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 THE COMPANY NOR SHALL IT FORM THE BASIS FOR ANY CONTRACT OR COMMITMENT WHATSOEVER.

24 March 2017

Melrose Industries PLC

Notification of transfer to a Premium Listing

Melrose Industries PLC ("Melrose" or the "Company" and, together with its subsidiaries from time to time, the “Group”) announces that it is proposing to transfer the listing category of its ordinary shares (the “Ordinary Shares”) from a Standard Listing to a Premium Listing on the official list of the UK Listing Authority (“Official List”) under Rule 5.4A of the Listing Rules issued by the Financial Conduct Authority (the “Transfer”).

No shareholder approval is required in connection with the Transfer. It is anticipated that the Transfer will take effect at 8.00 a.m. on 26 April 2017.

1. Background to and reasons for the Transfer

Prior to the acquisition of Nortek (the “Nortek Acquisition”), the Ordinary Shares in the capital of the Company had a Premium Listing on the Official List. As the Nortek Acquisition constituted a reverse takeover under the Listing Rules, shortly following the completion of the acquisition on 31 August 2016, the Premium Listing of the Ordinary Shares was cancelled and the Ordinary Shares were re-admitted with a Standard Listing (the “Re-admission”). The Ordinary Shares were not eligible for a Premium Listing on Re-admission, as the latest balance sheet date for which audited consolidated historical financial information for Nortek could be provided was 31 December 2015, being more than six months prior to the date of the prospectus issued on 6 July 2016 in connection with the acquisition (the “Prospectus”), contrary to the Premium Listing requirements in Chapter 6 of the Listing Rules. The Company stated in the Prospectus that, following Re-admission to a Standard Listing, the Directors intended to seek a Premium Listing for Melrose as soon as reasonably practicable, subject to meeting the eligibility criteria contained in Chapter 6 of the Listing Rules.

The FTSE Nationality Advisory Committee, which determines the eligibility for the FTSE UK Index Series, is scheduled to next meet on 2 May 2017. It is anticipated that, subject to the Transfer becoming effective and other conditions being met, the Company will be considered for inclusion into the FTSE UK Index Series, which includes the FTSE 100, FTSE 250 and FTSE All Share indices, with effect from 19 June 2017.

The Company has therefore requested that the UK Listing Authority approve the Transfer with effect from 8.00 a.m. on 26 April 2017. As at 23 March 2017, the Company had 1,886,746,589 Ordinary Shares in issue. All Ordinary Shares shall be subject to the Transfer.

2. Effect of the Transfer

No changes to the business of the Group have been, or are proposed to be made, in connection with the Transfer.

Following the Transfer, certain additional provisions of the Listing Rules, which since Re-admission have only applied on a voluntary basis, will once again apply to the Company. These provisions, set out in Chapters 6 to 13 (inclusive) of the Listing Rules, include the following matters:

- the application of certain additional requirements that are specific to companies with a Premium Listing (Chapter 6);

- the application of the Premium Listing Principles (Chapter 7);

- the requirement to appoint a sponsor (Chapter 8);

- the requirement to comply with various continuing obligations, including requirements relating to further issues of shares, to comply with all relevant provisions of the UK Corporate Governance Code (or to provide an explanation for any non-compliance in its annual financial report) and requirements relating to notifications and contents of financial information (Chapter 9);

- the requirement to announce, or obtain shareholder approval for, certain transactions (depending on their size and nature) and for certain transactions with "related parties" of the Company (Chapters 10 and 11);

- certain restrictions in relation to the Company dealing in its own securities and treasury shares (Chapter 12); and

- various specific content requirements that will apply to circulars issued by the Company to its shareholders (Chapter 13).

3. Working capital

In the opinion of the Company, the Group has sufficient working capital available for the Group's present requirements, that is, for at least the 12 months following the date of this announcement.

4. Corporate governance

The Board recognises the importance and value of good corporate governance. In accordance with Chapter 9 of the Listing Rules, the annual report and accounts of the Group for the financial year ended 31 December 2015 describe the extent to which the Company has applied and complied with the provisions of the UK Corporate Governance Code throughout that financial year. The annual report and accounts of the Group to be published for the financial year ended 31 December 2016 will also include such a statement.

5. Appointment of sponsors

J.P. Morgan Securities plc, which conducts its UK investment banking activities as J.P. Morgan Cazenove ("J.P. Morgan Cazenove") and Investec Bank plc are acting as joint sponsors to the Company in relation to the Transfer.

6. Financial information on Melrose

The relevant pages of the documents listed below are incorporated by reference into this announcement and copies of the documents are available free of charge from the offices of Simpson Thacher & Bartlett LLP, CityPoint, One Ropemaker Street, London EC2Y 9HU from the date of this announcement up to and including the date of Transfer, and from the Company's website at www.melroseplc.net.

Information incorporated by reference into this document	Reference document	Relevant pages in reference document
Financial information on the Group for the financial year ended 31 December 2014 and audit report thereon	Annual report and accounts of Melrose for the financial year ended 31 December 2014	98-101, 102-106, 107-150

Financial information on the Group for the financial year ended 31 December 2015 and audit report thereon	Annual report and accounts of Melrose for the financial year ended 31 December 2015	84-89, 90-94, 95-137

For the year ended 31 December 2016, the full financial statements, notes to the accounts and audit report are included in the Annex to this announcement.

7. Financial information on Nortek

The relevant pages of the documents listed below are incorporated by reference into this announcement and copies of the documents are available free of charge from the offices of Simpson Thacher & Bartlett LLP, CityPoint, One Ropemaker Street, London EC2Y 9HU from the date of this announcement up to and including the date of Transfer, and from the Company's website at www.melroseplc.net.

Information incorporated by reference into this document	Reference document	Relevant pages in reference document
Financial information on Nortek for the financial year ended 31 December 2014 and reporting accountant's report thereon	Circular of Melrose dated 6 July 2016 regarding the acquisition of Nortek	36-41, 42-115, 116-117
Financial information on Nortek for the financial year ended 31 December 2015 and reporting accountant's report thereon	Circular of Melrose dated 6 July 2016 regarding the acquisition of Nortek	36-41, 42-115, 116-117
Financial information on Nortek for the financial year ended 31 December 2016 and reporting accountant's report thereon	Nortek historical financial information announcement released by Melrose on 24 March 2017	-

8. Consents

J.P. Morgan Cazenove has given and has not withdrawn its written consent to the inclusion in this announcement of the references to its name in the form and context in which they are included.

Investec Bank plc has given and has not withdrawn its written consent to the inclusion in this announcement of the references to its name in the form and context in which they are included.

Enquiries

Investec Bank plc **(Joint Sponsor)** Keith Anderson / Carlton Nelson	+44 (0) 20 7597 5970
J.P. Morgan Cazenove **(Joint Sponsor)** Robert Constant / Virginia Khoo / Stephen Smith / Andrew Coates	+44 (0) 20 7742 4000
Montfort Communications **(PR Adviser to Melrose)** Nick Miles / Charlotte McMullen	+44 (0) 203 514 0897 +44 (0) 7973 130 669 / +44 (0) 7739 701 634 +44 (0) 7921 881 800

ANNEX

This Annex includes the consolidated financial statements and notes of Melrose Industries PLC for the year ended 31 December 2016 and the accompanying auditor's report. The full annual report and accounts of the Group for the financial year ended 31 December 2016, as approved by the board of the Company on 2 March 2017, is expected to be released and posted to shareholders on 7 April 2017 (the "2016 Annual Report and Accounts"). References to page numbers in the following historical financial information are references to pages in the 2016 Annual Report and Accounts.

Consolidated Income Statement

	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Continuing operations			
Revenue	4,5	**889.3**	261.1
Cost of sales		**(626.0)**	(179.0)
Gross profit		**263.3**	82.1
Net operating expenses	7	**(324.9)**	(77.3)
Operating (loss)/profit		**(61.6)**	4.8
Finance costs	7	**(9.5)**	(45.6)
Finance income	7	**1.8**	10.1
Loss before tax		**(69.3)**	(30.7)
Tax	8	**30.3**	14.4
Loss for the year from continuing operations		**(39.0)**	(16.3)
Discontinued operations			
Profit for the year from discontinued operations	9	**-**	1,424.3
(Loss)/profit for the year		**(39.0)**	1,408.0
Attributable to:			
Owners of the parent		**(39.0)**	1,407.1
Non-controlling interests		**-**	0.9
		(39.0)	1,408.0
Earnings per share			
Continuing operations:			
- Basic	11	**(2.6)p**	(0.3)p
- Diluted	11	**(2.6)p**	(0.3)p
Continuing and discontinued operations:			
- Basic	11	**(2.6)p**	26.4p
- Diluted	11	**(2.6)p**	25.8p

Underlying Results

	Notes	2016	2015
Underlying operating profit	5,6	**104.1**	24.8
Underlying profit before tax	6	**96.4**	2.4
Underlying profit/(loss) after tax	6	**70.4**	(1.4)
Underlying diluted earnings per share – continuing	11	**4.4p**	Nil p

Consolidated Statement of Comprehensive Income

	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
(Loss)/profit for the year		**(39.0)**	1,408.0
Items that will not be reclassified subsequently to the Income Statement:			
Net remeasurement gain on retirement benefit obligations	23	**22.7**	57.5
Income tax charge relating to items that will not be reclassified	8	**(3.3)**	(6.0)
		19.4	51.5
Items that may be reclassified subsequently to the Income Statement:			
Currency translation on net investments		**104.3**	(30.8)
Currency translation on non-controlling interests		**-**	0.2
Transfer to Income Statement from equity of cumulative translation differences on disposal of foreign operations	9	**-**	123.7
Gains/(losses) on cash flow hedges		**5.3**	(2.8)
Transfer to Income Statement on cash flow hedges		**0.3**	3.7
Income tax credit/(charge) relating to items that may be reclassified	8	**5.4**	(1.0)
		115.3	93.0
Other comprehensive income after tax		**134.7**	144.5
Total comprehensive income for the year		**95.7**	1,552.5
Attributable to:			
Owners of the parent		**95.7**	1,551.4
Non-controlling interests		**-**	1.1
		95.7	1,552.5

Consolidated Statement of Cash Flows

	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Net cash from/(used in) operating activities from continuing operations	26	**50.6**	(57.8)
Net cash from operating activities from discontinued operations	26	**-**	89.2
Net cash from operating activities		**50.6**	31.4
Investing activities			
Disposal of businesses		**-**	3,381.0
Disposal costs		**(0.1)**	(25.6)
Net cash disposed		**-**	(93.5)
Purchase of property, plant and equipment		**(16.8)**	(17.4)
Proceeds from disposal of property, plant and equipment		**0.3**	-
Purchase of computer software and development costs		**(0.6)**	(0.3)
Dividends received from joint ventures	14	**0.9**	0.3
Acquisition of subsidiaries		**(1,130.0)**	-
Cash acquired on acquisition of subsidiaries	12	**9.4**	-
Interest received		**1.8**	10.1
Net cash (used in)/from investing activities from continuing operations		**(1,135.1)**	3,254.6
Net cash used in investing activities from discontinued operations	26	**-**	(38.7)
Net cash (used in)/from investing activities		**(1,135.1)**	3,215.9
Financing activities			
Return of Capital		**(2,388.5)**	(200.4)
Net proceeds from Rights Issue	25	**1,612.0**	-
Repayment of borrowings		**(1,092.4)**	(595.1)
New bank loans raised		**557.4**	-
Costs of raising debt finance		**(10.9)**	-
Dividends paid	10	**(5.8)**	(80.6)
Net cash used in financing activities from continuing operations		**(1,328.2)**	(876.1)
Net cash used in financing activities from discontinued operations	26	**-**	-
Net cash used in financing activities		**(1,328.2)**	(876.1)
Net (decrease)/increase in cash and cash equivalents		**(2,412.7)**	2,371.2
Cash and cash equivalents at the beginning of the year	26	**2,451.4**	70.5
Effect of foreign exchange rate changes	26	**3.4**	9.7
Cash and cash equivalents at the end of the year	17,26	**42.1**	2,451.4

As at 31 December 2016, the Group had net debt of £541.5 million (31 December 2015: net cash of £2,451.4 million). A reconciliation of the movement in net debt is shown in note 26.

