

THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under FSMA if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

Subject to the restrictions set out below, if you sell or otherwise transfer or have sold or otherwise transferred all of your Existing Melrose Shares (other than ex-rights) held in certificated form before 8.00 a.m. on 9 August 2016 (the “**ex-rights date**”), you should send this Circular together with the accompanying Form of Proxy and any Provisional Allotment Letter (duly renounced), if and when received, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. None of these documents should, however, be distributed, forwarded or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations.

If you sell or otherwise transfer or have sold or otherwise transferred only part of your holding of Existing Melrose Shares (other than ex-rights) held in certificated form before the ex-rights date, you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected. If you sell or otherwise transfer or have sold or otherwise transferred all or some of your Existing Melrose Shares (other than ex-rights) held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by Euroclear, which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this Circular to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this Circular and any accompanying document into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.



Melrose Industries PLC

(Incorporated and registered in England and Wales with Registered No. 9800044)

Circular to Melrose Shareholders and Notice of General Meeting in connection with the proposed acquisition of Nortek, a proposed 12 for 1 Rights Issue of 1,741,612,236 New Melrose Shares at 95 pence per New Melrose Share to raise approximately £1,655 million and the proposed Re-admission or transfer of the Melrose Shares to the standard segment of the Official List

Applications will be made to the UKLA for the New Melrose Shares (issued in connection with the Rights Issue) to be admitted to the premium segment of the Official List and to the London Stock Exchange for admission to trading of the New Melrose Shares on its main market for listed securities. It is currently expected that Admission of the New Melrose Shares will become effective and that dealings (for normal settlement) in the New Melrose Shares will commence on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016 (whereupon an announcement will be made by the Company to a Regulatory Information Service).

The Melrose Shares are currently (and it is expected that the New Melrose Shares will be) admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. Further applications will be made to the UKLA for the Melrose Shares (at such time comprising the Existing Melrose Shares and the New Melrose Shares) to be re-admitted to the standard segment of the Official List and to the London Stock Exchange for the re-admission of the Melrose Shares to trading on its main market for listed securities.

It is currently expected that Re-admission will become effective post Completion at 8.00 a.m. on 31 August 2016 (and in any case no earlier than 20 Business Days from the date of the General Meeting) (whereupon an announcement will be made by the Company to a Regulatory Information Service).

Should Completion not occur, subject to the passing of resolution 4 set out in the Notice of General Meeting, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

A STANDARD LISTING AFFORDS INVESTORS IN MELROSE A LOWER LEVEL OF REGULATORY PROTECTION THAN THAT AFFORDED TO INVESTORS IN COMPANIES WHOSE SECURITIES ARE ADMITTED TO THE PREMIUM SEGMENT OF THE OFFICIAL LIST, WHICH ARE SUBJECT TO ADDITIONAL OBLIGATIONS UNDER THE LISTING RULES.

IT SHOULD BE NOTED THAT, UPON THE MELROSE SHARES BEING RE-ADMITTED OR TRANSFERRED TO THE STANDARD SEGMENT OF THE OFFICIAL LIST, NEITHER THE UKLA NOR THE LONDON STOCK EXCHANGE WILL HAVE THE AUTHORITY TO (AND WILL NOT) MONITOR MELROSE'S COMPLIANCE WITH ANY OF THE LISTING RULES OR THE DISCLOSURE REQUIREMENTS AND TRANSPARENCY RULES WHICH MELROSE HAS INDICATED HEREIN THAT IT INTENDS TO COMPLY WITH ON A VOLUNTARY BASIS, NOR TO IMPOSE SANCTIONS IN RESPECT OF ANY FAILURE BY MELROSE TO SO COMPLY.

See the section of this Circular entitled "*Consequences of a Standard Listing*" for further details on the consequences of a Standard Listing.

This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of Melrose which is set out in Part I of this Circular and which contains the unanimous recommendation by the Melrose Directors that you vote in favour of the Resolutions to be proposed at the Melrose General Meeting referred to below.

Melrose Shareholders should read the whole of this Circular, in particular, the risk factors relating to the Acquisition, the Rights Issue, Nortek and the Enlarged Group set out in this Circular on pages 19 to 28.

This Circular does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security. A prospectus has been prepared in accordance with the Prospectus Rules made under section 73A of FSMA, has been approved by the FCA in accordance with section 87A of FSMA and has been made available to the public as required by rule 3.2 of the Prospectus Rules. Any investment decision relating to the Rights Issue should be based upon the consideration of the Prospectus, which Qualifying Shareholders (other than those with registered addresses in, or who are resident in, the United States or any Excluded Territory) should read in full prior to making any such investment decision. The risk factors relating to Melrose in the Prospectus are also incorporated by reference into this Circular.

The distribution of this Circular and/or the Prospectus and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights and/or the New Melrose Shares, through CREST or otherwise, into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, the Prospectus and/or the Provisional Allotment Letters should not be distributed, forwarded to or transmitted in or into the United States or any Excluded Territories. This Circular has been prepared for the purposes of complying with English law and the Listing Rules and the information disclosed herein may not be the same as that which would have been disclosed if this Circular had been prepared in accordance with the laws and regulations of any jurisdiction outside of the United Kingdom.

Notice of the Melrose General Meeting, to be held at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP on 25 July 2016 at 11.00 a.m., is set out at the end of this Circular. Shareholders will find enclosed with this Circular a Form of Proxy for use in connection with the Melrose General Meeting. Whether or not you intend to attend the Melrose General Meeting in person, please complete and sign the enclosed Form of Proxy in accordance with the instructions printed on it and return it to the Company's Registrar at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA as soon as possible and, in any event, by no later than 11.00 a.m. on 21 July 2016. You may alternatively register your

vote online by visiting the Registrar's website at www.sharevote.co.uk. In order to register your vote online, you will need to enter the Voting ID, Task ID and your Shareholder Reference Number which are set out on the enclosed Form of Proxy, and you will need to ensure that your vote is registered online not later than 11.00 a.m. on 21 July 2016.

If you hold Melrose Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrar, Equiniti (CREST participant ID RA19), so that it is received no later than 11.00 a.m. on 21 July 2016.

The completion and return of a Form of Proxy or CREST proxy instructions will not prevent you from attending the Melrose General Meeting and voting in person if you so wish and are so entitled. If you have any questions about this Circular, or the Melrose General Meeting, or are in any doubt as to how to complete the Form of Proxy, please call the Shareholder Helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except public holidays in England and Wales) on 0333 207 6392 (from within the UK) and + 44 121 415 0966 (from outside the UK). Network providers' costs may vary. Calls to the Shareholder Helpline from outside the UK will be charged at the applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, the Shareholder Helpline will be unable to give advice on the merits of the Acquisition, the Rights Issue or to provide financial, tax or investment advice

Subject to, among other things, the passing of the Transaction Resolutions and the expiry of the Window Shop Deadline without the occurrence of a Superior Proposal Termination Event, it is expected that Qualifying Non-CREST Shareholders (subject to certain exceptions) will be sent a Provisional Allotment Letter on 8 August 2016, and that Qualifying CREST Shareholders (subject to certain exceptions) will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled as soon as practicable after 8.00 a.m. on 9 August 2016. The Nil Paid Rights so credited in CREST are expected to be enabled for settlement by Euroclear as soon as practicable after Admission. The Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Melrose Shares and/or related instruments for their own account for the purpose of hedging their commitments under the Underwriting Agreement. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares are not transferable except in accordance with, and the distribution of the Prospectus is subject to, the restrictions set out in paragraph 7 of Part XI (*Terms and Conditions of the Rights Issue*) of the Prospectus in relation to the United States and the Excluded Territories. No action has been taken by the Company, the Sponsors or the Underwriters that would permit an offer of the New Melrose Shares or rights thereto or possession or distribution of the Prospectus or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

Despite any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any shareholder to take up his or her rights if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares have not been and will not be registered under the US Securities Act, or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to the registration requirements of, the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Melrose Shares in the United States or in any of the Excluded Territories (subject to certain exceptions).

None of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters, the New Melrose Shares, this Circular, the Prospectus or any other offering document has been approved or disapproved by the SEC, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Rights Issue or the accuracy or adequacy of this Circular. Any representation to the contrary is a criminal offence in the United States.

Each of Investec Bank plc, J.P. Morgan Securities plc (which conducts its investment banking activities as J.P. Morgan Cazenove) (“**J.P. Morgan Cazenove**”), Merrill Lynch International (“**BofA Merrill Lynch**”) and Nomura International PLC, each of which is authorised by the Prudential Regulation Authority (“**PRA**”) and regulated by the PRA and the FCA in the United Kingdom, and J.P. Morgan Limited and Evercore Partners International LLP, each of which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for the Company and no one else in connection with this Circular, the Acquisition or the Rights Issue and will not regard any other person (whether or not a recipient of this Circular) as their respective clients in relation to this Circular, the Acquisition or the Rights Issue, save for any responsibility which may arise under FSMA or the regulatory regime established thereunder, and accordingly will not be responsible to anyone other than the Company for providing the protections afforded to respective clients of Investec Bank plc, J.P. Morgan Cazenove, BofA Merrill Lynch, Nomura International PLC, J.P. Morgan Limited and Evercore Partners International LLP as applicable, or for providing advice in connection with the Acquisition or the Rights Issue, the contents of this Circular or any other transaction, arrangement or other matter referred to in this Circular.

Apart from the responsibilities and liabilities, if any, which may be imposed on Investec Bank plc, J.P. Morgan Cazenove or J.P. Morgan Limited under FSMA or the regulatory regime established thereunder: (i) none of Investec Bank plc, J.P. Morgan Cazenove, BofA Merrill Lynch, Nomura International PLC, J.P. Morgan Limited or Evercore Partners International LLP accepts any responsibility whatsoever and makes no warranty or representation, express or implied, in relation to the contents of this Circular, including its accuracy, completeness or verification or regarding the legality of any investment in the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares by any person under the laws applicable to such person or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Nil Paid Rights, the Fully Paid Rights, the Melrose Shares, the Acquisition or the Rights Issue; and (ii) each of Investec Bank plc, J.P. Morgan Cazenove, BofA Merrill Lynch, Nomura International PLC, J.P. Morgan Limited and Evercore Partners International LLP accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise be found to have in respect of this Circular or any such statement.

The contents of this Circular or any subsequent communication from the Company or the financial adviser or any of their respective affiliates, officers, directors, employees or agents are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

Without limitation, the contents of the websites of the Company or Nortek do not form part of this Circular.

Capitalised terms have the meanings ascribed to them in Part VII (*Definitions*) of this Circular.

The Prospectus, which includes further information on the Acquisition, the Rights Issue, certain risk factors, Melrose, Nortek, the Melrose Board and the Melrose Shares, has not been posted to Melrose Shareholders with this Circular. Melrose Shareholders (other than any persons with a registered address in, or who are resident in, the United States or any Excluded Territory) may obtain a copy of the Prospectus from the Melrose Group website (www.Melroseplc.net), provided that no attempt should be made by an Overseas Shareholder to obtain a copy of the Prospectus where to do so would constitute a violation of securities laws in the relevant jurisdiction.

This Circular is dated 6 July 2016.

CONSEQUENCES OF A STANDARD LISTING

A STANDARD LISTING AFFORDS INVESTORS IN MELROSE A LOWER LEVEL OF REGULATORY PROTECTION THAN THAT AFFORDED TO INVESTORS IN COMPANIES WHOSE SECURITIES ARE ADMITTED TO THE PREMIUM SEGMENT OF THE OFFICIAL LIST, WHICH ARE SUBJECT TO ADDITIONAL OBLIGATIONS UNDER THE LISTING RULES.

IT SHOULD BE NOTED THAT, UPON THE MELROSE SHARES BEING RE-ADMITTED OR TRANSFERRED TO THE STANDARD SEGMENT OF THE OFFICIAL LIST, NEITHER THE UKLA NOR THE LONDON STOCK EXCHANGE WILL HAVE THE AUTHORITY TO (AND WILL NOT) MONITOR MELROSE'S COMPLIANCE WITH ANY OF THE LISTING RULES OR THE DISCLOSURE REQUIREMENTS AND TRANSPARENCY RULES WHICH MELROSE HAS INDICATED HEREIN THAT IT INTENDS TO COMPLY WITH ON A VOLUNTARY BASIS, NOR TO IMPOSE SANCTIONS IN RESPECT OF ANY FAILURE BY MELROSE TO SO COMPLY.

As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. The Melrose Shares will not be eligible for re-admission to the premium segment of the Official List, as the latest balance sheet date for which audited consolidated historical financial information for Nortek can be provided is more than six months prior to the date of the Prospectus, contrary to the Premium Listing requirements in Chapter 6 of the Listing Rules. Consequently, applications will be made to the UKLA for the Melrose Shares (at such time comprising the Existing Melrose Shares and the New Melrose Shares) to be re-admitted to the standard segment of the Official List and to the London Stock Exchange for the re-admission of the Melrose Shares to trading on its main market for listed securities. Should Completion not occur, subject to the passing of resolution 4 set out in the Notice of General Meeting, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

Following Re-admission with, or transfer to, a Standard Listing the Melrose Shares (comprising the Existing Melrose Shares and the New Melrose Shares) will be admitted to listing on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for Standard Listings. Melrose will comply with Listing Principles 1 and 2 as set out in Chapter 7 of the Listing Rules, as required by the UKLA, and intends to comply with the Premium Listing Principles as set out in Chapter 7 of the Listing Rules notwithstanding that they only apply to companies which obtain a Premium Listing on the Official List. Melrose would not, however, be formally subject to the Premium Listing Principles and will not be required to comply with them by the UKLA.

There are a number of other continuing obligations set out in Chapter 14 of the Listing Rules that will be applicable to Melrose upon Re-admission with, or transfer to, a Standard Listing. These include requirements as to:

- the forwarding of circulars and other documentation to the FCA for publication through the National Storage Mechanism, and related notification to a Regulatory Information Service;
- the provision of contact details of appropriate persons nominated to act as a first point of contact with the FCA in relation to compliance with the Listing Rules and the Disclosure Requirements and Transparency Rules;
- the form and content of temporary and definitive documents of title;
- the appointment of a registrar;
- Regulatory Information Service notification obligations in relation to a range of debt and equity capital issues; and
- compliance with, in particular, the Disclosure Requirements and Chapters 4, 5 (if applicable) and 6 of the Transparency Rules.

Following Re-admission with, or transfer to, a Standard Listing, Melrose would not be required to comply with the provisions of, among other things:

- Chapter 6 of the Listing Rules containing additional requirements for the listing of equity securities, which are only applicable for companies with a Premium Listing;

- Chapter 8 of the Listing Rules regarding the appointment of a listing sponsor to guide Melrose in understanding and meeting its responsibilities under the Listing Rules in connection with certain matters;
- Chapter 9 of the Listing Rules containing provisions relating to transactions, including, inter alia, requirements relating to further issues of shares, the ability to issue shares at a discount in excess of 10% of market value, notifications and contents of financial information;
- Chapter 10 of the Listing Rules relating to significant transactions which requires shareholder consent for certain acquisitions;
- Chapter 11 of the Listing Rules regarding related party transactions;
- Chapter 12 of the Listing Rules regarding purchases by Melrose of its Ordinary Shares; and
- Chapter 13 of the Listing Rules regarding the form and content of circulars to be sent to shareholders.

Nonetheless, whilst Melrose has a Standard Listing, it intends to comply with the provisions of Chapters 7 to 13 on a voluntary basis.

A company with a Standard Listing is not currently eligible for inclusion in any of the FTSE indices (i.e. FTSE 100, FTSE 250 etc.). This may mean that certain institutional investors are unable to invest in the Melrose Shares, whilst Melrose has a Standard Listing.

Following Re-admission with, or transfer to, a Standard Listing, the Directors intend 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. Melrose shall give not less than 20 Business Days' notice of any anticipated transfer to a Premium Listing by publishing an announcement to a Regulatory Information Service. If such a transition were to occur and Melrose moves to a Premium Listing, the various Listing Rules highlighted above as rules with which Melrose is not required to comply would become mandatory.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This Circular may contain forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. Generally, the words “will”, “may”, “should”, “continue”, “believes”, “expects”, “intends”, “anticipates” or similar expressions identify forward-looking statements. These statements are based on the current expectations of management and are naturally subject to risks, uncertainties and changes in circumstances. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and management’s plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are the ability to combine successfully the businesses of Melrose and Nortek and to realise expected synergies from that potential combination, changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Melrose does not undertake any obligation (except as required by the Listing Rules, the Disclosure Requirements and Transparency Rules and the rules of the London Stock Exchange) to revise or update any forward looking statement contained in this Circular, regardless of whether that statement is affected as a result of new information, future events or otherwise.

Forward-looking statements contained in this Circular do not in any way seek to qualify the working capital statement contained in paragraph 2 of Part VI (*Additional Information*) of this Circular.

MARKET AND ECONOMIC DATA

This Circular contains information regarding Melrose’s, Nortek’s and the Enlarged Group’s business and the market in which they operate and compete, which Melrose has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as Melrose is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information has not been audited or independently verified.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.⁽¹⁾ Except where otherwise indicated, references to a time of day are to London time.

	Time and Date
Announcement of the Acquisition and Rights Issue	6 July 2016
Publication of the Prospectus and posting of this Circular (which includes the Notice of General Meeting) and the Form of Proxy . .	6 July 2016
Tender Offer commences in the US/ Tender Offer Document is filed with the SEC	By no later than 11 July 2016
Nortek to file Recommendation Statement on Schedule 14D-9, in which the Nortek Board recommends acceptance of the Tender Offer	By no later than 11 July 2016
Latest time and date for receipt of the Form of Proxy	11.00 a.m. on 21 July 2016
Melrose General Meeting	11.00 a.m. on 25 July 2016
Rights Issue Record Date	Close of business on 4 August 2016
Window Shop Deadline	11.59 p.m. (New York time) on 6 August 2016
Despatch of Provisional Allotment Letters (to Qualifying Non-CREST Shareholders only) ⁽²⁾	8 August 2016
Publication of notice in the London Gazette	9 August 2016
Existing Melrose Shares marked “ex” by the London Stock Exchange	8.00 a.m. on 9 August 2016
Admission of, and dealings (for normal settlement) commence in, New Melrose Shares, nil paid, on the London Stock Exchange . . .	8.00 a.m. on 9 August 2016
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only) ⁽²⁾	As soon as practicable after 8.00 a.m. on 9 August 2016
Nil Paid Rights and Fully Paid Rights enabled in CREST	As soon as practicable after 8.00 a.m. on 9 August 2016
Recommended latest time for requesting withdrawal of Nil Paid Rights and Fully Paid Rights from CREST (<i>i.e.</i> , if your Nil Paid Rights and Fully Paid Rights are in CREST and you wish to convert them to certificated form)	4.30 p.m. on 17 August 2016
Latest time for depositing renounced Provisional Allotment Letters, nil or fully paid, into CREST or for dematerialising Nil Paid Rights or Fully Paid Rights into a CREST stock account (<i>i.e.</i> if your Nil Paid Rights and Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them to uncertificated form)	3.00 p.m. on 18 August 2016
Latest time and date for splitting Provisional Allotment Letters, nil or fully paid	3.00 p.m. on 19 August 2016
Latest time and date for acceptance, payment in full and registration of renunciation of Provisional Allotment Letters	11.00 a.m. on 23 August 2016
Results of Rights Issue to be announced through a Regulatory Information Service	By 8.00 a.m. on 24 August 2016
Dealings in New Melrose Shares, fully paid, commence on the London Stock Exchange	8.00 a.m. on 24 August 2016
New Melrose Shares credited to CREST accounts	As soon as practicable after 8.00 a.m. on 24 August 2016

	<u>Time and Date</u>
Tender Offer Expiration Date	2.00 a.m. (New York time) on 31 August 2016
Announcement of the Tender Offer results and acceptance of the Nortek Shares tendered in the Tender Offer	Promptly after the Tender Offer Expiration Date
Effective time of the Merger / Completion of Acquisition	As soon as practicable after 2.00 a.m. (New York time) on 31 August 2016
Cancellation of the listing of the Melrose Shares	Immediately prior to 8.00 a.m. on 31 August 2016
Re-admission of Melrose Shares (at such time comprising the Existing Melrose Shares and the New Melrose Shares)	8.00 a.m. on 31 August 2016
Despatch of definitive share certificates for the New Melrose Shares in certificated form	By no later than 1 September 2016

Notes:

- (1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this Circular may be adjusted by Melrose in consultation with the Joint Bookrunners, in which event details of the new times and dates will be notified to the UKLA, the London Stock Exchange and, where appropriate, Qualifying Shareholders.
- (2) Subject to certain restrictions relating to Overseas Shareholders, details of which are set out in paragraph 7 of Part XI (*Terms and Conditions of the Rights Issue*) of the Prospectus.

**DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE
AND ADVISERS**

DIRECTORS

Christopher Miller
David Roper
Simon Peckham
Geoffrey Martin
John Grant
Justin Dowley
Elizabeth Hewitt
David Lis

COMPANY SECRETARY

Adam Westley

REGISTERED OFFICE

11th Floor, The Colmore Building
20 Colmore Circus Queensway
Birmingham B4 6AT

**LEAD FINANCIAL ADVISER
TO MELROSE**

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London EC4R 3AB

**JOINT FINANCIAL ADVISER
TO MELROSE**

J.P. Morgan Limited
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London E14 5JP

**JOINT SPONSOR, JOINT BOOKRUNNER AND
JOINT UNDERWRITER TO MELROSE**

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London EC2V 7QP

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JOINT UNDERWRITER TO MELROSE**

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**JOINT BOOKRUNNER, JOINT
UNDERWRITER AND JOINT FINANCIAL
ADVISER TO MELROSE**

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London EC1A 1HQ

**ADVISER TO MELROSE
ON THE RIGHTS ISSUE**

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W1K 1LN

LEGAL ADVISER TO MELROSE

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**AUDITORS TO MELROSE AND
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REGISTRAR AND RECEIVING AGENT

Equiniti Limited
Aspect House
Spencer Road
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West Sussex BN99 6DA

PART I
LETTER FROM THE CHAIRMAN OF MELROSE



Incorporated and registered in England and Wales with Registration No. 9800044

Directors:

Christopher Miller (*Chairman*)
David Roper (*Vice-Chairman*)
Simon Peckham (*Chief Executive*)
Geoffrey Martin (*Group Finance Director*)
John Grant (*Senior Non-executive Director*)
Justin Dowley (*Non-executive Director*)
Elizabeth Hewitt (*Non-executive Director*)
David Lis (*Non-executive Director*)

Registered office:

11th Floor
The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT

6 July 2016

Dear Shareholder,

PROPOSED ACQUISITION OF NORTEK GROUP AND 12 FOR 1 RIGHTS ISSUE

1. Introduction

Today the Boards of Melrose and Nortek announced that they had reached agreement on the terms of a recommended proposal for Melrose to acquire, for cash, the entire issued ordinary share capital of Nortek. The Acquisition will be implemented principally by way of cash tender offer at a price of \$86 per Nortek Share, which values the entire issued share capital of Nortek at \$1,436 million (£1,101 million⁽¹⁾), with an enterprise value of \$2,810 million (£2,154 million⁽¹⁾).

Nortek is a leading diversified global manufacturer of innovative air management, security, home automation and ergonomic and productivity solutions. Nortek is a corporation organised under the laws of the State of Delaware and its common stock trades on the NASDAQ Global Market under the symbol “NTK”. The Acquisition represents a significant opportunity for Melrose to execute its strategy of acquiring specialised industrial businesses and maximising the value inherent in those businesses. Subject to the satisfaction or, where appropriate, waiver of the conditions to the Acquisition, it is expected that Completion will occur in late August 2016.

If Completion occurs, the Acquisition, related expenses and the repayment of part of the existing debt of the Nortek Group will be funded by the Rights Issue proceeds (net of commissions and expenses) (approximately £1,611 million (\$2,102 million⁽¹⁾). The balance of the debt repayment will be funded through new debt of approximately \$780 million (£598 million⁽¹⁾) from the proceeds of loans pursuant to the New Facilities Agreement, which has been entered into with the Company’s banks, and which will replace the Company’s Existing Facility.

The Melrose Shares are currently admitted to the premium segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities. Applications will be made to the UKLA for the New Melrose Shares (issued in connection with the Rights Issue) to also be admitted to the premium segment of the Official List and to the London Stock Exchange for admission to trading on its main market. It is currently expected that Admission will become effective and dealings (for normal settlement) in the New Melrose Shares will commence on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016 (whereupon an announcement will be made by the Company to a Regulatory Information Service).

⁽¹⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

Due to its size, the Acquisition is a reverse takeover and constitutes a class 1 transaction for Melrose under the Listing Rules. As such, Melrose is seeking the approval of Melrose Shareholders for the Acquisition.

Melrose Shareholders will also be asked to approve the allotment of New Melrose Shares to be issued pursuant to the Rights Issue and to grant certain authorities with respect to the Enlarged Share Capital following the completion of the Rights Issue.

As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. The Melrose Shares will not be eligible for re-admission to the premium segment of the Official List, as the latest balance sheet date for which audited consolidated historical financial information for Nortek can be provided is more than six months prior to the date of the Prospectus, contrary to the Premium Listing requirements in Chapter 6 of the Listing Rules. Consequently, further applications will be made to the UKLA for the Melrose Shares (which at such time will comprise both the Existing and the New Melrose Shares) to be re-admitted to the standard segment of the Official List and to the London Stock Exchange for the re-admission of the Melrose Shares to trading on its main market. It is currently expected that Re-admission will become effective post Completion at 8.00 a.m. on 31 August 2016 (and in any case no earlier than 20 Business Days from the date of the General Meeting) (whereupon an announcement will be made by the Company to a Regulatory Information Service).

Should Completion not occur, subject to the passing of resolution 4 set out in the Notice of General Meeting, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

Melrose is seeking the approval of Melrose Shareholders for the cancellation of the listing of the Melrose Shares on the premium segment of the Official List and the re-admission or transfer of the Melrose Shares to the standard segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.

Accordingly, the Melrose General Meeting has been convened at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP at 11.00 a.m. on 25 July 2016.

An explanation of the Resolutions to be proposed at the Melrose General Meeting is set out in paragraph 8 below. The Melrose Board considers that the Resolutions are in the best interests of Melrose Shareholders as a whole, and therefore unanimously recommends that Melrose Shareholders vote in favour of the Resolutions, as the Melrose Directors intend to do in respect of their own beneficial holdings of Melrose Shares.

I am writing to you to give you further details of the Acquisition and the Rights Issue, including the reasons for each, to explain why the Melrose Board considers them to be in the best interests of Melrose Shareholders as a whole and to seek your approval of the Resolutions.

