2 March 2017

MELROSE INDUSTRIES PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Melrose Industries PLC today announces its audited results, which are reported under IFRS, for the year ended 31 December 2016.

Highlights

- Melrose's 2016 results have exceeded market expectations:
  - Brush, in its eighth year of Melrose ownership, is still experiencing adverse trading headwinds and management continues to take appropriate action
  - Nortek, acquired on 31 August 2016 for an enterprise value of £2.2 billion, is responding well to Melrose ownership and has materially outperformed, albeit in a short four month period
- In comparison to the same four month period last year, Nortek has achieved:
  - An increase to underlying[1] operating profit of 35%
  - Underlying[1] operating margin of 13.4%, up 4.1 percentage points
  - Underlying[1] profit conversion to cash of 134%
- Since acquisition, Melrose has significantly reduced the debt levels in Nortek and also increased capital investment in the businesses to enhance long-term value
- Future operating margin improvement possibilities for Nortek are better than originally thought
- The Melrose Group achieved an underlying[1] profit before tax of £96.4 million (2015: £2.4 million), despite declaring a statutory loss before tax of £69.3 million (2015: £30.7 million) after non-trading and acquisition costs
- In spite of adverse foreign exchange translation effects on US$ debt, Melrose Group net debt has been reduced since acquisition to £541.5 million, reflecting very strong cash generation
- A final dividend of 1.9 pence per share is proposed (2015: 0.5 pence[2])
- The Melrose Board has started the process of looking for the next acquisition

[1] Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is set out in the Finance Director's Review

[2] Adjusted by a bonus factor of 18.8% related to the Rights Issue completed in August 2016

Christopher Miller, Chairman of Melrose Industries PLC, today said:

"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. As a result we have started looking for the next acquisition that will materially enhance shareholder value."

An analysts' meeting will be held today at 11.00 am at Investec, 2 Gresham Street, London EC2V 7QP.

Enquiries:

Montfort Communications:
Charlotte McMullen/Sophie Arnold +44 (0) 20 3514 0897

CHAIRMAN'S STATEMENT

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[2]), making a total of 2.2 pence for the year (2015: 1.0 pence[2]), in line with its progressive annual dividend policy. This will be paid on 16 May 2017 to those shareholders on the register at 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 judgment 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.

[2] Adjusted by a bonus factor of 18.8% related to the Rights Issue completed in August 2016

ANNUAL REPORT & ACCOUNTS

The Annual Report & Accounts will be posted on 7 April 2017 and, as indicated at the time of the acquisition of Nortek, will be accompanied by a circular detailing the proposed renewal of the Melrose long-term incentive arrangements.

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

CHIEF EXECUTIVE'S REVIEW

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.

AIR MANAGEMENT

	2016 (4 months post acquisition)
Total Revenue	£416.5m
Underlying[1] Operating Profit	£46.8m

[1] Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is set out in the Finance Director's Review

The Air Management division is the largest in the Melrose Group and has the greatest scope for improvement. It comprises three former Nortek 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 and headquartered in Hartford, Wisconsin.

HVAC

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.

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.

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.

AIR QUALITY & HOME SOLUTIONS

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.

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.

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 in 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.

SECURITY & SMART TECHNOLOGY

	2016 (4 months post acquisition)
Total Revenue	£130.4m
Underlying[1] Operating Profit	£17.1m

[1] Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is set out in the Finance Director's Review

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.

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 resellers.

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 Internet of Things (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.

ERGONOMICS

	2016 (4 months post acquisition)
Total Revenue	£96.0m
Underlying[1] Operating Profit	£24.4m

[1] Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is set out in the Finance Director's Review

ERGOTRON

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.

Key strengths:

- Expertise in the design and manufacture of ergonomic technology workstations and computer mounts.
- Strong and advanced supply chain, accessing component suppliers from the global computer industry.
- Continuous improvement mindset across the business, with a strong testing regime to ensure highest quality.

Continual refreshment of the product portfolio remains the key to maintaining the business' 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' 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.

ENERGY

	2016	2015
Total Revenue	£246.4m	£261.1m
Underlying[1] Operating Profit	£32.0m	£38.5m

[1] Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is set out in the Finance Director's Review

BRUSH

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.

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.

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.

Simon Peckham
Chief Executive
2 March 2017

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.

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 consider 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 and 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.

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 $ 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 year's 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.

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 this announcement.

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 $, 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 is 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 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 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

Consolidated Income Statement

	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Continuing operations			
Revenue	3	**889.3**	261.1
Cost of sales		**(626.0)**	(179.0)
Gross profit		**263.3**	82.1
Net operating expenses		**(324.9)**	(77.3)
Operating (loss)/profit		**(61.6)**	4.8
Finance costs		**(9.5)**	(45.6)
Finance income		**1.8**	10.1
Loss before tax		**(69.3)**	(30.7)
Tax	5	**30.3**	14.4
Loss for the year from continuing operations		**(39.0)**	(16.3)
Discontinued operations			
Profit for the year from discontinued operations		**-**	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	7	**(2.6)p**	(0.3)p
- Diluted	7	**(2.6)p**	(0.3)p
Continuing and discontinued operations:			
- Basic	7	**(2.6)p**	26.4p
- Diluted	7	**(2.6)p**	25.8p

Underlying Results

Underlying operating profit	3,4	**104.1**	24.8
Underlying profit before tax	4	**96.4**	2.4
Underlying profit/(loss) after tax	4	**70.4**	(1.4)
Underlying diluted earnings per share – continuing	7	**4.4p**	Nil p

Consolidated Statement of Comprehensive Income

	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
(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		**22.7**	57.5
Income tax charge relating to items that will not be reclassified	5	**(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		**-**	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	5	**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	11	**50.6**	(57.8)
Net cash from operating activities from discontinued operations	11	**-**	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		**0.9**	0.3
Acquisition of subsidiaries		**(1,130.0)**	-
Cash acquired on acquisition of subsidiaries	8	**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	11	**-**	(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	10	**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	6	**(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	11	**-**	-
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	11	**2,451.4**	70.5
Effect of foreign exchange rate changes	11	**3.4**	9.7
Cash and cash equivalents at the end of the year	11	**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 11.