Consolidated Balance Sheet

	Notes	**31 December 2016 £m**	31 December 2015 £m
Non-current assets			
Goodwill and other intangible assets	12	**2,667.0**	273.0
Property, plant and equipment	13	**271.9**	112.9
Interests in joint ventures	14	**-**	-
Deferred tax assets	21	**49.3**	25.7
Derivative financial assets	24	**5.2**	-
Trade and other receivables	16	**5.2**	1.1
		2,998.6	412.7
Current assets			
Inventories	15	**297.3**	55.6
Trade and other receivables	16	**365.8**	67.9
Derivative financial assets	24	**3.8**	1.2
Cash and cash equivalents	17	**42.1**	2,451.4
		709.0	2,576.1
Total assets	5	**3,707.6**	2,988.8
Current liabilities			
Trade and other payables	18	**426.4**	71.2
Interest-bearing loans and borrowings	19	**0.5**	-
Derivative financial liabilities	24	**4.2**	1.5
Current tax liabilities		**10.2**	3.3
Provisions	20	**138.1**	12.0
		579.4	88.0
Net current assets		**129.6**	2,488.1
Non-current liabilities			
Trade and other payables	18	**13.7**	-
Interest-bearing loans and borrowings	19	**583.1**	-
Deferred tax liabilities	21	**193.7**	20.2
Retirement benefit obligations	23	**33.4**	17.2
Provisions	20	**141.5**	18.0
		965.4	55.4
Total liabilities	5	**1,544.8**	143.4
Net assets		**2,162.8**	2,845.4
Equity			
Issued share capital	25	**129.4**	10.0
Share premium account		**1,492.6**	-
Merger reserve		**112.4**	2,500.9
Other reserves		**(2,329.9)**	(2,329.9)
Hedging reserve		**4.5**	-
Translation reserve		**67.8**	(37.8)
Retained earnings		**2,686.0**	2,702.2
Equity attributable to owners of the parent		**2,162.8**	2,845.4
Non-controlling interests		**-**	-
Total equity		**2,162.8**	2,845.4

The financial statements were approved and authorised for issue by the Board of Directors on 2 March 2017 and were signed on its behalf by:

……………………………………………… ……………………………………………

Geoffrey Martin
Group Finance Director

Simon Peckham
Chief Executive

Consolidated Statement of Changes in Equity

	Issued share capital £m	Share premium account £m	Merger reserve £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	263.8	-	2,500.9	(2,329.9)	(0.5)	(130.7)	1,267.5	1,571.1	2.6	1,573.7
Profit for the year	-	-	-	-	-	-	1,407.1	1,407.1	0.9	1,408.0
Other comprehensive income	-	-	-	-	0.5	92.9	50.9	144.3	0.2	144.5
Total comprehensive income	-	-	-	-	0.5	92.9	1,458.0	1,551.4	1.1	1,552.5
Return of Capital	-	-	-	-	-	-	(200.4)	(200.4)	-	(200.4)
Dividends paid	-	-	-	-	-	-	(80.6)	(80.6)	(0.4)	(81.0)
Capital reduction	(253.8)	-	-	-	-	-	253.8	-	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	4.0	4.0	-	4.0
Purchase of non-controlling interests	-	-	-	-	-	-	(0.1)	(0.1)	(1.4)	(1.5)
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	(1.9)	(1.9)
At 31 December 2015	10.0	-	2,500.9	(2,329.9)	-	(37.8)	2,702.2	2,845.4	-	2,845.4
Loss for the year	-	-	-	-	-	-	(39.0)	(39.0)	-	(39.0)
Other comprehensive income	-	-	-	-	4.5	105.6	24.6	134.7	-	134.7
Total comprehensive income/(expense)	-	-	-	-	4.5	105.6	(14.4)	95.7	-	95.7
Return of Capital	-	-	(2,388.5)	-	-	-	-	(2,388.5)	-	(2,388.5)
Issue of new shares	119.4	1,492.6	-	-	-	-	-	1,612.0	-	1,612.0
Dividends paid	-	-	-	-	-	-	(5.8)	(5.8)	-	(5.8)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	4.0	4.0	-	4.0
At 31 December 2016	**129.4**	**1,492.6**	**112.4**	**(2,329.9)**	**4.5**	**67.8**	**2,686.0**	**2,162.8**	**-**	**2,162.8**

Notes to the financial statements

1. Corporate information

Melrose Industries PLC ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands B4 6AT. The nature of the Group's operations and its principal activities are set out in note 5 and in the Divisional review section on pages 20 to 29.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised in accordance with a resolution of the Directors of Melrose Industries PLC on 2 March 2017.

These financial statements are presented in pounds Sterling which is the currency of the primary economic environment in which the Company is based. Foreign operations are included in accordance with the policies set out in note 2.

On 31 August 2016 the Group acquired 100 per cent of the issued share capital and obtained control of Nortek Inc. ("Nortek") for cash consideration of £1,093.1 million (note 12).

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

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

1.1 New Standards and Interpretations affecting amounts, presentation or disclosure reported in the current year

In the current financial year, the Group has adopted a number of new or revised Standards and Interpretations, none of which significantly affected the amounts reported in these financial statements. Details of the Standards and Interpretations that were adopted are set out in section 1.2.

1.2 New Standards and Interpretations adopted with no significant effect on financial statements

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements:

Annual improvements to IFRSs: 2012-14 cycle
Amendments to IAS 1: Disclosure initiative
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 27: Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the consolidation exemption
Amendments to IFRS 11: Accounting for acquisitions of interests in joint operations

1.3 New Standards and Interpretations in issue but not yet effective

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

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

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

2. Summary of significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on an historical cost basis, except for the revaluation of certain financial instruments which are recognised at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are consistent with the prior year and are set out below.

Alternative performance measures

In response to the Guidelines on Alternative Performance Measures ("APMs") issued by the European Securities and Markets Authority ("ESMA"), additional information on the APMs used by the Group is provided below. The APMs used by the Group are:

- Underlying operating profit/(loss)
- Underlying profit/(loss) before tax
- Underlying profit/(loss) after tax
- Underlying diluted earnings per share
- Underlying profit/(loss) conversion to cash

A reconciliation between statutory reported measures and the underlying measures listed above is shown in notes 6 and 11 to these financial statements.

Underlying profit/(loss) excludes items which are significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the Income Statement that was previously a fair value item booked on acquisition. These items are not included in the performance measures the Board uses to monitor the performance of the Group.

The underlying measures are used to partly determine the variable element of remuneration of senior Management throughout the Group and are also in alignment with performance measures used by certain external stakeholders. The underlying measures are also used to value individual businesses as part of the "Buy, Improve and Sell" Melrose strategy model.

Underlying profit is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided.

Basis of consolidation

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

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders is initially measured at the non-controlling interests' proportion of the share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained on page 36 of the Finance Director's review.

2. Summary of significant accounting policies (continued)

Business combinations and goodwill

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

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

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

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

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

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

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

Joint ventures

A joint venture is an entity which is not a subsidiary undertaking but the interest of the Group is that of a partner in a business over which the Group exercises joint control. The results, assets and liabilities of joint ventures are accounted for using the equity method of accounting.

2. Summary of significant accounting policies (continued)

Revenue

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

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

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

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

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

Sale of goods

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

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

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

Provision of services

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

Construction contracts

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

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

2. Summary of significant accounting policies (continued)

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

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Borrowing costs

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

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

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

Issue costs of loans

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

Property, plant and equipment

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

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

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

Freehold land	nil
Freehold buildings and long leasehold property	over expected economic life not exceeding 50 years
Short leasehold property	over the term of the lease
Plant and equipment	3-12 years

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

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

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

Intangible assets

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

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

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

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

2. Summary of significant accounting policies (continued)

Technology assets are valued using a replacement cost approach.

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

Customer relationships	20 years or less
Brands and intellectual property	20 years or less
Technology	5 years or less
Order backlog	1 year or less
Computer software	5 years or less
Development costs	5 years or less

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

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

Research and development costs

Research costs are expensed as incurred.

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

Inventories

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

Trade and other receivables

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

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

Cash and cash equivalents

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

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

Interest-bearing loans and borrowings

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

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

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

Leases

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

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

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

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments throughout the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and commodity risks, arising from operating and financing activities. The Group does not hold or issue derivative financial instruments for trading purposes. Details of derivative financial instruments are disclosed in note 24 of the financial statements.

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

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

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

Hedge accounting

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

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

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

Fair value hedge

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

2. Summary of significant accounting policies (continued)

Cash flow hedge

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

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

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

Hedges of net investments in foreign operations

Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in foreign operations. The effective element of any foreign exchange gain or loss from revaluing the derivative at a reporting period end is recognised in the Statement of Comprehensive Income. Any ineffective element is recognised immediately in the Income Statement.

Gains and losses accumulated in equity are recognised immediately in the Income Statement when the foreign operation is disposed of or when the hedge is no longer expected to occur.

Provisions

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

Restructuring

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

Warranties

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

Onerous contracts

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

Environmental liabilities

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

Employee related

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

Product liability

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

2. Summary of significant accounting policies (continued)

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. As the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18.

Pensions and other retirement benefits

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

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

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

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

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

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

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

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate prevailing at the Balance Sheet date.

2. Summary of significant accounting policies (continued)

Taxation

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

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

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

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

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

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

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

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

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

Share-based payments

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

2. Summary of significant accounting policies (continued)

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

Non-current assets and businesses held for sale

Non-current assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and businesses are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset or business is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Impairment of non-current assets

Goodwill and intangible assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired and at least annually. Such events and circumstances include the effects of restructuring initiated by management.

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Management draw upon experience as well as external resources in making these estimates.

The carrying amount of goodwill and other intangible assets (not including computer software and development costs) at the Balance Sheet date was £2,656.1 million (31 December 2015: £271.8 million). At 31 December 2016 and 2015, the Group recognised no impairment loss in respect of these assets. Further detail, which includes sensitivity analysis, is shown in note 12.

Brush China

The Group's assets in Brush China remained mothballed at the year end as production was reduced during 2016. The value in use calculation prepared by management to estimate the recoverable amount of the Brush China business supported the carrying amount of the Brush China assets which were £37.0 million as at 31 December 2016. However, significant uncertainty remains and the determination as to whether these assets were impaired at 31 December 2016 involved management judgement on highly uncertain matters, particularly with respect to the level of demand for generators in the Chinese market, the successful resolution of current customer discussions, and therefore the timing and quantity of forecast unit sales, as well as long-term growth rates and discount factors.

Should the resolution of customer discussions or the level of demand for generators not be realised in line with current expectations and should the China plant continue to remain mothballed there is a worst case risk that a full impairment could potentially be required which would reduce the value of the Brush China assets to a net realisable value of approximately £9 million.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Assumptions used to determine the carrying amount of the Group's defined benefit obligation

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition judgement is made in determining mortality rate assumptions to be used when valuing the Group's defined benefit obligations. At 31 December 2016, the Group's retirement benefit obligation deficit was £33.4 million (31 December 2015: £17.2 million). A sensitivity analysis on the principal assumptions used to determine the Group's defined benefit obligations is shown in note 23.

Taxation

The Group is subject to income tax in most of the jurisdictions in which it operates. Management is required to exercise judgement in determining the Group's provision for income taxes. Management's judgement is required in estimating tax provisions where management believe it is probable that additional current tax will become payable in the future following the audit by the tax authorities of previously filed tax returns. Such provisions are measured based on management's best estimates of the amounts payable. Management's judgement is also required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits and the expected timing of future disposals. While the Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected. Further details are provided in note 21.

Provisions

The quantification of certain liabilities within provisions (environmental remediation obligations and future costs and settlements in relation to certain legal claims) have been estimated using the best information available. However, such liabilities depend on the actions of third parties and on the specific circumstances pertaining to each obligation, neither of which is controlled by the Group. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided. Further details are set out in note 20.

4. Revenue

An analysis of the Group's revenue, as defined by IAS 18: "Revenue", is as follows:

	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Continuing operations			
Revenue from the sale of goods		**807.8**	212.0
Revenue recognised on long-term contracts		**3.0**	5.9
Revenue from the provision of services		**78.5**	43.2
Revenue	5	**889.3**	261.1
Finance income	7	**1.8**	10.1
Total revenue from continuing operations as defined by IAS 18		**891.1**	271.2
Discontinued operations			
Revenue from the sale of goods		**-**	1,056.4
Revenue recognised on long-term contracts		**-**	0.6
Revenue from the provision of services		**-**	52.8
Revenue	5,9	**-**	1,109.8
Finance income		**-**	0.6
Total revenue from discontinued operations as defined by IAS 18		**-**	1,110.4
Total revenue as defined by IAS 18		**891.1**	1,381.6

5. Segment information

Segment information is presented in accordance with IFRS 8: "Operating segments" which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Board in order to allocate resources to the segments and assess their performance. The Group's reportable operating segments under IFRS 8 are as follows:

Energy – includes the Brush business, a specialist supplier of energy industrial products to the global market.

Air Management – includes the Air Quality & Home Solutions business ("AQH"), a leading manufacturer of ventilation products for the professional remodelling and replacement markets, residential new construction market, and do-it-yourself market. This division also includes the Heating, Ventilation & Air Conditioning business ("HVAC") which manufactures and sells split-system and packaged air conditioners, heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets, along with custom-designed and engineered HVAC products and systems for non-residential applications.

Security & Smart Technology – includes the Security & Control business ("SCS") along with the Core Brands and GTO Access Systems businesses. These businesses are manufacturers and distributors of products designed to provide convenience and security primarily for residential applications and audio visual equipment for the residential audio video and professional video market.

Ergonomics – includes the Ergotron business, a manufacturer and distributor of innovative products designed with ergonomic features including wall mounts, carts, arms, desk mounts, workstations and stands that attach to or support a variety of display devices such as notebook computers, computer monitors and flat panel displays.

In addition, there are central cost centres which are also separately reported to the Board. The central corporate cost centre which contains the Melrose Group head office costs along with charges related to the divisional management long-term incentive plans and the remaining Nortek central cost centre.

The discontinued segment in 2015 comprises the Elster disposal group and the Prelok business. The Elster disposal group included the Gas, Electricity and Water segments and their related central costs. The Elster group also contained the Elster divisional long-term incentive plans, the FKI UK defined benefit pension plan and the McKechnie UK defined benefit pension plan.

Transfer prices between business units are set on an arm's length basis in a manner similar to transactions with third parties.

No single customer contributed 10% or more to the Group's revenue in 2016. In 2015, revenues of approximately £67.0 million arose from the Group's largest customer in that year.

The Group's geographical segments are determined by the location of the Group's non-current assets and, for revenue, the location of external customers. Inter-segment sales are not material and have not been disclosed.

Segment revenues and results

The following tables present the revenue, results and certain asset and liability information regarding the Group's operating segments and central cost centres for the year ended 31 December 2016 and the comparative year.