2. Summary of the Key Terms of the Acquisition

On 6 July 2016, Melrose, MergerCo and Nortek entered into an agreement and plan of merger (the "**Merger Agreement**"), which sets out terms and conditions for a cash tender offer (the "**Tender Offer**") to purchase all of the Nortek Shares at the Tender Offer Price of \$86 per Nortek Share, net, in cash and without interest, by MergerCo, followed by a merger of MergerCo with and into Nortek, Inc. (the "**Merger**", and the Tender Offer and the Merger, together, being the "**Acquisition**").

Furthermore, Melrose has received undertakings to tender (and not withdraw) Nortek Shares pursuant to the Tender Offer from Ares Management, Gates Capital Management and Anchorage Capital (amounting in aggregate to approximately 68.7% of the total share capital of Nortek as at the Latest Practicable Date), subject to the Merger Agreement not being terminated in accordance with its terms.

The Tender Offer Price represents a premium of approximately 37.6% to the closing price of a Nortek Share on the Latest Practicable Date and approximately 81.3% to the average price of a Nortek Share in the six month period ending on the Latest Practicable Date, and values the entire issued share capital at

approximately \$1,436 million (£1,101 million⁽²⁾). The enterprise value of \$2,810 million (£2,154 million⁽²⁾) is 10.0x historic EBITDA.⁽³⁾

The completion of the Tender Offer is subject to the satisfaction (or waiver, where applicable) of a number of Tender Offer Conditions, including the approval of the Acquisition and the Rights Issue by Melrose Shareholders, Admission having occurred, the receipt of the Anti-trust Clearance, or the expiry or termination of the applicable waiting period, under the HSR Act in the US, there being no material adverse change which occurs and is continuing in respect of Nortek and there having been validly tendered (and not properly withdrawn) prior to the Tender Offer Expiration Date such number of Nortek Shares that represents more than 50% of the total share capital of Nortek as at the Tender Offer Expiration Date.

Further, the Merger Agreement provides that, should Nortek, after the date of the Merger Agreement but on or prior to the Window Shop Deadline, receive a Superior Proposal (being bona fide and in compliance with a non-solicit covenant), then, subject to, among other things, the ability of Melrose to amend its offer and the payment of a fee of \$50.0 million by Nortek, Nortek may terminate the Merger Agreement. For further detail on this provision, see Part III (*Terms and Conditions of the Acquisition*) of this Circular.

Following the consummation of the Tender Offer, MergerCo shall, pursuant to the Merger Agreement and as soon as possible following the consummation of the Tender Offer, merge with and into Nortek, Inc., with Nortek, Inc. surviving the Merger as an indirect wholly-owned subsidiary of Melrose. Pursuant to the Merger, each outstanding Nortek Share in issue immediately prior to Completion and not accepted for payment as part of the Tender Offer will be converted into a right to receive the Tender Offer Price, without interest, subject to certain exceptions discussed in Part III (*Terms and Conditions of the Acquisition*) of this Circular.

Upon Completion of the Tender Offer and the Merger, Melrose will, indirectly, hold all equity interests in Nortek.

For further discussion on the terms and conditions of the Acquisition, see Part III (*Terms and Conditions of the Acquisition*) of this Circular.

3. Background to and reasons for the Acquisition

Melrose

Melrose is engaged in a “buy, improve, sell” business model to create value for its shareholders. The Company’s focus is to acquire high quality industrial manufacturing businesses with strong fundamentals whose performance can benefit from a change in circumstances. The strategy is based on supporting and incentivising management teams to transform and grow their businesses without the burden of quarterly reporting or restrictive financing covenants, achieving above market profit growth and increased operating margins. Through a combination of overhead reduction and gross margin expansion, achieved through targeted investment in portfolio businesses, Melrose has been able to increase headline⁽⁴⁾ operating margins by five to nine percentage points in all historical investments. Melrose employs low levels of leverage but invests heavily in its businesses. On average, Melrose invests a further third of the original equity purchase price in its businesses post-acquisition.

Based on performance to date, Melrose has consistently identified attractive assets, enacted operational improvements and transacted at attractive valuation levels and points in the cycle.

Nortek

The Melrose Board believes that, through its strong track record and experience, it can support and assist Nortek to improve Nortek’s financial performance and to grow the Nortek businesses to their fullest potential. The Directors believe that the proposed Acquisition of Nortek fits well with Melrose’s strategy

⁽²⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

⁽³⁾ Headline operating profit before depreciation and amortisation, calculated using results for the 12 months ended 2 April 2016.

⁽⁴⁾ Before exceptional costs, exceptional income and intangible asset amortisation (“**headline**”).

and presents an excellent opportunity for Melrose and its shareholders, not least for the reasons listed below:

a. Industry leading air management platform

Nortek offers an industry leading air management platform (which is comprised of Nortek's Air Quality and Home Solutions ("AQH"), Residential and Commercial Heating, Ventilation and Air Conditioning ("RCH") and Custom and Commercial Air Solutions ("CAS") segments and which represented 64% of Nortek's sales during 2015) with a comprehensive set of heating, ventilation and air conditioning ("HVAC") and home appliance products. The platform includes the largest US supplier of residential range hoods and bath fans, the leading US manufacturer of custom air handling solutions, the leading US manufacturer of commercial unit heaters and manufactured housing HVAC⁽⁵⁾ and also focuses on innovative new products to drive future growth with further potential available, including developing the CAS aftermarket business and the seizing of opportunities in relation to clean air initiatives in China. It serves a variety of end markets, including repair, remodelling and new construction, in both domestic and foreign markets.

b. Growing security and ergonomic solutions businesses

Nortek's Security and Control ("SCS"), Ergonomic and Productivity Solutions ("ERG") and Audio, Video and Control ("AVC") segments, which together represented 36% of Nortek's sales during 2015, offer a diverse set of security and home automation, access control, residential audio visual, home integration and control, power and energy management and ergonomic mounting and mobility solutions for various end markets. The SCS segment contains the third largest US supplier⁽⁵⁾ of residential security hardware and has potential for further development through partnerships with home service providers. The AVC segment is a major supplier of audio, visual and control solutions. With only 2% of the ergonomic market currently penetrated,⁽⁵⁾ the ERG segment is well placed to drive growth, through its acquisition of Anthro and higher volume demand for ergonomic products in offices, schools and healthcare facilities.

c. Opportunities for increased investment

Melrose has identified opportunities to improve the operational quality of Nortek's businesses, including increased investment in Nortek's manufacturing facilities, product innovation, potential further complementary acquisitions, supply chain efficiencies and measures to drive market penetration.

d. Market dynamics

Nortek is well placed to benefit from a helpful market backdrop with key US economic indicators pointing to continued momentum in construction. Approximately 49% of Nortek's sales during 2015 were in the residential repairs and remodelling sector, which, in the first quarter of 2016 marked its 12th consecutive quarter of growth in the US, according to the National Association of Home Builders ("NAHB") Remodelling Market Index. According to the NAHB housing forecast released on 31 May 2016, new housing starts in the US (being the number of privately-owned new houses on which construction is commenced in a given period and a sector accounting for 12% of Nortek's sales during 2015) are projected to increase to 1.2 million units in 2016 and 1.3 million units in 2017, representing year-on-year increases of 7% and 11%, respectively.

e. Diverse end market exposure and product offering, with the opportunity for improvement

The mix of Nortek's end market exposure provides for a diverse revenue stream. Nortek operates a wide range of business segments, including residential and commercial HVAC, home security and automation, display mounting and mobility products, which service a variety of end users across geographies and end markets. Nortek's product and regional diversities mitigate some of the uncertainty around the timing and potential cyclical dynamics in any one region or sector. Notwithstanding this, the current portfolio of multiple products across Nortek's six segments can benefit from improved focus on those products with opportunities for higher margins.

⁽⁵⁾ Market positions based on Nortek management estimates.

f. *Significant restructuring projects undertaken*

Nortek is well positioned for growth. With restructuring activities initiated by Nortek across each division now largely completed, Nortek is better placed to benefit from momentum in the market and to deliver significant growth in the future. As a result of these restructuring activities, Nortek estimated savings of between \$48 million and \$60 million, which were substantially achieved by the end of 2015.

g. *Further improvement available*

During the course of due diligence, Melrose management has also identified certain further opportunities which are expected to drive improvements, including with respect to the efficiency of Nortek's supply chain and IT systems, and full utilisation of Nortek's new manufacturing facility in Mexico. Site visits to selected manufacturing facilities have highlighted potential scope for further improvements in quality of operations for Nortek's businesses through targeted investment and there have been discussions with Nortek management in relation to their pipeline of further complementary acquisitions and measures to drive market penetration.

h. *Changed capital structure and costs savings*

Nortek's capital spend is currently constrained by its high levels of debt. Once part of the Enlarged Group, Melrose aims to reduce Nortek's current leverage⁽⁶⁾ from 5.1x (as at 31 December 2015) to approximately 2.5x⁽⁷⁾ following Completion and cost of debt from over 7% per annum in 2015 to less than 3% per annum, freeing up significant cash flow. In addition, as a NASDAQ-listed company, Nortek incurs a large amount of central and compliance costs associated with maintaining its listing. Between 2012 and 2015, Nortek's central costs rose by 23%, with selling and administrative costs higher than comparable businesses. It is expected that the lower costs resulting from a review of Nortek's current spending (including in areas such as IT, where Nortek currently spends approximately £25 million per annum) and the cancellation of Nortek's listing and lower levels of debt will facilitate investment in Nortek's growth and operations.

4. Financing of the Acquisition

If Completion occurs, the Rights Issue proceeds (net of commissions and expenses) (approximately £1,611 million (\$2,102 million⁽⁸⁾) will be applied to fund the Acquisition, related expenses and to repay part of the existing debt of the Nortek Group. The balance of the debt repayment will be funded through new debt of approximately \$780 million (£598 million⁽⁸⁾) from the proceeds of loans pursuant to the New Facilities Agreement, which has been entered into with the Company's banks, and which will replace the Company's Existing Facility.

The revolving credit facility under the New Facilities Agreement will be used by the Enlarged Group to: (i) pay any other costs and expenses in connection with the Acquisition, the Rights Issue or entry into the New Facilities Agreement; and (ii) to finance the Enlarged Group's working capital requirements and for general corporate purposes (including refinancing existing indebtedness, whether under the Existing Facility Agreement or otherwise), but such facility shall not be used to finance all or any part of the consideration for the Acquisition or to pay fees or expenses due to advisers in respect of the Rights Issue.

Details of the terms of the New Facilities Agreement are set out in paragraph 14.1.2 of Part VI (*Additional Information*) of the Prospectus.

Melrose has always looked to maintain a prudent level of gearing (calculated as net debt divided by headline operating profit before depreciation and amortisation) in order to provide it with the flexibility to invest in its businesses. Therefore, to fund the Acquisition and the associated expenses and to repay the existing debt of the Nortek Group, Melrose intends to raise new equity, in addition to new debt. The Melrose Board, taking into account, among other things, the size of the fundraising relative to the current market capitalisation of Melrose and to maintain pre-emption rights of Melrose Shareholders, believes the most appropriate method to do this is by way of a rights issue.

⁽⁶⁾ Calculated as net debt divided by adjusted EBITDA.

⁽⁷⁾ Based upon the Enlarged Group's *pro forma* headline operating profit.

⁽⁸⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

Principal Terms of the Rights Issue

Melrose proposes to raise approximately £1,611 million (net of commissions and expenses) by way of a fully underwritten Rights Issue of 1,741,612,236 New Melrose Shares. The Rights Issue Price of 95 pence per New Melrose Share, which is payable in full on acceptance by not later than 11.00 a.m. on 23 August 2016, represents a 76.8% discount to the Closing Price of 410 pence per Existing Melrose Share on the Latest Practicable Date and a 20.3% discount to the theoretical ex-rights price of 119 pence per New Melrose Share calculated by reference to the Closing Price on the same day. If a Qualifying Shareholder does not take up any of their entitlement to New Melrose Shares, their proportionate shareholding will be diluted by up to 92.3%. However, if a Qualifying Shareholder takes up their entitlement to New Melrose Shares in full, they will, after the Rights Issue has been completed and excluding any fraction of an Ordinary Share, as nearly as practicable, have the same proportionate voting rights and entitlements to dividends as they had on the Record Date.

If a Qualifying Shareholder does not subscribe for the New Melrose Shares to which they are entitled, such Qualifying Shareholder can instead sell their rights to those New Melrose Shares and receive the net proceeds in cash. This is referred to as dealing in the rights “nil paid” and, subject to the fulfilment of certain conditions, dealings (for normal settlement) on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 a.m. on 9 August 2016. If a Qualifying Shareholder does not wish to take up their rights, they do not have to take any action and the Underwriters will use all reasonable endeavours to find investors to take up those rights by 5.00 p.m. on the second dealing day after the last date for acceptance of the Rights Issue. If the Underwriters find investors and are able to achieve a premium over the Rights Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT which, in the reasonable opinion of the Underwriters, are not recoverable), such Qualifying Shareholder will be sent a cheque for the amount of that aggregate premium above the Rights Issue Price less such related expenses, so long as the amount in question is at least £5.00. Where such aggregate premium less such related expenses is less than £5.00, such amounts will be aggregated and it is intended that such amounts shall be donated by Melrose to charities chosen by the Board.

Subject to the fulfilment of, amongst others, the conditions set out below, the Company proposes to offer, by way of the Prospectus (and, in the case of Qualifying Non-CREST Shareholders, the Provisional Allotment Letter), New Melrose Shares pursuant to the Rights Issue to Qualifying Shareholders on the following basis:

12 New Melrose Shares at 95 pence each for every 1 Existing Melrose Share

held by Qualifying Shareholders on the Record Date. Holdings of Existing Melrose Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Fractional entitlements to New Melrose Shares will not be allotted and, where necessary, entitlements will be rounded down to the nearest whole number of New Melrose Shares.

The New Melrose Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Melrose Shares, including the right to receive in full all dividends and other distributions declared, made or paid by reference to a record date after the date of their issue. Melrose Shares, including the New Melrose Shares, may be held in certificated or uncertificated form.

The Rights Issue is conditional upon, amongst other things:

- the passing without amendment (or with such amendment as the Joint Bookrunners and the Company may agree in writing) of the Transaction Resolutions at the Melrose General Meeting (or at such later time and date as the Joint Bookrunners and the Company may agree in writing);
- the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms; and
- Admission having occurred by not later than 8.00 a.m. on 9 August 2016 (or such later time and date as may be agreed between the Joint Bookrunners and the Company in writing).

In order to minimise the risk of Melrose raising funds pursuant to the Rights Issue but the Acquisition not completing, the Provisional Allotment Letters will only be despatched to Qualifying Non-CREST Shareholders, the Nil Paid Rights will only be credited to the CREST stock accounts of Qualifying CREST Shareholders and Admission will only occur following the expiry of the Window Shop Deadline on 6 August 2016, without the occurrence of a Superior Proposal Termination Event. As such, it is expected

that: (a) the Provisional Allotment Letters will be despatched to Qualifying Non-CREST Shareholders (other than those having an address in the United States or any Excluded Territory) on 8 August 2016; and (b) the CREST stock accounts of Qualifying CREST Shareholders (other than those having an address in the United States or any Excluded Territory) will be credited with the relevant entitlement to Nil Paid Rights as soon as practicable after 8.00 a.m. on 9 August 2016.

The Rights Issue is not conditional upon Completion or on drawdown pursuant to the New Facilities Agreement.

If Completion occurs, the Acquisition, related expenses and the repayment of part of the existing debt of the Nortek Group will be funded by the Rights Issue proceeds (net of commissions and expenses) (approximately £1,611 million (\$2,102 million⁽⁹⁾). The balance of the debt repayment will be funded through new debt of approximately \$780 million (£598 million⁽⁹⁾) from the proceeds of loans pursuant to the New Facilities Agreement, which has been entered into with the Company's banks, and which will replace the Company's Existing Facility.

In the unlikely event that the Rights Issue proceeds but the Acquisition does not complete, the Melrose Directors' current intention is that the net proceeds of the Rights Issue will be invested on a short-term basis while the Melrose Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Melrose Directors will consider how best to return surplus capital to Melrose Shareholders in a timely manner. Such a return could carry fiscal costs for certain Melrose Shareholders, will have costs for Melrose and would be subject to applicable securities laws.

Applications will be made to the UKLA for the New Melrose Shares (issued in connection with the Rights Issue) to be admitted to the premium segment of the Official List and to the London Stock Exchange for admission to trading of the New Melrose Shares on its main market for listed securities. It is currently expected that Admission of the New Melrose Shares will become effective and that dealings (for normal settlement) in the New Melrose Shares will commence on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016 (whereupon an announcement will be made by the Company to a Regulatory Information Service).

The results of the Rights Issue, including the aggregate number of New Melrose Shares issued and the aggregate amount raised, net of commissions and expenses, is expected to be announced by Melrose through a Regulatory Information Service by 8.00 a.m. on 24 August 2016.

The Melrose Shares are currently (and it is expected that the New Melrose Shares will be) admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. Further applications will be made to the UKLA for the Melrose Shares (at such time comprising the Existing Melrose Shares and the New Melrose Shares) to be re-admitted, upon Completion, to the standard segment of the Official List and to the London Stock Exchange for the re-admission, upon Completion, of the Melrose Shares to trading on its main market for listed securities. It is currently expected that Re-admission will become effective post Completion at 8.00 a.m. on 31 August 2016 (whereupon an announcement will be made by the Company to a Regulatory Information Service). However, the timing of Completion, and therefore Re-admission, is dependent on the timing of the satisfaction (or waiver where applicable) of the Tender Offer Conditions.

Should Completion not occur, subject to the passing of resolution 4 set out in the Notice of General Meeting, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

Melrose Shareholders who hold their Melrose Shares in certificated form and who take up their entitlement to New Melrose Shares in part or in full are expected to receive definitive share certificates in respect of their New Melrose Shares by no later than 1 September 2016.

The Rights Issue has been fully underwritten on the basis set out in the Underwriting Agreement.

The Underwriters have agreed under the terms of the Underwriting Agreement to procure subscribers for the New Melrose Shares not taken up in the Rights Issue at the Rights Issue Price, failing which the

⁽⁹⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

Underwriters shall themselves severally (and not jointly or jointly or severally) subscribe for (or their sub-underwriters shall subscribe for) such New Melrose Shares.

Details of the terms of the Underwriting Agreement are set out in paragraph 14.1.1 of Part VI (*Additional Information*) of the Prospectus.

Foreign exchange hedging arrangements have been entered into by the Melrose Group with respect to the Rights Issue proceeds received in pounds sterling, in order to mitigate the foreign exchange risk and to provide funds in US dollars at Completion. Such arrangements are contingent upon the receipt of the Rights Issue proceeds and, subject to certain exceptions, the Merger Agreement not having been terminated in accordance with its terms.

It is anticipated that Melrose's unaudited results for the six months ended 30 June 2016 and Nortek's unaudited report covering the six months ended 3 July 2016 shall be released prior to the latest date and time for acceptance of the Nil Paid Rights and, in each such case, a supplementary prospectus shall be published. Should such supplementary prospectuses be published after Admission, investors should refer to section 10 (*Withdrawal rights*) of Part XI (*Terms and Conditions of the Rights Issue*) of the Prospectus and those sections of each supplementary prospectus which detail investors' rights of withdrawal.

5. Use of Proceeds

If Completion occurs, the Rights Issue proceeds (net of commissions and expenses) will be applied to fund the Acquisition, related expenses and to repay part of the existing debt of the Nortek Group. The balance of the debt repayment will be funded through new debt of approximately \$780 million (£598 million⁽¹⁰⁾) from the proceeds of loans pursuant to the New Facilities Agreement, which has been entered into with the Company's banks, and which will replace the Company's Existing Facility.

The expenses related to the Acquisition are expected to be approximately £19 million in aggregate.

6. Standard Listing

As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. The Melrose Shares will not be eligible for re-admission to the premium segment of the Official List, as the latest balance sheet date for which audited consolidated historical financial information for Nortek can be provided is more than six months prior to the date of the Prospectus, contrary to the Premium Listing requirements in Chapter 6 of the Listing Rules. Further application will be made to the UKLA for the Melrose Shares (at such time comprising the Existing Melrose Shares and the New Melrose Shares) to be re-admitted to the standard segment of the Official List.

It is currently expected that Re-admission will become effective post Completion at 8.00 a.m. on 31 August 2016 (or in any case no earlier than 20 Business Days from the date of the General Meeting) (whereupon an announcement will be made by the Company to a Regulatory Information Service).

Should Completion not occur, subject to the passing of resolution 4 set out in the Notice of General Meeting, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

Following Re-admission with, or transfer to, a Standard Listing, the Directors intend 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. Whilst Melrose has a Standard Listing, it intends to comply on a voluntary basis with the provisions of Chapters 7 to 13 of the Listing Rules notwithstanding that (other than Listing Principles 1 and 2) they only apply to companies which obtain a Premium Listing. Melrose shall give not less than 20 Business Days' notice of any anticipated transfer to a Premium Listing by publishing an announcement to a Regulatory Information Service. See the section of this Circular entitled "*Consequences of a Standard Listing*" for further details on the consequences of a Standard Listing.

⁽¹⁰⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

7. Financial effects of implementing the Acquisition

On a *pro forma* basis and assuming that the Acquisition, the Rights Issue, the repayment of Nortek's existing debt and borrowings pursuant to the New Facilities Agreement and the Return of Capital had each been completed on 31 December 2015, the Enlarged Group would have had net assets of £2,048.5 million at that date (based on the net assets of the Melrose Group and the Nortek Group as at 31 December 2015). On a *pro forma* basis, and assuming the Acquisition (including the payment of related costs) and the sale of the Elster Group had completed on 1 January 2015, the Enlarged Group would have made a headline operating profit of £164.8 million for the year ended 31 December 2015 (based on the income statements of the Melrose Group and the Nortek Group for the year ended 31 December 2015).

For further discussion on the *pro forma* financial effects, together with the basis of preparation of the above statements, see Part V (*Unaudited Pro Forma Financial Information on the Enlarged Group*) of this Circular.

The Melrose Board expects that the Acquisition will be significantly accretive to headline earnings per share in the first full financial year of ownership (2017) and thereafter^(a).

(a) Nothing in this Circular is intended to be, or is to be construed as, a profit forecast or to be interpreted to mean that earnings per Melrose Share for the current or future financial years, or those of the Enlarged Group, will necessarily match or exceed the historical earnings per Melrose Share.

8. Information relating to Nortek

Nortek, Inc. is a corporation organised under the laws of the State of Delaware. Nortek's common stock trades on the NASDAQ Global Market under the symbol "NTK" and Nortek's market capitalisation as at the Latest Practicable Date was \$1,044 million (£800 million⁽¹¹⁾). Nortek's common stock is divided into 90,000,000 authorised shares of \$0.01 par value, with 16,706,098 Nortek Shares in issue and to be issued as at the Latest Practicable Date, and preferred stock of 10,000,000 authorised shares of \$0.01 par value, of which there were none issued and outstanding as at the same date.

Nortek was founded in 1967 with the view of forming alliances between a number of smaller companies who could benefit from operating as part of a larger group. Originally listed on the New York Stock Exchange, Nortek was taken private in 2003 by Kelso & Company, L.P., a New York-based private equity firm, before being acquired in 2004 by Thomas H Lee Partners, a Boston-based private equity firm, for \$1.75 billion. Between 2007 and 2009, Nortek's revenue declined by 24% and in October 2009, as part of a financing restructuring plan, Nortek entered into chapter 11 bankruptcy. Following a debt to equity restructuring, Nortek emerged from bankruptcy in December 2009 having eliminated approximately \$1.3 billion of debt. Nortek was listed on the NASDAQ Global Market on 15 November 2011. Following a large number of acquisitions and disposals, the Nortek Group is now a global, diversified industrial group that leverages its strong brands, design and manufacturing capabilities and business system to deliver industry-leading innovative solutions for lifestyle improvement at home and at work. The Nortek Group manufactures and sells a wide variety of products principally for the remodelling and replacement markets, the residential and commercial new construction markets, the manufactured housing market and the personal and enterprise computer markets, primarily in the United States, Canada and Europe, with additional manufacturing in China and Mexico.

By combining superior sales and customer service support with broad product lines, worldwide distribution channels and strong brands, many of Nortek's companies have become leaders in their respective markets, with products in 80%⁽¹²⁾ of US homes and a good presence in US offices and educational and healthcare facilities. Nortek believes that, based on revenues, it is one of the leading US suppliers of indoor air quality products and one of the largest suppliers of HVAC products for manufactured homes in the United States and Canada.

Selected financial information relating to Nortek and unaudited pro forma financial information on the Enlarged Group is set out in Part V (*Unaudited Pro Forma Financial Information on the Enlarged Group*).

⁽¹¹⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

⁽¹²⁾ Based on Nortek management estimates.

9. Nortek Board Recommendation and Tender and Support Agreements in respect of the Acquisition

The Nortek Board intends to unanimously recommend that Nortek Shareholders tender their Nortek Shares to MergerCo pursuant to the Tender Offer. The Nortek Board has, subject to their fiduciary duties and there being no development or change at any time prior to the Tender Offer Expiration Date (not including a Superior Proposal) becomes known to the Nortek Board after the date of the Merger Agreement, but which was not known (and reasonably should not have been known) to the Nortek Board as the date of the Merger Agreement, agreed to include in its Schedule 14D-9, among other things, that the Tender Offer is fair to and in the best interests of Nortek and its shareholders and that it approves the Tender Offer and unanimously recommends that Nortek Shareholders tender their Nortek Shares into the Tender Offer.

In connection with the Tender Offer and the Merger, certain stockholders of Nortek have entered into Tender and Support Agreements which govern the conditions upon which such stockholders shall tender their Nortek Shares pursuant to the Tender Offer and obliging such stockholders to support the Tender Offer and the Merger. Such Tender and Support Agreements have been entered into by each of Ares Management, Gates Capital Management and Anchorage Capital (amounting in aggregate to approximately 68.7% of the total share capital of Nortek as at the Latest Practicable Date). The undertakings pursuant to the Tender and Support Agreements will cease to be binding if the Merger Agreement is terminated.

10. Melrose General Meeting

Given the size of the Acquisition in relation to the current size of Melrose, it will be necessary for Melrose Shareholders to approve the Acquisition, to authorise the allotment of the New Melrose Shares and to approve Re-admission or transfer to the standard segment of the Official List. The Melrose General Meeting has been convened for these purposes and to seek certain authorities with respect to the Enlarged Share Capital following the completion of the Rights Issue.

The notice convening the Melrose General Meeting, at which the Resolutions (summarised below) will be proposed, is set out at the end of this Circular.

The implementation of the Acquisition is conditional upon the passing of the Transaction Resolutions.

Resolution 1

Resolution 1 will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 1 proposes that the Acquisition be approved and the Melrose Directors be authorised to take all steps and enter all agreements and arrangements necessary or desirable to implement the Acquisition.

If resolution 1 is not passed, the Rights Issue will not proceed, the Tender Offer will not become effective and the Acquisition will not complete.

