THIS ANNOUNCEMENT DOES NOT CONSTITUTE A PROSPECTUS OR PROSPECTUS EQUIVALENT DOCUMENT AND NEITHER THIS ANNOUNCEMENT NOR ANYTHING HEREIN FORMS THE BASIS FOR ANY OFFER TO PURCHASE OR SUBSCRIBE FOR ANY SHARES OR OTHER SECURITIES IN MELROSE INDUSTRIES PLC NOR SHALL IT FORM THE BASIS FOR ANY CONTRACT OR COMMITMENT WHATSOEVER.

24 March 2017

Melrose Industries PLC

Listing Rule 6.1.3D: Required Information

In accordance with the requirements of Listing Rule 6.1.3D, the information in Parts I and II below is provided in connection with the announcement dated 24 March 2017, regarding Melrose Industries PLC's intention to transfer the listing category of its ordinary shares from a Standard Listing to a Premium Listing on the official list of the UK Listing Authority (the "Transfer Announcement"). For full details on the intention to transfer, please refer to the Transfer Announcement.

Deloitte LLP has given and not withdrawn its written consent to the inclusion of its accountant's report in Part II of this announcement in the form and context in which it is included.

Enquiries

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PART I – Nortek, Inc. Consolidated Historical Financial Information

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2016
		$m
Revenue	7	2,480.7
Cost of sales		(1,803.8)
Gross profit		676.9
Net operating expenses	7	(845.6)
Operating loss		(168.7)
Finance costs, net	7	(137.6)
Loss before tax		(306.3)
Tax	8	111.2
Loss for the year		(195.1)

Underlying operating profit	6	241.0
Underlying profit before tax	6	148.9
Underlying profit after tax	6	101.4

The accompanying notes are an integral part of this historical financial information.

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2016
		$m
Loss for the year		(195.1)
Items that will not be reclassified subsequently to the Income Statement:		
Actuarial loss related to pension plans	17	(2.7)
Income tax relating to items that will not be reclassified	8	(0.8)
		(3.5)
Items that may be reclassified subsequently to the Income Statement:		
Loss on cash flow hedges		(0.5)
Currency translation on net investments		(6.1)
		(6.6)
Other comprehensive loss after tax		(10.1)
Total comprehensive loss for the year		(205.2)

The accompanying notes are an integral part of this historical financial information.

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016
		$m
Net cash from operating activities	20	**167.7**
Purchase of property, plant and equipment		(43.6)
Cash paid for equity investment		(4.0)
Acquisition of businesses		(1.0)
Purchases of intangible assets		(1.0)
Purchases of computer software		(3.4)
Proceeds from sale of property, plant and equipment		4.4
Net cash used in investing activities		**(48.6)**
Repayment of ABL and other borrowings		(47.9)
Repayment of the 8.5% Senior Notes		(30.0)
Cash received from parent		128.6
Cash paid to parent		(81.1)
Fees paid in connection with other debt facilities		(1.0)
Settlement of share-based awards		(59.7)
Net use from equity transactions		(0.3)
Net cash used in financing activities		**(91.4)**
Net increase in cash and cash equivalents		27.7
Cash and cash equivalents at beginning of the year		25.8
Effect of foreign exchange rate changes		(3.0)
Cash and cash equivalents at end of the year		**50.5**

The accompanying notes are an integral part of this historical financial information.

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	Notes	31 December 2016
		$m
Non-current assets		
Goodwill and other intangible assets	9	1,059.3
Property, plant and equipment	10	166.7
Deferred tax assets	8	41.9
Trade and other receivables	12	3.5
		1,271.4
Current assets		
Inventories	11	305.5
Trade and other receivables	12	381.7
Derivative financial assets	15	1.3
Cash and cash equivalents		50.5
		739.0
Total assets		2,010.4
Current liabilities		
Trade and other payables	13	431.7
Interest-bearing loans and borrowings	14	1.4
Derivative financial liabilities	15	1.8
Current tax liabilities		11.6
Provisions	16	128.5
		575.0
Net current assets		164.0
Non-current liabilities		
Interest-bearing loans and borrowings	14	746.5
Provisions	16	129.3
Retirement benefit obligations	17	46.2
Trade and other payables	13	16.9
		938.9
Total liabilities		1,513.9
Net assets		496.5
Equity		
Share capital	19	---
Accumulated deficit		(390.7)
Other reserves		915.2
Hedging reserve		(0.5)
Cumulative translation reserve		(27.5)
Total equity		496.5

The accompanying notes are an integral part of this historical financial information.

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury shares	Accumulated deficit	Other reserves	Hedging reserve	Cumulative translation reserve	Total equity
	$m	$m	$m	$m	$m	$m	$m
At 1 January 2016	**0.2**	**(58.4)**	**(192.1)**	**288.9**	—	**(21.4)**	**17.2**
Loss for the year	—	—	(195.1)	—	—	—	(195.1)
Other comprehensive loss	—	—	(3.5)	—	(0.5)	(6.1)	(10.1)
Total comprehensive loss	—	—	(198.6)	—	(0.5)	(6.1)	(205.2)
Exercise of stock options	—	—	—	0.2	—	—	0.2
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased for share settlements	—	(0.5)	—	—	—	—	(0.5)
Equity-settled share-based payments	—	—	—	19.6	—	—	19.6
Excess tax benefit on share-based awards	—	—	—	3.8	—	—	3.8
Creation of merger reserve(1)	—	—	—	661.4	—	—	661.4
Other acquisition related(2)	(0.2)	58.9	—	(58.7)	—	—	—
At 31 December 2016	**—**	**—**	**(390.7)**	**915.2**	**(0.5)**	**(27.5)**	**496.5**

Note:

1. The acquisition of the Nortek Group by Melrose was effected by a merger between Nevada, Corp., an indirect wholly owned subsidiary of Melrose, and Nortek, Inc. from which Nortek, Inc. was the surviving entity. An intercompany loan between the two entities was consequently cancelled as a result of the merger giving rise to the creation of a merger reserve in Nortek, Inc. with a value of $661.4 million.
2. As a result of the acquisition of the Nortek Group by Melrose, all previously held share capital and treasury shares issued by Nortek, Inc. were cancelled.

The accompanying notes are an integral part of this historical financial information.

1. Corporate Information

The historical financial information of Nortek, Inc. ("Nortek") and its subsidiaries (collectively, the "Nortek Group") for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on 21 March 2017.

Nortek was founded in 1967 and is incorporated in the State of Delaware, the United States of America. The address of the registered office is 2077 Convention Center Concourse, Suite 175, Atlanta, Georgia, 30337.

On July 6, 2016, the Nortek Group entered into an Agreement and Plan of Merger (the "Merger Agreement") with Melrose Industries PLC, a public limited company incorporated under the laws of the United Kingdom and registered in England and Wales ("Melrose"), and Nevada Corp., a Delaware corporation and an indirect wholly owned subsidiary of Melrose. Upon completion of the merger, the Nortek Group became an indirect wholly owned subsidiary of Melrose.

Nortek is a leading diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions.

The Nortek Group manufactures and sells, primarily in the United States, Canada, and Europe, with additional manufacturing in China and Mexico, a wide variety of products principally for the remodelling and replacement markets, the residential and commercial new construction markets, and the personal and enterprise computer markets.