Consolidated Balance Sheet

	Notes	31 December 2016 £m	31 December 2015 £m
Non-current assets			
Goodwill and other intangible assets		**2,667.0**	273.0
Property, plant and equipment		**271.9**	112.9
Interests in joint ventures		**-**	-
Deferred tax assets		**49.3**	25.7
Derivative financial assets		**5.2**	-
Trade and other receivables		**5.2**	1.1
		2,998.6	412.7
Current assets			
Inventories		**297.3**	55.6
Trade and other receivables		**365.8**	67.9
Derivative financial assets		**3.8**	1.2
Cash and cash equivalents		**42.1**	2,451.4
		709.0	2,576.1
Total assets	3	**3,707.6**	2,988.8
Current liabilities			
Trade and other payables		**426.4**	71.2
Interest-bearing loans and borrowings		**0.5**	-
Derivative financial liabilities		**4.2**	1.5
Current tax liabilities		**10.2**	3.3
Provisions	9	**138.1**	12.0
		579.4	88.0
Net current assets		**129.6**	2,488.1
Non-current liabilities			
Trade and other payables		**13.7**	-
Interest-bearing loans and borrowings		**583.1**	-
Deferred tax liabilities		**193.7**	20.2
Retirement benefit obligations		**33.4**	17.2
Provisions	9	**141.5**	18.0
		965.4	55.4
Total liabilities	3	**1,544.8**	143.4
Net assets		**2,162.8**	2,845.4
Equity			
Issued share capital	10	**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

Simon Peckham
Chief Executive

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

The financial information included within this preliminary announcement does not constitute the Company's statutory financial statements for the years ended 31 December 2016 or 31 December 2015 within the meaning of s435 of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 have been delivered to the Registrar of Companies and those for the year ended 31 December 2016 will be delivered to the Registrar of Companies during April 2017. The auditor has reported on those financial statements; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs during April 2017.

The Group has adopted a number of standards and amendments which became mandatory during the current financial year. These changes have had no significant impact on the Group's financial statements. The accounting policies followed are the same as those detailed within the 2015 Annual Report which are available on the Group's website www.melroseplc.net.

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. The results of Nortek are included in the consolidated financial statements of the Group for the four month period from the date of acquisition.

The Board of Directors approved the preliminary announcement on 2 March 2017.

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 4 and 7 of this preliminary announcement.

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 and 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.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies 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 8.

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.

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).

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.

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 9.

3. 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.

	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	**889.3**	261.1
Discontinued operations	**-**	1,109.8
Total revenue	**889.3**	1,370.9

	Notes	Segment results 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	4	**104.1**	24.8
Items not affecting underlying operating profit	4	**(165.7)**	(20.0)
Operating (loss)/profit	4	**(61.6)**	4.8
Finance costs		**(9.5)**	(45.6)
Finance income		**1.8**	10.1
Loss before tax		**(69.3)**	(30.7)
Tax	5	**30.3**	14.4
Profit for the year from discontinued operations		**-**	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.

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.

4. Reconciliation between profit and underlying profit

As described in note 1, 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:

Continuing operations	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
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.

a. 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.

b. 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.

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

d. 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.

e. 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.

f. 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.

Continuing operations	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
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.

Continuing operations	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
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	5	**(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.

5. Tax

	Continuing operations		Discontinued operations		Total	
Analysis of charge/(credit) in year:	**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
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 4 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	**-**	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 4)	**(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.

6. 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 7).

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.

7. Earnings per share

Earnings attributable to owners of the parent	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
(Loss)/profit for the purposes of earnings per share	**(39.0)**	1,407.1
Less: profit for the year from discontinued operations	**-**	(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.

Earnings per share	**Year ended 31 December 2016 pence**	Year ended 31 December 2015 pence
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

Underlying earnings	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Underlying earnings for the basis of underlying earnings per share from continuing operations	4	**70.4**	(1.4)

Underlying earnings per share

	Year ended 31 December 2016 pence	Year ended 31 December 2015 pence
Underlying basic earnings per share – continuing	**4.7p**	Nil p
Underlying diluted earnings per share – continuing	**4.4p**	Nil p

8. Acquisition of businesses, goodwill and other intangible assets

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 3).

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 4).

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.

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, which 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.

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:

31 December 2016

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(3)**
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

Group of CGUs	**Basis of valuation**	**Carrying value of goodwill £m**	**Pre-tax discount rate(1)**	**Period of forecast**	**Key assumptions applied in the forecast cash flow projections(2)**	**Long-term growth rate(3)**
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.

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 2, 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.

9. 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%).

10. Issued capital and reserves

Share Capital	**31 December 2016 £m**	31 December 2015 £m
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

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.

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.

11. 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)

Cash flow from discontinued operations	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
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	**-**	-

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)**