Resolution 2

Resolution 2 will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 2 proposes that, subject to and conditional upon the passing of resolution 1, the Melrose Directors be generally and unconditionally authorised to allot New Melrose Shares, up to a maximum aggregate nominal amount of £119,424,839.04 (representing, in aggregate, 1,741,612,236 Melrose Shares). If granted, this authority will expire at the close of business on 31 December 2016 and will be used to allot the New Melrose Shares pursuant to the Rights Issue.

If resolution 2 is not passed, the Rights Issue will not proceed, the Tender Offer will not become effective and the Acquisition will not complete.

The Melrose Board has concluded that the Rights Issue (together with the proceeds of loans under the term facility and the revolving credit facility pursuant to the New Facilities Agreement) provides the most appropriate method of raising finance in the particular circumstances of the Acquisition and the repayment of Nortek's existing debt. The Rights Issue Price represents a 76.8% discount to the Closing Price of 410 pence per Existing Melrose Share on the Latest Practicable Date and a 20.3% discount to the theoretical ex-rights price of 119 pence per New Melrose Share calculated by reference to the Closing Price on the same day.

Resolution 3

Resolution 3 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 3 proposes that, subject to and conditional on Admission, the Melrose Directors be authorised to allot Melrose Shares in addition to the authority described under resolution 2 above, up to an aggregate nominal amount of £43,125,636 (representing, in aggregate, 628,915,525 Melrose Shares) (representing approximately one-third of the Enlarged Share Capital and approximately 433% of Melrose's issued ordinary share capital as at the Latest Practicable Date) and, in the event of a rights issue, up to an aggregate nominal amount of £86,251,272 (representing approximately two-thirds of the Enlarged Share Capital), pursuant to section 551 of the Companies Act. If granted, this authority will expire at the conclusion of the 2017 AGM or, if earlier, at the close of business on 30 June 2017.

This authority is in addition to the authority granted pursuant to resolution 2 and grants the Melrose Board a standing authority (in substitution for the authority granted at the 2016 AGM) to allot shares on a similar basis to that granted at the 2016 AGM but in respect of the Enlarged Share Capital resulting from the Rights Issue.

The Melrose Directors have no present intention to exercise the authority sought under resolution 3.

Resolution 4

Resolution 4 will be proposed as a special resolution requiring at least 75% of votes in favour.

Resolution 4 proposes that, subject to and conditional on the passing of resolution 1: (i) the proposed transfer of the Company's category of equity share listing on the Official List from the premium segment to the standard segment of the Official List; and (ii) in the event that Completion occurs prior to such transfer, the cancellation of the listing of the Melrose Shares on the premium segment of the Official List and the re-admission of the Melrose Shares to the standard segment of the Official List and to trading on the London Stock Exchange's main market for listed securities be approved and the Melrose Directors be authorised to take all steps and enter into all agreements or arrangements as may be necessary or desirable in connection with, or to implement. Re-admission or the transfer, as applicable.

For further details regarding the Re-admission or transfer of the Melrose Shares to the standard segment of the Official List, rather than the premium segment of the Official List, see paragraph 6 (*Standard Listing*) of this Part I (*Letter from the Chairman of Melrose*).

If resolution 4 is not passed, the Rights Issue will not proceed, the Tender Offer will not become effective and the Acquisition will not complete.

Resolution 5

Resolution 5 will be proposed as a special resolution requiring at least 75% of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 5 proposes that, subject to and conditional on Admission, the Melrose Directors be empowered to disapply pre-emption rights in relation to the allotment of ordinary shares for cash pursuant to the authority conferred by resolution 3, pursuant to section 570 of the Companies Act, and in relation to the sale by the Company of any ordinary shares held by it as treasury shares, pursuant to section 573 of the Companies Act. If granted, this power will expire at the conclusion of the 2017 AGM or, if earlier, at the close of business on 30 June 2017. The ordinary shares in relation to which pre-emption rights would be disapplied represent approximately 5% of the Enlarged Share Capital and approximately 65.0% of Melrose's issued ordinary share capital as at the Latest Practicable Date.

Together with resolution 5, this is a replacement of the power granted in respect of Existing Melrose Shares at the 2016 AGM to reflect the Enlarged Share Capital resulting from the Rights Issue.

The Melrose Directors have no present intention to exercise the power sought under resolution 5. No Melrose Shares are currently held in treasury.

Resolution 6

Resolution 6 will be proposed as a special resolution requiring at least 75% of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 6 proposes that, subject to and conditional on Admission and in addition to any power granted under resolution 5, the Melrose Directors be empowered to disapply pre-emption rights in relation to the allotment of ordinary shares pursuant to the authority conferred by resolution 3, pursuant to section 570 of the Companies Act and in relation to the sale by the Company of any ordinary shares held by it as treasury shares, pursuant to section 573 of the Companies Act. If granted, this power will expire at the conclusion of the 2017 AGM or, if earlier, at the close of business on 30 June 2017. The ordinary shares in relation to which pre-emption rights would be disapplied represent approximately 5% of the Enlarged Share Capital and approximately 65.0% of Melrose's issued ordinary share capital as at the Latest Practicable Date (this 5% being additional to the 5% for which any power is granted pursuant to resolution 5). The power granted under resolution 6 is to be used only for the purposes of financing (or refinancing, if the power is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Circular.

Together with resolution 5, this is a replacement of the power granted in respect of Existing Melrose Shares at the 2016 AGM to reflect the Enlarged Share Capital resulting from the Rights Issue.

As part of the Company's strategy, Melrose regularly utilises equity funding and, under certain circumstances, may benefit from the flexibility this power provides.

The Melrose Directors have no present intention to exercise the power sought under resolution 6. No Melrose Shares are currently held in treasury.

The Melrose Directors intend to adhere to the guidelines set out in the Statement of Principles on Disapplying Pre-Emption Rights.

Resolution 7

Resolution 7 will be proposed as a special resolution requiring at least 75% of votes in favour. The implementation of the Acquisition is not conditional on the passing of this resolution.

Resolution 7 proposes, subject to and conditional on Admission, to authorise the Company to purchase its own ordinary shares in the market, pursuant to sections 693 and 701 of the Companies Act. Any purchases made under this authority would be made in one or more tranches and would be limited to such number of ordinary shares as would be equal in aggregate to approximately 10% of the Enlarged Share Capital.

The maximum price to be paid on any exercise of the authority would not exceed 105% of the average of the Closing Price for a Melrose Share for the five Business Days immediately preceding the date of the purchase. The minimum price to be paid per ordinary share on any exercise of the authority would be the nominal value of such share at the time of purchase.

This is a replacement of the authority granted in respect of Existing Melrose Shares at the 2016 AGM to reflect the Enlarged Share Capital resulting from the Rights Issue.

Given that the Company's model is to return capital to shareholders upon the successful sale of a business, it may be that, in certain circumstances, a share buy-back proves to be the most efficient means of returning such capital. As a result, the Company seeks authority from shareholders to have this option were the circumstances to arise.

The Melrose Directors have no present plans to exercise the power which this authority would confer. The Melrose Directors would only exercise such power to purchase shares when satisfied that any purchase would have a beneficial effect on earnings per share and/or on net assets per share and generally that it would be in shareholders' interests to exercise this power. If granted, this authority will expire at the conclusion of the 2017 AGM or, if earlier, at the close of business on 30 June 2017.

If the Company were to purchase any of its own shares pursuant to the authorisation conferred by this resolution, it would consider holding them as treasury shares, provided that the number of shares held in treasury shall not at any one time exceed 10% of the Company's issued share capital held by shareholders other than the Company.

Save for pursuant to the 2012 Incentive Plan, there are no outstanding warrants or options to subscribe for Melrose Shares as at the Latest Practicable Date.

11. Current Trading

On 11 May 2016, the Company published a trading statement, an extract of which is set out below:

“Current trading in Melrose in 2016 is in line with expectations, with Brush performing satisfactorily this year.”

There has been no change to the Melrose Board’s expectations since the publication of the trading statement on 11 May 2016.

On 12 May 2016, Nortek published commentary on its financial results for the first quarter ended 2 April 2016, extracts of which are set out below:

“[Nortek] started the year with positive momentum, posting solid first quarter financial performance led by market demand, innovation across [its] businesses and the benefits of [its] transformation efforts.”

“[Nortek] were especially pleased to deliver strong organic net sales growth of 8% and organic adjusted EBITDA growth of 31% over the prior year period. Strength was broad-based, with Air Quality, Security, Ergonomics and HVAC all posting double-digit organic net sales growth compared to last year. In [its] HVAC business, [Nortek] continue to be encouraged by the order trends and [its] delivery performance is tracking well. Benefitting from [Nortek’s] restructuring efforts and the discontinuation of unprofitable product lines, [its] Custom Air and AV businesses delivered meaningful year-over-year improvements in segment adjusted operating earnings in the first quarter.”

There has been no change to the Board’s expectations of Nortek since the publication of the commentary on 12 May 2016.

12. Overseas Shareholders

The availability of the Nil Paid Rights, Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares under the Rights Issue to persons not located in the UK may be affected by the laws of the jurisdiction where they are located. Such persons should inform themselves about and observe any applicable requirements.

For further details in relation to Overseas Shareholders, see paragraph 7 of Part XI (*Terms and Conditions of the Rights Issue*) of the Prospectus. Further information for Overseas Shareholders who are citizens or resident in the US or Canada is set out in paragraphs 7.2 and 7.3, respectively, of Part XI (*Terms and Conditions of the Rights Issue*) of the Prospectus.

13. Listings, Dealings and Settlement

Applications will be made to the UKLA for the New Melrose Shares (issued in connection with the Rights Issue) to be admitted to the premium segment of the Official List and to the London Stock Exchange for admission to trading of the New Melrose Shares on its main market for listed securities. It is currently expected that Admission of the New Melrose Shares will become effective and that dealings (for normal settlement) in the New Melrose Shares will commence on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016 (whereupon an announcement will be made by the Company to a Regulatory Information Service).

The Melrose Shares are currently (and it is expected that the New Melrose Shares will be) admitted to the premium segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities. As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. Further applications will be made to the UKLA for the Melrose Shares (at such time comprising the Existing Melrose Shares and the New Melrose Shares) to be re-admitted to the standard segment of the Official List and to the London Stock Exchange for the re-admission of the Melrose Shares to trading on its main market for listed securities. It is currently expected that Re-admission will become effective post Completion at 8.00 a.m. on 31 August 2016 (whereupon an announcement will be made by the Company to a Regulatory Information Service).

Should Completion not occur, subject to the passing of resolution 4 set out in the Notice of General Meeting, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

14. Action to be taken

If you are a Melrose Shareholder, you will find enclosed with this Circular a form of proxy for use at the Melrose General Meeting (the “**Form of Proxy**”). Whether you intend to be present at the Melrose General Meeting or not, you are asked to complete the Form of Proxy in accordance with the instructions printed thereon and to return it to the Registrar at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and, in any event, so as to be received by 11.00 a.m. on 21 July 2016. If you hold Melrose Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrar, Equiniti (CREST participant ID RA19), so that it is received by no later than 11.00 a.m. on 21 July 2016. The completion and return of the Form of Proxy or a CREST Proxy Instruction will not preclude you from attending the Melrose General Meeting and voting in person if you wish to do so.

If the Form of Proxy is not returned or the CREST Proxy Instruction is submitted after 11.00 a.m. on 21 July 2016, your vote will not count if you do not attend and vote at the Melrose General Meeting.

15. 2012 Incentive Plan

Your attention is drawn to the fact that awards under the 2012 Incentive Plan are due to crystallise in May 2017. In light of the Acquisition, it is the Board’s intention that, following such crystallisation, the Company shall put in place a new long-term incentive arrangement. It is envisaged that any new long-term incentive plan will be on identical terms, in all material respects, to the 2012 Incentive Plan and will therefore directly align executive Directors’ and senior management’s remuneration with that of shareholders, by linking remuneration directly to any growth in shareholder value. The Company shall provide further details on, and seek shareholder approval of, the new plan in due course.

16. Further Information

Your attention is drawn to the further information contained in this Circular and the Prospectus.

17. Recommendation

The Melrose Board has received financial advice from Nomura International PLC and J.P. Morgan Limited in relation to the Acquisition. BofA Merrill Lynch also provided financial advice. In providing their financial advice to the Melrose Board, Nomura International PLC, J.P. Morgan Limited and BofA Merrill Lynch have taken into account the commercial assessment of the Melrose Board.

The Melrose Board considers that the Acquisition, the Rights Issue and the Resolutions to be proposed at the Melrose General Meeting are in the best interests of Melrose Shareholders as a whole and accordingly unanimously recommends that Melrose Shareholders vote in favour of the Resolutions, as the Melrose Directors intend to do in respect of their own beneficial holdings of 5.0 million Melrose Shares representing, in aggregate, approximately 3.4% of the Existing Melrose Shares as at the Latest Practicable Date.

The Melrose Board is fully supportive of the Rights Issue. Each of the Melrose Directors who holds Existing Melrose Shares intends, after Admission, to take up his or her entitlement to New Melrose Shares in full or in part. In addition, certain of the Melrose Directors intend to acquire further rights to New Melrose Shares, during the course of the Rights Issue. As a result of the take up in full or part, together with any further acquisitions, it is expected that the executive Directors of Melrose will invest approximately £17 million in aggregate, equal to approximately 1.0% of the estimated gross Rights Issue proceeds.

Yours faithfully

Christopher Miller
Chairman

PART II
RISK FACTORS RELATING TO THE ACQUISITION AND THE RIGHTS ISSUE

A number of factors affect the operating results, financial condition and prospects of the Melrose Group and, if the Acquisition is completed, will affect the Nortek Group and the Enlarged Group. This section describes the risk factors which are considered by the Melrose Directors to be material in relation to the Melrose Group and, if the Acquisition is completed, which will be material in relation to the Nortek Group and the Enlarged Group. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. If the Acquisition is completed additional risks and uncertainties that are not presently known to the Melrose Directors, or which they currently deem immaterial, may also have an adverse effect on the Melrose Group's, the Nortek Group's and the Enlarged Group's operating results, financial condition and prospects. In particular, if the Acquisition is completed, the Nortek Group will be a significant proportion of the Enlarged Group and, therefore (assuming the Acquisition is completed) the risks set out in Part C (Risks relating to the Nortek Group and the Enlarged Group) will affect the Enlarged Group. The information given is as of the date of this Circular and, except as required by the FCA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure Requirements and Transparency Rules or any other applicable law, will not be updated. Any forward-looking statements are made subject to the reservations specified under the section titled "Cautionary Note on Forward-Looking Statements" of this Circular.

An investment in Melrose Shares is subject to a number of risks. You should consider carefully the risks and uncertainties described below, together with all other information contained in this Circular and the information incorporated by reference herein, before making any investment decision. The risks and uncertainties described below are not set out in any order of priority.

PART A: RISKS RELATING TO THE ACQUISITION

1. The Acquisition is subject to a number of conditions which may not be satisfied or waived.

The completion of the Tender Offer is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including:

- (a) there having been validly tendered (and not properly withdrawn) prior to the Tender Offer Expiration Date such number of Nortek Shares that, together with any Nortek Shares then owned by the Melrose Group, represents more than 50% of the total share capital of Nortek as at the Tender Offer Expiration Date;
- (b) the Merger Agreement not having been terminated in accordance with its terms;
- (c) the receipt of the Anti-trust Clearance, or the expiry or termination of the applicable waiting period, under the HSR Act in the US;
- (d) there not being any law, rule, regulation, order, judgment, injunction, temporary restraining order, or decree entered, enacted, issued, promulgated, enforced or issued by any government, regulatory, judicial or administrative authority, agency or commission of competent authority which is in effect and has the effect of making the Tender Offer or the Merger illegal, or otherwise prohibits, restrains or prevents the consummation of the Tender Offer or the Merger (provided that Melrose and MergerCo have used commercially reasonable efforts to oppose such action by such authority);
- (e) no material adverse change, or any event, development or circumstance that would reasonably be expected to have, individually or in aggregate, a material adverse effect having occurred in respect of Nortek and continuing up to the Tender Offer Expiration Date;
- (f) the Nortek Board having recommended (and not having withdrawn or modified in a manner adverse to Melrose its recommendation for) the Tender Offer;
- (g) the approval of the Acquisition, the Rights Issue and Re-admission by Melrose Shareholders at the General Meeting;
- (h) Admission having occurred;
- (i) no circumstances having occurred and continuing that would have the effect of preventing Re-admission from occurring promptly following the acceptance by MergerCo for payment of the Nortek Shares validly tendered under the Tender Offer and Melrose's application for Re-admission having been approved by the UKLA; and
- (j) the satisfaction or waiver of the other conditions of the Tender Offer, which are considered to be customary for a transaction of this nature (set out in Part A (*Terms and conditions of the Acquisition*) of Part III (*Terms and Conditions of the Acquisition and its Financing*) of this Circular).

The Tender Offer Conditions set out in sub-paragraphs (a), (b), (c) and (d), above will not be waived in whole or in part.

The consummation of the Merger is conditional upon:

- (a) the consummation of the Tender Offer; and
- (b) there not being any law, rule, regulation, order, judgment, injunction, temporary restraining order or decree entered, enacted, issued, promulgated, enforced or issued by any government, regulatory, judicial or administrative authority, agency or commission of competent authority which is in effect and has the effect of making the Merger illegal, or otherwise prohibits, restrains or prevents the consummation of the Tender Offer or the Merger (provided that Melrose and MergerCo have used commercially reasonable efforts to oppose such action by such authority).

Although the Directors believe that the above conditions are capable of being satisfied, it is possible that the parties may not be able to obtain the clearances or approvals required, or that they may not be obtainable within a timescale acceptable to the parties, or that they may only be obtained subject to certain conditions or undertakings which may not be acceptable to the parties.

In the event that these (or other) conditions are not satisfied (or waived, if applicable), the Acquisition will not proceed. The conditions are set out in more detail in Part A (*Terms and conditions of the Acquisition*) of Part III (*Terms and Conditions of the Acquisition and its Financing*) of this Circular.

2. The Melrose Group may not realise the desired operational improvements from the Acquisition.

The Melrose Group is targeting operational improvements from the Acquisition. Achieving the advantages of the Acquisition will depend partly on the rapid and efficient management and co-ordination of the activities of Melrose and Nortek, two businesses of considerable size that functioned independently and are currently located in different countries, with geographically dispersed operations and with different business cultures and compensation structures. There is a risk that operational improvements from the Acquisition may fail to materialise, or they may be materially lower than have been estimated. In addition, the cost of funding these operational improvements may exceed expectations. Such eventualities may have a material adverse effect on the financial condition of the Enlarged Group.

3. The Melrose Group will have foreign exchange risk related to the purchase price for the Acquisition.

The proceeds raised by Melrose pursuant to the Rights Issue will be in pounds sterling, but the payment to selling Nortek Shareholders pursuant to the Acquisition will be made in US dollars. There could be a period of several weeks between Admission and the payment to selling Nortek Shareholders pursuant to the Acquisition, during which time the Melrose Group will therefore be exposed to the risk of a significant appreciation in the US dollar against the pound sterling. The Melrose Group has entered into a currency hedge in respect of substantially all of the anticipated net proceeds of the Rights Issue in order to limit its total exposure to adverse currency movements in respect of the Acquisition, although there is no guarantee that such measures will be implemented or fully effective. The Melrose Group will incur additional costs if hedging is secured for this exchange rate risk. Should the US dollar appreciate against the pound sterling and such hedging measures are not implemented or fully effective, the cost of the Acquisition for the Melrose Group, and consequently the amount to be drawn down pursuant to the New Facilities Agreement, will increase, which could have a material adverse effect on the returns Melrose is able to make to Melrose Shareholders and Melrose Group's financial condition.

4. The financial results of the Melrose Group will, for a period, as a result of the Acquisition and the resulting increased portion of assets, liabilities and earnings denominated in Euros and US dollars, be more exposed to fluctuations in the exchange rate between the pound sterling and the Euro and/or the US dollar.

The Melrose Group will present its financial statements in pounds sterling and will have a significant portion of Euro and US dollar denominated assets, liabilities and earnings as a result of the significant assets and revenues of Nortek across the EU and in the United States. The operational and financial results as well as the equity of the Melrose Group will therefore be more sensitive to fluctuations in the exchange rate of the pound sterling against the Euro and against the US dollar than they are currently. There has been a high degree of volatility in exchange rates since the onset of the global financial crisis and this volatility has continued with the recent EU sovereign debt crisis and the UK's referendum in favour of leaving the EU. A depreciation of the Euro and/or the US dollar relative to the pound sterling could have an adverse impact on the consolidated financial condition and results of operation of the Melrose Group.

5. A Standard Listing pursuant to Chapter 14 of the Listing Rules affords shareholders a lower level of protection than a Premium Listing.

Application will be made for the Melrose Shares to be re-admitted or, should Completion not occur, transferred to listing on the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for Standard Listings. The Standard Listing regime provides shareholders with a lower level of regulatory protection than that afforded to shareholders in companies with a Premium Listing on the Official List, which are subject to additional obligations under the Listing Rules. Following Re-admission with, or transfer to, a Standard Listing, the Melrose Group intends to comply on a voluntary basis with the provisions of Chapters 7 to 13 of the Listing Rules notwithstanding that (other than Listing Principles 1 and 2 which apply to all companies admitted to the Official List) they only apply to companies which obtain a Premium Listing. Melrose would not, however, be formally subject to such Listing Rules.

The UKLA will not have the authority to monitor (and will not monitor) Melrose's voluntary compliance with any of the Listing Rules which Melrose has indicated above that it intends to comply with on a voluntary basis, nor to impose sanctions in respect of any breach of such requirements by Melrose.

A Standard Listing will not permit Melrose to be included in a FTSE index, which may have an adverse effect on the valuation of the Melrose Shares.

Further details regarding the differences in the protections afforded by a Premium Listing as against a Standard Listing are set out in the section of this Circular entitled “*Consequences of a Standard Listing*”.

6. Melrose may be unable to transition to a Premium Listing.

Following Re-admission with, or transfer to, a Standard Listing, the Directors intend 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. Melrose shall give not less than 20 Business Days’ notice of any anticipated transfer to a Premium Listing by publishing an announcement to a Regulatory Information Service. However, as at the date of this Circular, there can be no guarantee that Melrose will meet the eligibility criteria for a Premium Listing again or that a transition to a Premium Listing will be achieved. In addition there may be a delay, which could be significant, between Re-admission with, or transfer to, a Standard Listing and the date upon which Melrose is able to seek or achieve a Premium Listing.

If Melrose does not achieve a Premium Listing again, Melrose will not be obliged to comply with the higher standards of corporate governance or other requirements which it would be subject to upon achieving a Premium Listing and, for as long as Melrose continues to have a Standard Listing, it will only be required to continue to comply with the lesser standards applicable to a company with a Standard Listing. In addition, an inability to achieve a Premium Listing will prohibit Melrose from gaining FTSE indexation and may have an adverse effect on the valuation of the Melrose Shares.

Further details regarding the differences in the protections afforded by a Premium Listing as against a Standard Listing are set out in the section of this Circular entitled “*Consequences of a Standard Listing*”.

PART B: RISKS RELATING TO THE RIGHTS ISSUE

1. The Rights Issue is conditional on, amongst other things, the passing of the Transaction Resolutions, but is not conditional on Completion.

Subject to the passing of the Transaction Resolutions and upon the expiry of the Window Shop Deadline without the occurrence of a Superior Proposal Termination Event, the Provisional Allotment Letters shall be posted to shareholders and dealings in New Melrose Shares, nil paid, will commence.

In the unlikely event that the Rights Issue proceeds but the Acquisition does not complete, the Melrose Directors' current intention is that the net proceeds of the Rights Issue will be invested on a short-term basis while the Melrose Directors evaluate other acquisition opportunities and, if no acquisitions can be found on acceptable terms, the Melrose Directors will consider how best to return surplus capital to Melrose Shareholders in a timely manner. Such a return could carry fiscal costs for certain Melrose Shareholders, will have costs for Melrose and would be subject to applicable securities laws.

The Underwriters' obligations under the Underwriting Agreement are conditional (although certain of these conditions can be waived) but are unconditional from Admission.

2. The take-up of Nil Paid Rights under the Rights Issue will not be available to any Melrose Shareholders with an address in, or who are located in, the United States or any Excluded Territory in the absence of an available exemption from relevant securities laws.

The take up of Nil Paid Rights under the Rights Issue will not be available to any Melrose Shareholder with an address in, or who is located in, the United States or any Excluded Territory in the absence of an available exemption from relevant securities laws. If a Qualifying Shareholder is not able to take up rights granted in respect of Existing Melrose Shares under the Rights Issue, then it may not receive the economic benefit of such rights because there is no assurance that the procedure in respect of rights not taken up, described in Part XI (*Terms and Conditions of the Rights Issue*) of the Prospectus, will be successful in either selling the Nil Paid Rights or in respect of the prices obtained.

PART C: RISKS RELATING TO THE NORTEK GROUP AND THE ENLARGED GROUP

In the discussion below, references to the “Nortek Group” are to Nortek and its subsidiaries and subsidiary undertakings from time to time. At Completion, the Nortek Group will become part of the Enlarged Group. Therefore those risk factors below that are currently specific to the Nortek Group will become applicable to the Enlarged Group from Completion.

1. The Nortek Group’s business is dependent upon the levels of remodelling and replacement activity and new construction activity, which may be cyclical or seasonal, and have been negatively impacted by the economic downturn and the instability of the credit markets.

Critical factors affecting the Nortek Group’s future performance, including its level of sales, profitability and cash flows, are the levels of residential and non-residential remodelling, replacement and construction activity. The level of new residential and non-residential construction activity and, to a lesser extent, the level of residential remodelling and replacement activity are affected by seasonality and cyclical factors such as interest rates, inflation, consumer spending, employment levels and other macroeconomic factors, over which the Nortek Group has no control. Any decline in economic activity as a result of these or other factors typically results in a decline in new construction and, to a lesser extent, residential remodelling and replacement purchases, which would result in a decrease in the Nortek Group’s sales, profitability and cash flows. Instability in the credit and financial markets, troubles in the mortgage market, the level of unemployment and the decline in home values could have a negative impact on residential new construction activity, consumer disposable income and spending on home remodelling and repair expenditures. These factors could have an adverse effect on the Nortek Group’s operating results.

The demand for the Nortek Group’s products is seasonal, particularly in the Northeast and Midwest regions of the United States where inclement weather during the winter months usually reduces the level of building and remodelling activity in both the home improvement and new construction markets. The Nortek Group’s lower sales levels usually occur during the first and fourth quarters. Since a high percentage of the Nortek Group’s manufacturing overhead and operating expenses are relatively fixed throughout the year, operating income and net earnings tend to be lower in quarters with lower sales levels. In addition, the demand for cash to fund the working capital needs of Nortek’s subsidiaries is greater from late in the first quarter until early in the fourth quarter.