2. Summary of significant accounting polices

Basis of accounting

The historical financial information has been prepared in accordance with the requirements of the Listing Rules, on a basis consistent with the accounting policies adopted in the latest annual financial statements of Melrose. This historical financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The historical financial information complies with IFRS as adopted for use in the European Union ("EU") and therefore complies with Article 4 of the EU IAS Regulation.

IFRSs as adopted by the EU do not provide for the specific accounting treatment set out below, and accordingly in preparing the consolidated historical financial information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in a departure from IFRSs as adopted by the EU as financial information has been presented without comparative information. In all other respects IFRSs as adopted by the EU have been applied.

Accordingly, other than the exception noted, the Nortek Group has prepared historical financial information which complies with applicable IFRS, as described in the summary of significant accounting policies.

The historical financial information is presented in US Dollars ("$") and all values stated in millions of US Dollars ("$m") except where otherwise indicated.

The historical financial information has been prepared on an historical cost basis, except for the revaluation of certain financial instruments which are recognised at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

A reconciliation between statutory reported measures and the underlying measures listed above is shown in note 6 to this historical financial information.

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.

Basis of consolidation

The Nortek Group historical financial information includes the results of Nortek and all of its subsidiary undertakings. The results of businesses acquired during the period are included from the effective date of acquisition and for those sold during the period to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Nortek Group. All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

Going concern

The Directors have, at the time of approving the historical financial information, a reasonable expectation that the Nortek Group has adequate resources to continue in operational existence for the foreseeable future. In forming this view, the Directors have considered the availability of finance from Melrose. Thus they continue to adopt the going concern basis of accounting in preparing the historical financial information.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of acquisition is measured at the fair value of assets transferred, the liabilities incurred or assumed at the date of exchange of control and equity instruments issued by the Nortek Group in exchange for control of the acquiree. Control is achieved where the Nortek Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Costs directly attributable to business combinations are recognised as an expense in the Income Statement as incurred.

The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition except those where specific guidance is provided by IFRSs. Non-current assets and directly attributable liabilities that are classified as held for sale in accordance with IFRS 5: "Non-current assets held for sale and discontinued operations", are recognised and measured at fair value less costs to sell. Also, deferred tax assets and liabilities are recognised and measured in accordance with IAS 12: "Income taxes", liabilities and assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 (revised): "Employee benefits" and liabilities or equity instruments related to the replacement by the Nortek Group of an acquiree's share-based payments awards are measured in accordance with IFRS 2: "Share-based payment". Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Nortek Group reports provisional amounts where appropriate. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Nortek Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

Goodwill on acquisition is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

If, after reassessment, the Nortek Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units acquired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the Income Statement and is not subsequently reversed. When there is a disposal of a cash-generating unit, goodwill relating to the operation disposed of is taken into account in determining the gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposed of and the operation retained.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, customs duties and sales related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The nature of agreements into which the Nortek Group enters means that:

- Certain of the Group's arrangements with its customers are multiple-element arrangements that can include any combination of products and services such as extended warranties, installation and start up testing as deliverables. With the exception of certain extended warranty arrangements, substantially all of the deliverables within the Group's multiple element arrangements are delivered within a one year period. Revenue for any undelivered-elements are deferred until delivery occurs. The Group allocates revenue to multiple element arrangements based on the relative fair value of each element's estimated selling price.
- the service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.
- aftermarket activities generally relate to the provision of spare parts, repairs and the rebuild of equipment. Revenue on the provision of parts is recognised in accordance with the policy on the sale of goods and revenue for repairs and rebuild is recognised upon completion of the activity.

Cash discounts, volume rebates and other customer incentive programs are based upon certain percentages agreed upon with the Nortek Group's various customers, which are typically earned by the customer over an annual period. The Nortek Group records periodic estimates for these amounts based upon the historical results to date, estimated future results through the end of the contract period, and the contractual provisions of the customer agreements. These are recorded as of the later of the date at which the revenues are recognised or the incentive is offered and are generally recorded as a reduction of sales at the time of sale based upon the estimated future outcome.

The significant majority of the Nortek Group's revenue is recognised on a sale of goods basis.

The specific methods used to recognise the different forms of revenue earned by the Nortek Group are as follows:

Sale of goods

Revenue is recognised when all of the following conditions are satisfied:

- the Nortek Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Nortek Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Nortek Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms are recognised as revenue when the Nortek Group has completed the primary duties required to transfer risks as stipulated in those terms. Sales made outside of such terms are generally recognised on delivery to the customer. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs or the possible return of goods.

Provision of services

As noted above, because revenue from the rendering of services is usually not significant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

Construction contracts

Revenue from significant contracts, without discrete elements, is recognised in proportion to the stage of completion of the contract by reference to the specific contract terms and the costs incurred on the contract at the Balance Sheet date in comparison to the total forecast costs of the contract. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Variations in contract work, claims and incentive payments are included in revenue from construction contracts when the amount can be measured reliably and its receipt is considered probable. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle. Claims are included when negotiations with the customer have reached an advanced stage such that it is probable that the customer will accept the claim. Incentive payments are included when a contract is sufficiently advanced that it is probable that the performance standards triggering the incentive will be achieved.

Profit attributable to contract activity is recognised if the final outcome of such contracts can be reliably assessed. Where this is not the case contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recovered. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

Issue costs of loans

The finance cost recognised in the Income Statement in respect of the issue costs of borrowings is allocated to periods over the terms of the instrument using the effective interest rate method.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bring the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and improvements	3 – 43 years
Machinery and equipment	1 – 13 years
Leasehold improvements	Shorter of the original lease term or the estimated useful life

The estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists an impairment review is performed and, where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds or costs and the carrying amount of the item) is included in the Income Statement in the year that the item is derecognised.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

On acquisition of businesses, separately identifiable intangible assets are initially recorded at their fair value at the acquisition date.

Access to the use of trademarks and tradenames are valued using a “relief from royalty” method which determines the net present value of future additional cash flows arising from the use of the intangible asset.

Customer relationships are valued on the basis of the net present value of the future additional cash flows arising from customer relationships with appropriate allowance for attrition of customers.

Technology assets are valued using a replacement cost approach.

Amortisation of intangible assets is recorded in administration expenses in the Income Statement and is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

Trademarks and tradenames	3 – 22 years
Developed technology	4 – 15 years
Customer relationships	2 – 21 years
Computer software	1 – 5 years
Other intangibles	3 – 6 years

Computer software is initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets are tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

Costs relating to clearly defined and identifiable development projects are capitalised when there is a technical degree of exploitation, adequacy of resources and a potential market or development possibility in the undertaking that are recognisable; and where it is the intention to produce, market or execute the project. A correlation must also exist between the costs incurred and future benefits and those costs can be measured reliably. Capitalised costs are expensed on a straight-line basis over their useful lives of five years or less. Costs not meeting such criteria are expensed as incurred.

Inventories

Inventories are valued at the lower of cost and net realisable value and measured using a first in, first out basis. Cost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their current state under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be incurred to completion and disposal. Provisions are made for obsolescence or other expected losses where necessary.

Trade and other receivables

Trade receivables and other receivables are measured and carried at amortised cost using the effective interest method, less any impairment. The carrying amount of other receivables is reduced by the impairment loss directly and a charge is recorded in the Income Statement. For trade receivables, the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the Income Statement.

