the Board with effect from 12 May 2016, shortly after the 2016 AGM. Biographical details for David Lis can be found on page 57 of the 2016 Annual Report.

Resolution 11 – Re-appointment of auditor

The Company is required to appoint auditors at each general meeting at which accounts are laid before shareholders, to hold office until the next such meeting.

The Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external auditor, Deloitte LLP, on behalf of the Board, and concluded that the external auditor was in all respects effective.

This resolution proposes the re-appointment of Deloitte LLP until the conclusion of the next AGM.

Resolution 12 – Authority to agree auditor's remuneration

This resolution seeks authority for the Audit Committee to determine the level of the auditor's remuneration.

Resolution 13 – Authority to allot shares

This resolution seeks shareholder approval to grant the Directors the authority to allot shares in the Company, or to grant rights to subscribe for or convert any securities into shares in the Company ("Rights"), pursuant to section 551 of the Act ("Section 551 authority"). The authority contained in paragraph (A) of the resolution will be limited to an aggregate nominal amount of £43,125,636, being approximately one-third of the Company's issued ordinary share capital as at 6 April 2017 (being the last business day prior to the publication of this notice).

In line with guidance issued by the Investment Association, paragraph (B) of this resolution would give the Directors authority to allot shares in the Company or grant Rights in connection with a Rights Issue up to aggregate nominal amount of £86,251,272, representing approximately two-thirds of the Company's issued ordinary share capital as at 6 April 2017, as reduced by the aggregate nominal amount of any allotments or grants under paragraph (A) of this resolution.

The Company does not hold any shares in treasury.

If approved, the Section 551 authority shall, unless renewed, revoked or varied by the Company, expire at the end of the Company's next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2018. The exception to this is that the Directors may allot shares or grant Rights after the authority has expired in connection with an offer or agreement made or entered into before the authority expired. The Directors have no present intention to exercise the Section 551 authority.

Notice of Annual General Meeting

continued

Resolutions 14 to 15 – Partial disapplication of pre-emption rights

These resolutions seek shareholder approval to grant the Directors the power to allot equity securities of the Company pursuant to sections 570 and 573 of the Act (the “Section 570 and 573 power”) without first offering them to existing shareholders in proportion to their existing shareholdings.

The power is limited to allotments for cash in connection with pre-emptive offers, subject to any arrangements that the Directors consider appropriate to deal with fractions and overseas requirements and otherwise for cash up to a maximum nominal value of £12,937,690, representing approximately 10% of the Company’s issued ordinary share capital as at 6 April 2017 (being the last business day prior to the publication of this notice).

The Directors intend to adhere to the guidelines set out in the Pre-Emption Group’s Statement of Principles (as updated in March 2015) and not to allot shares for cash on a non pre-emptive basis pursuant to a relevant authority in resolutions 14 or 15:

- in excess of an amount equal to 5% of the Company’s issued ordinary share capital (excluding treasury shares) in any one-year period, whether or not in connection with an acquisition or specified capital investment; or
- in excess of an amount equal to 7.5% of the Company’s issued ordinary share capital in a rolling three-year period,

in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

If approved, the Section 570 and 573 power shall apply until the end of the Company’s next AGM after the resolution is passed or, if earlier, until the close of business on 30 June 2018. The exception to this is that the Directors may allot equity securities after the power has expired in connection with an offer or agreement made or entered into before the power expired. The Directors have no present intention to exercise the Section 570 and 573 power.

Resolution 16 – Authority to purchase own shares

This resolution seeks shareholder approval to grant the Company the authority to purchase its own shares pursuant to sections 693 and 701 of the Act.

This authority is limited to an aggregate maximum number of 188,674,658 ordinary shares, representing 10% of the Company’s issued ordinary share capital as at 6 April 2017.

The maximum price which may be paid for an ordinary share will be an amount which is not more than the higher of: (i) 5% above the average of the middle market quotation for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out (in each case, exclusive of expenses).

If approved, the authority shall, unless varied, revoked or renewed, expire at the end of the Company’s next AGM after the resolution is passed or, if earlier, at the close of business on 30 June 2018. The Directors have no present intention of exercising all or any of the powers conferred by this resolution and will only exercise their authority if it is in the interests of shareholders generally.

Resolution 17 – Notice period for general meetings other than AGMs

This resolution seeks shareholder approval to allow the Company to continue to call general meetings (other than AGMs) on 14 clear days’ notice. In accordance with the Act, as amended by the Companies (Shareholders’ Rights) Regulations 2009, the notice period required for general meetings of the Company is 21 days unless shareholders approve a shorter notice period (subject to a minimum period of 14 clear days). In accordance with the Act, the Company must make a means of electronic voting available to all shareholders for that meeting in order to be able to call a general meeting on less than 21 clear days’ notice.

The Company intends to only use the shorter notice period where this flexibility is merited by the purpose of the meeting and is considered to be in the interests of shareholders generally, and not as a matter of routine. AGMs will continue to be held on at least 21 clear days’ notice.

The approval will be effective until the Company’s next AGM, when it is intended that a similar resolution will be proposed.

Explanatory notes as to the proxy, voting and attendance procedures at the Annual General Meeting (AGM)

1. The holders of ordinary shares in the Company are entitled to attend the AGM and are entitled to vote. A member entitled to attend, speak and vote at the AGM is also entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote at the AGM in his/her place. Such a member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A form of proxy is enclosed with this notice. To be effective, a form of proxy must be completed and returned, together with any power of attorney or authority under which it is completed or a certified copy of such power or authority, so that it is received by the Company’s registrars at the address specified on the form of proxy not less than 48 hours (excluding any part of a day that is not a working day) before the stated time for holding the meeting (or, in the event of an adjournment, not less than 48 hours before the stated time of the adjourned meeting (excluding any part of a day which is not a working day)). Returning a completed form of proxy will not preclude a member from attending the meeting and voting in person.

3. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 opposite does not apply to Nominated Persons. The rights described in paragraphs 1 and 2 can only be exercised by the holders of ordinary shares in the Company.
4. To be entitled to attend and vote at the AGM (and for the purposes of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 6.30 p.m. on 9 May 2017 (or, in the event of an adjournment, on the date which is two days, excluding any day which is not a working day, before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. As at 6 April 2017 (being the last business day prior to the publication of this notice), the Company's issued share capital consists of 1,886,746,589 ordinary shares of 48/7 pence each, carrying one vote each.
6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
7. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00 a.m. on 9 May 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
8. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member, or sponsored member, or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.
10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
11. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.
12. Any member holding ordinary shares attending the meeting has the right to ask questions. The Company must answer any such questions relating to the business being dealt with at the meeting but no such answer need be given if: (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (ii) the answer has already been given on a website in the form of an answer to a question; and/or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Notice of Annual General Meeting

continued

13. Voting at the AGM will be by poll. The Chairman will invite each shareholder, corporate representative and proxy present at the meeting to complete a poll card indicating how they wish to cast their votes in respect of each resolution. In addition, the Chairman will cast the votes for which he has been appointed as proxy. Poll cards will be collected during the meeting. Once the results have been verified by the Company's registrar, Equiniti, they will be notified to the UK Listing Authority, announced through a Regulatory Information Service and will be available to view on the Company's website.
14. A copy of this notice, and other information required by section 311A of the Act, can be found at **www.melroseplc.net**
15. You may not use an electronic address provided in either this Notice of AGM or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
16. The following documents will be available for inspection at the Company's registered office during normal business hours (Saturdays, Sundays and public holidays excepted) from the date of this notice until the date of the AGM and at the place of the AGM for 15 minutes prior to and during the meeting:
 - (A) copies of all service agreements under which Directors of the Company are employed by the Company or any subsidiaries; and
 - (B) a copy of the terms of appointment of the non-executive Directors of the Company.
17. You may register your vote online by visiting Equiniti's website at **www.sharevote.co.uk**. In order to register your vote online, you will need to enter the Voting ID, Task ID and Shareholder Reference Number which are set out on the enclosed form of proxy. The return of the form of proxy by post or registering your vote online will not prevent you from attending the AGM and voting in person, should you wish. Alternatively, shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at **www.shareview.co.uk** using your usual user ID and password. Once logged in simply click "View" on the "My Investments" page, click on the link to vote then follow the on screen instructions. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 11.00 a.m. on 9 May 2017.

Company and shareholder information

As at 31 December 2016, there were 6,908 holders of ordinary shares of 48/7 pence each in the capital of the Company. Analysis of these shareholdings as at 31 December 2016 are set out in the table below.

Shareholder analysis

Range of holdings	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares in issue
1–5,000	5,382	77.91%	4,630,551	0.25%
5,001–50,000	1,077	15.59%	15,433,400	0.82%
50,001–500,000	217	3.14%	39,896,998	2.11%
Over 500,000	232	3.36%	1,826,785,640	96.82%
Total	6,908	100.0%	1,886,746,589	100.0%

Held by	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares in issue
Individuals	5,103	73.87%	12,323,165	0.65%
Institutions	1,805	26.13%	1,874,423,424	99.35%
Total	6,908	100.0%	1,886,746,589	100.0%

Financial calendar 2017

Ex-dividend date for final dividend	6 April 2017
Record date for final dividend	7 April 2017
Annual General Meeting	11 May 2017
Payment date of final dividend	16 May 2017
Announcement of interim results	August 2017
Intended payment of interim dividend	October 2017
Preliminary announcement of 2017 results	March 2018

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0371 384 2946
or +44 (0) 121 415 0851
(from outside UK)

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Monday to Friday, excluding UK public
holidays.

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25 Bank Street
London
E14 5JP

Legal advisers

Simpson Thacher & Bartlett LLP
CityPoint
One Ropemaker Street
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EC2Y 9HU

Bankers

Bank of America Merrill Lynch
Barclays Bank PLC
BNP Paribas
Citizens Bank
Commerzbank AG
HSBC Bank plc
J.P. Morgan Limited
Lloyds Bank plc
Royal Bank of Canada
BayernLB
ICBC
ING
Santander UK PLC
Unicredit
Wells Fargo Bank International

A range of shareholder information is available at Equiniti's online portfolio service www.shareview.co.uk, where you can register for a Shareview Portfolio to access information about your holding and undertake a number of activities, including appointing a proxy, changing a dividend mandate and updating your address. To register, you will need your 11 digit Shareholder Reference Number (SRN), which can be found on your proxy form or dividend voucher.

Gifting your shares

If you have a small number of shares and the dealing costs or minimum fee make it uneconomical to sell them, you may like to donate them to benefit charities through ShareGift, a registered charity. Further information is available on the ShareGift website at www.sharegift.org or call +44 (0) 20 7930 3737.

Share fraud warning

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. For more detailed information on this kind of activity or to report a scam, please call the Financial Conduct Authority's Consumer Helpline on 0800 111 6768 or visit www.fca.org.uk/consumers/scams

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Notes

This image shows a full page of blank, lined paper. It features approximately 28 horizontal blue or grey lines spaced evenly apart, typical of notebook paper. The lines extend across the entire width of the page, leaving small margins at the top and bottom. There are no vertical lines, text, or other markings on the page.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



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