		Segment revenue from external customers	
	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Continuing operations			
Energy		**246.4**	261.1
Air Management		**416.5**	-
Security & Smart Technology		**130.4**	-
Ergonomics		**96.0**	-
Nortek total		**642.9**	-
Total continuing operations	4	**889.3**	261.1
Discontinued operations	4,9	**-**	1,109.8
Total revenue		**889.3**	1,370.9

5. Segment information (continued)

	Notes	Segment results	
		Year ended 31 December 2016	Year ended 31 December 2015
		£m	£m
Continuing operations			
Energy		**32.0**	38.5
Air Management		**46.8**	-
Security & Smart Technology		**17.1**	-
Ergonomics		**24.4**	-
Nortek central		**(2.0)**	-
Nortek total		**86.3**	-
Central – corporate [(1)]		**(14.2)**	(13.7)
Underlying operating profit	6	**104.1**	24.8
Items not affecting underlying operating profit	6	**(165.7)**	(20.0)
Operating (loss)/profit	6	**(61.6)**	4.8
Finance costs	7	**(9.5)**	(45.6)
Finance income	7	**1.8**	10.1
Loss before tax		**(69.3)**	(30.7)
Tax	8	**30.3**	14.4
Profit for the year from discontinued operations	9	**-**	1,424.3
(Loss)/profit for the year		**(39.0)**	1,408.0

[(1)] Includes £nil (2015: £1.0 million) of costs relating to divisional Long Term Incentive Plans.

	Total assets		Total liabilities	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
	£m	£m	**£m**	£m
Continuing operations				
Energy	**549.2**	496.9	**97.8**	103.7
Air Management	**1,630.0**	-	**558.2**	-
Security & Smart Technology	**690.0**	-	**158.5**	-
Ergonomics	**756.5**	-	**144.6**	-
Nortek central	**5.3**	-	**(31.0)** [(1)]	-
Nortek total	**3,081.8**	-	**830.3**	-
Central - corporate	**76.6**	2,491.9	**616.7**	39.7
Total continuing operations	**3,707.6**	2,988.8	**1,544.8**	143.4
Discontinued operations	**-**	-	**-**	-
Total	**3,707.6**	2,988.8	**1,544.8**	143.4

[(1)] IAS 12 requires the set off of deferred tax assets and liabilities in the same tax jurisdiction. The £31.0 million negative balance within Nortek central liabilities represents £85.5 million of Nortek central deferred tax assets which have been treated as negative liabilities to represent the required offset, and £54.5 million of other Nortek central liabilities.

	Capital expenditure[(1)]		Depreciation[(1)]	
	Year ended 31 December 2016	Year ended 31 December 2015	**Year ended 31 December 2016**	Year ended 31 December 2015
	£m	£m	**£m**	£m
Continuing operations				
Energy	**3.6**	16.8	**9.0**	7.5
Air Management	**10.3**	-	**6.4**	-
Security & Smart Technology	**1.8**	-	**1.0**	-
Ergonomics	**1.1**	-	**1.0**	-
Nortek Central	**0.1**	-	**0.5**	-
Nortek total	**13.3**	-	**8.9**	-
Central - corporate	**-**	-	**0.2**	0.6
Total continuing operations	**16.9**	16.8	**18.1**	8.1
Discontinued operations	**-**	39.9	**-**	11.9
Total	**16.9**	56.7	**18.1**	20.0

[(1)] Including computer software and development costs.

5. Segment information (continued)

Geographical information

The Group operates in various geographical areas around the world. The Group's country of domicile is the UK and the Group's revenues and non-current assets in Europe and North America are also considered to be material.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding interests in joint ventures, deferred tax assets, derivative financial assets and non-current trade and other receivables) by geographical location are detailed below:

	Revenue[1] from external customers		Non-current assets	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	**31 December 2016 £m**	31 December 2015 £m
Continuing operations				
UK	**88.9**	83.2	**183.3**	189.3
Europe	**82.3**	66.3	**181.4**	146.9
North America	**638.8**	57.4	**2,537.8**	23.6
Other	**79.3**	54.2	**36.4**	26.1
Total continuing operations	**889.3**	261.1	**2,938.9**	385.9
Discontinued operations	**-**	1,109.8	**-**	-
Total	**889.3**	1,370.9	**2,938.9**	385.9

[1] Revenue is presented by destination.

6. Reconciliation between profit and underlying profit

As described in note 2, underlying profit/(loss) is the alternative performance measure used by the Board to monitor the underlying trading performance of the Group. A reconciliation between the statutory (loss)/profit and underlying profit for 2015 and 2016 is shown below:

Continuing operations	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Operating (loss)/profit		**(61.6)**	4.8
Restructuring costs	a	**51.4**	7.6
Acquisition and disposal costs	b	**38.7**	0.3
Amortisation of intangible assets	c	**36.3**	8.1
Removal of one-off uplift in value of inventory	d	**18.2**	-
Melrose equity-settled compensation scheme	e	**22.8**	4.0
Release of fair value provision	f	**(1.7)**	-
Total adjustments to operating (loss)/profit[1]		**165.7**	20.0
Underlying operating profit		**104.1**	24.8

[1] Of the adjustments to operating (loss)/profit, £18.2 million (2015: £nil) relating to the sale of inventory revalued in business combinations has been charged to cost of sales, with the balance of £147.5 million (2015: £20.0 million) included within net operating expenses.

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

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

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

6. Reconciliation between profit and underlying profit (continued)

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

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

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

Continuing operations	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Loss before tax		**(69.3)**	(30.7)
Adjustments to operating (loss)/profit per above		**165.7**	20.0
Accelerated future year charges following repayment of debt	g	**-**	13.1
Adjustments to loss before tax		**165.7**	33.1
Underlying profit before tax		**96.4**	2.4

g. Following the disposal of Elster in 2015, all existing bank facilities at that time were repaid and all unamortised bank fees were written off because of their size and non-trading nature.

Continuing operations	Notes	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Loss for the year		**(39.0)**	(16.3)
Adjustments to loss before tax per above		**165.7**	33.1
Incremental deferred tax asset recognition on UK losses	h	**(10.4)**	(14.5)
Tax effect of adjustments to underlying profit before tax	8	**(45.9)**	(3.7)
Adjustments to loss for the year		**109.4**	14.9
Underlying profit/(loss) for the year		**70.4**	(1.4)

h. Relating to the recognition of deferred tax assets on UK tax losses which are now considered accessible following acquisition and disposal activities. This is excluded from underlying results due to its size, volatility and non-trading nature.

7. Revenues and expenses

	Continuing operations		Discontinued operations		Total	
Net operating expenses comprise:	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Selling and distribution costs	**(76.7)**	(15.7)	**-**	(91.5)	**(76.7)**	(107.2)
Administration expenses[1]	**(249.1)**	(61.9)	**-**	(123.1)	**(249.1)**	(185.0)
Share of results of joint ventures (note 14)	**0.9**	0.3	**-**	2.0	**0.9**	2.3
Total net operating expenses	**(324.9)**	(77.3)	**-**	(212.6)	**(324.9)**	(289.9)

[1] Includes £147.5 million (2015: £20.0 million) of non-underlying costs.

7. Revenues and expenses (continued)

Operating profit is stated after charging/(crediting):	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Cost of inventories	**626.0**	179.0	**-**	674.1	**626.0**	853.1
Amortisation of intangible assets acquired in business combinations (note 12)	**36.3**	8.1	**-**	23.5	**36.3**	31.6
Depreciation and impairment	**18.4**	7.6	**-**	10.0	**18.4**	17.6
Amortisation and impairment of computer software and development costs (note 12)	**7.5**	0.5	**-**	1.9	**7.5**	2.4
Operating lease expense	**10.7**	1.4	**-**	7.1	**10.7**	8.5
Staff costs	**246.6**	95.1	**-**	269.4	**246.6**	364.5
Research and development costs	**3.9**	1.6	**-**	10.1	**3.9**	11.7
Profit on disposal of property, plant and equipment	**-**	-	**-**	(0.6)	**-**	(0.6)
Loss on disposal of computer software and development costs	**0.2**	-	**-**	-	**0.2**	-
Expense of writing down inventory to net realisable value	**9.3**	1.0	**-**	2.6	**9.3**	3.6
Reversals of previous write downs of inventory	**(6.6)**	(0.1)	**-**	(4.3)	**(6.6)**	(4.4)
Impairment recognised on trade receivables	**3.7**	1.0	**-**	2.7	**3.7**	3.7
Impairment reversed on trade receivables	**(1.1)**	(0.2)	**-**	(1.9)	**(1.1)**	(2.1)

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**1.8**	1.3
Fees payable to the auditor for the audit of the Nortek acquisition Balance Sheet	**0.5**	-
Total fees payable for the audit of the Company's annual accounts	**2.3**	1.3
Fees payable to the Company's auditor and their associates for other audit services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	**0.5**	1.0
Total audit fees[1]	**2.8**	2.3
Audit-related assurance services:		
Review of the half year interim statement	**0.1**	0.1
Non-statutory audit of certain of the Company's businesses	**0.1**	0.2
Other assurance services	**0.4**	0.1
Total audit-related assurance services	**0.6**	0.4
Total audit and audit-related assurance services	**3.4**	2.7
Taxation compliance services	**0.1**	0.1
Other taxation advisory services	**0.9**	0.5
Corporate finance services	**1.8**	0.2
Total audit and non-audit fees	**6.2**	3.5

[1] Includes £nil (2015: £1.2 million) of audit fees shown within discontinued operations.

Details of the Company's policy on the use of auditors for non-audit services and how auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on page 69. No services were provided pursuant to contingent fee arrangements.

7. Revenues and expenses (continued)

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Staff costs during the year (including executive Directors)		
Wages and salaries	**204.9**	77.4
Social security costs[(1)]	**31.7**	9.9
Pension costs (note 23)		
- defined benefit plans	**0.1**	-
- defined contribution plans	**5.9**	3.8
Share based compensation expense	**4.0**	4.0
Total continuing staff costs	**246.6**	95.1
Discontinued staff costs[(2)]	**-**	269.4
Total staff costs	**246.6**	364.5

[(1)] Includes the employer's tax charge on the change in value of the Melrose equity-settled incentive scheme (note 6).
[(2)] Includes £nil (2015: £2.9 million) of defined contribution pension costs and £nil (2015: £2.2 million) of defined benefit pension costs.

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Average monthly number of persons employed (including executive Directors)		
Energy	**2,107**	2,460
Air Management	**6,743**	-
Security & Smart Technology	**2,602**	-
Ergonomics	**1,546**	-
Nortek central[(1)]	**86**	-
Central - corporate	**30**	34
Total continuing operations	**13,114**	2,494
Discontinued operations	**-**	6,701
Total average number of persons employed	**13,114**	9,195

[(1)] At 31 December 2016, 10 Nortek central employees remained within the Group.

	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Finance costs and income			
Interest on bank loans and overdrafts		**(7.7)**	(27.9)
Amortisation of costs of raising finance		**(0.7)**	(15.9)
Net interest cost on pensions		**(0.9)**	(1.6)
Unwind of discount on provisions		**(0.2)**	(0.2)
Total finance costs[(1)]		**(9.5)**	(45.6)
Finance income		**1.8**	10.1
Total continuing operations		**(7.7)**	(35.5)
Discontinued operations[(2)]	9	**-**	(5.3)
Total net finance costs		**(7.7)**	(40.8)

[(1)] Includes finance costs of £nil (2015: £13.1 million) in respect of accelerated future year charges following the repayment of all external debt facilities.
[(2)] Includes £nil (2015: £3.7 million) net interest cost in relation to pensions.

8. Tax

Analysis of charge/(credit) in year:	Continuing operations		Discontinued operations		Total	
	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Current tax	**3.0**	2.9	**-**	46.5	**3.0**	49.4
Deferred tax	**(33.3)**	(17.3)	**-**	2.8	**(33.3)**	(14.5)
Total income tax (credit)/charge	**(30.3)**	(14.4)	**-**	49.3	**(30.3)**	34.9

The total income tax credit in respect of continuing operations of £30.3 million (2015: £14.4 million) includes a tax credit classified as non-underlying tax of £10.4 million (2015: £14.5 million), being the recognition of additional tax losses now considered accessible following acquisition and disposal activities, and a tax credit in respect of the items described as non-underlying in note 6 of £45.9 million (2015: £3.7 million). The tax credit on non-underlying items comprises £18.2 million (2015: £0.4 million) in respect of restructuring costs, £3.9 million (2015: £nil) in respect of acquisition and disposal costs, £12.8 million (2015: £2.1 million) in respect of amortisation of intangible assets, £6.8 million (2015: £nil) in respect of the required uplift in the value of inventory acquired with Nortek, £4.5 million (2015: £0.8 million) in respect of the Melrose equity-settled compensation scheme charge and a charge of £0.3 million (2015: credit of £0.4 million) in respect of other items.

A further change to the main rate of UK corporation tax was enacted in the Finance Act 2016. The UK corporation tax rate will reduce to 19% from 1 April 2017 with a further reduction to 17% from 1 April 2020. The impact of the future rate changes, which have been reflected within these financial statements, have reduced the deferred tax asset by £0.4 million.

Changes to the UK loss utilisation and interest deduction rules have been proposed and will take effect on 1 April 2017. These changes have not yet been substantively enacted, so the effect of these changes has not been recognised within these financial statements. The impact is likely to result in an increase in the deferred tax asset of £17.0 million, due to the increased flexibility over the utilisation of losses expected to crystallise after March 2017.