2. Fluctuations in the cost or availability of raw materials and components and other related costs could have an adverse effect on the Nortek Group’s business.

The Nortek Group is dependent upon raw materials and purchased components, including, among others, steel, copper, aluminium, electronics, motors, plastics, compressors, various chemicals and paints, and packaging that the Nortek Group purchases from third parties. As a result, the Nortek Group’s results of operations, cash flows and financial condition may be adversely affected by increases in costs of raw materials or components, or by limited availability of these items. The Nortek Group has worked closely with its suppliers to develop contingency plans to assure continuity of supply while maintaining high quality and reliability and, in some cases, it has established long-term supply contracts with its suppliers. However, the Nortek Group generally does not hedge against its supply requirements. Accordingly, in spite of such contingency plans, it may not be able to obtain raw materials and components from its current or alternative suppliers at reasonable prices in the future, or may not be able to obtain these items on the scale and within the time frames it requires. Further, if the Nortek Group’s suppliers are unable to meet its supply requirements, it could experience supply interruptions and/or cost increases. If the Nortek Group is unable to find alternative suppliers or pass along these additional costs to its customers, these interruptions and/or cost increases could adversely affect the Nortek Group’s results of operations, cash flows and financial condition.

Sources of raw materials or component parts for certain of the Nortek Group’s operations may be dependent upon limited or sole sources of supply which may impact the Nortek Group’s ability to manufacture finished product. While the Nortek Group continually reviews alternative sources of supply, there can be no assurance that it will not face disruptions in sources of supply which could adversely affect its results of operations, cash flows and financial position.

Continued strategic sourcing initiatives and other improvements in manufacturing efficiency, as well as sales price increases, help to mitigate fluctuations in these costs. However, there can be no assurance that the Nortek Group will be able to offset any or all material or other cost increases in any future periods.

3. Weather fluctuations may negatively impact the Nortek Group's business.

Weather fluctuations may adversely affect the Nortek Group's operating results and its ability to maintain sales volume. In the Nortek Group's RCH segment, certain product categories may be adversely affected by unseasonably warm weather in the months of November to February and unseasonably cool weather in the months of May to August, which has the effect of diminishing customer demand for heating and air conditioning products. In all of the Nortek Group's segments, adverse weather conditions at any time of the year may negatively affect overall levels of new construction and remodelling and replacement activity, which in turn may lead to a decrease in sales. Many of the Nortek Group's operating expenses are fixed and cannot be reduced during periods of decreased demand for the Nortek Group's products. Accordingly, the Nortek Group's results of operations and cash flows will be negatively impacted in quarters with lower sales due to weather fluctuations.

4. If the Nortek Group fails to identify suitable acquisition candidates or successfully integrate the businesses it has acquired or will acquire in the future, its business could be negatively impacted.

Historically, the Nortek Group has engaged in a significant number of acquisitions, and those acquisitions have contributed significantly to its growth in sales and operating results. However, the Nortek Group cannot provide assurance that it will continue to locate and secure acquisition candidates on terms and conditions that are acceptable to it. If it is unable to identify attractive acquisition candidates, the Nortek Group's growth could be impaired. Acquisitions involve numerous risks, including:

- the difficulty and expense that the Nortek Group incurs in connection with the acquisition, including those acquisitions that it pursues but does not ultimately consummate;
- the difficulty and expense that it incurs in the subsequent integration of the operations of the acquired company into the Nortek Group's operations;
- adverse accounting consequences of conforming the acquired company's accounting policies to the Nortek Group's accounting policies;
- the difficulties and expense of developing, implementing and monitoring systems of internal controls at acquired companies, including disclosure controls and procedures and internal controls over financial reporting;
- the difficulty in operating acquired businesses;
- the diversion of management's attention from the Nortek Group's other business concerns;
- the potential loss of customers or key employees of acquired companies;
- the impact on the Nortek Group's financial condition due to the timing of the acquisition or the failure to meet operating expectations for the acquired business; and
- the assumption of unknown liabilities of the acquired company.

There is no assurance that any acquisition the Nortek Group has made or may make in the future will be successfully integrated into its ongoing operations or that it will achieve any expected cost savings from any acquisition. If the operations of an acquired business do not meet expectations, the Nortek Group's profitability and cash flows may be impaired and it may be required to restructure the acquired business or write-off the value of some or all of the assets of the acquired business.

5. The Nortek Group continues to evaluate potential restructurings, business shutdowns and integrations focused on improving future cash flows of the business.

While the restructuring initiatives which commenced in 2015 have substantially been completed, the Nortek Group continues to evaluate potential restructurings, business shutdowns and integrations focused on improving future cash flows of the business. Restructurings, business shutdowns and integrations involve numerous risks in their implementation including unforeseen costs, business disruption, management distraction, and potential asset impairment, among others, and may be unsuccessful. In addition, restructurings of international operations may be more costly due to differing labour laws, business practices and governmental restrictions, processes and requirements.

6. The Nortek Group's competitors have substantially greater resources and the Nortek Group faces competitive risks that may negatively impact its business.

The Nortek Group's AQH and AVC segments compete with many domestic and international suppliers in various markets. They compete with suppliers of competitive products primarily on the basis of quality, distribution, delivery and price. Some of the Nortek Group's competitors in these markets have greater financial and marketing resources than those of the Nortek Group's AQH and AVC segments.

The Nortek Group's SCS and ERG segments compete with many domestic and international suppliers in various markets. They compete with suppliers of competitive products primarily on the basis of product innovation, quality, delivery and price. Some of the Nortek Group's competitors in these markets have greater financial and marketing resources than those of the Nortek Group's SCS and ERG segments.

The Nortek Group's RCH segment competes in its markets primarily on the basis of breadth and quality of its product line, distribution, product availability and price. Most of the segment's market competitors have greater financial and marketing resources, and the products of certain of the Nortek Group's competitors may enjoy greater brand awareness than the products in the RCH segment.

The Nortek Group's CAS segment competes primarily on the basis of engineering support, quality, design and construction flexibility, and total installed system cost. Most of the segment's market competitors have greater financial and marketing resources and enjoy greater brand awareness than the CAS segment enjoys.

Competitive factors could require the Nortek Group to reduce prices or increase spending on product development, marketing and sales, either of which could adversely affect its operating results.

7. A decline in the Nortek Group's relations with key distributors and dealers, loss of major customers or failures or delays in collecting payments from major customers may negatively impact the Nortek Group's business.

The Nortek Group's operations depend upon its ability to maintain relations with its independent distributors and dealers, and it does not typically enter into long-term contracts with them. If the Nortek Group's key distributors or dealers are unwilling to continue selling the Nortek Group's products, or if any of them merge with or are purchased by a competitor, the Nortek Group could experience a decline in sales. If it is unable to replace such distributors or dealers or otherwise replace the resulting loss of sales, the Nortek Group's business, results of operations and cash flows could be adversely affected. For 2015 and 2014, approximately 53% and 52%, respectively, of the Nortek Group's consolidated net sales were made through its independent distributors and dealers, and its largest distributor or dealer accounted for approximately 4% of consolidated net sales for each of 2015 and 2014.

In addition, the loss of one or more of the Nortek Group's other major customers, or a substantial decrease in such customers' purchases from us, could have a material adverse effect on the Nortek Group's results of operations and cash flows. Because the Nortek Group does not generally have binding long-term purchasing agreements with its customers, there can be no assurance that its existing customers will continue to purchase products from it. The Nortek Group's largest customer (other than a distributor or dealer) accounted for approximately 4% of consolidated net sales for each of 2015 and 2014.

8. Changes in legislation or governmental regulations or policies, including environmental and health and safety laws and regulations, may result in substantial compliance costs or otherwise adversely affect the Nortek Group's business.

The Nortek Group's operations are subject to numerous federal, state, local and foreign laws and regulations, including those relating to protection of the environment which impose limitations on the discharge of pollutants into the air and water, energy usage, establish standards for the use, treatment, storage and disposal of solid and hazardous materials and wastes, and govern the clean-up of contaminated sites.

The Nortek Group has used and continues to use various substances in its products and manufacturing operations, and has generated and continues to generate wastes, which have been or may be deemed to be hazardous or dangerous. As such, the Nortek Group's business is subject to and may be materially and adversely affected by compliance obligations and other liabilities under environmental, health and safety laws and regulations.

These laws and regulations affect ongoing operations and require capital costs and operating expenditures in order to achieve and maintain compliance. For example, the United States and other countries have established programmes for limiting the production, importation and use of certain ozone-depleting chemicals, including hydrochlorofluorocarbons, a refrigerant used in the Nortek Group's air conditioning and heat pump products. Some of these chemicals have been banned completely and others have been phased out in the United States. Modifications to the design of the Nortek Group's products have been made, and further modifications may be necessary, in order to utilise alternative refrigerants. The Nortek Group's RCH and CAS segments could be directly impacted by changes in legislation or government regulations relating to changes in environmental and energy efficiency standards which may have a significant impact on the types of products that the Nortek Group or its competitors are permitted to develop and sell.

The Nortek Group's inability or delay in developing or marketing products that match customer demand and that meet applicable environmental and efficiency standards could negatively impact its business. This may create an unsettled market that could impact demand and margins. The demand for the Nortek Group's products and services could also be affected by the size and availability of tax incentives for purchasers of its products and services. Future legislation or regulations, including relating to environmental or efficiency matters, product certification, product liability, taxes, tax incentives and other matters, may impact the results of the Nortek Group's operating segments and its consolidated results.

PART D: RISKS RELATING TO THE MELROSE GROUP, THE NORTEK GROUP AND THE ENLARGED GROUP

In the discussion below, references to the “Enlarged Group” are to the Melrose Group following Completion and therefore incorporating the Nortek Group. However, prior to Completion, and in the event that Completion does not occur, the risk factors below that are expressed to be applicable to the Enlarged Group will remain applicable to the Melrose Group (excluding the Nortek Group) and in this context references to the “Enlarged Group” shall instead be deemed to be references to the Melrose Group.

1. The Enlarged Group is dependent on its Directors and on certain of its businesses’ management.

The success of the Melrose Group and the Nortek Group is built upon strong management teams. When acquiring a business such as Nortek, Melrose looks to utilise the skills and experience of its Directors and management, in addition to externally-hired parties, in order to drive the operational improvements it seeks from the acquisition. As a result, the loss of key personnel could have a significant impact on performance, at least for a time. The loss of key personnel or the failure to plan adequately for succession or develop new talent may impact the reputation of the Enlarged Group or lead to a disruption in the leadership of the business. Competition for personnel is intense and the Enlarged Group may not be successful in attracting or retaining qualified personnel, particularly engineering professionals. The loss of key employees, the Enlarged Group’s inability to attract new and adequately-trained employees or a delay in hiring key personnel could seriously harm the Enlarged Group’s business. Over time, the Enlarged Group’s competitive advantage is defined by the quality of its people; should the Enlarged Group fail to attract, develop, motivate and retain key talent, the competitive advantage will erode, leading to weaker growth potential or returns.

2. Potential liability for defective products may affect the financial condition and business of the Enlarged Group.

Due to the nature of its operations, claims against the Enlarged Group could arise from defects in materials or products manufactured and/or supplied by the Enlarged Group. Purchasers and third parties could make claims against Enlarged Group companies, based on their delivery of defective materials or products, or for damage or loss arising from the use of such defective materials or products.

If any of the Enlarged Group’s products proves to be defective, it may be required to effect or participate in a recall involving such products. The Enlarged Group may also be the subject of lawsuits seeking damages for products alleged to be defective, including, in particular, product liability claims in the event that the use of its products is alleged to have resulted in injury, a risk of injury or other adverse effects.

In relation to the Nortek Group specifically, it has undertaken several voluntary product recalls and reworks over the past several years and could do so in the future given the nature of its business, additional product recalls and/or reworks could result in material future costs. Many of the Nortek Group’s products, especially certain models of bath fans, range hoods, and residential furnaces and air conditioners, have a large installed base, and any recalls and/or reworks related to products with a large installed base could be particularly costly. The costs of product recalls or reworks are not generally covered by insurance. In addition, the Nortek Group’s reputation for safety and quality is essential to maintaining market share and protecting its brands. Any recalls or reworks may adversely affect the Nortek Group’s reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on its financial condition, results of operations and cash flows.

The development, manufacture, sale and use of the Nortek Group’s products involves risks of product liability claims, which may involve lawsuits seeking class action status, and warranty claims, including personal injury and property damage arising from fire, soot, mould and carbon monoxide.

Litigation, including litigation resulting from product liability claims, can be expensive to defend and can divert the attention of management and other personnel for long periods of time, regardless of the ultimate outcome of the litigation with respect to such claims. While the Melrose Group currently maintains (and the Enlarged Group will continue to maintain) product liability insurance coverage, such insurance may not provide adequate coverage against potential claims. A successful claim brought against the Enlarged Group with respect to a defective product or batches of products in excess of available insurance coverage, if the Enlarged Group’s coverage is applicable, or a requirement to participate in a major product recall, could have a material adverse effect on the Enlarged Group’s reputation, results of operations, business and financial condition.

PART III
TERMS AND CONDITIONS OF THE ACQUISITION AND ITS FINANCING

PART A: TERMS AND CONDITIONS OF THE ACQUISITION

1. The Tender Offer and Merger

On 6 July 2016, Melrose, MergerCo and Nortek entered into an agreement and plan of merger (the “**Merger Agreement**”), which sets out terms and conditions for a cash tender offer (the “**Tender Offer**”) to purchase all of the Nortek Shares at the Tender Offer Price of \$86 per Nortek Share, net, in cash and without interest, by MergerCo, followed by a merger of MergerCo with and into Nortek, Inc. (the “**Merger**”, and the Tender Offer and the Merger, together, being the “**Acquisition**”).

Tender Offer

Pursuant to Tender Offer, which will be on the terms and subject to the conditions set out in the Tender Offer Document, Nortek Shareholders will receive:

for each Nortek Share **\$86 in cash**

The Tender Offer Price represents a premium of approximately 37.6% to the closing price of a Nortek Share on the Latest Practicable Date and approximately 81.3% to the average price of a Nortek Share in the six month period ending on the Latest Practicable Date, and values the entire issued and unissued share capital at approximately \$1,436 million (£1,101 million⁽¹⁴⁾).

The completion of the Tender Offer is subject to the satisfaction (or waiver, where applicable) of the following conditions:

- (a) there having been validly tendered (and not properly withdrawn) prior to the Tender Offer Expiration Date such number of Nortek Shares that, together with any Nortek Shares then owned by the Melrose Group, represents more than 50% of the total share capital of Nortek as at the Tender Offer Expiration Date;
- (b) the Merger Agreement not having been terminated in accordance with its terms;
- (c) the receipt of the Anti-trust Clearance, or the expiry or termination of the applicable waiting period, under the HSR Act in the US;
- (d) there not being any law, rule, regulation, order, judgment, injunction, temporary restraining order or decree entered, enacted, issued, promulgated, enforced or issued by any government, regulatory, judicial or administrative authority, agency or commission of competent authority which is in effect and has the effect of making the Tender Offer or the Merger illegal, or otherwise prohibits, restrains or prevents the consummation of the Tender Offer or the Merger (provided that Melrose and MergerCo have used commercially reasonable efforts to oppose such action by such authority);
- (e) certain warranties continuing to be true and correct in all material respects, certain warranties relating to capitalisation continuing to be true and correct in all but *de minimis* respects and other warranties continuing to be true and correct except where the failure of such warranties to be true and correct would not have, and would not reasonably be expected to have, a material adverse effect, in each case immediately prior to the Tender Offer Expiration Date;
- (f) Nortek not having breached or failed to perform or to comply with, in any material respect, its obligations to be performed or complied with by it under the Merger Agreement;
- (g) no material adverse change, or any event, development or circumstance that would reasonably be expected to have, individually or in aggregate, a material adverse effect having occurred in respect of Nortek and continuing up to the Tender Offer Expiration Date;
- (h) MergerCo having received a certificate executed by an authorised officer of Nortek to the effect that the conditions set forth in sub-paragraphs (e), (f) or (g) of this paragraph 1 (*The Tender Offer and Merger*) continue to be satisfied as at the Tender Offer Expiration Date;
- (i) the Nortek Board having recommended (and not having withdrawn or modified in a manner adverse to Melrose its recommendation for) the Tender Offer;

⁽¹⁴⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77

- (j) the approval of the Acquisition, the Rights Issue and Re-admission by Melrose Shareholders at the General Meeting;
- (k) Admission having occurred; and
- (l) no circumstances having occurred and continuing that would have the effect of preventing Re-admission from occurring promptly following the acceptance by MergerCo for payment of the Nortek Shares validly tendered under the Tender Offer and Melrose's application for Re-admission having been approved by the UKLA,
(together, the "**Tender Offer Conditions**").

The Tender Offer Conditions set out in sub-paragraphs (a), (b), (c) and (d) of this paragraph 1 (*The Tender Offer and Merger*) will not be waived in whole or in part. Melrose and MergerCo will not, unless previously approved by Nortek, decrease the Tender Offer Price, change the form of consideration payable, change the number of Nortek Shares to be purchased in the Tender Offer, add any condition to the Tender Offer or any term that is adverse to the Nortek Shareholders, extend the expiration of the Tender Offer except as required or permitted by the Merger Agreement, provide for a "subsequent offering period" (or any extension thereof) in accordance with Rule 14d-11 of the US Exchange Act or modify, supplement or amend any other term or condition of the Tender Offer in a manner adverse to the Nortek Shareholders. Other than with respect to the foregoing, the other Tender Offer Conditions may be waived in whole or in part by MergerCo or Melrose.

The US competition filing under the HSR Act referred to above will be made shortly after the publication of this Circular. The waiting period for the US filing is 15 calendar days, which can be extended upon the regulatory authority deciding that further investigation is warranted. Melrose does not expect any significant regulatory issues to arise as a result of this filing.

MergerCo is obliged to file the Tender Offer Document (together with any associated documents) with the SEC and commence the Tender Offer as promptly as practicable (but in any event on or before 11 July 2016) from the date of the Merger Agreement and to keep the Tender Offer open until 2.00 a.m. (New York time) on 31 August 2016, subject to possible extension under the terms of the Merger Agreement.

The Nortek Board intends to unanimously recommend that Nortek Shareholders tender their Nortek Shares to MergerCo pursuant to the Tender Offer. The Nortek Board has, subject to their fiduciary duties and there being no development or change at any time prior to the Tender Offer Expiration Date that becomes known to the Nortek Board after the date of the Merger Agreement, but which was not known (and reasonably should not have been known) to the Nortek Board as at the date of the Merger Agreement (not including a Superior Proposal, as defined below), agreed to include in its Schedule 14D-9, among other things, that the Tender Offer is fair to and in the best interests of Nortek and its shareholders and that it approves the Tender Offer and unanimously recommends that Nortek Shareholders tender their Nortek Shares into the Tender Offer.

Upon the Tender Offer Expiration Date, provided each of the Tender Offer Conditions are satisfied (or waived, as applicable), MergerCo will pay for those Nortek Shares validly tendered (and not properly withdrawn).

Merger

Following the consummation of the Tender Offer, MergerCo shall, pursuant to the Merger Agreement and as promptly as practicable following the consummation of the Tender Offer, merge with and into Nortek, Inc., with Nortek, Inc. surviving the Merger as an indirect wholly-owned subsidiary of Melrose.

The consummation of the Merger is conditional upon:

- (a) the consummation of the Tender Offer; and
- (b) there not being any law, rule, regulation, order, judgment, injunction, temporary restraining order or decree entered, enacted, issued, promulgated, enforced or issued by any government, regulatory, judicial or administrative authority, agency or commission of competent authority which is in effect and has the effect of making the Merger illegal, or otherwise prohibits, restrains or prevents the consummation of the Tender Offer or the Merger (provided that Melrose and MergerCo have used commercially reasonable efforts to oppose such action by such authority).

The Merger will be effected pursuant to section 251(h) of the General Corporation Law of the State of Delaware (the “**DGCL**”), without any stockholder vote being required.

Pursuant to the Merger, each outstanding Nortek Share in issue immediately prior to the closing of the Merger (“**Completion**”), and not accepted for payment as part of the Tender Offer, will be converted into a right to receive the Tender Offer Price, without interest, with the exception of treasury shares and Dissenting Shares, which shall be dealt with in accordance with the following paragraph.

Should holders of Nortek Shares not accepted for payment wish to exercise their appraisal rights pursuant to section 262 of the DGCL, the Nortek Shares held by such Nortek Shareholder (the “**Dissenting Shares**”) shall be cancelled, but shall not be converted into a right to receive the Tender Offer Price, and such Nortek Shareholders shall have the rights set forth in section 262 of the DGCL to seek appraisal of the fair value of the Dissenting Shares. Should the Nortek Shareholder fail to perfect, effectively withdraw or lose his or her rights to appraisal and payment under the DGCL, such holders shall thereupon be entitled to receive the Tender Offer Price, without any interest thereon, for those Dissenting Shares.

At Completion, each Nortek stock option, whether vested or unvested, outstanding immediately prior to Completion (the “**Share Options**”) shall be cancelled. In consideration for any such cancelled Share Option, the former holder of the Share Option shall be entitled to receive an amount in cash equal to the product of: (x) the number of Nortek Shares subject to the Share Option immediately prior to Completion; and (y) the Tender Offer Price less the aggregate exercise price of such Share Option (if any excess), less any applicable taxes which are required to be withheld. A Share Option which has a per share exercise price that exceeds the Tender Offer Price will be cancelled without any payment being made to the former holder.

At Completion, each Nortek stock award outstanding immediately prior to Completion (the “**Share Awards**”) shall be cancelled. In consideration for any such cancelled Share Award, the former holder of the Share Award shall be entitled to receive an amount in cash equal to the product of: (x) the number of Nortek Shares subject to such Share Award (or, in the case of any Share Award subject to performance-based vesting, 50% of the Nortek Shares subject to such Share Award) immediately prior to Completion; and (y) the Tender Offer Price, less any applicable taxes which are required to be withheld.

MergerCo will merge with and into Nortek, whereupon MergerCo will cease to exist separately. Upon Completion of the Merger, Melrose will, indirectly, hold all equity interests in Nortek.

Further terms of the Merger Agreement

If, after the date of the Merger Agreement and at or prior to 11.59 p.m. (New York Time) on 6 August 2016 (or such subsequent date to which such deadline is extended pursuant to and in accordance with the terms of the Merger Agreement) (the “**Window Shop Deadline**”), Nortek receives a bona fide, written proposal by any person (other than Melrose) that did not result from a breach of the non-solicited covenant in the Merger Agreement which would result in the acquisition by such person of more than 50% of the Nortek Shares or of all or substantially all of the assets of Nortek Group, and the Nortek Board determines, in good faith and after consultation with Nortek’s external financial and legal advisers, that such proposal would be more favourable from a financial point of view than the Acquisition (a “**Superior Proposal**”), after taking into account any proposal by Melrose in writing to amend or modify the terms of the Merger Agreement as well as other factors, Nortek may terminate the Merger Agreement, provided that Nortek: (i) has complied with the terms of the non-solicitation covenant included in the Merger Agreement in all material respects and provided written notice to Melrose of its intention to terminate the Merger Agreement and of the terms of the Superior Proposal; (ii) has negotiated with Melrose in good faith in relation to Melrose’s proposed amendments to the Merger Agreement; (iii) pays a fee of \$50 million to Melrose; and (iv) enters into a binding written agreement in relation to the Superior Proposal on or prior to the Window Shop Deadline (a “**Superior Proposal Termination Event**”).

Prior to the adoption by the Melrose Shareholders of the Resolutions, in the event that Melrose: (i) changes its recommendation to Melrose Shareholders in relation to the Acquisition in a manner adverse to Nortek or make any public announcement inconsistent with its recommendation; (ii) fails to include its recommendation to Melrose Shareholders to approve the Acquisition in the Circular; (iii) fails to publish the Circular and the Prospectus in the agreed forms by 6 July 2016 or fails to hold the General Meeting on or prior to 25 July 2016 (subject to certain exceptions); (iv) causes or allows MergerCo not to file the Tender Offer Document; or (v) enters into any agreement which requires Melrose to abandon,

terminate, materially delay or fail to consummate the Acquisition (in each case, save as required pursuant to the Melrose Board's fiduciary duties), Melrose shall pay a fee of £5.95 million to Nortek.

Undertakings from Nortek stockholders

In connection with the Tender Offer and the Merger, certain stockholders of Nortek have entered into Tender and Support Agreements which govern the conditions upon which such stockholders shall tender their Nortek Shares pursuant to the Tender Offer and obliging such stockholders to support the Tender Offer and the Merger. Such Tender and Support Agreements have been entered into by each of Ares Management, Gates Capital Management and Anchorage Capital (amounting in aggregate to approximately 68.7% of the total share capital of Nortek as at the Latest Practicable Date). The undertakings pursuant to the Tender and Support Agreements will cease to be binding if the Merger Agreement is terminated.

PART B: TERMS AND CONDITIONS OF THE FINANCING OF THE ACQUISITION

1. The New Facilities Agreement

On 6 July 2016 (the "**Signing Date**"), Melrose entered into the New Facilities Agreement pursuant to which a US\$350,000,000 million term facility and a US\$900,000,000 million revolving credit facility will be provided to certain members of the Enlarged Group by a group of lenders. Utilisation of the facilities under the New Facilities Agreement is subject to satisfaction of various customary conditions precedent. In particular, it is a condition precedent to utilisation of the facilities under the New Facilities Agreement that Melrose provides a certificate stating that Completion has occurred or will occur simultaneously with the initial borrowing under the New Facilities Agreement. If Completion does not take place, Melrose's current intention is to leave the Existing Facility Agreement in place and to continue to utilise the facilities available under that agreement.

The term facility will be available to certain members of the Enlarged Group to: (i) refinance amounts outstanding under the Existing Facility Agreement and any other indebtedness of the Melrose Group and the Nortek Group; and (ii) pay (or refinance amounts used to pay) certain costs and expenses incurred by the Enlarged Group in connection with (i) above, the Acquisition, the Rights Issue and/or entry into the New Facilities Agreement, but such facility shall not be used to finance all or any part of the consideration for the Acquisition or to pay fees or expenses due to advisers in respect of the Rights Issue. The term facility ceases to be available on the date that is the later of (i) 6 October 2016; and (ii) provided that Completion has occurred on or before 6 October 2016, the date falling 75 days after Completion. The aggregate outstanding amounts under the term facility are required to be repaid on the date that is five years after the Signing Date.