Trade receivables that are assessed not to be impaired individually are also assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Nortek Group's past experience of collecting receipts, an increase in the number of delayed receipts in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash in hand, current balances with banks and similar institutions and short-term deposits which are readily convertible to cash which are subject to insignificant risks of changes in value.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Leases

Finance leases, which transfer to the Nortek Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Derivative financial instruments and hedging

The Nortek Group uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity risks, arising from operating and financing activities. The Nortek Group does not hold or issue derivative financial instruments for trading purposes. Details of derivative financial instruments are disclosed in note 15 of this historical financial information.

Derivative financial instruments are recognised and stated at fair value. Their fair value is recalculated at each reporting date. The accounting treatment for the resulting gain or loss will depend on whether the derivative meets the criteria to qualify for hedge accounting.

Where derivatives do not meet the criteria to qualify for hedge accounting, any gains or losses on the revaluation to fair value at the period end are recognised immediately in the Income Statement. Where derivatives do meet the criteria to qualify for hedge accounting, recognition of any resulting gain or loss on revaluation depends on the nature of the hedge relationship and the item being hedged.

Derivative financial instruments with maturity dates of less than one year from the period end date are classified as current in the Balance Sheet.

Hedge accounting

In order to qualify for hedge accounting, the Nortek Group is required to document from inception the relationship between the item being hedged and the hedging instrument and to show that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the Nortek Group revokes the hedging relationship, the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

The Nortek Group designates certain hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedge

Derivative financial instruments are classified as fair value hedges when they hedge the Nortek Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedge

Derivative financial instruments are classified as cash flow hedges when they hedge the Nortek Group's exposure to the variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted cash flow.

The effective portion of any gain or loss from revaluing the derivative financial instrument is recognised in the Statement of Comprehensive Income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts previously recognised in the Statement of Comprehensive Income and accumulated in equity are recycled to the Income Statement in the periods when the hedged item is recognised in the Income Statement or when the forecast transaction is no longer expected to occur. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Provisions

Provisions are recognised when the Nortek Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring

A restructuring provision is recognised when the Nortek Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by either starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, using the Directors' best estimate of the expenditure required to settle the Nortek Group's obligation.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Nortek Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Environmental liabilities

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

Employee related

Liabilities for health and workers compensation expenses are provided for based on the total liabilities that are able to be estimated and are probable as of the balance sheet date.

Product liability

Provisions are recorded for product and general liability claims which are probable and for which the cost can be reliably estimated.

Pensions and other retirement benefits

The Nortek Group operates defined benefit pension plans and defined contribution plans, some of which require contributions to be made to administered funds separate from the Nortek Group.

For the defined benefit pension and retirement benefit plans, plan assets are measured at fair value and plan liabilities are measured on an actuarial basis and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities. Any assets resulting from this calculation are limited to past service cost plus the present value of available refunds and reductions in future contributions to the plan. The present value of the defined benefit obligation, and the related current service cost and past service cost, are measured using the projected unit credit method.

The service cost of providing pension and other retirement benefits to employees for the period is charged to the Income Statement.

Net interest expense on net defined benefit obligations is determined by applying discount rates used to measure defined benefit obligations at the beginning of the year to net defined benefit obligations at the beginning of the year. Net interest expense is recognised within finance costs.

Remeasurement gains and losses comprise actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest). Remeasurement gains and losses, and taxation thereon, are recognised in full in the Statement of Comprehensive Income in the period in which they occur and are not subsequently recycled.

Actuarial gains and losses may result from differences between the actuarial assumptions underlying the plan obligations and actual experience during the period or changes in the actuarial assumptions used in the valuation of the plan obligations.

For defined contribution plans, contributions payable are charged to the Income Statement as an operating expense when employees have rendered services entitling them to the contributions.

Foreign currencies

The individual financial statements of each Nortek Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated historical financial information, the results and financial position of each Nortek Group company are expressed in United States dollars, which is the functional currency of Nortek, Inc., and the presentation currency for the consolidated historical financial information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the Income Statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the Income Statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting the consolidated historical financial information, the assets and liabilities of the Nortek Group's foreign operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the Statement of Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate). Such translation differences are recognised as income or as expenses in the period in which the related operation is disposed of. Any exchange differences that have previously been attributed to non-controlling interests are derecognised but they are not reclassified to the Income Statement.

Taxation

The tax expense is based on the taxable profits for the period and represents the sum of the tax paid or currently payable and deferred tax.

Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Nortek Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises on the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- where the timing of the reversal of the temporary differences associated with investments in subsidiaries and interests in joint ventures can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the relevant Balance Sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Nortek Group intends to settle its current tax assets and liabilities on a net basis.

Tax relating to items recognised directly in other comprehensive income is recognised in the Statement of Comprehensive Income and not in the Income Statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Share-based payments

The Nortek Group has applied the requirements of IFRS 2: “Share-based payment”. The Nortek Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instrument excluding the effect of non-market based vesting conditions at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Nortek Group’s estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on the Directors’ best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provisions

The quantification of certain liabilities within provisions 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 Nortek 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 16.

Assumptions used to determine the carrying amount of the Nortek 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 Nortek Group's defined benefit obligations. At 31 December 2016, the Nortek Group's retirement benefit obligation deficit was $46.2 million. A sensitivity analysis on the principal assumptions used to determine the Nortek Group's defined benefit obligations is shown in note 17.

Taxation

The Nortek Group is subject to income tax in most of the jurisdictions in which it operates. Management is required to exercise judgement in determining the Nortek 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 Nortek Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected. Further details are provided in note 8.

4. New Standards and Interpretations in issue but not yet effective

At the date of authorisation of this historical financial information, the following Standards and Interpretations are in issue but not yet effective (and in some cases have not been adopted by the EU):

IFRS 9: Financial instruments
IFRS 15: Revenue from contracts with customers
IFRS 16: Leases
Amendments to IAS 7: Disclosure initiative
Amendments to IAS 12: Recognition of deferred tax losses
Amendments to IFRS 2: Classification and measurement of share-based payment transactions
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
Annual improvements to IFRSs: 2014-16 Cycle
Clarifications to IFRS 15: Revenue from contracts with customers

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Nortek Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 will impact the recognition of leases. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed, which is planned to be undertaken in the next 12 months.

5. Business combinations

Nuiku

On May 19, 2016, one of the Nortek Group's wholly-owned subsidiaries completed the acquisition of certain assets of Nuiku, Inc. ("Nuiku"), which was a privately-owned company that had developed a data driven platform and cloud based application program interface that enables natural language processing for multiple products ("NLP Software"). The acquired NLP Software is expected to be integrated with certain of the Nortek Group's Security & Smart Technology and Air Management products. The Nortek Group completed the acquisition of Nuiku to expand its technology and product offerings and functionality. The Nortek Group acquired Nuiku for an aggregate initial all cash purchase price of approximately $1.3 million, of which approximately $1.0 million was paid at closing and approximately $0.3 million was deferred to be paid no later than August 14, 2017 subject to any reduction for indemnification or other claims. There were no tangible assets acquired or liabilities assumed and the Nortek Group concluded that the estimated fair value of acquired developed technology was approximately $1.3 million. In addition to the initial cash purchase price consideration, the asset purchase agreement also contained a contingent purchase consideration provision whereby the Nortek Group is required to pay additional consideration (all in cash), up to a maximum of $2.3 million.