The tax (credit)/charge for the year for both continuing and discontinued operations can be reconciled to the (loss)/profit per the Income Statement as follows:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
(Loss)/profit on ordinary activities before tax:		
Continuing operations	**(69.3)**	(30.7)
Discontinued operations (note 9)	**-**	217.8
	(69.3)	187.1
Tax on (loss)/profit on ordinary activities at weighted average rate 40.82% (2015: 31.54%)	**(28.3)**	59.0
Tax effect of:		
Disallowable expenses within underlying items	**1.6**	2.2
Disallowable items in respect of acquisition related costs	**7.3**	-
Temporary differences not recognised in deferred tax	**2.7**	(4.3)
Tax credits, withholding taxes and other rate differences	**(0.2)**	(1.3)
Prior year tax adjustments	**(3.0)**	(4.6)
Tax credit classified as non-underlying (note 6)	**(10.4)**	(16.1)
Total tax (credit)/charge for the year	**(30.3)**	34.9

The reconciliation has been performed at a blended Group tax rate of 40.82% (2015: 31.54%) which represents the weighted average of the tax rates applying to profits and losses in the jurisdictions in which those results arose.

In addition to the amount charged to the Income Statement, a tax credit of £2.1 million (2015: charge of £7.0 million) has been recognised directly in the Consolidated Statement of Comprehensive Income. This represents a tax charge of £3.3 million (2015: £6.0 million) in respect of retirement benefit obligations, a tax charge of £1.1 million (2015: £0.4 million) in respect of movements on cash flow hedges, a tax credit of £1.3 million (2015: charge of £0.6 million) in respect of tax charged on foreign exchange gains and a tax credit of £5.2 million (2015: £nil) in respect of share based payments.

9. Discontinued operations

Disposal of businesses

On 29 December 2015, the Group completed the sale of the Elster disposal group (note 5) for cash consideration of £3,380.8 million. The costs charged to the Income Statement associated with the disposal in 2015 were £25.6 million. The profit on disposal was £1,256.3 million after the recycling of cumulative translation differences of £123.8 million.

On 18 December 2015, the smaller Prelok business, previously shown within the Energy segment, was disposed of for a loss of £0.5 million.

Financial performance of discontinued operations:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Revenue	**-**	1,109.8
Operating costs	**-**	(886.7)
Operating profit	**-**	223.1
Net finance costs	**-**	(5.3)
Profit before tax	**-**	217.8
Tax	**-**	(49.3)
Profit after tax	**-**	168.5
Cumulative translation differences recycled on disposals	**-**	(123.7)
Gain on disposal of net assets of discontinued operations	**-**	1,379.5
Profit for the year from discontinued operations	**-**	1,424.3
Attributable to:		
Owners of the parent	**-**	1,423.4
Non-controlling interests	**-**	0.9
	-	1,424.3

10. Dividends

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Final dividend for the year ended 31 December 2014 paid of 5.3p (1.0)p[(1)]	**-**	52.7
Interim dividend for the year ended 31 December 2015 paid of 2.8p (0.5)p[(1)]	**-**	27.9
Final dividend for the year ended 31 December 2015 paid of 2.6p (0.5)p[(1)]	**3.8**	-
Interim dividend for the year ended 31 December 2016 paid of 1.4p (0.3)p[(1)]	**2.0**	-
	5.8	80.6

[(1)] Adjusted to include the effects of the Rights Issue (note 11).

Proposed final dividend for the year ended 31 December 2016 of 1.9p per share (2015: 0.5p per share[(1)]) totalling £35.8 million (2015: £3.8 million).

The final dividend of 1.9p was proposed by the Board on 2 March 2017 and, in accordance with IAS 10: "Events after the reporting period", has not been included as a liability in these financial statements.

11. Earnings per share

Earnings attributable to owners of the parent	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
(Loss)/profit for the purposes of earnings per share	**(39.0)**	1,407.1
Less: profit for the year from discontinued operations (note 9)	**-**	(1,423.4)
Earnings for basis of earnings per share from continuing operations	**(39.0)**	(16.3)

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share including the effects of the Rights Issue[1] (million)	**1,499.3**	5,336.6
Further shares for the purposes of diluted earnings per share including the effects of the Rights Issue[1] (million)	**89.8**	109.8
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share (million)	**1,589.1**	5,446.4

[1] On 24 August 2016, a 12 for 1, fully underwritten, Rights Issue was completed by Melrose Industries PLC and subsequently 1,741.6 million new ordinary shares were issued raising £1,654.5 million to part fund the acquisition of the Nortek Group. In accordance with IAS 33, a bonus factor associated with the issue of the new share capital of 18.8491% has been applied to the number of ordinary shares in issue prior to 24 August 2016 (including comparative periods presented) for the purposes of earnings per share calculations.

On 20 February 2015 the number of Ordinary Shares in issue was consolidated in a ratio of 13 for 14, which reduced the number of Ordinary Shares in issue from 1,071.8 million to 995.2 million.

On 28 January 2016 the number of Ordinary Shares in issue was consolidated in a ratio of 7 for 48, which reduced the number of Ordinary Shares in issue from 995.2 million to 145.1 million.

Earnings per share	**Year ended 31 December 2016 pence**	Year ended 31 December 2015 pence
Basic earnings per share		
From continuing and discontinued operations	**(2.6)**	26.4
From continuing operations	**(2.6)**	(0.3)
From discontinued operations	**-**	26.7
Diluted earnings per share		
From continuing and discontinued operations	**(2.6)**	25.8
From continuing operations	**(2.6)**	(0.3)
From discontinued operations	**-**	26.1

Underlying earnings	Note	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Underlying earnings for the basis of underlying earnings per share from continuing operations	6	**70.4**	(1.4)

Underlying earnings per share

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

12. Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Brands and intellectual property £m	Other[2] £m	Computer software and development costs £m	Total £m
Cost						
At 1 January 2015	1,516.7	836.9	181.7	-	33.7	2,569.0
Additions	-	-	-	-	6.2	6.2
Disposals	-	-	-	-	(0.1)	(0.1)
Exchange adjustments	(68.6)	(42.8)	(5.4)	-	(3.9)	(120.7)
Transfer to held for sale[1]	(1,250.0)	(765.7)	(69.9)	-	(31.4)	(2,117.0)
At 31 December 2015	198.1	28.4	106.4	-	4.5	337.4
Acquisition of businesses	1,402.7	556.4	266.5	29.7	15.8	2,271.1
Additions	-	-	-	-	0.6	0.6
Disposals	-	-	-	-	(0.2)	(0.2)
Exchange adjustments	105.2	37.8	25.1	1.9	1.5	171.5
At 31 December 2016	**1,706.0**	**622.6**	**398.0**	**31.6**	**22.2**	**2,780.4**
Amortisation						
At 1 January 2015	-	(117.6)	(41.2)	-	(9.1)	(167.9)
Charge for the year	-	(24.1)	(7.5)	-	(2.4)	(34.0)
Disposals	-	-	-	-	0.1	0.1
Exchange adjustments	-	6.0	1.1	-	2.5	9.6
Transfer to held for sale[1]	-	114.4	7.8	-	5.6	127.8
At 31 December 2015	-	(21.3)	(39.8)	-	(3.3)	(64.4)
Charge for the year	-	(18.7)	(11.5)	(6.1)	(2.2)	(38.5)
Impairments[3]	-	-	-	-	(5.3)	(5.3)
Exchange adjustments	-	(1.3)	(3.2)	(0.2)	(0.5)	(5.2)
At 31 December 2016	**-**	**(41.3)**	**(54.5)**	**(6.3)**	**(11.3)**	**(113.4)**
Net book value						
At 31 December 2016	**1,706.0**	**581.3**	**343.5**	**25.3**	**10.9**	**2,667.0**
At 31 December 2015	198.1	7.1	66.6	-	1.2	273.0
At 1 January 2015	1,516.7	719.3	140.5	-	24.6	2,401.1

[1] Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.
[2] Other includes technology and order backlog intangible assets acquired with the Nortek businesses.
[3] Impairment of computer software relates to the closure of Nortek head office.

The goodwill generated as a result of major acquisitions (which includes Nortek in the year) represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The carrying value of goodwill includes a premium, paid in order to secure shareholder agreement to the business combination, that is less than the value that the Directors believed could be added to the acquired businesses through the application of their specialist turnaround experience.

The goodwill arising on bolt on acquisitions is attributable to the anticipated profitability and cash flows arising from the businesses acquired, synergies as a result of the complementary nature of the business with existing Melrose businesses, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group.

The future improvements applied to the acquired businesses, (which includes Nortek in the year) achieved through a combination of revised strategic direction, operational improvements and investment, are expected to result in improved profitability of the acquired businesses during the period of ownership and are also expected to result in enhanced disposal proceeds when the acquired businesses are ultimately disposed. The combined value achieved from these improvements is expected to be in excess of the value of goodwill acquired.

12. Goodwill and other intangible assets (continued)

Goodwill acquired in business combinations has been allocated to the businesses, each of which comprises several cash-generating units, as follows:

	31 December 2016 £m	31 December 2015 £m
Continuing operations		
Energy	**212.9**	198.1
Air Management	**697.2**	-
Security & Smart Technology	**347.2**	-
Ergonomics	**448.7**	-
Nortek total	**1,493.1**	-
Total continuing operations	**1,706.0**	198.1

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Value in use calculations are used to determine the recoverable amount of goodwill allocated to each group of cash-generating units ("CGUs") which use the latest approved forecasts extrapolated to perpetuity using growth rates shown below, and which do not exceed the long-term growth rate for the relevant market. Based on impairment testing completed at the year end, no impairment was identified. The basis of these impairment tests and the key assumptions are set out in the table below:

31 December 2016

Group of CGUs	**Basis of valuation**	**Carrying value of goodwill £m**	**Pre-tax discount rates[1]**	**Period of forecast**	**Key assumptions applied in the forecast cash flow projections[2]**	**Long-term growth rates[3]**
Energy	Value in use	212.9	11.0%	5 years	Revenue growth, operating margins	2.2%
Air Management	Value in use	697.2	12.8%	4 years	Revenue growth, operating margins	3.0%
Security & Smart Technology	Value in use	347.2	12.7%	4 years	Revenue growth, operating margins	3.0%
Ergonomics	Value in use	448.7	12.6%	4 years	Revenue growth, operating margins	3.0%

31 December 2015

Group of CGUs	**Basis of valuation**	**Carrying value of goodwill £m**	**Pre-tax discount rate[1]**	**Period of forecast**	**Key assumptions applied in the forecast cash flow projections[2]**	**Long-term growth rate[3]**
Energy	Value in use	198.1	11.1%	3 years	Revenue growth, operating margins	2.3%

[1]Pre-tax risk adjusted discount rates

Cash flows are discounted using a pre-tax discount rate specific to each group of CGUs. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. In determining the cost of equity, the Capital Asset Pricing Model (CAPM) has been used. Under CAPM, the cost of equity is determined by adding a risk premium to the risk free rate to reflect the additional risk associated with investing outside of lending to a country. The risk free rate for the Energy group of CGUs is based on the cost of UK Government bonds, whilst the risk free rate for the Air Management, Security & Smart Technology and Ergonomics groups of CGUs are based on the cost of US Government bonds. The premium is based on an industry adjustment ("Beta") to the expected return of the equity market above the risk free return. The relative risk adjustment reflects the risk inherent in each group of CGUs relative to all other sectors and geographies on average.

[2]Assumptions applied in financial forecasts

The Group prepares cash flow forecasts derived from financial budgets and medium-term forecasts. The key assumptions used in forecasting pre-tax cash flows relate to future budgeted revenue and operating margins likely to be achieved and the likely rates of long-term growth by market sector. Underlying factors in determining the values assigned to each key assumption are shown below:

Revenue growth and operating margins:

Revenue growth assumptions in the forecast period are based on financial budgets and medium-term forecasts by management, taking into account industry growth rates and management's historical experience in the context of wider industry and economic conditions. Projected sales are built up with reference to markets and product categories. They incorporate past performance, historical growth rates, projections of developments in key markets, secured orders and orders likely to be achieved in the short to medium-term given trends in the relevant market sector.

12. Goodwill and other intangible assets (continued)

Operating margins have been forecast based on historical levels achieved considering the likely impact of changing economic environments and competitive landscapes on volumes and revenues and the impact of management actions on costs. Projected margins reflect the impact of all initiated projects to improve operational efficiency and leverage scale. The projections do not include the impact of future restructuring projects to which the Group is not yet committed. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

Brush is a supplier of turbogenerators for the power generation, industrial, Oil & Gas and offshore sectors and a leading supplier of switchgear, transformers and other power infrastructure equipment. The key drivers for revenues and operating margins are i) original equipment investments in the global power market, both new capacity (mainly emerging markets) and replacement capacity (mainly in mature markets) ii) growth in service requirements of a growing installed base and iii) new product introduction. Independent forecasts of growth in these power generation markets have been used to derive revenue growth assumptions. Forecasts for other operating costs are based on inflation forecasts and supply and demand factors.

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

Air Management is a leading provider of residential indoor air quality improvement solutions, home comfort and convenience products and heating, ventilation and air conditioning equipment for both residential and commercial markets. The key drivers for revenue and operating margins are the levels of residential remodelling and replacement activity and the levels of residential and non-residential new construction in the markets in which Air Management operates. New residential and non-residential construction activity and, to a lesser extent, residential remodelling and replacement activity are affected by seasonality and cyclical factors such as interest rates, credit availability, inflation, consumer spending, employment levels and other macroeconomic factors.