The revolving credit facility under the New Facilities Agreement will be available from the Signing Date until the date that is one month before the date that is five years after the Signing Date and subject to a drawing under the term facility having been made on or prior to the first utilisation under the revolving credit facility. The revolving credit facility will be used by the Enlarged Group to (i) pay any costs and expenses in connection with the Acquisition, the Rights Issue or entry into the New Facilities Agreement; and (ii) to finance the Enlarged Group's working capital requirements and for general corporate purposes (including refinancing existing indebtedness, whether under the Existing Facility Agreement or otherwise, and for financing acquisitions), but such facility shall not be used to finance all or any part of the consideration for the Acquisition or to pay fees or expenses due to advisers in respect of the Rights Issue.

The New Facilities Agreement contains representations and warranties, financial covenants, undertakings and events of default customary for a facilities agreement of this nature.

Pursuant to the terms of the Merger Agreement, Nortek has agreed to use commercially reasonable efforts to facilitate the payment and redemption of the indebtedness pursuant to the Nortek Facilities Agreement on or following Completion.

2. The Underwriting Agreement

On 6 July 2016, the Company entered into the Underwriting Agreement with the Underwriters pursuant to which the Underwriters have agreed to fully underwrite the Rights Issue. Pursuant to the Underwriting Agreement, the Underwriters will (severally) use all reasonable endeavours to procure subscribers in the market for any New Melrose Shares not validly accepted (or not treated as validly accepted) under the Rights Issue at a price not less than the Rights Issue Price plus the Underwriters' expenses in procuring

such subscribers and, failing this, the Underwriters have agreed to subscribe themselves (or procure subscribers) for any outstanding New Melrose Shares at the Rights Issue Price.

In consideration of such underwriting, the Company has agreed to pay (together with any applicable VAT):

(a) to the Underwriters, a commission of:

- (i) 1.5% of the aggregate value of the Rights Issue Price of the number of New Melrose Shares for which sub-underwriters have, upon or prior to Announcement, provided firm commitments to the Underwriters to sub-underwrite; plus
- (ii) 2.2% of the aggregate value of the Rights Issue Price of the New Melrose Shares (less those New Melrose Shares which have been sub-underwritten in accordance with sub-paragraph (i) above); plus

(b) to the Joint Global Co-ordinators, a distribution fee of 0.1% of the aggregate value at the Rights Issue Price of the New Melrose Shares,

(together, the “**Underwriting Fees**”).

The Company has given representations, warranties and undertakings to the Underwriters customary for such agreements regarding, amongst other things, the accuracy of the information contained in this Circular and the Prospectus. The Company has also provided an indemnity to the Underwriters and each person acting for and on behalf of them in connection with the services rendered or duties performed by any such indemnified person in connection with the Rights Issue, the Acquisition, Admission, Re-admission, the arrangements contemplated by this Circular, the Announcement and the Prospectus. In addition, the Company has agreed to perform certain obligations relating to the implementation of the Rights Issue and the Re-admission.

The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions including Admission having occurred by not later than 8.00 a.m. on 9 August 2016 (or such later time and/or date as may be agreed between the Joint Bookrunners and the Company in writing) and the Acquisition not having been withdrawn or terminated prior to Admission.

The Underwriting Agreement provides that if a condition is not fulfilled or waived before 8.00 a.m. on the date of Admission, or the relevant parties agree in writing that a condition has become incapable of being fulfilled before 8.00 a.m. on the date of Admission, the Underwriting Agreement will terminate immediately.

In the event that the Underwriting Agreement terminates prior to Admission as a result of a condition not being fulfilled or waived, the Underwriting Fees shall not be payable, and the Company shall instead pay in aggregate to the Underwriters a termination fee of 0.1% of the aggregate value of the Rights Issue Price of 1,741,612,236 New Melrose Shares.

The Underwriters may by notice to the Company (to be received prior to Admission) terminate the Underwriting Agreement in limited circumstances.

On behalf of the Underwriters, the Joint Global Co-ordinators may arrange sub-underwriting for some, all or none of the New Melrose Shares.

The Underwriters and any of their respective affiliates may engage in trading activity in connection with their roles under the Underwriting Agreement and may take up a portion of the securities of the Company in the Rights Issue as a principal position and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own account in securities of the Company and related or other securities and instruments (including Melrose Shares, Nil Paid Rights and Fully Paid Rights) and may offer or sell such securities or other investments otherwise than in connection with the Rights Issue. Accordingly, references in this Circular to Nil Paid Rights, Fully Paid Rights or New Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Underwriters and any of their affiliates acting as investors in such capacity. In addition certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Melrose Shares. Except as required by applicable law or regulation, none of the Underwriters propose to make any public disclosure in relation to such transactions.

**PART IV
FINANCIAL INFORMATION ON NORTEK**

PART A: SELECTED FINANCIAL INFORMATION ON NORTEK

The selected financial information set out below has, unless otherwise stated, been extracted without material adjustment from: (i) the historical financial information of the Nortek Group for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013, prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group and covered by the accountant's report thereon; and (ii) the unaudited quarterly financial statements of the Nortek Group for the first quarters ended 2 April 2016 and 28 March 2015, published on 12 May 2016 and prepared in accordance with US GAAP, each as set out in Part B of this Part IV (*Financial Information on Nortek*) of this Circular.

Melrose Shareholders should read the whole of this Circular and the documents incorporated herein by reference and should not just rely on the financial information set out in this Part IV (*Financial Information on Nortek*) of this Circular.

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the first quarter ended		
	2 April 2016	28 March 2015	
	\$m	\$m	
	Unaudited	Unaudited	
Net sales	613.9	572.7	
Operating earnings	28.9	7.7	
Net interest expense	(23.7)	(27.2)	
Earnings/(loss) before provision/(benefit) from income taxes	5.2	(19.5)	
Net earnings/(loss)	2.6	(13.9)	
Basic earnings/(loss) per share	\$0.16	\$(0.87)	
Diluted earnings/(loss) per share	\$0.16	\$(0.87)	
	For the year ended		
	31 December		
	2015	2014	2013
	\$m	\$m	\$m
Revenue	2,526.1	2,546.1	2,287.9
Gross profit	756.2	757.2	679.8
Operating profit	93.8	40.7	85.9
Headline⁽¹⁾ operating profit	220.1	220.4	184.5
Loss before tax	(21.8)	(71.4)	(17.0)
Loss for the year	(22.9)	(51.8)	(15.9)
Loss per share			
—Basic	(1.44)	(3.32)	(1.03)
—Diluted	(1.44)	(3.32)	(1.03)

Note:

(1) Before exceptional costs, exceptional income and intangible asset amortisation.

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 2 April 2016	As at 31 December 2015 ⁽¹⁾
	\$m Unaudited	\$m Unaudited
Total current assets	804.1	771.4
Total property and equipment, net	229.9	229.0
Other assets	1,115.4	1,130.0
Total assets	2,149.4	2,130.4
Total current liabilities	481.9	491.1
Other liabilities	258.1	255.4
Notes, mortgage notes and obligations payable, less current maturities	1,391.0	1,371.6
Total stockholders' investment	18.4	12.3
Total liabilities and stockholders' investment	2,149.4	2,130.4

Note:

- (1) Restated to reflect the reclassification of approximately \$13.5 million of unamortised debt issuance costs from other long-term assets to notes, mortgage notes and obligations payable, less current maturities, in accordance with ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June, 18 2015 EITF Meeting (SEC Update)*, which was issued in August 2015 and adopted by the Nortek Group retrospectively in the first quarter of 2016.

	As at 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Non-current assets	1,359.1	1,368.9	1,241.0
Current assets	767.9	793.9	671.7
Total assets	2,127.0	2,162.8	1,912.7
Non-current liabilities	1,594.2	1,577.2	1,351.2
Current liabilities	515.6	542.0	475.3
Total equity	2,109.8	2,119.2	1,826.5
Net assets	17.2	43.6	86.2

CONSOLIDATED CASH FLOW STATEMENT

	First quarter ended	
	2 April 2016	28 March 2015
	\$m	\$m
	Unaudited	Unaudited
Net cash used in operating activities	(8.5)	(55.3)
Net cash used in investing activities	(5.3)	(61.6)
Net cash from financing activities	17.7	102.2
Net change in unrestricted cash and cash equivalents	3.9	(14.7)

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Net cash from operating activities	53.7	39.1	136.8
Net cash used in investing activities	(114.6)	(306.1)	(193.3)
Net cash from / (used in) financing activities	30.9	245.5	(5.7)
Net change in unrestricted cash and cash equivalents	(30.0)	(21.5)	(62.2)

PART B: HISTORICAL FINANCIAL INFORMATION RELATING TO NORTEK

Section A.1: Historical financial information of the Nortek Group for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013, prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group and covered by the accountant's report included in Section A.2 of this Part B (*Historical Financial Information relating to Nortek*), which was prepared in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December		
		2015	2014	2013
		\$m	\$m	\$m
Revenue	5, 9	2,526.1	2,546.1	2,287.9
Cost of sales		(1,769.9)	(1,788.9)	(1,608.1)
Gross profit		756.2	757.2	679.8
Headline ⁽¹⁾ operating expenses		(537.5)	(538.2)	(496.0)
Share of headline ⁽¹⁾ results of associate	14	1.4	1.4	0.7
Impairment of long-lived assets and goodwill		(1.6)	(80.4)	(4.3)
Intangible asset amortisation	12	(67.3)	(60.0)	(51.3)
Exceptional operating costs	8	(60.9)	(39.3)	(43.0)
Exceptional operating income	8	3.5	—	—
Total net operating expenses	9	(662.4)	(716.5)	(593.9)
Operating profit		93.8	40.7	85.9
Headline⁽¹⁾ operating profit	5	220.1	220.4	184.5
Finance costs, net	9	(115.6)	(112.1)	(102.9)
Loss before tax		(21.8)	(71.4)	(17.0)
Tax	10	(1.1)	19.6	1.1
Loss for the year		(22.9)	(51.8)	(15.9)
Loss per share				
—Basic	11	(1.44)	(3.32)	(1.03)
—Diluted	11	(1.44)	(3.32)	(1.03)

Note:

- (1) Before exceptional operating costs, exceptional operating income, intangible asset amortisation and impairment of long-lived assets and goodwill.

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

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<u>Notes</u>	<u>Year ended</u> <u>31 December 2015</u>	<u>Year ended</u> <u>31 December 2014</u>	<u>Year ended</u> <u>31 December 2013</u>
		<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Loss for the year		<u>(22.9)</u>	<u>(51.8)</u>	<u>(15.9)</u>
Items that will not be reclassified subsequently to the Income Statement:				
Actuarial gain (loss) related to pension plans	22	6.0	(16.2)	16.4
Income tax relating to items that will not be reclassified	10	<u>(1.5)</u>	<u>4.5</u>	<u>(6.0)</u>
		4.5	(11.7)	10.4
Items that may be reclassified subsequently to the Income Statement:				
Currency translation on net investments . . .		(10.5)	(7.9)	(3.0)
Income tax relating to items that may be reclassified	10	<u>—</u>	<u>—</u>	<u>—</u>
		<u>(10.5)</u>	<u>(7.9)</u>	<u>(3.0)</u>
Other comprehensive (loss)/income after tax		<u>(6.0)</u>	<u>(19.6)</u>	<u>7.4</u>
Total comprehensive loss for the year		<u>(28.9)</u>	<u>(71.4)</u>	<u>(8.5)</u>

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

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December		
		2015	2014	2013
		\$m	\$m	\$m
Net cash from operating activities	26	53.7	39.1	136.8
Purchase of property, plant and equipment		(49.8)	(38.9)	(43.9)
Acquisition of businesses		(63.1)	(267.9)	(146.4)
Disposition of businesses		(1.6)	—	—
Purchases of intangible assets		(1.0)	—	—
Proceeds from sale of property, plant and equipment		1.1	1.7	0.2
Movement in restricted cash and marketable securities		0.3	0.4	(2.4)
Other, net		(0.5)	(1.4)	(0.8)
Net cash from investing activities		(114.6)	(306.1)	(193.3)
Proceeds from borrowings		454.5	253.2	153.1
Repayment of borrowings		(418.4)	(258.6)	(156.0)
Redemption of the 10% Senior Notes due 2018, including redemption premium		(262.5)	—	—
Net proceeds from borrowings under the senior secured term loan facility due 2020		261.8	349.1	—
Redemption of the senior secured term loan facility due 2017		—	(93.0)	—
Fees paid in connection with debt facilities		(2.7)	(6.3)	—
Net use from equity transactions		(2.2)	(2.1)	(2.5)
Excess tax benefit on share-based awards		0.4	3.2	—
Other, net		—	—	(0.3)
Net cash from financing activities		30.9	245.5	(5.7)
Net decrease in unrestricted cash and cash equivalents		(30.0)	(21.5)	(62.2)
Unrestricted cash and cash equivalents at beginning of the year		58.4	80.9	144.7
Effect of foreign exchange rate changes		(3.8)	(1.0)	(1.6)
Unrestricted cash and cash equivalents at end of the year		24.6	58.4	80.9

As at 31 December 2015, the Nortek Group had net debt of \$1,379.4 million (2014: \$1,298.7 million, 2013: \$999.3 million). A reconciliation of the movement in net debt is shown in Note 27.

Significant non-cash transactions excluded from the accompanying consolidated statements of cash flows include financing leases of approximately \$32.0 million and \$0.1 million for 2014 and 2013, respectively.

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

Consolidated Balance Sheet

	Notes	As of 31 December			As of 1 January
		2015	2014	2013	2013
		\$m	\$m	\$m	\$m
Non-current assets					
Goodwill and other intangible assets	12	1,114.7	1,116.8	1,022.4	922.4
Property, plant and equipment	13	229.0	238.0	198.8	199.5
Interest in associates	14	5.8	5.6	5.7	5.5
Other assets		9.6	8.5	14.1	17.2
		1,359.1	1,368.9	1,241.0	1,144.6
Current assets					
Other current assets		21.8	20.8	25.3	17.3
Tax refunds receivable		8.2	8.0	7.2	6.5
Inventories	15	365.8	372.8	269.7	258.0
Trade and other receivables	16	347.2	333.3	285.7	270.9
Restricted cash	17	0.3	0.6	2.9	0.2
Cash and cash equivalents		24.6	58.4	80.9	144.7
		767.9	793.9	671.7	697.6
Total assets	5	2,127.0	2,162.8	1,912.7	1,842.2
Non-current liabilities					
Interest-bearing loans and borrowings	19	1,396.1	1,350.0	1,079.6	1,082.3
Deferred tax liabilities	10	67.7	80.2	114.6	91.3
Provisions	21	67.5	63.6	72.9	79.4
Retirement benefit obligations	22	46.7	55.9	45.7	63.5
Other non-current liabilities		16.2	27.5	38.4	37.8
		1,594.2	1,577.2	1,351.2	1,354.3
Current liabilities					
Trade and other payables	18	436.8	458.5	384.4	316.8
Interest bearing loans and borrowings	19	8.2	7.7	3.5	3.1
Current tax liabilities		23.1	22.5	24.9	26.8
Provisions	21	47.5	53.3	62.5	56.5
		515.6	542.0	475.3	403.2
Total liabilities	5	2,109.8	2,119.2	1,826.5	1,757.5
Net current assets		252.3	251.9	196.4	294.4
Net assets		17.2	43.6	86.2	84.7
Equity					
Share capital—common shares	24	0.2	0.2	0.2	0.1
Treasury shares		(58.4)	(54.6)	(16.1)	(9.5)
Accumulated deficit		(192.1)	(173.7)	(110.2)	(104.7)
Other reserves		288.9	282.6	215.3	198.8
Cumulative translation reserve		(21.4)	(10.9)	(3.0)	—
Total equity		17.2	43.6	86.2	84.7

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

Consolidated Statement of Changes in Equity

	Share capital	Treasury shares	Accumulated deficit	Other reserves	Cumulative translation reserve	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 January 2013	0.1	(9.5)	(104.7)	198.8	—	84.7
Loss for the year	—	—	(15.9)	—	—	(15.9)
Other comprehensive income	—	—	10.4	—	(3.0)	7.4
Total comprehensive loss	—	—	(5.5)	—	(3.0)	(8.5)
Warrants exercised	—	—	—	3.7	—	3.7
Exercise of stock options	0.1	—	—	—	—	0.1
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased to net share settlements	—	(6.6)	—	—	—	(6.6)
Excess tax benefit on share-based awards . .	—	—	—	2.3	—	2.3
Equity-settled share-based payments	—	—	—	10.5	—	10.5
At 31 December 2013	0.2	(16.1)	(110.2)	215.3	(3.0)	86.2
Loss for the year	—	—	(51.8)	—	—	(51.8)
Other comprehensive income	—	—	(11.7)	—	(7.9)	(19.6)
Total comprehensive loss	—	—	(63.5)	—	(7.9)	(71.4)
Warrants exercised	—	—	—	51.0	—	51.0
Exercise of stock options	—	—	—	3.2	—	3.2
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased to net share settlements	—	(38.5)	—	—	—	(38.5)
Equity-settled share-based payments	—	—	—	9.9	—	9.9
Excess tax benefit on share-based awards . .	—	—	—	3.2	—	3.2
At 31 December 2014	0.2	(54.6)	(173.7)	282.6	(10.9)	43.6
Loss for the year	—	—	(22.9)	—	—	(22.9)
Other comprehensive loss	—	—	4.5	—	(10.5)	(6.0)
Total comprehensive loss	—	—	(18.4)	—	(10.5)	(28.9)
Exercise of stock options	—	—	—	1.6	—	1.6
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased to net share settlements	—	(3.8)	—	—	—	(3.8)
Equity-settled share-based payments	—	—	—	4.3	—	4.3
Excess tax benefit on share-based awards . .	—	—	—	0.4	—	0.4
At 31 December 2015	0.2	(58.4)	(192.1)	288.9	(21.4)	17.2

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

1. Corporate Information

The historical financial information of Nortek Inc. and its subsidiaries (collectively, the “**Nortek Group**”) for the three years ended 31 December 2015 was authorised for issue in accordance with a resolution of the Directors on 5 July 2016.

Nortek was founded in 1967 and is headquartered in 500 Exchange Street, Providence, Rhode Island, the United States of America. The Nortek Group is incorporated in the State of Delaware, the United States of America.

Nortek is a global, diversified Group whose many market-leading brands deliver broad capabilities and a wide array of innovative, technology-driven products and solutions for lifestyle improvement at home and at work.

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

2. Summary of significant accounting policies

Basis of accounting

The historical financial information has been prepared in accordance with the requirements of the Listing Rules, on a basis consistent with the accounting policies adopted in the latest annual financial statements of Melrose Industries PLC. This historical financial information has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The historical financial information complies with IFRS as adopted for use in the European Union (“**EU**”) and therefore complies with Article 4 of the EU IAS Regulation. For periods up to and including the year ended 31 December 2015, the Nortek Group prepared its financial statements in accordance with generally accepted accounting principles in the United States of America (“**US GAAP**”).

Accordingly, the Nortek Group has prepared historical financial information which complies with IFRS applicable for periods ending on or after 31 December 2015, as described in the summary of significant accounting policies. In preparing this historical financial information, the Nortek Group’s opening balance sheet has been prepared as at 1 January 2013, the Nortek Group’s date of transition to IFRS.

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

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

Basis of Transition to IFRS

Application of IFRS 1

This historical financial information is the first the Nortek Group has prepared in accordance with IFRS as adopted for use in the European Union. The Nortek Group applied IFRS 1, “First time adoption of IFRS”, in preparing this historical financial information.

For periods up to and including the year ended 31 December 2015, the Nortek Group prepared its financial statements in accordance with US GAAP. See Note 30 for a description of IFRS adjustments and reconciliations from US GAAP to IFRS.

The accounting policies set out herein have been applied in preparing the historical financial information as of and for the year ended 31 December 2015, and the opening IFRS Balance Sheet at 1 January 2013.

In preparing this historical financial information in accordance with IFRS, the Nortek Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as set out in IFRS 1.

2. Summary of significant accounting policies (Continued)

Optional exemptions to full retrospective application elected by the Company

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRS. The Nortek Group has applied the following exemptions. All other available exemptions were not applicable to the Nortek Group.

- *Business Combinations*

IFRS 3, Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2013. Use of this exemption means that the US GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, are their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS balance sheet. The Company did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the US GAAP carrying amount of goodwill must be used in the opening IFRS Balance Sheet (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Nortek Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2013. Business combinations through 31 December 2012 were accounted for under US GAAP. The Nortek Group also has not applied IAS 21, The Effects of Changes in Foreign Exchange Rates retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

- *Share-based Compensation*

IFRS 2 Share-based Payment has not been applied to equity instruments in share-based payment transactions that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2013. For cash-settled share-based payment transactions, the Nortek Group has not applied IFRS 2 to liabilities that were settled before 1 January 2013.

- *Exemption for Deemed Cost*

Property and equipment were carried at cost in the balance sheet prepared in accordance with US GAAP at 31 December 2012. The carrying value of the Nortek Group's property and equipment as recognised and measured in accordance with IFRS is the same as the previous US GAAP carrying value; as such the Nortek Group has not relied on the deemed cost exemption.

- *Exemption for Leases*

The Nortek Group has applied the transitional provision in IFRIC 4, Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.

- *Exemption for Cumulative Translation Reserve*

Cumulative currency translation reserve for all foreign operations is deemed to be zero as at 1 January 2013.

Mandatory exceptions to full retrospective application applied by the Company

- *Estimates*

Estimates under IFRS at 1 January 2013 and 31 December 2013, 2014 and 2015 were consistent with estimates made as at the same dates under US GAAP. There is no evidence that those estimates were made in error.

2. Summary of significant accounting policies (Continued)

- *Derecognition of financial assets and financial liabilities*

Financial assets and financial liabilities derecognised before 1 January 2013 were not re-recognised under IFRS. The application of this exception had no significant impact on these financial statements.

- *Hedge Accounting*

At the transition date, the Nortek Group has no hedge relationship designated as hedge accounting under US GAAP. The application of this exception had no impact on these financial statements.

- *Non-controlling interests*

At the transition date, all consolidated subsidiaries were wholly owned by the Nortek Group, therefore the application of this exception had no impact on this historical financial information.

- *Classification and measurement of financial assets*

The Nortek Group has elected not to early apply the requirements of IFRS 9, Financial Instruments, therefore the application of this exception had no impact on this historical financial information.

- *Embedded derivatives*

The Company assessed whether embedded derivatives were required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. See Note 19 for a summary of embedded derivatives that, based on the assessment performed, were required to be separated from the host contract and accounted for as a derivative.

- *Government Loans*

At the transition date, the Nortek Group has no government loans outstanding, therefore the application of this exception had no impact on this historical financial information.

Basis of consolidation

The Nortek Group historical financial information includes 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 historical financial information of subsidiaries to bring the accounting policies used into line with those used by the Nortek Group. All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full.

Going concern

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

The acquisition of Nortek and the repayment of Nortek's existing debt, if required, will be financed through a combination of new equity and bank debt. The Nortek debt comprises a \$615 million secured term loan, utilisations drawn against the \$325 million secured asset based lending facility and \$735 million of 8.5% unsecured loan notes (see Note 19).

There is a change of control provision contained within the unsecured loan notes that stipulates the acquirer upon a change of control has a legal obligation to offer 101% of the principal to the loan notes holders. The loan note holders do not have to accept. Alternatively at the option of the Company, the loan notes are redeemable, in whole or in part, on or after 15 April 2016, at 104.25%, declining to 102.125% on 15 April 2017, declining to 101.063% on 15 April 2018 and further declining to 100% on 15 April 2019.

2. Summary of significant accounting policies (Continued)

A proportion of the Rights Issue proceeds will be used to repay some of the Nortek debt at Completion as the business is de-levered considerably, to an opening pro forma leverage of no more than 2.5x. To the extent further funding is required to repay the existing Nortek debt then this will be provided by way of the new five-year \$1.25 billion bank facility.

Business combinations and goodwill

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

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

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

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

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

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

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

2. Summary of significant accounting policies (Continued)

Joint ventures

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

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, customs duties and sales related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The nature of agreements into which the Nortek Group enters means that the contracts usually contain discrete elements, each of which transfers risks and rewards to the customer. Where such discrete elements are present, revenue is recognised on each element in accordance with the policy on the sale of goods. The significant majority of the Nortek Group's revenue is recognised on a sale of goods basis.

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

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

Certain of the Nortek 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 Nortek Group's multiple element arrangements are delivered within a one year period. The Nortek Group believes that any undelivered elements can be accounted for separately from the delivered element when the delivered elements have value to its customers on a stand-alone basis. Accordingly, revenue for an undelivered-element is deferred until delivery occurs. The Nortek Group allocates revenue to multiple element arrangements based on the relative fair value of each element's estimated selling price.

Allowances for cash discounts, volume rebates, other customer incentive programs and gross customer returns, among others, 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. Certain customer incentives are recorded as a charge to headline operating expenses if there is a separable, identifiable benefit related to the incentive that can be quantified. These customer incentives principally relate to promotional advertising allowances where the customer is required to obtain approval and provide support for the associated advertising expenditures in order to receive the incentive consideration. Cash discounts, volume rebates and other customer incentive programs are based upon certain percentages agreed to with the Nortek Group's various customers, which are typically earned by the customer over an annual period. The Nortek Group records periodic estimates for these amounts based upon the historical results to date, estimated future results through the end of the contract period, and the contractual provisions of the customer agreements. For calendar year customer agreements, the Nortek Group is able to adjust its periodic estimates to actual amounts as of 31 December each year based upon the contractual provisions of the customer agreements. For those customers who have agreements that are not on a calendar year cycle, the Nortek Group records estimates at 31 December consistent with the above described methodology. Customers are generally not required to provide collateral for purchases. As a result, at the end of any given reporting period, the amounts recorded for these allowances are based upon estimates of the likely outcome of future sales with the applicable customers and may require adjustment in the future if the actual outcome differs. Historically

2. Summary of significant accounting policies (Continued)

adjustments between estimates and actual allowances have not been material. The Nortek Group believes that its procedures for estimating such amounts are reasonable.

Certain of the Nortek Group's arrangements provide for rights of returns. Customer returns are recorded on an actual basis throughout the year and also include an estimate at the end of each reporting period for future customer returns related to sales recorded prior to the end of the period. The Nortek Group generally estimates customer returns based upon the time lag that historically occurs between the date of the sale and the date of the return, while also factoring in any new business conditions that might impact the historical analysis, such as new product introductions. The Nortek Group believes that its procedures for estimating such amounts are reasonable and allow it to make reliable estimates which are based on a historical large, homogeneous pool of transactions and history of returns. If a reliable estimate of returns cannot be made, the Nortek Group defers revenues until the right of return lapses. If the Nortek Group defers the recognition of arrangement consideration due to the fact that the criteria for revenue recognition are not achieved, the Nortek Group also defers the recognition of the related direct and incremental costs, primarily product costs, and recognises such costs upon recognition of the corresponding deferred revenues.