MiOS

On May 2, 2016, the Nortek Group purchased certain preferred stock of MiOS Limited ("MiOS") for approximately $4.5 million (of which $4.0 million was paid in cash), which represents an ownership of approximately 25% on a fully-diluted basis. MiOS is a global technology company focused on developing and distributing advanced control and monitoring solutions for the home and small enterprise markets. Following the acquisition of Nortek by Melrose on 31 August 2016, a decision was made to fully impair this investment.

6. Reconciliation between profit and underlying profit

As described in note 2, underlying profit/(loss) is the alternative performance measure used by the Board to monitor the underlying trading performance of the Nortek Group. A reconciliation between the statutory loss and underlying profit for 2016 is shown below:

	Note	Year ended 31 December 2016
		$m
Operating loss		(168.7)
Acquisition fees and expenses	a	37.8
Restructuring and transformation charges	b	93.2
Stock based compensation	c	19.6
Amortisation of intangible assets	d	69.6
Adjustments made on acquisition	e	177.0
Other	f	12.5
Total adjustments		409.7
Underlying operating profit		**241.0**

a. Acquisition fees and expenses of $37.8 million, which were incurred primarily as a result of the Melrose transaction. These items are excluded from underlying results due to their size and non-trading nature.

b. Restructuring and transformation charges of $93.2 million were incurred during the year. These related principally to the closure of the Nortek Head office and the restructuring of the Air Management segment where the two Heating, Ventilation and Air Conditioning ("HVAC") businesses were combined, closing various loss making businesses, making further cost reductions and moving the centralised functions for warehousing, human resources and IT back to the businesses. These items are excluded from underlying results due to their size and non-trading nature.

c. There was a charge of $19.6 million recorded in the Income Statement related to the IFRS 2 charge for the first eight months of 2016 and the accelerated vesting of share options as a consequence of the Melrose transaction, whereby the acquirer settled outstanding share options. These items are excluded from underlying results due to their size and non-trading nature.

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

e. As a result of the acquisition, adjustments of $177.0 million were made to the carrying value of assets and liabilities. This included changes in management estimates for the recoverability of assets and the expected future costs of provisions and liabilities. This non-recurring charge is not representative of the underlying trading performance of the business and it has been excluded from the underlying results by virtue of its size and nature.

f. Other non-underlying charges incurred totalled $12.5 million. These items are excluded from underlying results due to their non-trading nature.

Underlying profit before tax is as follows:

	Note	Year ended 31 December 2016
		$m
Loss before tax		(306.3)
Adjustments to operating profit per above		409.7
Loss from debt retirement	g	31.3
Write-off of deferred finance costs	g	14.2
Adjustments to loss before tax		455.2
Underlying profit before tax		**148.9**

g. As a result of the Melrose transaction as at 31 August 2016, outstanding borrowings and accrued interest under the Nortek Group's 8.5% Senior Notes and Senior Secured Term Loan Facility were repaid. The Nortek Group recorded a loss on debt retirement of $31.3 million related to early redemption premiums on the 8.5% Senior Notes and wrote-off $14.2 million of deferred finance costs. These items are excluded from underlying results due to their size and non-trading nature.

Underlying profit after tax is as follows:

	Year ended 31 December 2016
	$m
Loss for the year	(195.1)
Adjustments to loss before tax per above	455.2
Tax effect of adjustments to underlying profit before tax	(158.7)
Adjustments to loss for the year	296.5
Underlying profit after tax	**101.4**

7. Revenue and expenses

An analysis of the Nortek Group's revenue is as follows:

	Year ended 31 December 2016
	$m
Revenue from the sale of goods	2,437.3
Revenue from the provision of services	43.4
Total revenue	**2,480.7**

Net operating expenses comprise:

	Year ended 31 December 2016
	$m
Selling and distribution costs	241.5
Administration expenses	603.3
Shares of results of joint ventures	0.8
Total net operating expenses	**845.6**

Operating loss is stated after charging:

	Year ended 31 December 2016
	$m
Research and development costs	23.0
Depreciation	34.7
Amortisation of acquired intangibles	69.6
Amortisation of computer software	8.6
Foreign exchange losses	0.2
Operating lease expense	35.2
Write-down of inventory to net realisable value	41.9
Impairment of property, plant and equipment	13.7
Impairment of computer software	5.8
Impairment of trade receivables	12.1
Loss on sale of property, plant and equipment	0.1
Cost of inventories recognised as an expense	1,803.8

Staff costs during the year (including executive Directors) comprise:

	Year ended 31 December 2016
	$m
Salaries and wages	522.0
Pension costs (note 17)	
- Defined benefit plans	0.5
- Defined contribution plans	2.1
Payroll taxes and other fringe benefits	26.7
Share-based compensation	19.6
Total staff costs	**570.9**

Average number of persons employed (including executive Directors):

	Year ended 31 December 2016
Total average number of persons employed	**11,092**

Finance costs and income comprise:

	Year ended 31 December 2016
	$m
Interest on bank loans and overdrafts	70.6
Interest paid to parent undertaking	15.2
Amortisation of costs of raising finance	2.1
Loss from debt retirement	31.3
Write-off of deferred finance costs	14.2
Pension interest cost	1.6
Unwind of discount on provisions	0.1
Other	2.5
Finance costs, net	**137.6**

8. Tax

The analysis of the tax credit in the consolidated Income Statement is:

	Year ended 31 December 2016
	$m
Current tax	(5.2)
Deferred tax	(106.0)
Total tax credit in income statement	(111.2)

The total tax credit of $111.2 million includes a tax credit classified as non-underlying of $158.7 million. This credit is comprised of a credit of $141.0 million on the non-underlying adjustments to operating profit of $409.7 million, a credit of $12.2 million on loss from debt retirement and a credit of $5.5 million on write-off of deferred finance costs.

The tax credit for the year can be reconciled to the loss per the Income Statement as follows:

	Year ended 31 December 2016
	$m
Loss before tax	(306.3)
Tax on loss at US Federal Rate of 35%	(107.2)
Disallowable expenses within underlying items	2.1
Disallowable items in respect of acquisition related costs	6.8
Temporary differences not recognised in deferred tax	5.1
Impact of foreign tax rates	(17.6)
Tax credits and other rate differences	0.2
Credit in respect of prior years	(0.6)
	(111.2)

In addition to the tax credit within the Income Statement, a tax charge of $0.8 million has been recognised directly in the Consolidated Statement of Comprehensive Income in respect of actuarial movements on retirement benefit obligations. Also, a tax credit of $3.8 million has been recognised in Other Reserves in respect of the excess tax benefit on share based payments.

Deferred Taxes

The following table shows the major deferred tax assets and liabilities recognised at 31 December 2016 and movements thereon during the current period:

	1 January 2016	P&L	OCI	Equity	31 December 2016
	$m	$m	$m	$m	$m
Tax losses and other assets	102.2	114.2	(0.8)	3.8	219.4
Deferred tax on intangible assets	(169.3)	(8.2)	---	---	(177.5)
Net deferred income tax (liabilities) / assets	**(67.1)**	**106.0**	**(0.8)**	**3.8**	**41.9**

As at 31 December 2016, the Nortek Group had gross unused federal and corporate losses of $133.5 million available for offset against future profits. A deferred tax asset in respect of $27.2 million of these losses has been recognised in the Balance Sheet. No asset was recognised in respect of the remaining losses due to the geographic split of anticipated future profit streams. The majority of these losses may be carried forward indefinitely subject to certain continuity of business requirements. In addition, deferred tax on tax credits and state tax losses with a combined value of $39.3 million have been recognised and are available to set against future tax liabilities.