Security & Smart Technology is a leading developer and manufacturer of security, home automation and access control technologies for residential and commercial markets' service providers. The key driver for revenue and operating margins is global demand for security and home automation products. Consumer spending, employment levels, regulation, technological advancements and the evolution of the traditional security market towards home automation and other macroeconomic factors influence demand for these products.

The Ergonomics segment includes Ergotron, one of the world's largest manufacturers of computer ergonomics equipment. Ergotron provides a wide variety of solutions to healthcare, education, corporate office and home applications. The key driver for revenue and operating margins is demand for technology and wellness products in the markets in which Ergotron operates. Seasonal factors, public authority spending, corporate and consumer spending, employment levels, the public awareness of wellness, regulation, technological advancements and other macroeconomic factors influence demand for these products.

(3) Long-term growth rates

Long-term growth rates are based on long-term forecasts for growth in the sectors and geography in which the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and a long-term growth rate forecast and further take into account the international presence and the markets in which each business operates.

Energy group of CGUs – Brush China

The goodwill related to the Energy group of CGUs is tested for impairment by comparing the carrying amount of the Energy group against recoverable amounts of the Energy CGUs. As disclosed within note 3, determination of the Brush China recoverable amount involved management judgement on highly uncertain matters, particularly with respect to the level of demand for generators in the Chinese market, the successful resolution of current customer discussions, and therefore the timing and quantity of forecast unit sales, as well as long term growth rates and discount factors. The value in use model prepared for Brush China was prepared using cash flow projections to the end of the life of the Brush China factory, was discounted at a pre-tax discount rate of 11.7% and used sale price and cost inflation data from available market sources.

Sensitivity analysis

The forecasts, prepared using a methodology required by IAS 36: "Impairment of assets", show headroom of £95.4 million above the carrying amount for the Energy group of CGUs. In accordance with IAS 36 a sensitivity analysis has been undertaken and a reasonably possible increase in the discount rate from 11.0% to 12.8% would reduce headroom to £nil. A reasonably possible decrease in revenue in 2017 of 19% from 2016 revenue of £246.4 million (on a constant currency basis) would also reduce headroom to £nil. The recoverable amounts of the Air Management, Security & Smart Technology, and Ergonomics groups of CGUs are higher than the recent acquisition date fair values of these groups of CGUs, and as a result, no sensitivity analysis has been disclosed.

12. Goodwill and other intangible assets (continued)

Allocation of significant intangible assets

The allocation of significant customer relationships, brands and intellectual property is as follows:

	Customer relationships				Brands and intellectual property			
	Remaining amortisation period		Net book value		Remaining amortisation period		Net book value	
	31 December 2016 years	31 December 2015 years	**31 December 2016 £m**	31 December 2015 £m	**31 December 2016 years**	31 December 2015 years	**31 December 2016 £m**	31 December 2015 £m
AQH	**14**	-	**213.0**	-	**15**	-	**65.9**	-
HVAC	**11**	-	**117.7**	-	**15**	-	**84.6**	-
SCS	**14**	-	**130.4**	-	**15**	-	**30.0**	-
Ergotron	**10**	-	**115.7**	-	**18**	-	**97.4**	-
Brush	**2**	3	**4.5**	7.1	**12**	13	**65.6**	66.6
			581.3	7.1			**343.5**	66.6

Acquisition of businesses

On 31 August 2016 the Group acquired 100 per cent of the issued share capital and obtained control of Nortek Inc. ("Nortek") for cash consideration of £1,093.1 million.

Nortek is a leading diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions (note 5).

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below. Fair values are provisional as of 31 December 2016 and are based on the information held to date. Should additional information come to light that would require adjustment to the fair values recognised in the table below, such adjustments would be recorded if material.

	Fair value £m
Nortek	
Property, plant and equipment	143.3
Intangible assets, computer software and development costs	868.4
Interests in joint ventures	3.0
Inventories	255.6
Trade and other receivables	301.5
Cash and cash equivalents	9.4
Trade and other payables	(360.4)
Provisions	(209.7)
Deferred tax	(163.7)
Retirement benefit obligations	(42.2)
Current tax	(9.4)
Interest-bearing loans and borrowings	(1,065.9)
Net liabilities	**(270.1)**
Total consideration	1,093.1
Goodwill	1,363.2
Amounts recycled to goodwill	39.5
Total goodwill	1,402.7
Total consideration satisfied by:	
Cash consideration	**1,093.1**

Acquisition related costs charged through the income statement amount to £38.7 million (note 6).

The fair value of financial assets include gross trade and other receivables of £318.3 million. The best estimate at acquisition date of the contractual cash flows not to be collected is £16.8 million.

Amounts recycled to goodwill of £39.5 million relates to the impact of the Group's hedging strategy to fix the cash cost of the consideration at the date of the acquisition announcement. The difference between the cash cost based on the exchange rate on the date of completion and the exchange rate entered into to hedge the transaction, representing the effective element of the hedge, has been recycled to goodwill.

Nortek contributed £642.9 million to revenue and £86.3 million to underlying operating profit for the four month period between the date of acquisition and the Balance Sheet date.

12. Goodwill and other intangible assets (continued)

If the acquisition of Nortek had been completed on the first day of the financial year, Group revenues would have been approximately £2,077 million and Group underlying operating profit would have been approximately £196 million.

The goodwill arising on acquisition of Nortek is attributable to the anticipated profitability and cash flows arising from the businesses acquired, the assembled workforce, technical expertise, knowhow, market share and geographical advantages afforded to the Group, and which, as described earlier in this note, the Group expects to realise through a combination of revised strategic direction, operational improvements and investment. None of the goodwill is expected to be deductible for income tax purposes.

Contingent liabilities acquired in respect of warranty obligations of £7.6 million and legal claims of £15.2 million have been recognised within provisions, none of which were utilised in the period. The majority of expenditure is expected to be incurred over the next five years.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2015	86.5	191.9	278.4
Additions	5.9	23.7	29.6
Disposals	(1.1)	(1.8)	(2.9)
Disposal of businesses	-	(2.5)	(2.5)
Exchange adjustments	(2.9)	(8.5)	(11.4)
Transfer to held for sale[1]	(35.6)	(114.3)	(149.9)
At 31 December 2015	52.8	88.5	141.3
Additions	1.6	14.7	16.3
Disposals	-	(0.5)	(0.5)
Acquisition of businesses	74.3	69.0	143.3
Exchange adjustments	10.2	14.7	24.9
At 31 December 2016	**138.9**	**186.4**	**325.3**
Accumulated depreciation and impairment			
At 1 January 2015	(9.6)	(69.2)	(78.8)
Charge for the year	(2.3)	(15.3)	(17.6)
Disposals	0.5	1.3	1.8
Disposal of businesses	-	2.3	2.3
Exchange adjustments	0.5	4.2	4.7
Transfer to held for sale[1]	6.6	52.6	59.2
At 31 December 2015	(4.3)	(24.1)	(28.4)
Charge for the year	(2.6)	(13.3)	(15.9)
Disposals	-	0.2	0.2
Impairments[2]	(2.2)	(0.3)	(2.5)
Exchange adjustments	(2.0)	(4.8)	(6.8)
At 31 December 2016	**(11.1)**	**(42.3)**	**(53.4)**
Net book value			
At 31 December 2016	**127.8**	**144.1**	**271.9**
At 31 December 2015	48.5	64.4	112.9
At 1 January 2015	76.9	122.7	199.6

[1] Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.
[2] The impairment charges in the year relate to the closure of the Nortek head office.

14. Interests in joint ventures

	31 December 2016 £m	31 December 2015 £m
Aggregated amounts relating to joint ventures:		
Share of assets	**2.6**	2.4
Share of liabilities	**(2.6)**	(2.4)
Interests in joint ventures	**-**	-
Share of joint venture revenues	**1.9**	1.7
Share of results of joint ventures	**0.9**	0.3
Dividends received from joint ventures	**(0.9)**	(0.3)

A list of subsidiaries and significant holdings including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

15. Inventories

	31 December 2016 £m	31 December 2015 £m
Raw materials	**74.9**	14.0
Work in progress	**48.4**	31.4
Finished goods	**174.0**	10.2
	297.3	55.6

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

Construction contracts

	31 December 2016 £m	31 December 2015 £m
Contracts in progress at the Balance Sheet date:		
Amounts due from contract customers included in other receivables	**2.3**	4.3
	2.3	4.3
Contract costs incurred plus recognised profit less recognised losses to date	**2.3**	7.5
Less: progress billings	**-**	(3.2)
	2.3	4.3

The average life of contracts is one to two years (31 December 2015: one to two years).

16. Trade and other receivables

Current	**31 December 2016 £m**	31 December 2015 £m
Trade receivables	**348.4**	58.1
Allowance for doubtful receivables	**(18.3)**	(0.8)
Other receivables	**15.2**	4.3
Prepayments	**20.5**	6.3
	365.8	67.9

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

Non-current	**31 December 2016 £m**	31 December 2015 £m
Other receivables	**5.2**	1.1

16. Trade and other receivables (continued)

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

	Nortek £m	Energy £m	Discontinued £m	Total £m
At 1 January 2015	-	0.2	7.2	7.4
Income Statement charge	-	0.8	0.8	1.6
Utilised	-	(0.2)	(0.6)	(0.8)
Exchange differences	-	-	(0.7)	(0.7)
Transfer to held for sale[(1)]	-	-	(6.7)	(6.7)
At 31 December 2015	-	0.8	-	0.8
Acquisition of businesses	16.8	-	-	16.8
Income Statement charge	2.2	0.4	-	2.6
Utilised	(2.6)	(0.3)	-	(2.9)
Exchange differences	0.9	0.1	-	1.0
At 31 December 2016	**17.3**	**1.0**	**-**	**18.3**

[(1)] Transferred to assets held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

The concentration of credit risk is limited due to the large number of customers and because they are unrelated to each other. Credit control procedures are implemented to ensure that sales are only made to organisations that are willing and able to pay for them. Such procedures include the establishment and review of customer credit limits and terms. The Group does not hold any collateral or any other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The ageing of impaired trade receivables past due is as follows:

Ageing of impaired trade receivables past due	**31 December 2016 £m**	31 December 2015 £m
0 – 30 days	**8.6**	-
31 – 60 days	**6.2**	-
60+ days	**3.5**	0.8
	18.3	0.8

Included in the Group's trade receivables balance are overdue trade receivables with a carrying amount of £62.5 million (31 December 2015: £13.6 million) against which an appropriate provision of £18.3 million (31 December 2015: £0.8 million) is held.

The balance deemed recoverable of £44.2 million (31 December 2015: £12.8 million) is past due as follows:

	31 December 2016 £m	31 December 2015 £m
0 – 30 days	**41.9**	5.6
31 – 60 days	**0.9**	2.6
60+ days	**1.4**	4.6
	44.2	12.8

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

17. Cash and cash equivalents

	31 December 2016 £m	31 December 2015 £m
Cash and cash equivalents	**42.1**	2,451.4

Cash and cash equivalents comprises cash at bank and in hand which earns interest at floating rates based on daily bank deposit rates and short-term deposits which are made for varying periods of between one day and one month and earn interest at the respective short-term deposit rates. The carrying amount of these assets is considered to be equal to their fair value. The high value in cash and cash equivalents at 31 December 2015 primarily related to the receipt of funds as a result of the proceeds from the disposal of the Elster disposal group. The associated capital return to shareholders took place in January 2016 and reduced cash back to normal operating levels.

18. Trade and other payables

Current	**31 December 2016 £m**	31 December 2015 £m
Trade payables	**230.2**	30.3
Other payables	**22.6**	12.2
Other taxes and social security	**7.4**	0.9
Accruals	**166.2**	27.8
	426.4	71.2

Trade payables are non interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade and other payables is 66 days (2015: 68 days).

Non-current	**31 December 2016 £m**	31 December 2015 £m
Other payables	**9.6**	-
Accruals	**4.1**	-
	13.7	-

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Details of the Group's exposure to credit, liquidity, interest rate and foreign currency risk are included in note 24.

	Current		Non-current		Total	
	31 December 2016 £m	31 December 2015 £m	**31 December 2016 £m**	31 December 2015 £m	**31 December 2016 £m**	31 December 2015 £m
Floating rate obligations						
Bank borrowings - US Dollar loan	**-**	-	**590.5**	-	**590.5**	-
Fixed rate obligations						
Bank borrowings - Euro loan	**-**	-	**1.7**	-	**1.7**	-
Finance leases						
Finance leases	**0.5**	-	**1.1**	-	**1.6**	-
	0.5	-	**593.3**	-	**593.8**	-
Unamortised finance costs	**-**	-	**(10.2)**	-	**(10.2)**	-
Total interest-bearing loans and borrowings	**0.5**	-	**583.1**	-	**583.6**	-

As at 1 January 2016, the Group held a £200 million Sterling multi-currency revolving credit facility that was undrawn. This facility was due to mature on 11 July 2019.

On 6 July 2016 a new five year multi-currency US $1.25 billion committed bank facility was entered into to assist with the acquisition of Nortek and the £200 million revolving credit facility was subsequently cancelled. The new facility consists of a US $350 million term loan facility and a US $900 million revolving credit facility.

The US $350 million term loan facility was fully drawn at 31 December 2016. The drawdowns under the revolving credit facility as of 31 December 2016 were US $379 million.

Throughout the year, the Group remained compliant with all covenants under the facilities disclosed above. A number of companies are guarantors under the new bank facility.