On 30 June 2015, one of the Nortek Group's wholly-owned subsidiaries completed the acquisition of certain assets and liabilities related to the mobile personal emergency response system and telehealth business of Numera, Inc. ("**Numera**"). Refer to Note 6 for further discussions related to this acquisition. Due to the fact that the fees that Numera receives for hardware sales and related hardware activations were not deemed separate units of accounting, these fees are deferred and recognised rateably over the estimated period of economic benefit which has been initially determined to be three years. In addition, Numera capitalises the direct and incremental costs related to hardware and activation sales and recognises these costs over the same period that the associated revenue is recognised. As of 31 December 2015, Numera had recorded \$2.8 million of deferred revenue and approximately \$2.2 million of deferred cost of sales.

With the exception of deferred cost of sales related to Numera discussed above, the amount of deferred cost of sales at 31 December 2015, 2014 and 2013 and 1 January 2013, respectively, was not material.

The Nortek Group also provides for its estimate of warranty, bad debts and shipping costs at the time of sale. Shipping and warranty costs are included in cost of sales. Provisions for the estimated allowance for doubtful accounts are recorded in headline operating expense. The amounts recorded are generally based upon historically derived percentages while also factoring in any new business conditions that might impact the historical analysis such as changes in economic conditions, past due and nonperforming accounts, bankruptcies or other events affecting particular customers. The Nortek Group periodically evaluates the adequacy of its allowance for doubtful accounts recorded in its historical financial information to ensure the adequacy of the recorded provisions. The analysis for allowance for doubtful accounts often involves subjective analysis of a particular customer's ability to pay. As a result, significant judgment is required in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. The Nortek Group believes that its procedures for estimating such amounts are reasonable.

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 is 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.

2. Summary of significant accounting policies (Continued)

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

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

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

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

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

Intangible assets

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

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

Access to the use of brands and intellectual property are valued using a “relief from royalty” method, a form of the income approach, 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.

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

Trademarks	3 – 22 years
Developed technology	4 – 15 years
Customer relationship	2 – 21 years
Other intangibles	3 – 6 years

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

Intangible assets are tested for impairment 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 if there are potential indicators of impairment, and where applicable, changes to useful lives 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

2. Summary of significant accounting policies (Continued)

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. Through 31 December 2015, the Nortek Group had no material costs that qualified for capitalisation.

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 at cost, less any impairment. The carrying amount of other receivables is reduced by the impairment loss 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 in headline operating expenses.

Derivatives

Derivatives are initially recognised, and are subsequently re-measured, at fair value. Fair values of derivatives are obtained either from quoted market prices or by using valuation techniques.

Embedded derivatives are bifurcated from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host non-derivative contract, their contractual terms would otherwise meet the definition of a stand-alone derivative and the combined contract is not held for trading or designated at fair value. The bifurcated embedded derivatives are measured at fair value with changes therein recognised in the income statement.

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in net interest expense.

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.

2. Summary of significant accounting policies (Continued)

Leases

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

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

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

Other financial assets

Other financial assets include marketable securities and other financial assets held for trading. These are classified as financial assets at fair value through profit or loss. Other financial assets at fair value through profit and loss are carried in the Balance Sheet at fair value with changes in fair value recognised in finance income or finance costs in the Income Statement.

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 Nortek Group derecognises financial liabilities when the Nortek Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedging

The Nortek Group uses derivative financial instruments to partially manage its exposure to foreign exchange rate risks arising from operating and financing activities. The Nortek Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised and stated at fair value. Their fair value is recalculated at each reporting date. The Nortek Group does not apply hedge accounting.

Warrants liabilities

The Nortek Group accounts for the warrants issued to former debt-holders in accordance with the guidance for equity-based payments. The warrants were granted upon emergence from bankruptcy in 2009 and expired on 17 December 2014. The warrants could be settled upon exercise in Group's shares and have a net share settlement feature. Using a Black Scholes model approach, the fair value of the warrants was initially measured at the date of issuance, and expensed over the vesting period as finance costs, net. The fair value of the warrants were re-measured at the end of each reporting date, and changes in fair value were recorded in the Income Statement. The valuation of the warrants considered the Nortek Group's common stock price and various assumptions, such as the volatility of the Nortek Group's common stock, the expected remaining life of the warrants, the expected dividend yield, and the risk-free interest rate. See Note 20 for further discussions of warrants and fair values.

Fair value measurement

The Nortek Group measures financial instruments such as derivatives and restricted investments at fair value at each reporting date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in Note 20.

2. Summary of significant accounting policies (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Nortek Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Nortek Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1—Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2—Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3—Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Nortek Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Provisions

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

The Nortek Group also records provisions related to expenses for health, workers compensation, product and general liability losses in accordance with either the contractual terms or, if self-insured, the total liabilities that are estimable and probable as of the reporting date. Related liabilities are recorded as current liabilities to the extent they are expected to be paid in the succeeding year, with the remaining requirements classified as long-term liabilities. Receivables related to recoveries of self-insured product liability claims are recorded as assets, on an undiscounted basis.

Restructurings

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

2. Summary of significant accounting policies (Continued)

Warranties

The Nortek Group sells a number of products and offers a number of warranties including, in some instances, extended warranties for which it receives proceeds. The specific terms and conditions of these warranties vary depending on the product sold and the country in which the product is sold. The Nortek Group estimates the costs that may be incurred under warranties, with the exception of extended warranties, and records a liability for such costs at the time of sale. Deferred revenue from extended warranties is recorded at the estimated fair value and is amortised over the term of the extended warranty.

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 liability 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 benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the Nortek Group. The accounting policy for pensions and other retirement benefits is described below.

Pensions and other retirement benefits

The Nortek Group has various pension plans, including defined benefit and defined contribution plans, supplemental retirement plans for certain officers, 401(k) savings and profit sharing plans, and other post-retirement benefit plans requiring contributions to qualified trusts and union administered funds.

The Nortek Group's pension plans offer subsidised early retirement and lump sum payments. The Nortek Group's actuaries use assumptions to capture the value of these forms of payments within the liability calculation.

The Nortek Group's policy is to generally fund currently at least the minimum required annual contribution of its various qualified defined benefit plans.

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 in the respective period.

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.

2. Summary of significant accounting policies (Continued)

Foreign currencies

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

In preparing the financial information 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 reporting date, monetary assets and liabilities, including certain inter-company accounts receivable and payable that have been determined to not be of a "long-term investment" nature, that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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. Nortek, Inc. has provided long-term intercompany funding to certain of its foreign subsidiaries, principally for acquisitions, that are deemed to be of a long-term investment nature with the resulting adjustments being recorded directly in equity.

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

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

Taxation

The tax expense is based on the taxable profits for the period and represents the sum of the tax paid or currently payable and deferred tax. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Nortek Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting 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

2. Summary of significant accounting policies (Continued)

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 reporting 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 reporting date.

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

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

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

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

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

Share-based payments

The Nortek Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value of the equity instrument excluding the effect of non-market based vesting conditions at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Nortek Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

As the Nortek Group net settles awards and pays the corresponding minimum statutory tax withholding liability in cash to the tax authorities, the portion of each award related to the withholding is accounted for as a cash-settled award and classified as a liability in the Balance Sheet in Other liabilities. The liability portion of each award is measured at fair value at each reporting date between grant and settlement using a Black Scholes model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. Changes in fair value are recognised in profit or loss for the period.

Further details of share-based compensation are given in Note 23.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Nortek Group's accounting policies, which are described in Note 2, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

3. Critical accounting judgments and key sources of estimation uncertainty (Continued)

The Nortek Group periodically evaluates the judgments and estimates used for its critical accounting policies to ensure that such judgments and estimates are reasonable for its interim and year-end reporting requirements. These judgments and estimates are based upon the Nortek Group's historical experience, current trends and other information available, as appropriate. If actual conditions are different from those assumptions used in the Nortek Group's judgments, actual results could be materially different from their estimates. The Nortek Group's critical accounting policies are discussed below.

Income Taxes

The Nortek Group is subject to income tax in most of the jurisdictions in which it operates. Management is required to exercise judgment in determining the Nortek Group's provision for income taxes. Management's judgment is required in estimating tax provisions where additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. Management's judgment is also required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. While the Nortek Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected. Further details on income tax are given in Note 10.

Impairment of long-lived assets, including goodwill

Long-lived assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired, and at least annually when the cash-generating units include goodwill. Such events and circumstances include the effects of restructuring plans initiated by the Nortek Group. To determine whether long-lived assets are impaired requires an estimation of the value in use of the cash-generating units, including those to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the net present value. Such calculations require judgment relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium-term business plans. The Nortek Group draws upon its historical operating experience as well as the expertise of external resources in making these judgments. Further details on assumptions and impairment charges are given in Note 12.

Pension and other post-retirement benefits

The Nortek Group determination of pension and other post-retirement liabilities requires estimates of such items as the long-term average return on plan assets, the discount rate, the rate of compensation increase and the assumed medical cost inflation rate. The Nortek Group utilises long-term investment-grade bond yields as the basis for selecting a discount rate by which plan obligations are measured. An analysis of projected cash flows for each plan is performed in order to determine plan-specific duration. Discount rates are selected based on high quality corporate bond yields of similar durations. These estimates require a significant amount of judgment as items such as stock market fluctuations, changes in interest rates, plan amendments, and curtailments can have a significant impact on the assumptions used and, therefore, on the ultimate final actuarial determinations for a particular year. The Nortek Group believes the procedures and estimates used in its accounting for pensions and post-retirement health benefits are reasonable and consistent with acceptable actuarial practices. Further details on pension and other post-retirement benefits are given in Note 22.

Warranties

The Nortek Group estimates the costs that may be incurred under the warranties issued based on several assumptions. Factors that affect the Nortek Group's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, cost per claim, and new product introduction. The Nortek Group periodically assess the adequacy of its recorded reserves for warranty claims and adjust the amounts as necessary. Warranty claims can extend far into the future. As a result, significant judgment is required in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. The Nortek Group believes that the procedures for estimating such amounts are reasonable.

The Nortek Group has also undertaken several voluntary product recalls and reworks over the past several years and could do so in the future given the nature of the Nortek Group's business. Additional product

3. Critical accounting judgments and key sources of estimation uncertainty (Continued)

recalls and reworks could result in material future costs. Many of the Nortek Group's products, especially certain models of bath fans, range hoods, and residential furnaces and air conditioners, 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 generally covered by insurance. Recalls or reworks may adversely affect the Nortek Group's reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on its financial condition, results of operations and cash flows. Further details on warranties are given in Note 21.

Product Liability Provisions

The accounting for self-insured plans requires that significant judgments and estimates be made both with respect to the future liabilities to be paid for known claims, and incurred but not reported claims as of the reporting date. The Nortek Group considers historical trends when determining the appropriate insurance reserves to record. In certain cases where partial insurance coverage exists, the Nortek Group must estimate the portion of the liability that will be covered by existing insurance policies to arrive at its net expected liability. Insurance recoveries are estimated based on the contractual arrangements with vendors and other third parties as well as historical trends. The Nortek Group believes that its procedures for estimating such amounts are reasonable. Further details on product liabilities are given in Note 21.

Contingencies

The Nortek Group is subject to contingencies, including legal proceedings and claims arising out of its business, that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, product recalls, warranty, and modification, adjustment or replacement of component parts of units sold. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned. Provisions are recognised when it is probable that an outflow of resources will be required. Provisions recognised have been estimated based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Nortek Group believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the historical financial information. It is possible, however, that future results of operations for any particular future period could be materially affected by changes in assumptions or strategies related to these contingencies, or changes out of Nortek's control. Further details on provisions and contingencies are given in Notes 21 and 28.

Share-Based Compensation Expense

Share-based compensation expense is measured at fair value. The estimated fair value of options granted is measured on the date of grant using the Black Scholes option pricing model, which involves a significant amount of judgments. A significant change in the significant assumptions, including interest rates, stock volatility, or the Nortek Group's expected dividend rate would have a direct impact on the estimated fair value of options granted and related expense. Further details on share-based compensation expenses are given in Note 23.

4. Standards issued but not yet effective

IFRS 9 "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective, subject to endorsement by the EU, for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

4. Standards issued but not yet effective (Continued)

The Nortek Group plans to adopt the new standard on the required effective date. During 2015, the Nortek Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Nortek Group in the future. Based on this preliminary assessment, the Nortek Group does not expect the adoption of IFRS 9 to have any material impact on the Nortek Group's historical financial information.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required, subject to endorsement by the EU, for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Nortek Group intends to adopt this standard on 1 January 2018. Currently, the Nortek Group is evaluating both the method of adoption and the impact adoption will have on its consolidated financial statements. In evaluating the method of adoption, the Nortek Group is considering a number of factors, including the disclosure requirements and related processes and controls required, as well as, the overall industry and peer public company adoption method trends. The Nortek Group has made a preliminary assessment on the following components of the new standard:

- ***Sale of goods***

Contracts with customers in which equipment sale is the only performance obligation are not expected to have any material impact on the amount of timing of revenue recognition of the Nortek Group. However, there will be an impact related to the nature and significance of disclosures required by IFRS 15.

- ***Variable consideration***

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Nortek Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Nortek Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

The Nortek Group continues to assess individual contracts to determine the estimated variable consideration and related constraint.

- ***Warranty obligations***

The Nortek Group provides warranties for general repairs, which represent an assurance-type warranty, and the Nortek Group does not currently provide any material extended warranties or maintenance services in its contracts with customers. As such, the Nortek Group does not anticipate a material change in its accounting for its warranty obligations under IFRS 15 and, consistent with its current methodology, the Nortek Group will continue to accrue the estimated cost of its warranty fulfilment obligations at the time of the recognition of revenues.

IFRS 16 “Leases”

IFRS 16 was issued in January 2016 and will be effective, subject to endorsement by the EU, in January 2019. Upon becoming effective, it will replace the existing lease standard, IAS 17.

4. Standards issued but not yet effective (Continued)

A primary principle of IFRS 16 is that all leases should be reported on the Balance Sheet, although there are exceptions for small items and for leases with a term of less than 12 months. Under IFRS 16, a lessee is required to recognise an asset for the right to use the leased item and a liability for the present value of its future lease payments.

IFRS 16 requires lessors to classify leases as either an “operating lease” or a “financing lease.” The lessor recognises revenue under a financing lease as essentially interest payments on the amount financed. The lessor recognises income under an operating lease on a systematic basis consistent with the benefits derived from the leased assets, which may be recognised on a straight-line basis.

This standard is expected to have a significant impact on the Nortek Group’s current accounting for its lease arrangements, particularly its current operating lease arrangements, as well as, disclosures. The Nortek Group is currently evaluating the impact of adoption on its historical financial information.

5. Operating Segments

The Nortek Group presents operating segments consistent with the internal reporting provided to the Nortek Group’s Chief Executive Officer, the chief operating decision maker (CODM), and reflects the way in which resources are allocated.

The Nortek Group is considered to have 5 principal reportable segments as follows:

- The Air Quality and Home Solutions segment (AQH), primarily manufactures and distributes room and whole house ventilation products for the professional remodelling and replacement markets, residential new construction market, and do-it-yourself market. The principal products sold by this segment include kitchen range hoods, exhaust fans (such as bath fans and fan, heater and light combination units), and indoor air quality products (such as air exchangers and heat energy recovery ventilators). Sales of the Nortek Group’s kitchen range hoods and exhaust fans within the AQH segment accounted for approximately 10.1% and 8.8%, respectively, of consolidated net sales for 2015, approximately 9.6% and 9.1%, respectively, of consolidated net sales in 2014 and approximately 10.7% and 9.8%, respectively, of consolidated net sales in 2013.
- The Security and Control Solutions segment (SCS), manufactures and distributes a broad array of products designed to provide convenience and security primarily for residential applications. The principal product categories in this segment include security, automation and access control equipment and systems. Sales of security systems and components within the SCS segment accounted for approximately 12.7%, 12.8%, and 10.1% of consolidated net sales for 2015, 2014, and 2013, respectively.
- The Ergonomic and Productivity Solutions segment (ERG), manufactures and distributes a broad array 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. Sales of the Nortek Group’s digital display mounting and mobility products within the ERG segment accounted for approximately 13.9%, 11.6% and 12.0% of consolidated net sales in 2015, 2014 and 2013, respectively.
- The Residential and Commercial HVAC segment (RCH), principally manufactures and sells split-system and packaged air conditioners and heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets. In addition, this segment produces unit heaters, radiant heaters and rooftop heating, ventilation and cooling products primarily for industrial and commercial applications. Sales of products sold in the RCH segment accounted for approximately 23.6%, 23.9% and 20.1% of consolidated net sales in 2015, 2014 and 2013, respectively.
- The Custom and Commercial Air Solutions segment (CAS) manufactures and sells custom-designed and engineered HVAC products and systems, primarily in North America, for non-residential applications. The principal products sold by the segment are air handlers and large custom rooftop cooling and heating products. Sales of the Nortek Group’s commercial air handlers within the CAS segment accounted for approximately 13.9%, 13.8% and 14.6% of consolidated net sales in 2015, 2014 and 2013, respectively.

5. Operating Segments (Continued)

Audio, Video and Control (AVC) combines all other segments that are not reportable as these operating segments are individually not significant (AVC segments). AVC segments manufacture and distribute a broad array of products primarily for the residential audio/video and professional video signal management markets. The principal product categories in these segments include residential audio/video equipment (including architectural speakers and power conditioners, among other products), home control equipment, and professional video signal management solutions.

The Nortek Group evaluates segment performance based on operating earnings before allocations of corporate overhead costs and impairment charges.

Unallocated assets consist primarily of cash and cash equivalents, marketable securities, prepaid and deferred income taxes, and long-term restricted investments and marketable securities.

Also, the Nortek Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

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

	Year ended 31 December 2013								
	AQH	SCS	ERG	RCH	CAS	AVC	Unallocated costs	Adjustments and eliminations	Consolidated
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue									
External customers	600.5	347.2	274.5	460.8	425.2	179.7	—	—	2,287.9
Inter-segment	2.9	18.1	—	0.3	0.9	—	—	(22.2)	—
Total revenue	603.4	365.3	274.5	461.1	426.1	179.7	—	(22.2)	2,287.9
Headline ⁽¹⁾ operating profit	82.6	35.4	54.2	17.6	36.9	2.9	(45.1)	—	184.5
Impairment of long-lived assets and goodwill	—	—	—	—	—	—	(4.3)	—	(4.3)
Intangible asset amortisation	(15.2)	(10.4)	(12.9)	(0.9)	(5.4)	(6.5)	—	—	(51.3)
Exceptional operating costs	0.4	(4.6)	(3.2)	(8.4)	(2.0)	(9.4)	(15.8)	—	(43.0)
Exceptional operating income	—	—	—	—	—	—	—	—	—
Operating profit	67.8	20.4	38.1	8.3	29.5	(13.0)	(65.2)	—	85.9
Finance costs	—	—	—	—	—	—	(102.9)	—	(102.9)
Segment profit/(loss)	67.8	20.4	38.1	8.3	29.5	(13.0)	(168.1)	—	(17.0)
Total assets	610.5	327.7	378.4	163.9	176.1	148.9	107.2	—	1,912.7
Total liabilities	183.2	46.5	78.2	111.6	90.2	23.7	1,293.1	—	1,826.5
Total depreciation	12.0	4.6	4.8	9.4	6.5	2.2	1.1	—	40.6
Total capital expenditure	7.6	6.6	3.5	6.3	10.8	3.9	5.2	—	43.9

Note:

(1) As detailed in the consolidated income statement.

5. Operating Segments (Continued)

	Year ended 31 December 2014								
	AQH	SCS	ERG	RCH	CAS	AVC	Unallocated costs	Adjustments and eliminations	Consolidated
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue									
External customers	595.1	436.5	294.4	607.5	450.0	162.6	—	—	2,546.1
Inter-segment	3.0	16.0	—	1.2	0.6	—	—	(20.8)	—
Total revenue	598.1	452.5	294.4	608.7	450.6	162.6	—	(20.8)	2,546.1
Headline ⁽¹⁾ operating profit	83.2	60.1	58.9	41.1	40.8	(12.7)	(51.0)	—	220.4
Impairment of long-lived assets and goodwill	—	—	—	—	—	—	(80.4)	—	(80.4)
Intangible asset amortisation	(15.4)	(13.2)	(12.9)	(9.6)	(5.6)	(3.3)	—	—	(60.0)
Exceptional operating costs	(0.3)	(2.7)	(0.6)	(15.3)	(3.3)	(3.2)	(13.9)	—	(39.3)
Exceptional operating income	—	—	—	—	—	—	—	—	—
Operating profit	67.5	44.2	45.4	16.2	31.9	(19.2)	(145.3)	—	40.7
Finance costs	—	—	—	—	—	—	(112.1)	—	(112.1)
Segment profit/(loss)	67.5	44.2	45.4	16.2	31.9	(19.2)	(257.4)	—	(71.4)
Total assets	585.7	339.6	365.0	547.9	179.3	63.2	82.1	—	2,162.8
Total liabilities	172.5	72.0	78.1	190.8	84.0	29.5	1,492.3	—	2,119.2
Total depreciation	9.2	4.1	4.6	12.7	6.8	3.3	2.5	—	43.2
Total capital expenditure⁽²⁾	10.0	2.9	3.6	6.7	6.3	1.8	7.6	—	38.9

Notes:

- (1) As detailed in the consolidated income statement.
- (2) Excludes additions of land and buildings and machinery and equipment held under finance leases of \$31.5 million and \$0.5 million.

	Year ended 31 December 2015								
	AQH	SCS	ERG	RCH	CAS	AVC	Unallocated costs	Adjustments and eliminations	Consolidated
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue									
External customers	598.1	427.3	350.2	594.9	426.3	129.3	—	—	2,526.1
Inter-segment	2.9	13.2	—	1.4	1.0	—	—	(18.5)	—
Total revenue	601.0	440.5	350.2	596.3	427.3	129.3	—	(18.5)	2,526.1
Headline ⁽¹⁾ operating profit	83.4	53.2	77.5	22.3	33.0	(9.0)	(40.3)	—	220.1
Impairment of long-lived assets and goodwill	—	—	—	—	—	—	(1.6)	—	(1.6)
Intangible asset amortisation	(15.5)	(13.6)	(17.6)	(15.3)	(5.3)	—	—	—	(67.3)
Exceptional operating costs	(2.1)	(2.9)	(0.5)	(24.0)	(13.6)	(11.6)	(6.2)	—	(60.9)
Exceptional operating income	—	3.5	—	—	—	—	—	—	3.5
Operating profit	65.8	40.2	59.4	(17.0)	14.1	(20.6)	(48.1)	—	93.8
Finance costs	—	—	—	—	—	—	(115.6)	—	(115.6)
Segment profit/(loss)	65.8	40.2	59.4	(17.0)	14.1	(20.6)	(163.7)	—	(21.8)
Total assets	572.8	377.3	419.7	501.9	157.0	46.0	52.3	—	2,127.0
Total liabilities	153.9	84.2	78.7	169.0	66.3	18.1	1,539.6	—	2,109.8
Total depreciation	9.3	4.9	4.8	15.5	8.6	4.8	2.5	—	50.4
Total capital expenditure	15.3	9.2	4.7	7.7	8.7	1.6	2.6	—	49.8

Note:

- (1) As detailed in the consolidated income statement

Inter-segment revenues are eliminated upon consolidation and reflected in the ‘adjustments and eliminations’ column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Capital expenditure consists of additions of property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

5. Operating Segments (Continued)

Adjustments and eliminations

<u>Reconciliation of assets</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Segment operating assets				
AQH	572.8	585.7	610.5	646.1
SCS	377.3	339.6	327.7	158.5
ERG	419.7	365.0	378.4	393.4
RCH	501.9	547.9	163.9	152.3
CAS	157.0	179.3	176.1	172.2
AVC	46.0	63.2	148.9	154.8
Total segment assets	2,074.7	2,080.7	1,805.5	1,677.3
Unallocated				
Cash and equivalents	24.9	59.0	83.8	144.9
Other assets	27.4	23.1	23.4	20.0
Consolidated total assets	2,127.0	2,162.8	1,912.7	1,842.2

<u>Reconciliation of liabilities</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Segment operating liabilities				
AQH	153.9	172.5	183.2	189.0
SCS	84.2	72.0	46.5	39.3
ERG	78.7	78.1	78.2	64.4
RCH	169.0	190.8	111.6	91.5
CAS	66.3	84.0	90.2	66.5
AVC	18.1	29.5	23.7	24.9
Total segment liabilities	570.2	626.9	533.4	475.6
Unallocated				
Notes, mortgage notes, and other	1,374.9	1,326.6	1,083.1	1,101.0
Deferred taxes	94.9	105.1	155.9	121.2
Other liabilities	69.8	60.6	54.1	59.7
Consolidated total liabilities	2,109.8	2,119.2	1,826.5	1,757.5

<u>Geographic information</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Revenue from external customers⁽¹⁾			
North America	2,263.6	2,280.9	2,055.8
Europe	165.6	181.2	138.1
Other	96.9	84.0	94.0
Total	2,526.1	2,546.1	2,287.9

Note:

(1) Revenue is presented by destination.

<u>Geographic information</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Non-current operating assets⁽¹⁾				
North America	1,321.4	1,329.7	1,194.9	1,103.8
Europe	21.5	23.4	29.7	28.3
Other	10.4	10.2	10.7	7.0
Total	1,353.3	1,363.3	1,235.3	1,139.1

Note:

(1) Excludes interest in associates.

6. Business combinations

Acquisitions in 2015

Anthro Acquisition

On 21 January 2015, one of the Nortek Group's subsidiaries in the ERG segment completed the acquisition of all of the outstanding stock of Anthro Corporation ("Anthro"), a fully integrated business with in-house capability to design/develop, manufacture and market its technology furniture products. Anthro's key products include charging carts (for electronics, including tablets, laptops and other mobile devices) and height adjustable desks and technology carts. Anthro has been integrated into the Nortek Group's ERG segment during the period. The Nortek Group completed the acquisition of Anthro to expand its technology and product offerings of the ERG segment.

The Nortek Group acquired this business for an initial aggregate purchase price of approximately \$51.0 million, of which approximately \$50.8 million was paid in cash and an additional \$0.2 million related to the amount of consideration being paid in excess of the fair value of certain services provided by the former stockholders of Anthro. Approximately \$5.0 million of the purchase price is held in escrow to cover general business representations and warranties. This amount will be paid 18 months after the closing date of the Anthro acquisition. During the third quarter of 2015, the Nortek Group received approximately \$0.7 million for working capital and other purchase price adjustments. As a result, the final adjusted purchase price was approximately \$50.3 million. Acquisition-related costs were expensed as incurred within exceptional operating costs in the Income Statement and were not material.

The Nortek Group made preliminary estimates of the fair value of the assets and liabilities of Anthro, including certain tangible and intangible assets and liabilities, utilising information available at the time and these estimates are subject to refinement until all pertinent information has been obtained. These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy. During the fourth quarter of 2015, as a result of gathering additional information from the time of the acquisition related to certain acquired contingent liabilities, the Nortek Group recorded a measurement period adjustment of approximately \$0.1 million to reflect the increase in the fair value of the acquired contingent liability with a corresponding increase to goodwill.