A deferred tax asset of $10.4 million was recognised in respect of retirement benefit obligations.

As at 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was $123.3 million on which deferred tax liabilities not recognised were $41.7 million. No liability is recognised in respect of $102.1 million of the differences because the Nortek Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

9. Goodwill and other intangible assets

	Goodwill	Customer relationships	Trademarks and tradenames	Developed technology costs	Computer Software	Other	Total
	$m	$m	$m	$m	$m	$m	$m
Cost							
At 1 January 2016	509.9	634.4	209.7	120.2	—	25.5	1,499.7
Additions	—	—	—	1.0	3.4	—	4.4
Acquisition of businesses (note 5)	—	—	—	1.3	—	—	1.3
Disposals	—	—	—	—	(4.8)	—	(4.8)
Reclassifications	—	—	—	—	60.7	—	60.7
At 31 December 2016	**509.9**	**634.4**	**209.7**	**122.5**	**59.3**	**25.5**	**1,561.3**
Amortisation							
At 1 January 2016	(4.4)	(233.5)	(69.6)	(53.4)	—	(24.1)	(385.0)
Charge for the year	—	(41.2)	(11.6)	(16.4)	(8.6)	(0.4)	(78.2)
Impairments	—	—	—	—	(5.8)	—	(5.8)
Disposals	—	—	—	—	2.5	—	2.5
Reclassification	—	—	—	—	(35.5)	—	(35.5)
At 31 December 2016	**(4.4)**	**(274.7)**	**(81.2)**	**(69.8)**	**(47.4)**	**(24.5)**	**(502.0)**
Net book value							
At 31 December 2016	**505.5**	**359.7**	**128.5**	**52.7**	**11.9**	**1.0**	**1,059.3**

The goodwill generated as a result of major acquisitions represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The goodwill arising on acquisitions is attributable to the anticipated profitability and cash flows arising from the businesses acquired, synergies as a result of the complementary nature of the business with existing businesses, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Nortek Group.

The future improvements applied to the acquired businesses, achieved through a combination of revised strategic direction, operational improvements and investment, are expected to result in improved profitability of the acquired businesses during the period of ownership. The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

Goodwill is allocated to groups of cash-generating units.

During the year, $25.2 million of computer related assets were reclassified from machinery and equipment to software, there was no impact on net assets.

The Nortek 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 CGU 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.

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	Pre-tax discount rate	Period of forecast	Key assumptions applied in the forecast cash flow projections	Long-term growth rate
		$m				
Air Management	Value in use	263.2	12.8%	4 years	Revenue growth, operating margins	3.0%
Security & Smart Technology	Value in use	85.3	12.7%	4 years	Revenue growth, operating margins	3.0%
Ergonomics	Value in use	157.0	12.6%	4 years	Revenue growth, operating margins	3.0%

Pre-tax risk adjusted discount rates

Cash flows are discounted using a pre-tax discount rate specific to each CGU. 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 is 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 CGU relative to all other sectors and geographies on average.

Assumptions applied in financial forecasts

The Nortek 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 Nortek Group is not yet committed. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

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.

10. Property, plant and equipment

	Land, buildings and improvements	Machinery and equipment	Total
	$m	$m	$m
Cost			
At 1 January 2016	129.4	346.0	475.4
Additions	3.1	41.1	44.2
Reclassifications	—	(60.7)	(60.7)
Derecognition of leased assets	(31.5)	—	(31.5)
Disposals	(6.9)	(25.3)	(32.2)
Exchange adjustments	(1.6)	(1.0)	(2.6)
At 31 December 2016	**92.5**	**300.1**	**392.6**
Accumulated depreciation			
At 1 January 2016	(35.1)	(211.3)	(246.4)
Depreciation	(6.9)	(27.8)	(34.7)
Impairments	—	(13.7)	(13.7)
Reclassifications	—	35.5	35.5
Derecognition of leased assets	4.5	—	4.5
Disposals	3.6	24.1	27.7
Exchange adjustments	0.6	0.6	1.2
At 31 December 2016	**(33.3)**	**(192.6)**	**(225.9)**
Net book value			
At 31 December 2016	**59.2**	**107.5**	**166.7**

During the year, $25.2 million of computer related assets were reclassified from machinery and equipment to software, there was no impact on net assets.

As a result of the acquisition by Melrose, management performed a review of finance leases held by Nortek. As a result of this review, management identified previously classified finance leases that meet the definition of operating leases, and hence have derecognised both the finance lease and the corresponding fixed asset in the current financial year

As a result of the acquisition by Melrose, management carried out an impairment review and recorded an impairment charge relating to machinery and equipment of $13.7 million, which has been recognised in the Income Statement.

11. Inventories

	31 December 2016
	$m
Raw materials	74.7
Work in progress	30.8
Finished goods	200.0
	305.5

The Directors consider that there is no material difference between the Balance Sheet value of inventories and their net realisable value.

12. Trade and other receivables

	31 December 2016
	$m
Current	
Trade receivables	341.9
Allowance for doubtful receivables	(21.3)
Interest-bearing loans to parent undertaking	29.1
Other receivables	16.8
Prepayments	15.2
	381.7

Trade receivables are non-interest-bearing. Credit terms offered to customers vary upon the country of operation but are generally between 30 and 90 days.

	31 December 2016
	$m
Non-current	
Other receivables	**3.5**

An allowance has been made for estimated irrecoverable amounts with reference to past default experience and management's assessment of credit worthiness, an analysis of which is as follows:

	Total
	$m
At 1 January 2016	13.4
Income Statement charge	12.1
Utilised	(5.1)
Other, including exchange differences	0.9
At 31 December 2016	**21.3**

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Nortek Group's customer base and their dispersion across many different geographical regions. No single customer accounts for 10% or more of consolidated net sales or trade and other receivables.

Included in the Nortek Group's trade receivables balance are overdue trade receivables with a carrying amount of $64.5 million against which a provision of $21.3 million is held.

Impaired trade receivables comprise:

	31 December 2016
	$m
1 – 30 days	10.6
31 – 60 days	7.6
60+ days	3.1
	21.3

The balance deemed recoverable of $43.2 million is past due as follows:

	31 December 2016
	$m
1 – 30 days	43.2
31 – 60 days	-
60+ days	-
	43.2

The Directors consider that the carrying amount of trade and other receivables, including amounts not past due and not impaired, approximates their fair value.

13. Trade and other payables

Current	31 December 2016
	$m
Trade payables	248.4
Other payables	7.7
Other taxes and social security	7.2
Accruals	168.4
	431.7

Trade payables are non-interest-bearing. The Directors consider that the carrying amount of trade and other payables approximates their fair value. Normal settlement terms vary by country and the average credit period taken for trade purchases is 67 days.