Drawdowns under the new facility bear interest at interbank rates of interest plus a margin determined by reference to the Group's performance under its debt cover covenant ratio, ranging between 0.85% and 2.00% (31 December 2015: range between 0.75% to 1.90%). The margin as at 31 December 2016 was 1.35% (31 December 2015: 1.55%).

19. Interest-bearing loans and borrowings (continued)

Maturity of financial liabilities

The table below shows the maturity profile of anticipated future cash flows, including interest, on an undiscounted basis in relation to the Group's financial liabilities. The amounts shown therefore differ from the carrying value and fair value of the Group's financial liabilities. The contractual terms of derivative liabilities requires gross settlement. Note 24 provides details on notional amounts, and therefore, gross settlements, of material currency pairs.

	Interest-bearing loans and borrowings £m	Derivative financial liabilities £m	Other financial liabilities £m	Total financial liabilities £m
Within one year	15.2	4.2	419.0	438.4
In one to two years	18.6	-	13.7	32.3
In two to five years	644.9	-	-	644.9
After five years	0.8	-	-	0.8
Effect of financing rates	(95.9)	-	-	(95.9)
31 December 2016	**583.6**	**4.2**	**432.7**	**1,020.5**
Within one year	-	1.5	70.3	71.8
In one to two years	-	-	-	-
In two to five years	-	-	-	-
Effect of financing rates	-	-	-	-
31 December 2015	-	1.5	70.3	71.8

20. Provisions

	Surplus leasehold property costs £m	Environmental and legal costs £m	Warranty related costs £m	Product liability £m	Employee related £m	Other £m	Total £m
At 1 January 2016	5.0	16.8	2.8	-	-	5.4	30.0
Acquisition of businesses	10.2	49.0	76.3	37.8	11.3	25.1	209.7
Utilised	(1.9)	(4.8)	(7.9)	(1.9)	(16.0)	(29.6)	(62.1)
Net charge to operating profit[(1)]	5.3	2.3	6.4	4.4	12.9	54.3	85.6
Transfer from accruals	-	-	2.5	-	-	0.3	2.8
Unwind of discount	0.1	0.1	-	-	-	-	0.2
Exchange differences	1.0	3.0	4.9	2.2	0.7	1.6	13.4
At 31 December 2016	**19.7**	**66.4**	**85.0**	**42.5**	**8.9**	**57.1**	**279.6**
Current	4.9	32.6	33.3	11.5	5.4	50.4	138.1
Non-current	14.8	33.8	51.7	31.0	3.5	6.7	141.5
	19.7	66.4	85.0	42.5	8.9	57.1	279.6

[(1)] Includes £61.4 million of restructuring charges and other non-underlying items and £24.2 million charged through underlying operating profit.

The provision for surplus leasehold property costs represents the estimated net payments payable over the term of these leases together with any dilapidation costs. This is expected to result in cash expenditure over the next one to eight years.

Environmental and legal costs provisions relate to the estimated remediation costs of pollution, soil and groundwater contamination at certain sites and estimated future costs and settlements in relation to legal claims. Due to their nature, it is not possible to predict precisely when these provisions will be utilised.

The provision for warranty related costs represents the best estimate of the expenditure required to settle the Group's obligations, based on past experiences. Warranty terms are, on average, between one and five years.

The employee related provision relates to the estimated cost of the Group's health insurance and workers compensation plans. The product liability provision relates to the estimated cost of future product and general liabilities claims. Due to their nature it is not possible to predict precisely when these provisions will be utilised.

Other provisions relate to costs that will be incurred in respect of restructuring programmes, usually resulting in cash spend within one year. In addition other provisions include long term incentive plans for divisional senior management and the employer tax on equity-settled incentive schemes which are expected to result in cash expenditure over the next five years.

Where appropriate, provisions have been discounted using a discount rate of 3% (31 December 2015: 3%).

21. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

	Deferred tax assets	Deferred tax liabilities			
	Tax losses and other assets £m	Accelerated capital allowances and other liabilities £m	Deferred tax on intangible assets £m	Total deferred tax liabilities £m	Total net deferred tax £m
At 1 January 2015	68.7	(7.5)	(259.8)	(267.3)	(198.6)
Credit to income	22.1	1.0	9.5	10.5	32.6
Charge to other comprehensive income	(0.5)	(5.2)	-	(5.2)	(5.7)
Transfer to held for sale[(1)]	(61.9)	5.2	224.1	229.3	167.4
Exchange differences	(2.7)	-	12.5	12.5	9.8
At 31 December 2015	25.7	(6.5)	(13.7)	(20.2)	5.5
Acquisition	168.2	-	(331.9)	(331.9)	(163.7)
Credit/(charge) to income	22.8	(2.3)	12.8	10.5	33.3
Credit/(charge) to other comprehensive income	4.8	(2.7)	-	(2.7)	2.1
Exchange differences	1.2	(0.2)	(22.6)	(22.8)	(21.6)
	222.7	(11.7)	(355.4)	(367.1)	(144.4)
Set off of assets and liabilities[(2)]	(173.4)	-	173.4	173.4	-
Net amount at 31 December 2016	**49.3**	**(11.7)**	**(182.0)**	**(193.7)**	**(144.4)**

[(1)] Transfers to assets and liabilities held for sale at 30 June 2015 in accordance with IFRS5, subsequently disposal on 29 December 2015.
[(2)] Set off of deferred tax assets and liabilities in accordance with IAS 12 within the Nortek US Federal tax group.

As at 31 December 2016, the Group had gross unused federal and corporate losses of £274.4 million (31 December 2015: £184.0 million) available for offset against future profits. At 31 December 2016, a £34.9 million deferred tax asset (31 December 2015: £21.2 million) in respect of £169.1 million (31 December 2015: £114.8 million) of these gross losses was recognised in the Balance Sheet. No asset was recognised in respect of the remaining losses due to the divisional and geographic split of anticipated future profit streams. The majority of these losses may be carried forward indefinitely subject to certain continuity of business requirements. In addition a deferred tax asset has been recognised on certain federal tax credits and state tax losses with a net tax value of £31.8 million (2015: £nil).

A net deferred tax asset of £5.5 million (31 December 2015: liabilities of £0.3 million) was recognised in respect of Group retirement benefit obligations.

As at 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries was £187.5 million (31 December 2015: £99.5 million) on which deferred tax liabilities not recognised were £33.8 million (31 December 2015: £nil). No liability is recognised in respect of £170.3 million (2015: £99.5 million) of the temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. Share-based payments

Melrose Incentive Plan

The Company has 50,000 options (31 December 2015: 50,000 options) in issue which enable the holders of these options to subscribe for 2012 Incentive Shares. These options are held by Directors and senior employees. Further details of the 2012 Melrose Incentive Plan are provided in the Directors' Remuneration Report on pages 76 to 77.

The inputs into the Black Scholes model that were used to fair value the plan when it was originally established in 2012 were as follows:

	Valuation assumptions[(1)]
Weighted average share price	£0.43
Weighted average exercise price	£0.54
Expected volatility	30%
Expected life as at inception	5.0 years
Risk free interest	1.0%

[(1)] Adjusted to include the effects of the Rights Issue (note 11).

22. Share-based payments (continued)

Expected volatility was determined by calculating the historical volatility of the Company's share price.

The Group recognised an IFRS 2 charge of £4.0 million (2015: £4.0 million) in the year ended 31 December 2016 in relation to the equity-settled 2012 Melrose Incentive Plan.

23. Retirement benefit obligations

Defined contribution plans

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

The total costs charged in relation to the continuing businesses during the year of £5.9 million (2015: £3.8 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans

The Group sponsors defined benefit plans for qualifying employees of certain subsidiaries. The funded defined benefit plans are administered by a separate fund that is legally separated from the Group. The trustees of the funds are required by law to act in the interest of the fund and of all relevant stakeholders in the plans. The trustees of the pension funds are responsible for the investment policy with regard to the assets of the fund.

During the year, a number of plans were acquired as part of the acquisition of Nortek. Plans acquired include the funded Nortek, Inc. Retirement Plan, the unfunded Nortek Supplemental Executive Retirement Plans and the unfunded post retirement medical benefits in the US, the Eaton-Williams Group Pension and Assurance Scheme in the UK and a number of small funded and unfunded defined arrangements across Europe.

The most significant defined benefit pension plans in the Group at 31 December 2016 were:

- The Brush Group (2013) ("Brush UK") Pension Plan, which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits for existing members.
- The Brush Aftermarket North America, Inc. ("Brush US") Group Pension Plan which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits for existing members.
- The Nortek, Inc. ("Nortek US") Retirement Plan, which is defined benefit in type and is a funded plan. The plan is closed to new members and the accrual of future benefits to existing members.

The cost of the Group's defined benefit plans are determined in accordance with IAS 19 (revised): "Employee benefits" using the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations and using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in the US.

The valuation of the Brush UK Pension Plan was based on a full actuarial valuation as of 31 December 2013, updated at 31 December 2016 by independent actuaries. The Brush US Pension Plan valuation was based on a full actuarial valuation as of 31 December 2015, updated at 31 December 2016 by independent actuaries. The Nortek US Pension Plan valuation was based on a full actuarial valuation as of 1 January 2016, updated at 31 December 2016 by independent actuaries.

The Group contributed £10.5 million (2015: £5.1 million) to the defined benefit pension plans in the year ended 31 December 2016.

Following agreement with the Brush Group (2013) Pension Plan Trustees, the Group contributed £8.8 million early to the Brush UK Pension Plan in the year ended 31 December 2016. No contributions are expected to be made in the year ending 31 December 2017. The Group expects to contribute approximately £0.1 million to the Brush US Pension Plan in the year ending 31 December 2017. The Group expects to contribute approximately £3.7 million to the Nortek US Plan in the year ending 31 December 2017.

In total, the Group expects to contribute approximately £4.9 million to its defined benefit plans in the year ending 31 December 2017.

23. Retirement benefit obligations (continued)

Actuarial assumptions

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

	31 December 2016		31 December 2015	
	UK Plans % p.a.	**US Plans % p.a.**	Brush UK Plan % p.a.	Brush US Plan % p.a.
Rate of increase in salaries	**n/a**	**n/a**	n/a	n/a
Rate of increase in pensions in payment	**3.3**	**n/a**	3.0	n/a
Discount rate	**2.7**	**3.9**	3.7	4.1
RPI inflation assumption	**3.3**	**n/a**	3.0	n/a
CPI inflation assumption	**2.2**	**n/a**	1.9	n/a

Mortality

Brush UK Pension Plan

Mortality assumptions for the Brush UK Pension Plan, as at 31 December 2016 were based on the Self Administered Pension Scheme ("SAPS") "S1" base tables with a scaling factor of 110%, which reflected the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation ("CMI") improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

The assumptions were that a member currently aged 65 will live on average for a further 21.4 years (31 December 2015: 21.4 years) if they are male and for a further 23.6 years (31 December 2015: 23.6 years) if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 22.8 years (31 December 2015: 23.0 years) after retirement if they are male and for a further 25.1 years (31 December 2015: 25.5 years) after retirement if they are female.

The mortality assumptions were consistent with those adopted for the full valuation as at 31 December 2013.

Brush US Pension Plan

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

The assumptions were that a member currently aged 65 will live on average for a further 19.9 years (31 December 2015: 20.3 years) if they are male and for a further 21.9 years (31 December 2015: 22.3 years) if they are female. For a member who retires in 2036 at age 65, the assumptions were that they will live for a further 21.5 years (31 December 2015: 22.0 years) after retirement if they are male and for a further 23.5 years (31 December 2015: 23.9 years) after retirement if they are female.

The mortality assumptions were consistent with those adopted for the full valuation as at 31 December 2015.

Nortek US Pension Plan

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

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

The mortality assumptions were consistent with those adopted for the full valuation as at 1 January 2016.

23. Retirement benefit obligations (continued)

Balance Sheet disclosures

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

	31 December 2016 £m	31 December 2015 £m
Present value of funded defined benefit obligations	**(549.1)**	(360.7)
Fair value of plan assets	**522.6**	343.5
Funded status	**(26.5)**	(17.2)
Present value of unfunded defined benefit obligations	**(6.9)**	-
Net liabilities	**(33.4)**	(17.2)

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

	Brush UK Plan £m	Brush US Plan £m	Nortek US Plan £m	Nortek European Plans £m	**Total £m**
Plan liabilities	(236.4)	(188.1)	(95.5)	(36.0)	**(556.0)**
Plan assets	253.5	174.9	73.6	20.6	**522.6**
Net assets/(liabilities)	17.1	(13.2)	(21.9)	(15.4)	**(33.4)**

The major categories and fair values of plan assets at the end of the reporting period for each category were as follows:

	31 December 2016 £m	31 December 2015 £m
Equities	**152.4**	129.2
Government bonds	**107.1**	80.1
Corporate bonds	**155.0**	122.2
Property	**6.7**	5.7
Other[1]	**101.4**	6.3
Total	**522.6**	343.5

[1] At 31 December 2016, £73.6 million of assets in relation to the Nortek US Plan were held in cash as they were in the process of being transferred to the new plan custodian. The investment strategy is now approximately 60% equities and 40% bonds.

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

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

There was no self investment (other than in relevant tracker funds) either in the Group’s own financial instruments or property or other assets used by the Group.