The Nortek Group determined that the fair value of tangible net assets acquired was approximately \$5.1 million, including cash of approximately \$0.6 million and a fair value adjustment related to inventory acquired of approximately \$0.5 million which was recognised in cost of revenues during the first quarter of 2015. In addition, approximately \$19.6 million was recognised for definite-lived intangible assets, and approximately \$25.6 million was recorded to goodwill.

The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class (dollar amounts in millions):

	<u>Fair Value</u>	<u>Weighted Average Useful Lives</u>
	<u>\$m</u>	
Developed technology	13.3	4.0
Customer relationships	2.2	4.5
Trade names	3.9	5.0
Favourable lease arrangements	0.2	3.0
	<u>19.6</u>	<u>4.3</u>

The factors contributing to the recognition of goodwill were based upon the Nortek Group's determination that several strategic and synergistic benefits are expected to be realised from the combination. This transaction was treated for U.S. federal and applicable state and local income tax purposes as a taxable purchase of assets. Therefore, substantially all of the goodwill is expected to be deductible for tax purposes.

The results of Anthro have been included in the Nortek Group's historical financial information since the date of acquisition within the ERG segment. From the date of acquisition through 31 December 2015 Anthro contributed \$37.8 million of revenue and \$1.2 million of profit before tax to the operations of the

6. Business combinations (Continued)

Nortek Group. Pro forma results related to the acquisition of Anthro have not been presented, as the effect is not significant to the Nortek Group's historical financial information.

Numera Acquisition

On 30 June 2015, one of the Nortek Group's wholly-owned subsidiaries completed the acquisition of certain assets and liabilities of Numera for an aggregate initial all cash purchase price of approximately \$12.0 million, of which approximately \$1.5 million was deposited into an escrow account with a third party escrow agent and will be released after the 3rd anniversary of the transaction. The acquired operations have been integrated into the Nortek Group's SCS segment. The Nortek Group completed the acquisition to expand its technology and product offerings of the SCS segment. Acquisition-related costs were expensed as incurred within exceptional operating costs in the Income Statement and were not material.

In addition to the initial purchase price consideration, the Nortek Group could be required to pay an additional purchase price of up to \$28.0 million, which is based on the amount by which future sales, as defined under the purchase agreement, exceeded \$12.1 million during the period from 29 March 2015 through 2 April 2016 (the "**earn-out period**").

The fair value of the contingent consideration at the acquisition date was determined to be approximately \$3.7 million resulting in a total purchase price of approximately \$15.7 million. The Nortek Group recorded its estimate of the fair value of the contingent consideration based on the evaluation of the likelihood of the achievement of the contractual conditions that would result in the payment of the contingent consideration. The Nortek Group's fair value of the contingent consideration was determined using an option pricing model. The real option approach methodology applies option pricing theory to a "real" stream, such as revenue. Utilisation of this methodology allows running a high number of simulations and therefore, the Nortek Group believes that this valuation methodology was most appropriate.

The Nortek Group notes that the key Level 3 inputs utilised in determining the fair value of the contingent consideration were:

- Forecasted revenue, including forecasts of 10th and 90th percentiles
- Real option approach methodology simulation inputs, including volatility, risk premiums and betas, which are utilised to derive the total market risk adjustment in the real option approach valuation model simulations
- Comparable Group analysis, which is utilised to support and determine the reasonableness of certain of the option simulation inputs
- Discount factor, which is utilised to present value the risk-adjusted expected earn-out payment

During the fourth quarter of 2015, based on consideration of Numera's post-acquisition revenues during the earn-out period, as well as forecasts for the remainder of the earn-out period which were impacted by certain short-term delays in customer purchases, the Nortek Group determined that there was a decrease in the fair value of the contingent consideration liability. At 31 December 2015, the Nortek Group determined that the fair value of the contingent consideration liability was approximately \$0.2 million and, as a result, recorded a benefit to exceptional operating income of approximately \$3.5 million in the fourth quarter of 2015. The fair value was determined utilising a consistent valuation methodology with the acquisition date valuation methodology. Given the revenues to date, the fact that the remaining duration of the earn-out period is only approximately three months from year-end, and that there is no significant level of backlog, the Nortek Group determined that the likelihood of any prospective material change in the fair value of the contingent consideration liability is remote.

Based on the Nortek Group's evaluation of the assets and liabilities acquired, the Nortek Group determined that the fair value of tangible net assets acquired was approximately \$0.3 million, principally related to certain prepaid expenses, inventory, and property and equipment. In addition, approximately \$11.0 million was recognised for definite-lived intangible assets, and approximately \$4.4 million was recorded to goodwill. These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy.

6. Business combinations (Continued)

The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class:

	<u>Fair Value</u>	<u>Weighted Average Useful Lives</u>
	<u>\$m</u>	
Developed technology	5.6	4.8
Customer relationships	4.0	5.8
Trade names	1.1	5.5
Non-compete arrangements	<u>0.3</u>	3.3
	<u>11.0</u>	5.1

The factors contributing to the recognition of goodwill were based upon the Nortek Group's determination that several strategic and synergistic benefits are expected to be realised from the combination. Substantially all of the goodwill is expected to be deductible for tax purposes.

The results of Numera have been included in the Nortek Group's consolidated historical financial information since the date of acquisition within the SCS segment. From the date of acquisition through 31 December 2015, Numera contributed \$1.8 million of revenue and \$2.4 million of loss before tax to the operations of the Nortek Group. Pro forma results related to the acquisition of Numera have not been presented, as the effect is not significant to the Nortek Group's historical financial information.

Acquisitions in 2014

Reznor Acquisition

On 30 April 2014, the Nortek Group completed the acquisition of the heating, ventilation and air conditioning business of Thomas & Betts Corporation ("**Reznor**") for approximately \$260.0 million in cash, plus additional payments of approximately \$2.6 million for working capital and other post-closing adjustments, of which approximately \$1.9 million was paid in the second quarter of 2014 and approximately \$0.7 million was paid during the fourth quarter of 2014. Reznor manufactures industrial and commercial HVAC products, including an extended range of gas fired air heaters, air handling units, condensing units and rooftop units. The acquisition was financed with a combination of cash on hand and a portion of the borrowings under a new \$350.0 million senior secured term loan facility (see Note 19). In connection with the acquisition of Reznor, the Nortek Group also incurred approximately \$6.8 million of fees and expenses, which have been recorded in exceptional operating costs in the Nortek Group's historical financial information.

The excess of the purchase price paid over the net assets acquired is recorded as goodwill, which is primarily attributable to the Nortek Group's belief that the acquisition of Reznor positions Nortek to service a broader portion of the HVAC market. Approximately \$76.1 million of goodwill associated with the acquisition will be deductible for income tax purposes.

6. Business combinations (Continued)

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

	<u>Fair value recognised on acquisition</u>
	<u>\$m</u>
Cash	7.0
Trade receivables	17.5
Inventory	20.5
Prepayments and other assets	1.0
Deferred taxes	0.9
Property, plant and equipment	17.0
Customer relationships	64.8
Completed technology	20.4
Trademarks	39.7
Other intangible assets	<u>0.1</u>
Total assets	188.9
Trade payables	12.3
Accrued expenses and taxes	6.5
Deferred income taxes	9.7
Other long-term liabilities	<u>1.6</u>
Total liabilities	30.1
Total identifiable net assets at fair value	158.8
Goodwill	<u>103.8</u>
Purchase consideration transferred	262.6
	<u><u>262.6</u></u>
	<u><u>Cash flow on acquisition</u></u>
	<u>\$m</u>
Net cash acquired with the subsidiary	(7.0)
Cash paid	262.6
Net cash flow on acquisition	255.6

The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class (dollar amounts in millions):

	<u>Fair Value</u>	<u>Weighted Average Useful Lives</u>
	<u>\$m</u>	
Completed technology	20.4	5.0
Customer relationships	64.8	11.1
Trademarks	39.7	20.0
Other	<u>0.1</u>	3.8
	<u>125.0</u>	12.9

The Nortek Group has made estimates of the fair value of the assets and liabilities of Reznor, including inventory, property and equipment, and intangible assets utilising information available at the acquisition date. The Nortek Group completed its valuation process and the related accounting for this acquisition in the first quarter of 2015. There were no material changes to its provisional acquisition accounting. These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy.

The results of Reznor have been included in the Nortek Group's Income Statement since the date of acquisition and have been included in the Nortek Group's RCH segment. If the combination had taken place at 1 January 2014, revenue of the Nortek Group would have been \$2,598.2 million and loss before tax

6. Business combinations (Continued)

for the Nortek Group would have been \$59.2 million. From the date of acquisition through 31 December 2014, Reznor contributed \$117.0 million of revenue and \$7.7 million of profit before tax to the operations of the Nortek Group. For the year ended 31 December 2015, Reznor contributed \$162.7 million of revenue and \$12.8 million of profit before tax to the operations of the Nortek Group.

Phoenix Acquisition

On 8 October 2014, one of the Nortek Group's subsidiaries in the RCH segment completed the acquisition of substantially all of the assets of the HVAC distribution business of privately owned Phoenix Wholesale, Inc. ("**Phoenix**"). This acquisition advances the Nortek Group's strategy of expanding the RCH segment's distribution footprint in regions where the Nortek Group had minimal market penetration. As a result of the acquisition of Phoenix, the Nortek Group now has 12 Group-owned distribution locations. The Nortek Group acquired this business for an aggregate purchase price of approximately \$13.9 million, all of which was paid in cash. Approximately \$1.6 million of the purchase price was retained by the Nortek Group as deferred acquisition consideration to be paid upon finalisation of certain working capital and other purchase price adjustments. These working capital and other purchase price adjustments were finalised and paid in February 2015. In addition, approximately \$1.0 million of the purchase price was held in escrow and released in April 2016 to cover general business representations and warranties. This acquisition did not have any earn-outs or other contingent purchase price consideration arrangements.

Based on the Nortek Group's evaluation of the assets and liabilities acquired, the Nortek Group determined that the fair value of tangible net assets acquired was approximately \$8.2 million, including a fair value adjustment related to inventory acquired of approximately \$0.4 million which was recognised in cost of products sold during the three month period ended 31 December 2014. The Nortek Group recognised approximately \$0.3 million of other assets related to a transition services agreement entered into in connection with the acquisition, which fair value is being expensed over the applicable one year service period. In addition, approximately \$3.9 million was recognised for definite-lived intangible assets, including customer relationships, trade names, non-compete arrangements and a favourable lease arrangement, with a weighted average useful life of approximately 7.8 years. Approximately \$1.5 million was recorded to goodwill. These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy. The Nortek Group completed its valuation process and the related accounting for this acquisition in the first quarter of 2015. There were no material changes to its provisional acquisition accounting.

The factors contributing to the recognition of goodwill were based upon the Nortek Group's determination that several strategic and synergistic benefits are expected to be realised from the combination. Substantially all of the goodwill is expected to be deductible for tax purposes.

The results of Phoenix have been included in the Nortek Group's consolidated historical financial information since the date of acquisition within the RCH segment. The acquisition of Phoenix contributed approximately \$4.0 million of revenue and approximately \$1.6 million of loss to the operations of the Nortek Group for 2014. Pro forma results related to the acquisition of Phoenix have not been presented, as the effect is not significant to the Nortek Group's historical financial information.

Acquisitions in 2013

2GIG Acquisition

On 1 April 2013, the Nortek Group acquired all of the outstanding common stock of 2GIG Technologies, Inc. ("**2GIG**") from APX Group, Inc. The purchase price was approximately \$164.2 million, which consisted of a cash payment at the date of acquisition of approximately \$135.0 million, working capital adjustments of approximately \$13.9 million (of which approximately \$12.3 million and \$1.6 million were paid during the second and third quarter of 2013, respectively) and the settlement of a receivable due from 2GIG to the Nortek Group as of the acquisition date of approximately \$15.3 million.

2GIG is a designer and supplier of residential security and home automation systems. Developed with the assistance of Nortek's Linear® business, 2GIG's Go!Control® touch-screen panel is a self-contained, all-in-one home security and automation control panel. 2GIG also provides wireless interactive home security services and a wide range of peripheral hardware devices and system components for home

6. Business combinations (Continued)

security and automation solutions. In connection with the acquisition of 2GIG, during 2013, the Nortek Group also incurred approximately \$1.9 million of acquisition fees and expenses, which have been recorded in exceptional operating costs in the Income Statement.

The excess of the purchase price paid over the fair value of 2GIG's net assets is recorded as goodwill, which is primarily attributable to opportunities for growth and profitability, as well as better positioning the Nortek Group in the growing residential security and home automation markets. The goodwill was recorded in the SCS reporting unit and the Nortek Group does not believe that any of the goodwill will be deductible for tax purposes.

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

	<u>Fair value recognised on acquisition</u>
	<u>\$m</u>
Cash	3.4
Trade receivables	42.6
Inventory	14.3
Prepayments and other assets	2.0
Deferred taxes	1.7
Property, plant and equipment	2.6
Customer relationships	73.1
Completed technology	6.1
Trademarks	<u>4.8</u>
Total assets	150.6
Trade payables	16.4
Accrued expenses	3.8
Deferred income taxes	<u>31.3</u>
Total liabilities	51.5
Total identifiable net assets at fair value	<u>99.1</u>
Goodwill	<u>65.1</u>
Purchase consideration transferred	<u>164.2</u>
	<u>Cash flow on acquisition</u>
	<u>\$m</u>
Net cash acquired with the subsidiary	(3.4)
Cash paid	148.9
Net cash flow on acquisition	<u>145.5</u>

These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy.

The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class (dollar amounts in millions):

	<u>Fair Value</u>	<u>Weighted Average Useful Lives</u>
	<u>\$m</u>	
Completed technology	6.1	7.0
Customer relationships	73.1	10.0
Trademarks	<u>4.8</u>	10.0
	<u>84.0</u>	9.7

6. Business combinations (Continued)

The results of 2GIG have been included in the Nortek Group's results of operations since the date of acquisition and have been included in the Nortek Group's SCS segment. From the date of acquisition through 31 December 2013, 2GIG contributed \$81.9 million of revenue and \$14.2 million of profit before tax to the operations of the Nortek Group. If the combination had taken place at 1 January 2013, revenue of the Nortek Group would have been \$2,319.9 million and loss before tax to the operations for the Nortek Group would have been \$6.0 million for 2013. During 2013, the operations of 2GIG were integrated into the Nortek Group's existing security and access control products business, as such, net sales and operating earnings for 2014 for 2GIG have not been presented separately.

7. Disposal of business

Sale of TV One Business

In July 2015, the Nortek Group received an unsolicited inquiry regarding the purchase of its TV One businesses ("TV One") that were part of the audio, video and control ("AVC") entities and the Nortek Group commenced an evaluation of the potential sale of TV One. On 28 July 2015, the Nortek board approved the plan to sell the stock of TV One to a consortium of TV One's management on 31 July 2015. Under the terms of the agreement, the Nortek Group has no ongoing involvement or obligations with respect to TV One and the Nortek Group is not obligated to indemnify the purchasers in connection with this transaction. There was no substantial cash consideration received in connection with the transaction.

The Nortek Group recorded a loss on sale of assets of approximately \$2.9 million in the third quarter of 2015. The Nortek Group concluded that the sale of TV One did not meet the criteria to be reported as a discontinued operation due to the fact that its disposition does not represent a strategic shift that has (or will have) a major effect on the Nortek Group's operations and financial results.

8. Exceptional operating costs and income

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Exceptional operating costs			
Non-recurring losses	(7.9)	(1.4)	(5.4)
Acquisition fees and expenses	(1.7)	(7.5)	(2.2)
Restructuring and transformation charges	(51.3)	(30.4)	(35.4)
	(60.9)	(39.3)	(43.0)
Exceptional operating income			
Numera contingent consideration	3.5	—	—

Non-recurring losses incurred during 2015 reflect \$2.9 million (2014 and 2013: nil) related to the loss on the sale of assets of TV One, \$2.3 million (2014: \$0.8 million and 2013: nil) of legal and other professional services related to the FCPA investigation (as discussed in Note 28), \$2.8 million (2014: nil and 2013: \$1.7 million) of charges associated with one-time executive transition costs and other of \$(0.1) million (2014: \$0.6 million and 2013: \$(0.4) million). Non-recurring losses incurred during 2013 also include approximately \$2.0 million of product line discontinuance costs and approximately \$2.1 million related to the write-off of indemnification assets.

During 2015, the Nortek Group incurred \$1.7 million (2014: \$7.5 million and 2013: \$2.2 million) of expenses on acquisition related activities during the year.

Restructuring and transformation charges (refer to Note 21 for details) incurred during 2015 reflect \$7.8 million (2014: \$4.4 million and 2013: \$7.2 million) related to subsidiary combinations, \$6.5 million (2014: \$14.7 million and 2013: \$9.5 million) related to manufacturing rationalisation and relocation efforts, \$13.9 million (2014: \$2.8 million and 2013: \$4.0 million) related to warehousing and distribution consolidation, \$12.0 million (2014 and 2013: nil) related to the CAS segment consolidation and \$11.1 million (2014: \$8.5 million and 2013: \$14.7 million) related to other operational improvement initiatives and exit and disposal activities.

During 2015, the Nortek Group recorded a favourable fair value adjustment of \$3.5 million related to the Numera contingent consideration. Refer to Note 6 for additional details.

9. Revenue and expenses

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

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Revenue from the sale of goods	2,511.3	2,531.2	2,268.1
Revenue from the provision of services	14.8	14.9	19.8
Total revenue	2,526.1	2,546.1	2,287.9

Net operating expenses comprise:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Selling and distribution costs	246.1	240.7	219.2
Administration expenses	417.7	477.2	375.4
Shares of results of associates	(1.4)	(1.4)	(0.7)
Total net operating expenses	662.4	716.5	593.9

Operating profit / (loss) is stated after charging/(crediting):

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Research and development costs not capitalised	77.7	75.4	65.5
Depreciation	50.4	43.2	40.6
Amortisation	67.3	60.0	51.3
Foreign exchange (gains)/losses	(0.2)	3.3	2.8
Operating lease expense	32.4	29.9	32.7
Write-down of inventory to net realisable value (Note 15)	10.2	0.2	1.0
Impairment of property, plant and equipment	1.6	1.3	4.3
Impairment of goodwill	—	4.4	—
Loss / (gain) on sale of assets	2.2	(0.3)	0.6
Impairment of intangible assets	—	74.7	—

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

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Salaries and wages	393.3	383.6	362.7
Management and other incentive compensation	31.2	35.8	35.0
Pension, profit sharing, 401(k) match and other benefit plans	11.7	9.1	8.5
Payroll taxes and other fringe benefits	87.4	84.3	77.1
Share-based compensation	(2.8)	9.5	12.9
Total staff costs	520.8	522.3	496.2

Average number of persons employed (including executive Directors):

	Year ended 31 December		
	2015	2014	2013
Total average number of persons employed	11,300	10,400	9,500

9. Revenue and expenses (Continued)

Finance costs and income comprise:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Interest on bank loans and overdrafts	96.3	102.2	96.0
Amortisation of costs of raising finance	3.4	3.4	3.0
Amortisation of discounts / premiums	(0.3)	(1.1)	(0.8)
Loss from debt retirement	14.8	2.3	—
Pension interest cost	1.8	1.7	2.1
Other	(0.4)	3.6	2.6
Finance costs, net	115.6	112.1	102.9

See further details on loss from debt retirement in Note 19.

10. Income Tax

The following is a summary of the components of (loss) earnings before (benefit) provision for income taxes for the period presented:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Loss before benefit from income taxes	(21.8)	(71.4)	(17.0)
	<u>(21.8)</u>	<u>(71.4)</u>	<u>(17.0)</u>

The following is a summary of the benefit from income taxes included in the accompanying consolidated statements of operations for the periods presented:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Tax recognised in profit or loss			
Current tax expense / (benefit):			
Current year	17.8	19.4	6.9
	<u>17.8</u>	<u>19.4</u>	<u>6.9</u>
Deferred tax expense / (benefit):			
Origination and reversal of temporal differences	(16.7)	(39.0)	(8.0)
	<u>(16.7)</u>	<u>(39.0)</u>	<u>(8.0)</u>
Tax expense / (benefit) recognised directly in equity			
Share-based compensation	0.7	(2.6)	(2.3)
	<u>0.7</u>	<u>(2.6)</u>	<u>(2.3)</u>
Tax expense / (benefit) recognised in other comprehensive income			
Defined benefit plans	1.5	(4.5)	6.0
	<u>1.5</u>	<u>(4.5)</u>	<u>6.0</u>

Income tax payments, net of refunds, for 2015, 2014 and 2013 were approximately \$14.0 million, \$14.4 million and \$12.2 million, respectively.

10. Income Tax (Continued)

The following table reconciles the United States federal income tax benefit and rate to the actual income tax benefit and related effective tax rate for the periods presented:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
United States federal tax rate	35.00%	35.00%	35.00%
Provision for income taxes based on above rate	(7.6)	(25.0)	(6.0)
Temporary differences not recognised in deferred tax	3.7	6.1	5.3
Change in prior year taxes	0.9	0.9	0.1
State income tax, net of federal income tax effect	(0.7)	(1.9)	(4.1)
Tax effect resulting from foreign activities and foreign dividends	4.2	0.4	5.2
Impact of foreign rates different from the United States federal tax rate	(2.1)	(2.3)	(4.7)
Non-deductible items	3.1	3.6	1.4
Research credits	(2.5)	(2.5)	(1.8)
Share-based compensation	1.4	(0.4)	1.2
Other	0.7	1.5	2.3
	<u>1.1</u>	<u>(19.6)</u>	<u>(1.1)</u>
Effective tax rate	(5.0)%	27.5%	6.5%

The tax effect resulting from foreign activities and foreign dividends includes taxes provided on unremitted foreign earnings of certain foreign subsidiaries that are not permanently reinvested overseas, and withholding taxes on distributions.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or tax losses can be utilised. The tax effect of temporary differences and carry forwards, which give rise to significant portions of deferred tax assets and liabilities, are as follows for the periods presented:

Recognised tax assets and liabilities in the balance sheet

	As at 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Other assets	100.4	119.0	112.0
Tax losses and credits	28.5	8.5	11.6
Intangible assets	(169.3)	(187.8)	(224.1)
Property, plant and equipment	(13.7)	(14.4)	(14.1)
Other liabilities	(13.0)	(5.5)	—
Net deferred tax liabilities	(67.1)	(80.2)	(114.6)
Reflected in the balance sheet as follows:			
Deferred tax assets, in other assets	0.6	—	—
Deferred tax liabilities	(67.7)	(80.2)	(114.6)
Net deferred tax liabilities	(67.1)	(80.2)	(114.6)

10. Income Tax (Continued)

The movement in deferred income tax liability balances is as follows:

	1 January 2013	P&L	OCI	Equity	Purchase accounting and dispositions	31 December 2013
Other assets	126.9	(11.7)	(6.0)	0.8	2.0	112.0
Tax losses and credits	7.2	2.9	—	1.5	—	11.6
Intangible assets	(205.3)	10.8	—	—	(29.6)	(224.1)
Property, plant and equipment	(19.3)	5.2	—	—	—	(14.1)
Other liabilities	(0.8)	0.8	—	—	—	—
Net deferred income tax liabilities	(91.3)	8.0	(6.0)	2.3	(27.6)	(114.6)

	31 December 2013	P&L	OCI	Equity	Purchase accounting and dispositions	31 December 2014
Other assets	112.0	2.7	4.5	(0.6)	0.4	119.0
Tax losses and credits	11.6	(3.1)	—	—	—	8.5
Intangible assets	(224.1)	44.3	—	—	(8.0)	(187.8)
Property, plant and equipment	(14.1)	0.6	—	—	(0.9)	(14.4)
Other liabilities	—	(5.5)	—	—	—	(5.5)
Net deferred income tax liabilities	(114.6)	39.0	4.5	(0.6)	(8.5)	(80.2)

	31 December 2014	P&L	OCI	Equity	Purchase accounting and dispositions	31 December 2015
Other assets	119.0	(15.0)	(1.5)	(1.1)	(1.0)	100.4
Tax losses and credits	8.5	20.0	—	—	—	28.5
Intangible assets	(187.8)	18.5	—	—	—	(169.3)
Property, plant and equipment	(14.4)	0.7	—	—	—	(13.7)
Other liabilities	(5.5)	(7.5)	—	—	—	(13.0)
Net deferred income tax liabilities	(80.2)	16.7	(1.5)	(1.1)	(1.0)	(67.1)

Deferred tax assets have not been recognised in respect of the following items:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Net operating losses and credit carry forwards	50.9	54.3	46.2
Total unrecognised deferred tax assets	50.9	54.3	46.2

The Nortek Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Nortek Group has assessed the recoverability of its deferred tax assets. The Nortek Group has sufficient reversing deferred tax liabilities available so that it is probable that its federal deferred tax assets will be realised against those liabilities in the same accounting period. Deferred tax assets have not been recognised in respect of certain foreign net operating loss carryforwards, state net operating loss carryforwards, deferred state tax assets and for certain federal deferred tax assets that, if recognised, would result in capital losses. There is a current year increase in the unrecognised deferred tax assets for 2015 related to losses of certain foreign subsidiaries and losses in certain domestic jurisdictions. This is offset by a reduction in the unrecognised deferred tax assets related to foreign tax rate changes as well as the expiration of certain capital loss carryforwards.

10. Income Tax (Continued)

The Nortek Group has determined, based on the history of losses at these subsidiaries and expectations for the future, that deferred tax assets should not be recognised for these loss carry-forwards as it is unlikely that these loss carry-forwards will be realised.

The Nortek Group has approximately \$125.5 million of foreign net operating loss carry-forwards that, if utilised, would offset future foreign tax payments. Approximately \$111.7 million of these foreign net operating losses have an indefinite carryforward period and the remaining foreign net operating losses will expire at various times beginning in 2017. The Nortek Group has recorded a full valuation allowance against all foreign net operating losses.

At 31 December 2015, the Nortek Group has not provided United States income taxes or foreign withholding taxes on unremitted foreign earnings of approximately \$78.5 million, as those profits will not be distributed in the foreseeable future. Due to complexities of the U.S. tax law, including the effect of U.S. foreign tax credits, it is not practicable to estimate the amount of tax that might be payable on these earnings in the event they were distributed. The Nortek Group has provided United States income taxes and foreign withholding taxes on approximately \$11.9 million of profits that are not considered to be permanently reinvested overseas.