Non-current	31 December 2016
	$m
Other payables	11.8
Accruals	5.1
	16.9

14. Interest-bearing loans and borrowings

The Nortek Group has the following interest-bearing loans and borrowings:

	Current 31 December 2016	Non-current 31 December 2016	Total 31 December 2016
	$m	$m	$m
Amounts owed to parent undertaking	---	743.8	743.8
Obligations under finance leases	0.9	1.0	1.9
Other loans	---	1.7	1.7
Bank advances of the Nortek Group's foreign subsidiaries	0.5	---	0.5
Total interest-bearing loans and borrowings	**1.4**	**746.5**	**747.9**

As at 31 December 2016, the Nortek Group was owed $29.1 million from its parent undertaking. Amounts owed by parent undertaking receive interest at interbank rates adjusted by a margin. The margin as at 31 December 2016 was 0.25%.

Amounts owed to parent undertaking of $743.8 million bear interest at 7.00%.

As a result of the Melrose transaction as at 31 August 2016, outstanding borrowings and accrued interest under the Nortek Group's 8.5% Senior Notes of $735.0 million and $28.6 million, respectively, and the Senior Secured Term Loan Facility of $605.4 million and $1.9 million were repaid. Additionally, early redemption premiums of $31.3 million related to the 8.5% Senior Notes were paid. Of these amounts, the Nortek Group paid $30.0 million, with the remainder being paid by Melrose. The Nortek Group recorded a loss on debt retirement of $31.3 million related to such early redemption premiums on the 8.5% Senior Notes and wrote-off $14.2 million of deferred finance costs.

Maturity of financial liabilities

The table below shows the maturity profile of anticipated future cash flows, including interest, on an undiscounted basis in relation to the Nortek Group's financial liabilities. The amounts shown therefore differ from the carrying value and fair value of the Nortek Group's financial liabilities.

	Interest-bearing loans and borrowings	Derivative financial liabilities	Other financial liabilities	Total financial liabilities
	$m	$m	$m	$m
Within one year	59.2	1.8	424.5	485.5
Two to five years	961.1	-	16.9	978.0
More than five years	1.0	-	-	1.0
Effect of financing rates	(273.4)	-	-	(273.4)
31 December 2016	**747.9**	**1.8**	**441.4**	**1,191.1**

15. Financial instruments risk management objectives and policies

Fair values

The Nortek Group determines the fair market values of its financial instruments, based on the fair value hierarchy, which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Nortek Group's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

	31 December 2016
	Fair value measuring using
	Level 2
	$m
Financial assets measured at fair value	
Derivative financial assets – foreign currency forward contracts	1.3
Financial liabilities measured at fair value	
Derivative financial liabilities – foreign currency forward contracts	(1.8)

There have been no transfers between levels in the year.

Foreign Currency Contracts

The Nortek Group had foreign currency hedge contracts outstanding with a notional amount of approximately $47.2 million as of 31 December 2016. There were no material unrealised gains or losses related to contracts outstanding as of 31 December 2016.

The Nortek Group has determined the fair value of its derivative instruments considering the estimated amount it would receive or pay to sell or transfer these instruments at the reporting date and by taking into account currency exchange rates, the creditworthiness of the counterparty for assets, and the Nortek Group's creditworthiness for liabilities. Generally, the Nortek Group uses inputs that include quoted prices for similar assets or liabilities in active markets.

The Nortek Group has classified its derivative assets and liabilities within Level 2 of the fair value hierarchy, because these observable inputs are available for substantially the full term of its derivative instruments. Neither the total derivative assets nor the total derivative liabilities were material as of 31 December 2016.

Financial risk management

The Nortek Group is exposed to credit risk, capital risk, liquidity risk, interest rate risk and foreign currency risk. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Nortek Group's policy that no trading in derivatives for speculative purposes may be undertaken.

Credit risk

The Nortek Group's principal financial assets were cash and cash equivalents, loans receivable from parent undertaking and trade and other receivables for which the carrying values represent the Nortek Group's maximum exposure to credit risk in relation to financial assets and derive directly from its operations.

The Nortek Group's credit risk on cash and cash equivalents was limited because the counterparties were banks with strong credit ratings assigned by international credit rating agencies. The Nortek Group's credit risk was primarily attributable to its trade receivables and other receivables. The amounts presented in the Balance Sheet were net of allowances for doubtful receivables, estimated by the Nortek Group's management based on prior experience and their assessment of the current economic environment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Nortek Group's customer base and their dispersion across many different geographical regions.

Capital risk

The Nortek Group manages its capital to ensure that entities in the Nortek Group will be able to continue as a going concern.

The capital structure of the Nortek Group as at 31 December 2016 consisted of cash and equity attributable to equity holders of the parent, comprising issued share capital and reserves.

Liquidity risk

The Nortek Group's primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, interest payments, and debt repayments. Nortek's principal sources of liquidity are cash flows from operations, existing cash and cash equivalents, loans receivable from its parent undertaking and the use of borrowings from its parent undertaking.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Nortek Group is exposed to market risk from changes in interest rates primarily through its borrowing activities.

The long-term borrowings from the parent undertaking bear interest at fixed interest rates.

Based upon interest rates in effect at 31 December 2016, an overall increase in interest rates of 100 basis points would result in additional interest income of $0.8 million.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

The Nortek Group manufactures, markets and sells its products globally and, as a result, a portion of its sales are generated outside the United States in local currencies. The Nortek Group also incurs certain manufacturing, marketing and selling costs in international markets in local currency. Accordingly, the Nortek Group's earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the US dollar, the Nortek Group's reporting currency.

The Nortek Group manages its exposure to foreign currency exchange risk principally by trying to minimise its net investment in foreign assets.

An overall unfavourable change in foreign exchange rates in effect at 31 December 2016 of 10% would result in an increase in equity as a result of the impact on the cumulative translation adjustment of approximately $11.8 million. Additionally, an overall unfavourable change in foreign exchange rates in effect at the reporting date of 10% would result in a net loss of $1.0 million to operating profit as a result of the impact on the foreign exchange gains and losses.

16. Provisions

	Other	Environmental and legal costs	Surplus leasehold property costs	Employee related	Product liability	Warranty related	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 January 2016	5.3	3.4	-	11.4	43.9	51.0	115.0
Utilised	(33.4)	(4.4)	(0.7)	(55.4)	(6.4)	(25.7)	(126.0)
Net charge to operating profit	69.6	45.1	20.1	54.8	15.2	64.2	269.0
Unwind of discount	---	---	0.1	---	---	---	0.1
Exchange differences	0.1	(0.2)	---	---	---	(0.2)	(0.3)
At 31 December 2016	**41.6**	**43.9**	**19.5**	**10.8**	**52.7**	**89.3**	**257.8**
Current	35.7	32.2	4.1	6.4	14.4	35.7	128.5
Non-current	5.9	11.7	15.4	4.4	38.3	53.6	129.3
Total	**41.6**	**43.9**	**19.5**	**10.8**	**52.7**	**89.3**	**257.8**

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 Nortek 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 Nortek 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%.

Other Commitments and Contingencies

The Nortek Group is subject to other contingencies, including legal proceedings and claims, arising out of its businesses that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, warranty, and modification and adjustment or replacement of component parts of units sold, which include product recalls. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned. Whilst it is difficult to reasonably estimate the timing and ultimate outcome of these contingent liabilities, management estimates that the financial effect of these contingent liabilities could be approximately $30 million. These liabilities are not probable and therefore have not been provided for.