23. Retirement benefit obligations (continued)

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

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
At beginning of year	**360.7**	1,343.7
Acquisition of businesses	**136.3**	-
Current service cost	**0.1**	1.0
Past service cost	**-**	(2.2)
Interest cost on obligations	**15.4**	29.4
Terminations	**-**	(2.6)
Remeasurement gains - demographic	**(6.1)**	(19.2)
Remeasurement losses/(gains) - financial	**42.1**	(39.8)
Remeasurement gains - experience	**(2.8)**	(7.2)
Benefits paid out of plan assets	**(26.6)**	(56.1)
Benefits paid out of Group assets for unfunded plans	**(0.5)**	(4.8)
Currency translation differences	**37.4**	0.9
Transfer to held for sale[1]	**-**	(882.4)
At end of year	**556.0**	360.7

[1] Transferred to liabilities held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

The defined benefit plan liabilities were 2% (31 December 2015: nil%) in respect of active plan participants, 53% (31 December 2015: 53%) in respect of deferred plan participants and 45% (31 December 2015: 47%) in respect of pensioners.

The weighted average duration of the defined benefit plan liabilities at 31 December 2016 was 14.4 years (31 December 2015: 15.0 years).

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

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
At beginning of year	**343.5**	1,125.2
Acquisition of businesses	**94.1**	-
Interest income on plan assets	**14.5**	25.7
Return on plan assets, excluding interest income	**55.9**	(24.4)
Contributions	**10.0**	15.4
Benefits paid out of plan assets	**(26.6)**	(56.1)
Plan administrative costs	**(1.9)**	(2.2)
Currency translation differences	**33.1**	8.5
Transfer to held for sale[1]	**-**	(748.6)
At end of year	**522.6**	343.5

[1] Transferred to liabilities held for sale at 30 June 2015 in accordance with IFRS 5, subsequently disposed on 29 December 2015.

The actual return on plan assets was a gain of £70.4 million (2015: £1.3 million).

23. Retirement benefit obligations (continued)

Income Statement disclosures

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

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Continuing operations		
Included within underlying operating profit:		
- current service cost	**0.1**	-
- past service cost	**-**	(2.2)
- plan administrative costs	**1.9**	1.3
Included within net finance costs:		
- interest cost on defined benefit obligations	**15.4**	14.5
- interest income on plan assets	**(14.5)**	(12.9)
Discontinued operations		
Included within operating profit:		
- current service cost	**-**	2.2
- past service cost	**-**	(0.1)
- plan administrative expenses	**-**	2.7
- terminations	**-**	(2.6)
Included within net finance costs:		
- interest cost on defined benefit obligations	**-**	30.0
- interest income on plan assets	**-**	(26.3)

Statement of Comprehensive Income disclosures

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

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Return on plan assets, excluding amounts included in net interest expense	**55.9**	(38.2)
Actuarial gains arising from changes in demographic assumptions	**6.1**	31.9
Actuarial (losses)/gains arising from changes in financial assumptions	**(42.1)**	48.7
Actuarial gains arising from experience adjustments	**2.8**	15.1
Net remeasurement gain on retirement benefit obligations	**22.7**	57.5

Risks and sensitivities

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

A sensitivity analysis on the principal assumptions used to measure the plan liabilities at the year end was as follows:

	Change in assumption	Decrease/ (increase) to plan liabilities £m	Increase/ (decrease) to profit before tax £m
Discount rate	Increase by 0.10%	7.7	0.2
	Decrease by 0.10%	(8.0)	(0.2)
Inflation assumption[1]	Increase by 0.10%	(4.5)	n/a
	Decrease by 0.10%	1.8	n/a
Assumed life expectancy at age 65 (rate of mortality)	Increase by 1 year	(19.4)	n/a
	Decrease by 1 year	18.5	n/a

[1] The inflation sensitivity encompasses the impact on pension increases, where applicable.

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

23. Retirement benefit obligations (continued)

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

24. Financial instruments and risk management

The table below sets out the Group's accounting classification of each category of financial assets and liabilities and their fair values at 31 December 2016 and 31 December 2015:

	Nortek £m	Energy £m	Central £m	Total £m
31 December 2016				
Financial assets				
Cash and cash equivalents	-	-	42.1	42.1
Net trade receivables	259.7	70.2	0.2	330.1
Derivative financial assets	1.0	0.9	7.1	9.0
Financial liabilities				
Interest-bearing loans and borrowings	(3.3)	-	(580.3)	(583.6)
Derivative financial liabilities	(1.5)	(1.7)	(1.0)	(4.2)
Other financial liabilities	(357.6)	(55.4)	(19.7)	(432.7)
31 December 2015				
Financial assets				
Cash and cash equivalents	-	-	2,451.4	2,451.4
Net trade receivables	-	56.5	0.8	57.3
Derivative financial assets	-	1.0	0.2	1.2
Financial liabilities				
Derivative financial liabilities	-	(1.3)	(0.2)	(1.5)
Other financial liabilities	-	(60.8)	(9.5)	(70.3)

Credit risk

The Group considers its maximum exposure to credit risk was as follows:

	Nortek £m	Energy £m	Central £m	Total £m
31 December 2016				
Financial assets				
Cash and cash equivalents	-	-	42.1	42.1
Net trade receivables	259.7	70.2	0.2	330.1
Derivative financial assets	1.0	0.9	7.1	9.0
31 December 2015				
Financial assets				
Cash and cash equivalents	-	-	2,451.4	2,451.4
Net trade receivables	-	56.5	0.8	57.3
Derivative financial assets	-	1.0	0.2	1.2

The Group's principal financial assets were cash and cash equivalents, trade receivables and derivative financial assets which represented the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk on cash and cash equivalents and derivative financial assets was limited because the counterparties were banks with strong credit ratings assigned by international credit rating agencies. The Group's credit risk was primarily attributable to its trade receivables. The amounts presented in the Consolidated Balance Sheet were net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Note 16 provides further details regarding the recovery of trade receivables.

Capital risk

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

The capital structure of the Group as at 31 December 2016 consists of net debt, which includes the borrowings disclosed in note 19, after deducting cash and cash equivalents and equity attributable to equity holders of the parent, comprising Issued share capital, Reserves and Retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Liquidity risk

The Group's policy for managing liquidity rate risk is set out in the Finance Director's review.

24. Financial instruments and risk management (continued)

Fair values

The Directors consider that the financial assets and liabilities have fair values not materially different to the carrying values.

Foreign exchange contracts

As at 31 December 2016, the Group held foreign exchange forward contracts to mitigate expected exchange rate fluctuations on cash flows on sales to customers and purchases from suppliers. These instruments operate as cash flow hedges unless the amounts involved are small. The terms of the material currency pairs with total principals in excess of Sterling £1.0 million equivalent were as follows:

	31 December 2016 Selling currency millions	**31 December 2016 Average hedged rate**	31 December 2015 Selling currency millions	31 December 2015 Average hedged rate
Sell Australian Dollar/Buy Sterling	**AUD 6.1**	**GBP/AUD 1.74**	-	-
Sell Canadian Dollar/Buy US Dollar	**CAD 19.7**	**USD/CAD 1.32**	-	-
Sell Chinese Renminbi/Buy Euro	**-**	**-**	CNY 33.5	EUR/CNY 7.11
Sell Czech Koruna/Buy Sterling	**-**	**-**	CZK 139.2	GBP/CZK 37.65
Sell Euro/Buy Czech Koruna	**EUR 31.3**	**EUR/CZK 26.89**	EUR 20.7	EUR/CZK 27.08
Sell Euro/Buy Sterling	**EUR 14.4**	**GBP/EUR 1.17**	EUR 8.8	GBP/EUR 1.38
Sell Euro/Buy Polish Zloty	**EUR 1.2**	**EUR/PLN 4.33**	-	-
Sell Euro/Buy US Dollar	**EUR 12.6**	**EUR/USD 1.13**	-	-
Sell Sterling/Buy Czech Koruna	**GBP 3.8**	**GBP/CZK 31.95**	GBP 14.6	GBP/CZK 37.13
Sell Sterling/Buy Euro	**GBP 15.3**	**GBP/EUR 1.16**	GBP 13.9	GBP/EUR 1.38
Sell Sterling/Buy US Dollar	**GBP 5.0**	**GBP/USD 1.26**	-	-
Sell US Dollar/Buy Canadian Dollar	**USD 22.6**	**USD/CAD 1.32**		
Sell US Dollar/Buy Chinese Renminbi	**USD 142.3**	**USD/CNY 7.10**		
Sell US Dollar/Buy Euro	**USD 2.7**	**EUR/USD 1.12**	-	-
Sell US Dollar/Buy Czech Koruna	**-**	**-**	USD 4.1	USD/CZK 25.08
Sell US Dollar/Buy Mexican Peso	**USD 14.7**	**USD/MXN 19.69**	-	-
Sell US Dollar/Buy Polish Zloty	**USD 1.7**	**USD/PLN 3.87**		
Sell US Dollar/Buy Sterling	**USD 15.0**	**GBP/USD 1.34**	USD 25.9	GBP/USD 1.54

The foreign exchange contracts all mature between January 2017 and December 2017.

The fair value of the contracts at 31 December 2016 was a net liability of £2.3 million (31 December 2015: £0.3 million).

Hedge of net investments in foreign entities

Included in interest bearing loans at 31 December 2016 were the following amounts which were designated as hedges of net investments in the Group's subsidiaries in the USA and were being used to reduce the exposure to the foreign exchange risks.

Borrowings in local currency designated as hedges of net investments:

	31 December 2016 £m	31 December 2015 £m
US Dollar	**590.5**	-

Interest rate sensitivity analysis

Assuming the net debt (31 December 2015: cash) held as at the Balance Sheet date was outstanding for the whole year, a one percentage point rise in market interest rates for all currencies would increase/(decrease) profit before tax by the following amounts:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Sterling	**(0.1)**	24.5
US Dollar	**(1.4)**	-
	(1.5)	24.5

The interest rate sensitivity of Sterling at 31 December 2015 included the impact of the Group holding the cash proceeds from the disposal of the Elster businesses. Adjusting for the Return of Capital which took place in February 2016, the sensitivity for Sterling would have been £0.6 million.

24. Financial instruments and risk management (continued)

Interest rate risk management

The Group's policy for managing interest rate risk is set out in the Finance Director's review.

In October 2016 the Group entered into new interest rate swap arrangements. The profile of the interest rate swaps have been designed to hedge on average 70% of the interest exposure on the projected gross debt as it reduces over the 5 year term. Under the terms of these swap arrangements, the Group will pay 1.0% up to 30 June 2018, 1.1% up to 30 June 2019, and 1.2% until the remaining swaps terminate on 6 July 2021. The interest on the swaps is payable annually in arrears on 1 July. The bank margin is payable monthly.

The interest swaps are designated as cash flow hedges and were highly effective throughout 2016. The fair value of the contracts at 31 December 2016 was a net asset of £7.1 million (31 December 2015: £nil).

Foreign currency risk

The Group's policy for managing foreign currency risk is set out in the Finance Director's review on pages 35 to 36.

Foreign currency sensitivity analysis

Currency risks are defined by IFRS 7: "Financial instruments: Disclosures" as the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates.

The following table details the transactional impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group operating profit caused by a 10 per cent strengthening of the US Dollar, Euro and Chinese Renminbi against Sterling compared to the year end spot rate. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant. The Group operates in a range of different currencies, and those with a notable impact are noted here:

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
US Dollar	**(7.4)**	0.1
Euro	**0.6**	0.4
Chinese Renminbi	**(1.3)**	-

The relatively high sensitivity on the US Dollar is due to a currency swap for £55.0 million, that was put in place ahead of the year end, to swap excess Sterling cash in order to temporarily reduce the US Dollar debt. Adjusting for the currency swap, the sensitivity on the US Dollar at 31 December 2016 would be a loss of £1.3 million.

The following table details the impact of hypothetical changes in foreign exchange rates on financial assets and liabilities at the Balance Sheet date, illustrating the increase/(decrease) in Group equity caused by a 10 per cent strengthening of the US Dollar, Euro and Chinese Renminbi against Sterling. The analysis assumes that all other variables, in particular other foreign currency exchange rates, remain constant.

	31 December 2016 £m	31 December 2015 £m
US Dollar	**12.1**	(0.5)
Euro	**(1.6)**	(0.2)
Chinese Renminbi	**8.8**	-

In addition, the change in equity due to a 10 per cent strengthening of the US Dollar against Sterling for the translation of net investment hedging instruments would be a decrease of £65.6 million (31 December 2015: £nil). However, there would be no overall effect on equity because there would be an offset in the currency translation of the foreign operation.

24. Financial instruments and risk management (continued)

Fair value measurements recognised in the Balance Sheet

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts.

Interest rate swap contracts are measured using yield curves derived from quoted interest rates.

The following table sets out the Group's assets and liabilities that are measured and recognised at fair value:

Recurring fair value measurements	31 December 2016 Current £m	31 December 2016 Non-current £m	31 December 2016 Total £m	31 December 2015 Current £m	31 December 2015 Non-current £m	31 December 2015 Total £m
Derivative financial assets						
Foreign currency forward contracts	**1.9**	**-**	**1.9**	1.2	-	1.2
Interest rate swaps	**1.9**	**5.2**	**7.1**	-	-	-
Total recurring financial assets	**3.8**	**5.2**	**9.0**	1.2	-	1.2
Derivative financial liabilities						
Foreign currency forward contracts	**(4.2)**	**-**	**(4.2)**	(1.5)	-	(1.5)
Interest rate swaps	**-**	**-**	**-**	-	-	-
Total recurring financial liabilities	**(4.2)**	**-**	**(4.2)**	(1.5)	-	(1.5)

The fair value of these financial instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and they are therefore categorised within Level 2 of the fair value hierarchy set out in IFRS 13: "Fair value measurement". The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer to occur. There have been no transfers between levels in the year.