17. Pensions and other post-employment benefits plans

Retirement benefit obligations

Defined contribution plans

The Nortek Group operates defined contribution plans for qualifying employees across several jurisdictions. The assets of the plans are held separately from those of the Nortek Group in funds under the control of trustees.

The total costs charged during the year of $2.1 million represents contributions payable to these plans by the Nortek Group at rates specified in the rules of the plans.

Defined benefit plans

The Nortek Group's pension plans offer subsidised early retirement and lump sum payments. The Nortek Group's policy is to generally fund currently at least the minimum required annual contribution of its various qualified defined benefit plans. The Nortek Group contributed $5.8 million to the continuing defined benefit pension plans in the year ended 31 December 2016. At 31 December 2016, the Nortek Group expects to contribute approximately $5.9 million to its defined benefit pension plans in 2017.

The cost of the Nortek Group's defined benefit plans are determined using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US.

The valuation of the US Pension Plan was based on a full actuarial valuation as of 1 January 2016, updated at 31 December 2016 by independent actuaries. The valuation of the UK Pension Plan was based on a full actuarial valuation as of 5 April 2015, updated at 31 December 2016 by independent actuaries.

Actuarial assumptions

The discount rate assumptions used by the actuaries in calculating the Nortek Group's pension liabilities are as set out below:

	31 December 2016	
	UK Plan % p.a.	**US Pension Plan % p.a.**
Discount rate	2.7%	3.9%

The Nortek Group utilises long-term investment-grade bond yields as the basis for selecting a discount rate by which plan obligations are measured. An analysis of projected cash flows for each plan is performed in order to determine plan-specific duration. Discount rates are selected based on high quality corporate bond yields of similar durations.

Mortality

UK Pension Plan

Mortality assumptions for the UK Pension Plan, as at 31 December 2016 were based on the Self-Administered Pension Scheme ('SAPS') 'S1' base tables with a scaling factor of 120%, which reflected the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation ('CMI') improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

The assumptions were that a member currently aged 65 will live on average for a further 21.0 years if they are male and for a further 23.1 years if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 22.7 years after retirement if they are male and for a further 24.9 years after retirement if they are female.

US Pension Plan

The mortality assumptions adopted as at 31 December 2016 were set to reflect the Nortek Group's best estimate view of life expectancies of members of the pension arrangement. Each assumption reflected the characteristics of the membership of the US Pension Plan.

The assumptions were that a member currently aged 65 will live on average for a further 20.2 years if they are male and for a further 22.3 years if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 21.8 years after retirement if they are male and for a further 23.9 years after retirement if they are female.

Balance Sheet disclosures

The amounts recognised in the Balance Sheet arising from net liabilities in respect of defined benefit plans were as follows:

	31 December 2016
	$m
Present value of funded defined benefit obligations	(154.9)
Fair value of plan assets	116.3
Funded status	(38.6)
Present value of unfunded defined benefit obligations	(7.6)
Net liabilities	**(46.2)**

The plan liabilities and assets at 31 December 2016 were split by plan as follows:

	UK and European Pension Plans	US Pension Plan	Total
	$m	$m	$m
Plan liabilities	(44.5)	(118.0)	(162.5)
Plan assets	25.4	90.9	116.3
Net liabilities	**(19.1)**	**(27.1)**	**(46.2)**

At 31 December 2016, $90.9 million of assets in relation to the Nortek US Plan were held in cash as they were in the process of being transferred to the new plan custodian. The investment strategy is now approximately 60% equities and 40% bonds.

The assets were well diversified and the majority of plan assets had quoted prices in active markets. All government bonds were issued by reputable governments and were generally AA rated or higher. Interest rate and inflation rate swaps were also employed to complement the role of fixed and index-linked bond holdings for liability risk management.

The trustees continually review whether the chosen investment strategy is appropriate with a view to providing the pension benefits and to ensure appropriate matching of risk and return profiles. The main strategic policies included maintaining an appropriate asset mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results were regularly reviewed.

Movements in the present value of defined benefit obligations during the year:

	Year ended 31 December 2016
	$m
At beginning of year	166.8
Current service cost	0.5
Interest cost on obligations	6.0
Remeasurement losses - demographic	0.9
Remeasurement losses - financial	8.9
Remeasurement gains - experience	(3.6)
Benefits paid out of assets	(11.4)
Benefits paid out of Company assets for unfunded plans	(1.2)
Currency translation differences	(4.4)
At end of year	**162.5**

The defined benefit plan liabilities were 10% in respect of active plan participants, 24% in respect of deferred plan participants and 66% in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2016 was 12.2 years.

Movements in the fair value of plan assets during the year:

	Year ended 31 December 2016
	$m
At beginning of year	120.1
Interest income on plan assets	4.4
Return on plan assets (excluding amounts included in net interest expense)	3.5
Contributions	4.6
Benefits paid	(11.4)
Expenses paid out of plan assets	(1.0)
Currency translation differences	(3.9)
At end of year	**116.3**

Income Statement disclosures

Amounts recognised in the Income Statement in respect of these defined benefit plans were as follows:

	Year ended 31 December 2016
	$m
Included within operating profit:	
—current service costs	0.5
—administrative expenses	1.0
—total included in operating profit	1.5
Included within net finance costs:	
—net interest	1.6

Statement of Comprehensive Income disclosures

Amounts recognised in the Statement of Comprehensive Income in respect of these defined benefit plans were as follows:

	Year ended 31 December 2016
	$m
Return on plan assets, excluding amounts included in net interest expense	3.5
Actuarial losses arising from changes in demographic assumptions	(0.9)
Actuarial losses arising from changes in financial assumptions	(8.9)
Actuarial gains arising from experience adjustments	3.6
Net remeasurement loss on retirement benefit obligations	(2.7)

Risks and sensitivities

The defined benefit plans expose the Nortek Group to actuarial risks, such as longevity risk, currency risk, salary risk, interest rate risk and market (investment) risk. The Nortek Group is not exposed to any unusual, entity specific or plan specific risks.

A sensitivity analysis on the principal assumptions used to measure the plan liabilities at 31 December 2016 was as follows:

	Change in assumption	Decrease/ (increase) to plan liabilities
		$m
Rate of salary increase	Increase by 0.1%	(0.5)
	Decrease by 0.1%	0.5
Discount rate	Decrease by 0.1%	(2.0)

	Increase by 0.1%	1.9
Assumed life expectancy (rate of mortality)	Increase by 1 year	(5.1)
	Decrease by 1 year	5.1

The sensitivity analysis above was determined based on reasonable possible changes to the respective assumptions, while holding all other assumptions constant. There has been no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The sensitivities were based on the relevant assumptions and membership profile as at 31 December 2016 and were applied to the obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected, it does provide an approximation to the sensitivity of the assumptions shown. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate and the sensitivity analysis presented may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

18. Share-based payments

As a result of the Melrose transaction, all share based awards, including restricted stock, previously granted immediately vested and became exercisable. There was a charge of $19.6 million recorded in the Income Statement related to the IFRS 2 charge for the first eight months of 2016 and the accelerated vesting of share options as a consequence of the Melrose transaction, whereby the acquirer settled outstanding share options. In conjunction with the Melrose transaction, the total value of these share based awards were settled and the net cash value of $59.7 million was paid. There are no share based awards outstanding as at 31 December 2016. Refer to the “Circular to Melrose Shareholders” dated 6 July 2016 for details of the Nortek Group’s previous share incentive compensation plans.