25. Issued capital and reserves

Share Capital	31 December 2016 £m	31 December 2015 £m
Allotted, called-up and fully paid		
1,886,746,589 (31 December 2015: 995,206,966) Ordinary Shares of 48/7p each (31 December 2015: 1p each)	**129.4**	10.0
	129.4	10.0

The rights of each class of share are described in the Directors' Report.

On 27 January 2016 the Court approved a proposal to return £2,388.5 million to shareholders.

In conjunction with this Return of Capital, on 28 January 2016 the number of Ordinary Shares in issue was consolidated in a ratio of 7 for 48 in order to maintain comparability of the Company's share price before and after the Return of Capital. On 28 January 2016 the number of Ordinary Shares in issue became 145,134,353 each with a nominal value of 48/7 pence.

On 24 August 2016 a 12 for 1, fully underwritten, Rights Issue was completed by Melrose Industries PLC and 1,741,612,236 Ordinary Shares were issued raising £1,654.5 million to part fund the acquisition of Nortek. This resulted in an increase to nominal Share Capital of £119.4 million and an increase to the share premium account, after deducting associated costs of £42.5 million, of £1,492.6 million.

25. Issued capital and reserves (continued)

Translation reserve

The Translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Hedging reserve

The Hedging reserve represents the cumulative fair value gains and losses on derivative financial instruments for which cash flow hedge accounting has been applied.

Merger reserve and Other reserves

The Merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries. Other reserves comprise accumulated adjustments in respect of Group reconstructions.

26. Cash flow statement

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Reconciliation of underlying operating profit to cash generated by continuing operations		
Underlying operating profit from continuing operations	**104.1**	24.8
Adjustments for:		
Depreciation of property, plant and equipment	**15.9**	7.6
Amortisation of computer software and development costs	**2.2**	0.5
Restructuring costs paid and movements in provisions	**(37.6)**	(32.8)
Defined benefit pension contributions paid	**(10.5)**	(5.1)
Decrease/(increase) in inventories	**15.0**	(9.9)
Decrease in receivables	**22.5**	10.8
Decrease in payables	**(9.3)**	(12.3)
Acquisition costs	**(41.3)**	-
Tax paid	**(5.9)**	(2.8)
Interest paid	**(4.5)**	(38.6)
Net cash from/(used in) operating activities from continuing operations	**50.6**	(57.8)

Cash flow from discontinued operations	**Year ended 31 December 2016 £m**	Year ended 31 December 2015 £m
Cash generated from discontinued operations	**-**	172.9
Defined benefit pension contributions paid	**-**	(30.1)
Tax paid	**-**	(51.2)
Interest paid	**-**	(1.6)
Acquisition costs	**-**	(0.8)
Net cash from operating activities from discontinued operations	**-**	89.2
Purchase of property, plant and equipment	**-**	(26.0)
Proceeds from disposal of property, plant and equipment	**-**	1.7
Purchase of computer software and development costs	**-**	(15.5)
Purchase of non-controlling interests	**-**	(1.5)
Dividends received from joint ventures	**-**	2.2
Dividends paid to non-controlling interests	**-**	(0.4)
Interest received	**-**	0.8
Net cash used in investing activities from discontinued operations	**-**	(38.7)
Net cash used in financing activities from discontinued operations	**-**	-

26. Cash flow statement (continued)

Net debt reconciliation

	31 December 2015 £m	Cash flow £m	Acquisitions £m	Other non-cash movements £m	Foreign exchange difference £m	**31 December 2016 £m**
Cash	2,451.4	(1,250.8)	(1,161.9)	-	3.4	**42.1**
External debt	-	535.0	(1,064.3)	5.4	(58.1)	**(582.0)**
Finance leases	-	-	(1.6)	-	-	**(1.6)**
Net cash/(debt)	2,451.4	(715.8)	(2,227.8)	5.4	(54.7)	**(541.5)**

27. Commitments and contingencies

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

	31 December 2016 £m	31 December 2015 £m
Amounts payable:		
Within one year	**21.9**	2.2
After one year but within five years	**55.1**	1.1
Over five years	**24.0**	-
	101.0	3.3

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length. Plant, machinery and vehicle leases typically run for periods of up to five years. The increase in minimum rentals payable under non-cancellable operating leases during the year was primarily as a result of the acquisition of Nortek.

Capital commitments

At 31 December 2016, there were commitments of £2.4 million (31 December 2015: £0.8 million) relating to the acquisition of new plant and machinery.

28. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group did not enter into any significant transactions in the ordinary course of business with joint ventures during the current or prior year.

Sales to and purchases from Group companies are priced on an arm's length basis and generally are settled on 30 day terms.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24: "Related party disclosures". Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on page 78.

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Short-term employee benefits	**3.2**	3.0
Share-based payments	**2.7**	2.7
	5.9	5.7

29. Post Balance Sheet events

There are no post balance sheet events which require disclosure.

30. Contingent liabilities

As described in note 12, certain contingent legal and warranty liabilities were identified as part of the fair value review of the acquisition Balance Sheet. Whilst it is difficult to reasonably estimate the timing and ultimate outcome of these claims, the Directors' best estimate has been included in the Balance Sheet where they existed at the time of acquisition and hence were recognised in accordance with IFRS 3: "Business combinations". Where a provision has been recognised, information regarding the different categories of such liabilities and the amount and timing of outflows is included within note 20.

Given the nature of the Group's business many of the Group's products have a large installed base, and any recalls or reworks related to such products could be particularly costly. The costs of product recalls or reworks are not always covered by insurance. Recalls or reworks may have a material adverse effect on the Group's financial condition, results of operations and cash flows.

The Group has contingent liabilities representing guarantees and contract bonds given in the ordinary course of business on behalf of trading subsidiaries. No losses are anticipated to arise on these contingent liabilities. The Group does not have any other significant contingent liabilities.

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

Opinion on financial statements of Melrose Industries PLC

In our opinion:

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

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

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

Summary of our audit approach	
Key risks	The key risks that we identified in the current year were: • Acquisition accounting; focused on the valuation of intangible assets and fair value of provisions • Carrying value of goodwill and other non-current assets • Classification of non-underlying items
Materiality	The materiality that we used in the current year was £11 million which has taken into consideration revenue, underlying profit before tax and net assets of the enlarged Group following the acquisition of the Nortek business during the year.
Scoping	Full scope audit work was completed on 12 components and the head office function, and specified audit procedures over certain balances were performed on 5 components. In total our scope represented 82% of Group revenue, 86% of Group operating profit and 92% of Group net assets.
Significant changes in our approach	Following the significant change in the structure of the group as a result of the disposal of the Elster group and the acquisition of the Nortek group, we have revised our audit scoping, materiality basis and consideration of the risks most specific to the group. Particularly, we have considered the risk in relation to the acquisition of Nortek group in the current year.

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

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

- the Directors' confirmation on page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 40-45 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 37 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Independence

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

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

Our assessment of risks of material misstatement

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

Risk description	How the scope of our audit responded to the risk	Key observations
Acquisition accounting; focused on the valuation of intangible assets and fair value of provisions		
The group completed the acquisition of Nortek Inc. on 31 August 2016. The Group applied IFRS 3, Business Combinations, to identify and value the identifiable net assets of the acquired business at this date. The valuation of intangible assets of £868.4 million arising on the acquisition is considered to be a key risk as the valuation is based on a number of assumptions such as discount rate and growth rate which are subject to significant judgement. There is also considered to be a key risk in determining the fair value of	We have evaluated management's determination of the fair value of the net assets acquired, focussing on the valuation of intangible assets and provisions recognised at the acquisition date. We challenged management's methodology and assumptions underlying the valuation of intangible assets by: • consulting with our internal valuation specialists to assess and recalculate the discount rate and growth rate used based on external market data, and comparing these rates to the rates used by management and the Group's external valuation expert. • involving our internal valuation specialists to evaluate the valuation methodology used by management and the Group's external	Based on our detailed audit work performed, we consider that management's key judgements and assumptions used in the valuations of net assets at the acquisition date fall within an acceptable range.

acquired provisions and contingent liabilities of £209.7 million due to the judgements required in valuing liabilities of inherently uncertain outcome, such as the outcome of warranty, legal and product liability claims against the acquired group.	valuation expert. • checking the calculations of the valuations by performing parallel valuations based on the same underlying data. We challenged management's methodology and assumptions underlying the valuation of provisions and contingent liabilities acquired by: • challenging the reasonableness of and verifying inputs used to calculate the valuation of provisions and contingent liabilities; • we assessed the level of historical warranty claims and obtained the specific warranty terms and conditions provided in order to ascertain whether the warranty provisions held were sufficient to cover all obligations in existence at the acquisition date, in light of known claims and standard warranty periods provided; • we reviewed the nature and timings of formal restructuring plans, in order to determine that these relate to pre-acquisition restructurings; • holding discussions with the Group's internal and external lawyers; • reviewing third party correspondence including legal confirmations • involving our actuarial specialists to review the approach and methodology used to calculate the product liability provision and the approach for selecting key assumptions.	
Carrying value of goodwill and other non-current assets		
The carrying value of goodwill in the Energy group of cash-generating units (the Energy group) as at 31 December 2016 was £212.9 million and the carrying value of the Brush China assets as at 31 December 2016 was £34.4 million. Management perform an impairment review for all goodwill balances on an annual basis and for other assets whenever an indication of impairment is identified. We consider there to be a risk of material misstatement in Energy group goodwill and intangibles and Brush China assets as a result of the application of management judgement and estimation in performing the impairment reviews, in particular in relation to the forecasting of future cash flows, the growth rate and the selection of an appropriate discount rate, as detailed within note 12 to the consolidated financial statements. The future market for generators in China is also considered a significant judgement within the assessment of the recoverability of Brush China assets, as detailed within key sources of estimation uncertainty in note 3 to the financial statements and in the Audit Committee Report.	We challenged the reasonableness of the assumptions which underpin management's forecasts with reference to the recent and historical trading performance of the Energy group, as well as the current contractual arrangements and external market data. For Brush China, we challenged the reasonableness of the significant judgement relating to the future market for generators in China by assessing the Group's contractual arrangements in place and under discussions, as well as considering the external future market indicators for generators in China. We validated the integrity of the impairment models through testing of the mechanical accuracy and verifying the application of the input assumptions and understood the underlying process used to determine the risk adjusted cash flow projections. Our procedures included consulting with our valuation specialists to assess the discount rates applied to future cash flows and benchmarking assumptions such as the growth rates and discount rates to external macro-economic and market data. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired by performing sensitivity analysis on the key assumptions, we considered the likelihood of such a movement in those assumptions arising. We have reviewed the disclosures in note 12 in relation to the impact of a reasonable possible change, and also the key sources of estimation uncertainty disclosure in note 3 for Brush China.	Based on our detailed audit work performed, we concur with the key judgements and assumptions in the impairment models and with the disclosures in the financial statements. Based on management's current expectation the assets remain supportable.

Classification of non-underlying items		
Management has changed the presentation of the Consolidated Income Statement in the current year to show a consolidated statutory format with no underlying adjustments. Separately, underlying results are shown underneath the Consolidated Income statement. New guidance has been issued by the European Securities and Markets Authority on the presentation of alternative performance measures. There is a risk around presentation and consistency of costs and income within non-underlying items, which is a key determinant in the assessment of the quality of the Group's underlying earnings. The non-underlying operating costs for the year ended 31 December 2016 were £165.7 million for the Group. Note 2 includes the Group's accounting policy for non-underlying items and the note 6 includes further details on the non-underlying items.	A sample of non-underlying items, including all material items, have been agreed to source documentation and evaluated by the component and Group audit teams as to their nature in order to assess whether they are in line with the Group's accounting policy, and also to assess consistency of non-underlying items between periods in the financial statements. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items and how non-underlying results are reconciled to statutory results.	We consider the disclosure of non-underlying items to be in line with the Group's accounting policies and that the presentation of non-underlying items is consistent between the periods presented.

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

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

Our application of materiality

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

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

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

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

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

An overview of the scope of our audit

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

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

Our Group audit scope focused primarily on audit work at 17 components (2015: 22 including Elster), of which 4 relate to components which form part of the legacy Energy division, 6 relate to Air Management, 4 relate to Security and Smart technology, 2 relate to the Ergonomics division and 1 relates to the Nortek head office function. The change in the number of components reflects the disposal of the Elster division, the acquisition of the Nortek group and our risk assessment in the current year.

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

Energy division

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

Our work at the 4 components forming part of the Energy division was principally performed to levels of materiality applicable to each individual entity which were lower than group materiality and ranged between £0.4 million and £3.3 million.

In 2015, these 4 components accounted for 86% of the revenue and 93% of the headline operating profit and divisional costs (before central costs) of the Energy division.

Nortek group

For the newly acquired Nortek group, 8 components were subject to a full audit and 5 were subject to specified audit procedures on certain balances that represent a risk to the group.

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

Our work and audit procedures at the newly acquired Nortek components were performed at levels of materiality which were lower than group materiality, determined by reference to the relative scale of the business concerned, and ranged between £2.8 million and £3.9 million.

Involvement in the work of component auditors and work performed at group level

The senior statutory auditor or other senior members of the Group audit team visited 8 of the largest components for the audit (2015: 8). The senior statutory auditor also held close meetings which covered all businesses. In years when we do not visit a component within our Group audit scope; we will include the component audit team in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Other matter

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Stephen Griggs, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
2 March 2017