19. Issued capital and reserves

Share Capital	**31 December 2016**
	$m
Authorised common stock	
1,000 Ordinary Shares of $0.01 each	---
Ordinary shares issued and fully paid	
100 Ordinary Shares of $0.01 each	---
Authorised preferred stock	
1,000 of $0.01 each; none issued and outstanding	---

Cumulative translation reserve

The Cumulative translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than United States dollars.

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.

Other reserves

Pursuant to the merger agreement, Nortek, Inc. merged with Nevada, Corp. The impact of the merger related entries was a credit to equity of $661.4 million.

20. Cash flows from operating activities

	Year ended 31 December 2016 $m
Underlying operating profit	241.0
Adjustments for:	
Depreciation of property, plant and equipment	34.7
Amortisation of computer software	8.6
Loss on sale of property, plant and equipment	0.1
Movement in provisions	(30.6)
Decrease in receivables	15.5
Decrease in inventories	15.5
Decrease in payables	(16.2)
Tax paid	(6.9)
Interest paid	(50.4)
Defined benefit contributions paid	(5.8)
Acquisition costs	(37.8)
	(73.3)
Net cash from operating activities	**167.7**

21. Commitments and contingencies

Lease Obligations

Future total minimum rentals payable under non-cancellable operating leases were as follows:

	31 December 2016 $m
Amounts payable:	
Within one year	24.9
After one year but within five years	63.3
Over five years	29.6
	117.8

Certain of these lease agreements provide for increased payments based on changes in the consumer price index. Under certain of these lease agreements, the Nortek Group is also obligated to pay insurance and taxes. Certain of the Nortek Group's operating lease arrangements for the rental of real estate contain renewal options. The Nortek Group has reviewed the provisions of the renewal options and determined that none of the renewal options represent bargain renewal options. In addition, certain of the Nortek Group's operating lease arrangements for the rental of real estate contain certain restrictions, including restrictions on use and sublease of the leased properties. The Nortek Group has evaluated the restrictions and determined that none of the restrictions limit its ability to utilise the property for its intended purpose.

The Nortek Group is obligated under operating lease agreements for the rental of certain real estate and machinery and equipment to be used in operations. The lease terms of real estate range vary in length and for the rental of machinery and equipment used in operations range from approximately 1 to 5 years.

Capital commitments

At 31 December 2016, there were commitments of $2.4 million relating to the acquisition of new plant and machinery.

22. Controlling Party

The Nortek Group's immediate parent is Nevada Holdco Corp., a company incorporated in the United States of America. The ultimate parent company and controlling party is Melrose Industries PLC, a company incorporated in England & Wales. The registered office of Melrose Industries PLC is 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.

23. Related party disclosures

Transactions between the Nortek Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Nortek Group did not enter into any significant transactions in the ordinary course of business with associates during the current or prior year.

Amounts owed to the parent undertaking as at 31 December 2016 were $743.8 million and amounts due from the parent undertaking were $29.1 million. The amount of interest charged during the year was $15.2 million.

Remuneration of key management personnel

Disclosures required by IAS 24 for compensation of key management personnel have not been provided as the key management personnel of Nortek have been replaced in the year by the key management personnel in Melrose. The annual report of Melrose Industries Plc discloses the remuneration of Melrose key management personnel.

24. Nortek group information

Information on subsidiaries

The historical financial information of the Nortek Group includes the following wholly owned subsidiaries:

Name	Jurisdiction
Best S.p.A.	Italy
Best Deutschland GmbH	Germany
Best Poland S.p.zo.o.	Poland
Broan Building Products-Mexico, S. de R.L. de C.V.	Mexico
Broan-NuTone Canada, ULC	Canada
Nortek Air Solutions Canada	Canada
Innergy Tech, Inc.	Canada
Venmar Ventilation ULC	Canada
Ergotron, Inc.	Minnesota
Dongguan Ergotron Precision Technology Co. Ltd.	China
Ergotron Nederland B.V.	The Netherlands
Broan-NuTone LLC	Delaware
Broan Building Products (Huizhou) Co., Ltd.	China
Broan-NuTone (HK) Limited	Hong Kong
Pacific Zephyr Range Hood, Inc.	California
Zephyr Ventilation, LLC	California
Eaton-Williams Group Limited	United Kingdom
Nortek Security & Control LLC	California
GTO Access Systems, LLC	Florida
Operator Specialty Company, Inc.	Michigan
Core Brands, LLC	California
Linear Electronics (Shenzhen) Co., Ltd.	China
Nortek International Holdings, B.V.	The Netherlands
Nortek Global HVAC, LLC	Delaware
Nortek Air Solutions, LLC	Delaware
Nortek Global HVAC de Puerto Rico, LLC	Puerto Rico
Nortek Global HVAC Latin America, Inc.	Delaware
Nortek Global HVAC de Mexico S.A. de R.L. de C.V.	Mexico
Nordyne Argentina SRL	Argentina
Nordyne do Brasil Distribuidora de Ar Condicionado Ltda.	Brazil
Nortek Air Solutions Quebec, Inc.	Canada
Nortek (Shanghai) Trading Co., Ltd.	China
Nortek Global HVAC (UK) Limited	United Kingdom
Nortek Global HVAC France S.A.S.	France
Nortek Global HVAC Belgium NV	Belgium
Dongguan Ergotron Precision Technology Design Services Co., Ltd.	China
Ergotron (UK) Limited	United Kingdom
Ergotron Canada Corporation	Canada
Ergotron Deutschland GmbH	Germany
Ergotron France Sarl	France
Ergotron Japan KK	Japan
Nortek Distribution Services, LLC	Delaware
Nortek Australia Pty Ltd.	Australia

PART II – Accountant's Report

The Board of Directors
on behalf of Melrose Industries PLC
11th Floor, The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

J.P. Morgan Securities plc
25 Bank Street
London
E14 5JP

24 March 2017

Dear Sirs

Nortek, Inc. (together with its subsidiaries, "Nortek Group")

We report on the financial information in respect of Nortek Group for the year ended 31 December 2016 set out above in Part I (***Nortek, Inc. Consolidated Historical Financial Information),*** required to be included in the announcement of Melrose Industries PLC (the "Company") dated 24 March 2017 to transfer its entire ordinary share capital from the standard segment of the Official List of the FCA to the premium segment (the "Transfer Announcement"). This financial information has been prepared for inclusion in the Transfer Announcement on the basis of the accounting policies set out in note 2 to the financial information. This report is required by obligations that the Company has under Listing Rule 6.1.3DR and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you. Save for any responsibility which we may have to those persons to whom this report is expressly addressed as a result of the inclusion of this report in the Announcement, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, consenting to its inclusion in the Announcement.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Transfer Announcement, a true and fair view of the state of affairs of the Nortek Group as at 31 December 2016 and of its losses, cash flows and changes in equity for the year ended 31 December 2016 in accordance with the basis of preparation set out in Note 2 to the financial information.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.