11. Loss per share

	<u>Year ended 31 December</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
	\$m	\$m	\$m
Loss for the year for the purposes of loss per share	(22.9)	(51.8)	(15.9)
		<u>Year ended</u>	
		<u>31 December</u>	
		<u>2015</u>	<u>2014</u>
		<u>2013</u>	
Weighted average number of common shares for the purposes of basic loss and diluted loss per share	15.9	15.6	15.4
		<u>Year ended 31 December</u>	
		<u>2015</u>	<u>2014</u>
		<u>2013</u>	
	\$	\$	\$
Loss per share			
Basic loss per share	(1.44)	(3.32)	(1.03)
Diluted loss per share	(1.44)	(3.32)	(1.03)

Basic loss per share amounts are calculated by dividing the net loss for the year attributable to ordinary shareholders of the Nortek Group by the weighted average number of ordinary shares outstanding during the year. Due to the fact that the Nortek Group has incurred losses for each year presented, the potential shares issuable related to outstanding equity awards and warrants have been excluded from the calculation of diluted loss per share as the effect of such shares is anti-dilutive. Therefore, basic and diluted loss per share are the same for each period presented. As of December 31, 2015, the only potentially dilutive equity awards outstanding are disclosed in Note 23.

12. Intangible assets and goodwill

	Goodwill	Customer relationships	Trademarks and tradenames	Developed technology costs	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Cost						
At 1 January 2013	307.6	487.1	159.9	71.7	23.4	1,049.7
Additions	—	—	—	0.6	—	0.6
Acquisition of businesses	65.9	73.8	4.9	6.1	—	150.7
At 31 December 2013	373.5	560.9	164.8	78.4	23.4	1,201.0
Additions	—	0.3	—	—	—	0.3
Acquisition of businesses	105.2	66.5	39.9	20.2	1.4	233.2
At 31 December 2014	478.7	627.7	204.7	98.6	24.8	1,434.5
Additions	—	—	—	2.7	—	2.7
Acquisition of businesses	31.2	6.7	5.0	18.9	0.7	62.5
At 31 December 2015	509.9	634.4	209.7	120.2	25.5	1,499.7
Amortisation						
At 1 January 2013	—	(75.9)	(23.2)	(16.4)	(11.8)	(127.3)
Charge for the year	—	(32.8)	(7.5)	(7.4)	(3.6)	(51.3)
At 31 December 2013	—	(108.7)	(30.7)	(23.8)	(15.4)	(178.6)
Charge for the year	—	(37.7)	(9.0)	(9.7)	(3.6)	(60.0)
Impairments	(4.4)	(48.0)	(19.6)	(6.1)	(1.0)	(79.1)
At 31 December 2014	(4.4)	(194.4)	(59.3)	(39.6)	(20.0)	(317.7)
Charge for the year	—	(39.1)	(10.3)	(13.8)	(4.1)	(67.3)
At 31 December 2015	(4.4)	(233.5)	(69.6)	(53.4)	(24.1)	(385.0)
Net book value						
At 31 December 2015	505.5	400.9	140.1	66.8	1.4	1,114.7
At 31 December 2014	474.3	433.3	145.4	59.0	4.8	1,116.8
At 31 December 2013	373.5	452.2	134.1	54.6	8.0	1,022.4
At 1 January 2013	307.6	411.2	136.7	55.3	11.6	922.4

The goodwill generated as a result of major acquisitions represents the premium paid in excess of the fair value of all net assets, including intangible assets, identified at the point of acquisition. The carrying value of goodwill represents the initial value that the Nortek directors believed could be added to the acquired businesses through the application of their specialist turnaround experience. No impairment losses are recognised at or before 1 January 2013.

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

The future improvements applied to the acquired businesses, achieved through a combination of revised strategic direction, operational improvements and investment, are expected to result in improved profitability of the acquired businesses during the period of ownership 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.

Goodwill is allocated to the cash-generating units.

The Nortek Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Value in use calculations are used to determine the recoverable amount of goodwill allocated to each group of CGU which use the latest approved forecasts extrapolated to perpetuity using growth rates shown below, and which do not exceed the long-term growth rate for the relevant market.

12. Intangible assets and goodwill (Continued)

The basis of these impairment tests and the key assumptions are set out in the table below:

31 December 2015

Group of CGUs	Basis of valuation	Carrying value of goodwill	Pre-tax discount rate	Period of forecast	Key assumptions applied in the forecast cash flow projections	Long-term growth rate
		\$m				
AQH . .	Value in use	156.8	12.4%	2016 – 2018	Revenue growth, operating margins	3.0%
SCS . . .	Value in use	85.3	14.4%	2016 – 2018	Revenue growth, operating margins	3.0%
ERG . .	Value in use	157.0	12.1%	2016 – 2018	Revenue growth, operating margins	3.0%
RCH . .	Value in use	106.4	12.3%	2016 – 2018	Revenue growth, operating margins	3.0%

31 December 2014

Group of CGUs	Basis of valuation	Carrying value of goodwill	Pre-tax discount rates	Period of forecast	Key assumptions applied in the forecast cash flow projections	Long-term growth rates
		\$m				
AQH . .	Value in use	156.8	12.9%	2015 – 2019	Revenue growth, operating margins	3.0%
SCS . . .	Value in use	80.9	11.7%	2015 – 2019	Revenue growth, operating margins	3.0%
ERG . .	Value in use	131.4	11.0%	2015 – 2019	Revenue growth, operating margins	3.0%
RCH . .	Value in use	105.2	14.0%	2015 – 2019	Revenue growth, operating margins	3.0%

Prior to 2014, RCH CGU had no goodwill allocated.

31 December 2013

Group of CGUs ⁽¹⁾	Basis of valuation	Carrying value of goodwill	Pre-tax discount rates	Period of forecast	Key assumptions applied in the forecast cash flow projections	Long-term growth rates
		\$m				
AQH . .	Value in use	156.8	13.2%	2014 – 2018	Revenue growth, operating margins	3.0%
TECH ⁽²⁾	Value in use	80.9	14.5%	2014 – 2018	Revenue growth, operating margins	3.0%
ERG . .	Value in use	131.4	13.4%	2014 – 2018	Revenue growth, operating margins	3.0%

Notes:

- (1) The table above does not include \$4.4 million in respect of AVC that was written down to zero.
- (2) During the second quarter of 2014, the Nortek Group changed the composition of its reporting segments to exclude the audio, video and control (“AVC”) entities (formerly the “AV entities”) from the Security and Control Solutions (“SCS”) segment due to the Chief Operating Decision Maker’s decision to operate each of these entities separately and manage each as a standalone segment. As a result, the Nortek Group has restated prior period segment disclosures to conform to the new composition. The AVC entities have been combined and have not been reported separately as these operating segments are individually not significant (the “AVC segments”). These entities were principally acquired at various times from 2003 to 2011.

Pre-tax risk adjusted discount rates

Cash flows are discounted using a pre-tax discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. In determining the cost of equity, the Capital Asset Pricing Model (“CAPM”) has been used. Under CAPM, the cost of equity is determined by adding a risk premium to the risk free rate to reflect the additional risk associated with investing outside of lending to a country (e.g. the purchase of UK Gilts). The premium is based on an industry adjustment (“Beta”) to the expected return of the equity market above the risk free return. The relative risk adjustment reflects the risk inherent in each CGU relative to all other sectors and geographies on average.

Assumptions applied in financial forecasts

The Nortek Group prepares cash flow forecasts derived from financial budgets and mid-term plans, which generally cover three years horizon, approved by management. The key assumptions used in forecasting pre-tax cash flows relate to future budgeted revenue and operating margins likely to be achieved and the

12. Intangible assets and goodwill (Continued)

likely rates of long-term growth by entity and 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 mid-term plans approved 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, and projections of developments in key markets, secured orders and orders likely to be achieved in the short to medium-term given trends in the relevant market sector.

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

Long-term growth rates

Long-term growth rates are based on expected long-term growth rates of the CGU taking into consideration the long-term economic forecasts for growth in the manufacturing sector in the geography in which the CGU operates, as well as, other available market information.

Sensitivity analysis

A sensitivity analysis has been undertaken in order to illustrate the required increase in the discount rate to reduce the recoverable amount of the CGU to its carrying value:

31 December 2015

<u>Group of CGUs</u>	<u>Carrying Amount</u>	<u>Excess of fair value over carrying amount</u>	<u>Pre-tax discount rate utilised</u>	<u>Pre-tax discount rate required to reduce fair value to carrying amount</u>	<u>Required increase in discount rate</u>
	\$m	\$m			
AQH	363.7	386.5	12.40%	20.90%	8.50%
SCS	257.4	135.4	14.40%	20.40%	6.00%
ERG	299.1	331.2	12.10%	22.90%	10.80%
RCH	354.2	53.6	12.30%	13.60%	1.30%

31 December 2014

<u>Group of CGUs</u>	<u>Carrying Amount</u>	<u>Excess of fair value over carrying amount</u>	<u>Pre-tax discount rate utilised</u>	<u>Pre-tax discount rate required to reduce fair value to carrying amount</u>	<u>Required increase in discount rate</u>
	\$m	\$m			
AQH	346.9	325.9	12.90%	21.80%	8.90%
SCS	260.7	219.7	11.70%	15.70%	4.00%
ERG	231.4	331.1	11.00%	54.50%	43.50%
RCH	336.6	123.4	14.00%	28.35%	14.35%

12. Intangible assets and goodwill (Continued)

31 December 2013

Group of CGUs	Carrying Amount	Excess of fair value over carrying amount	Pre-tax discount rate utilised	Pre-tax discount rate required to reduce fair value to carrying amount	Required increase in discount rate
	\$m	\$m			
AQH	369.5	380.3	13.20%	35.80%	22.60%
TECH ⁽¹⁾	409.1	127.5	14.50%	23.40%	8.90%
ERG	242.7	158.5	13.40%	29.20%	15.80%

Note:

- (1) During the second quarter of 2014, the Nortek Group changed the composition of its reporting segments to exclude the audio, video and control (“AVC”) entities (formerly the “AV entities”) from the Security and Control Solutions (“SCS”) segment due to the Chief Operating Decision Maker’s decision to operate each of these entities separately and manage each as a standalone segment. As a result, the Nortek Group has restated prior period segment disclosures to conform to the new composition. The AVC entities have been combined and have not been reported separately as these operating segments are individually not significant (the “AVC segments”). These entities were principally acquired at various times from 2003 to 2011.

Other Long-Lived Asset Changes in Estimated Useful Lives and Impairment Charges

As a result of the potential indicators of goodwill impairment, the Nortek Group completed a review of impairment of other long-lived assets for its asset groups and a review of the estimated remaining useful lives in both the third and fourth quarter of 2015. Based on the changes in the expected utilisation of certain assets, as well as, revised estimated future cash flows, the Nortek Group identified that a reduction of the remaining useful lives of certain intangible assets of assets groups within the AQH, RCH, SCS and ERG cash generating units was required. The impact of this change in estimated useful lives was approximately \$1.9 million of additional amortisation expense in 2015 and represents a change in the estimated future annual amortisation of approximately \$5.9 million. Except as described below, no impairment was noted in 2015.

As a result of certain restructuring initiatives that the Nortek Group commenced in the second quarter of 2015, the Nortek Group identified an indicator of impairment related to the long-lived assets of certain of the AVC entities due to declining operating results related to these companies. Based on review of the forecasted undiscounted cash flows over the remaining estimated useful life of the primary asset of the asset group, the Nortek Group determined that there was insufficient forecasted net positive cash flows to recover the net book value of property and equipment and such property and equipment had no material salvage value. As a result, the Nortek Group recorded an impairment charge of approximately \$1.2 million to reduce the carrying value of the property and equipment to zero. Additionally, in the fourth quarter of 2015, the Nortek Group recorded an impairment charge of approximately \$0.4 million due to the change in estimated fair value less cost to sell related to one of Nortek’s RCH segment’s warehouse properties which was sold in January 2016. In addition to the 2014 non-cash long-lived asset impairment charges for intangible assets and property and equipment noted below for the AVC entities, the Nortek Group recorded a non-cash long-lived asset impairment charge of approximately \$4.3 million in 2013 related to the write-down of property and equipment in connection with the exit in the first quarter of 2014 of a product line within the AQH segment.

During the second quarter of 2014, the Nortek Group commenced a reorganisation of its business segments. In addition, due to the continued decline in operating results of the AVC subsidiaries, the Nortek Group determined that indicators of potential long-lived assets and goodwill impairment were present in the second quarter of 2014. Based on these considerations, the Nortek Group performed the following:

1. *Evaluation of the realisability of long-lived assets*—Due to the continued decline in operating results of the AVC subsidiaries, the Nortek Group performed an interim test for the impairment of long-lived assets. The evaluation of the impairment of long-lived assets, other than goodwill, is based on expectations of discounted future cash flows compared to the carrying value of the cash-generating units. The Nortek Group’s cash flow estimates are based upon future projected cash flows and, if appropriate, include assumed proceeds upon sale of the asset group at the end of the cash flow period. The Nortek Group believes that its procedures for estimating gross future cash flows, including the

12. Intangible assets and goodwill (Continued)

estimated sales proceeds, are reasonable and consistent with current market conditions for each of the dates when impairment testing has been performed.

Based upon this analysis, the Nortek Group recorded an impairment loss of approximately \$76.0 million related to the AVC subsidiaries, comprised of intangible assets of approximately \$74.7 million and property and equipment of approximately \$1.3 million, during the second quarter of 2014. The impairment loss related to intangible assets by class and the applicable weighted average useful lives were as follows:

	<u>Impairment loss</u>	<u>Weighted Average Useful Lives</u>
	\$m	
Customer relationship	48.0	16.2
Trademarks	19.6	12.7
Developed technology	6.1	6.3
Other	<u>1.0</u>	<u>7.9</u>
	<u>74.7</u>	<u>13.0</u>

The Nortek Group believes that the impairment losses recognised were reasonable and represented the Nortek Group's best estimate of the impairment loss. If market conditions deteriorate further for these entities, it is reasonably possible that the estimate of expected future cash flows may change, resulting in an additional impairment charge relating to property and equipment.

2. *Evaluation of the legacy TECH (now the Security and Control Solutions ("SCS")) CGU for goodwill impairment*—As a result of the impairment indicators described above, the Nortek Group estimated the fair value of the legacy TECH CGU based upon an EBITDA multiple approach. Based on this estimate, the estimated fair value of the legacy TECH CGU exceeded the carrying value of the legacy TECH CGU. As a result, no impairment loss was recorded.
3. *Allocation of the legacy TECH goodwill to each of the AVC subsidiaries*—The Nortek Group estimated the fair value of each of the AVC subsidiaries based upon a discounted cash flow approach and allocated a portion of the legacy TECH goodwill to each of the AVC subsidiaries based upon their relative fair value.
4. *Evaluation of the revised SCS cash-generating units and each of the AVC subsidiaries cash-generating units for goodwill impairment*—During the second quarter of 2014, the Nortek Group prepared an impairment test of goodwill using a discounted cash flow approach, resulting in the recognition of an impairment loss of approximately \$4.4 million during the second quarter of 2014.

13. Property, plant and equipment

	Land, buildings and improvements \$m	Machinery and equipment \$m	Total \$m
Cost			
At 1 January 2013	101.9	221.1	323.0
Additions	1.6	42.3	43.9
Acquisition of business	—	2.8	2.8
Transfers to assets held for sale	(0.7)	—	(0.7)
Disposals	(2.1)	(1.8)	(3.9)
Exchange adjustments	0.1	(1.5)	(1.4)
At 31 December 2013	100.8	262.9	363.7
Additions	37.4	33.5	70.9
Acquisition of business	1.3	15.8	17.1
Disposals	(0.1)	(2.4)	(2.5)
Exchange adjustments	(3.9)	(3.6)	(7.5)
At 31 December 2014	135.5	306.2	441.7
Additions	3.0	46.8	49.8
Acquisition of business	—	1.0	1.0
Transfers to assets held for sale	(5.0)	—	(5.0)
Disposals	(0.9)	(1.8)	(2.7)
Exchange adjustments	(3.2)	(6.2)	(9.4)
At 31 December 2015	129.4	346.0	475.4
Accumulated depreciation			
At 1 January 2013	(15.5)	(108.0)	(123.5)
Depreciation	(6.6)	(34.0)	(40.6)
Impairments	(2.9)	(1.4)	(4.3)
Transfers to asset for sale	0.2	—	0.2
Disposals	1.5	0.8	2.3
Exchange adjustments	(0.1)	1.1	1.0
At 31 December 2013	(23.4)	(141.5)	(164.9)
Depreciation	(7.8)	(35.4)	(43.2)
Impairments	—	(1.3)	(1.3)
Disposals	0.1	2.4	2.5
Exchange adjustments	0.9	2.3	3.2
At 31 December 2014	(30.2)	(173.5)	(203.7)
Depreciation	(8.8)	(41.6)	(50.4)
Impairments	(0.4)	(1.2)	(1.6)
Transfers to asset for sale	2.7	—	2.7
Disposals	0.7	1.8	2.5
Exchange adjustments	0.9	3.2	4.1
At 31 December 2015	(35.1)	(211.3)	(246.4)
Net book value			
At 31 December 2015	94.3	134.7	229.0
At 31 December 2014	105.3	132.7	238.0
At 31 December 2013	77.4	121.4	198.8
At 1 January 2013	86.4	113.1	199.5

The carrying values of land and buildings and machinery and equipment held under finance leases at 31 December 2015 were \$32.9 and \$0.3 million, respectively (2014: \$41.6 and \$0.7 million, 2013: \$18.3 and \$0.6 million, and at 1 January 2013: \$12.4 and \$0.8 million). Additions of land and buildings and machinery and equipment held under finance leases were \$31.5 and \$0.5 million in 2014 and \$0.0 and \$0.1 million in 2013, respectively. There were no additions to assets held under finance leases in 2015 or 2012.

14. Interest in associates

	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	\$m	\$m	\$m	\$m
Amounts relating to associate:				
Share of assets	7.8	7.4	6.6	5.7
Share of liabilities	(2.0)	(1.8)	(0.9)	(0.2)
Interest in associate	5.8	5.6	5.7	5.5
Share of revenue of associates	5.0	4.8	3.7	
Share of headline ⁽¹⁾ results of associates	1.4	1.4	0.7	
Dividends received from associate	1.2	1.4	0.6	

Note:

(1) As detailed in the consolidated income statement.

On 21 March 2011, the Nortek Group, through its wholly-owned subsidiary Huntair Middle East Holdings, Inc. (“**Huntair**”), acquired a 49% minority interest in Huntair Arabia for approximately \$5.3 million. Huntair Arabia is an operating joint venture between the Nortek Group and Alessa Advanced Projects Group (“**Alessa**”) in Saudi Arabia that was formed for purposes of trading, manufacturing, supplying, installing, and servicing commercial air conditioning and commercial air handling units in Saudi Arabia and certain other regions.

In addition to the above interest in the associate, the Nortek Group also had a note payable to the associate totalling \$2.2 million, \$3.3 million, \$4.7 million and \$5.1 million at 31 December 2015, 2014 and 2013 and 1 January 2013, respectively, where the Nortek Group utilised the proceeds from such note to partially fund its initial equity investment in the associate.

15. Inventories

	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	\$m	\$m	\$m	\$m
Raw materials	104.9	112.7	81.3	82.4
Work in progress	26.2	28.5	23.8	23.1
Finished goods	234.7	231.6	164.6	152.5
	365.8	372.8	269.7	258.0

The Directors consider that there is no material difference between the Balance Sheet value of inventories and their net realisable value. During 2015, the Nortek Group recorded \$10.2 million (2014: \$0.2 million and 2013: \$1.0 million) to exceptional operating costs related to inventory write-downs in connection with product discontinuance and other exit activities (see Notes 8 and 21).

16. Trade and other receivables

	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	\$m	\$m	\$m	\$m
Current				
Trade receivables	343.6	328.6	280.6	264.6
Allowance for doubtful receivables	(3.6)	(3.7)	(4.2)	(7.2)
Other receivables	7.2	8.4	9.3	13.5
	347.2	333.3	285.7	270.9

16. Trade and other receivables (Continued)

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.

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>1 January 2013</u>
	\$m	\$m	\$m	\$m
Non-current (included in other assets)				
Other receivables	0.7	1.0	1.9	—

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:

	<u>Total</u>
	<u>\$m</u>
At 1 January 2013	7.2
Income Statement (credit)/charge	0.6
Utilised	(3.6)
Other, including exchange differences	—
At 31 December 2013	4.2
Income Statement (credit)/charge	2.3
Utilised	(2.5)
Other, including exchange differences	(0.3)
At 31 December 2014	3.7
Income Statement (credit)/charge	1.5
Utilised	(1.8)
Other, including exchange differences	0.2
At 31 December 2015	3.6

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Nortek Group's customer base and their dispersion across many different geographical regions. Trade receivables from customers related to foreign operations at 31 December 2015, 2014 and 2013 was approximately 18.8%, 20% and 20% of consolidated trade and other receivables, respectively. No single customer accounts for 10% or more of consolidated net sales or trade and other receivables.

Included in the Nortek Group's trade receivables balance are overdue trade receivables with a carrying amount of \$52.3 million (31 December 2014: \$51.1 million, 31 December 2013: \$51.6 million) against which a provision of \$3.6 million (31 December 2014: \$3.7 million, 31 December 2013: \$4.2 million) is held. Impaired trade receivables comprise 60+ days past due balances.

The balance deemed recoverable of \$48.7 million (31 December 2014: \$47.4 million, 31 December 2013: \$47.4 million) is past due as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
	\$m	\$m	\$m
1 – 30 days	37.5	37.4	35.2
31 – 60 days	8.4	9.0	6.0
60+ days	2.8	1.0	6.2
	<u>48.7</u>	<u>47.4</u>	<u>47.4</u>

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

17. Restricted cash and restricted investments

	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	\$m	\$m	\$m	\$m
Restricted cash	0.3	0.6	2.9	0.2
Restricted investments	0.9	0.9	1.6	1.9

The Nortek Group has classified as restricted in the historical financial information certain cash and cash equivalents and investments that are not fully available for use in its operations. Restricted cash and cash equivalents and restricted investments comprise cash and cash equivalents and other financial assets pledged as collateral or held in pension trusts for certain debt, insurance, employee benefits and other requirements. At 31 December 2015, 2014 and 2013 and 1 January 2013 total restricted investments are included in long-term assets.

18. Trade and other payables

<u>Current</u>	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	\$m	\$m	\$m	\$m
Trade payables	243.2	266.3	194.9	174.4
Other payables	76.0	75.7	74.0	44.9
Due to employees and employee benefit plans	64.4	65.1	67.9	56.1
Sales and marketing expenditures	33.9	34.0	28.5	25.2
Accrued interest	17.1	15.7	16.1	16.2
Deferred revenue	2.2	1.7	3.0	—
	<u>436.8</u>	<u>458.5</u>	<u>384.4</u>	<u>316.8</u>

Trade payables are non-interest-bearing. Normal settlement terms vary by country and the average credit period taken for trade purchases is 60 days (2014: 62 days, 2013: 60 days).

19. Interest-bearing loans and borrowings

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

	Interest rate	Maturity	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	%		\$m	\$m	\$m	\$m
Current interest-bearing loans and borrowings						
Obligations under finance						
leases	7.00%	2016 – 2034	1.6	3.3	2.6	2.2
8.5% Senior Notes	8.50%	2021	—	—	—	—
10% Senior Notes	10.00%	2018	—	—	—	—
Senior secured term loan						
facility	3.50%	2020	6.1	3.5	—	—
ABL Facility	2.31%	2017	—	—	—	—
Mortgage notes	—	—	—	0.3	0.2	0.2
Other	5.29%	2020 – 2027	—	—	—	—
Secured lines of credit and bank advances of the Nortek Group's foreign subsidiaries						
	7.70%	2016	<u>0.5</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>
Total current interest-bearing loans and borrowings			<u>8.2</u>	<u>7.7</u>	<u>3.5</u>	<u>3.1</u>

19. Interest-bearing loans and borrowings (Continued)

	Interest rate	Maturity	31 December 2015	31 December 2014	31 December 2013	1 January 2013
	%		\$m	\$m	\$m	\$m
Non-current interest-bearing loans and borrowings						
Obligations under finance						
leases	7.00%	2016 – 2034	30.1	32.4	4.2	6.8
8.5% Senior Notes	8.50%	2021	732.2	732.4	732.8	733.9
10% Senior Notes	10.00%	2018	—	246.5	245.6	244.7
Senior secured term loan						
facility	3.50%	2020	587.0	334.3	91.0	90.3
ABL Facility	2.31%	2017	42.9	—	—	—
Mortgage notes	—	—	—	1.0	1.4	1.6
Other	5.29%	2020 – 2027	3.9	3.4	4.6	5.0
Total non-current interest-bearing loans and borrowings			<u>1,396.1</u>	<u>1,350.0</u>	<u>1,079.6</u>	<u>1,082.3</u>
Total interest-bearing loans and borrowings⁽¹⁾			<u>1,404.3</u>	<u>1,357.7</u>	<u>1,083.1</u>	<u>1,085.4</u>

Note:

(1) Debt issuance costs are netted within total interest-bearing loans and borrowings

8.5% Senior Notes

The 8.5% senior notes due 2021 (the “8.5% Notes”) are unconditionally guaranteed on a senior unsecured basis by each of the Nortek Group’s current and future domestic restricted subsidiaries (other than receivables subsidiaries, immaterial subsidiaries or non-wholly owned subsidiaries unless such non-wholly owned subsidiary guarantees any credit facilities or any capital market securities of the Nortek Group or any guarantor) that guarantee any of the Nortek Group’s other indebtedness. Interest on the 8.5% Notes accrues at the rate of 8.5% per annum and is payable semi-annually in arrears on 15 April and 15 October, until maturity. Interest on the 8.5% Notes accrues from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

On or after 15 April 2016, the 8.5% Notes are redeemable at the option of the Nortek Group, in whole or in part, on or after 15 April 2016 at 104.25%, declining to 102.125% on 15 April 2017, declining to 101.063% on 15 April 2018 and further declining to 100.0% on 15 April 2019.

In addition, at any time prior to 15 April 2016, the Nortek Group may redeem all or any portion of the 8.5% Notes outstanding at a redemption price equal to (a) 100% of the aggregate principal amount of the 8.5% Notes to be redeemed together with accrued and unpaid interest to such redemption date, plus (b) the Make Whole Amount. The “Make Whole Amount” means, with respect to the 8.5% Notes at any redemption date, the greater of (i) 1.0% of the principal amount of the 8.5% Notes and (ii) the excess, if any, of (a) an amount equal to the present value of (1) the redemption price of the 8.5% Notes at 15 April 2016 plus (2) the remaining scheduled interest payments of the 8.5% Notes to be redeemed to 15 April 2016, computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of the 8.5% Notes to be redeemed.

10% Senior Notes

On 2 April 2015, the Nortek Group obtained a \$265.0 million Incremental Term Loan. The net proceeds were used to redeem the 10% senior unsecured notes due 2018 (the “10% Notes”) on 5 May 2015 at a redemption price of 105% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date. The redemption of the 10% Notes resulted in a pre-tax loss of approximately \$14.8 million during the second quarter of 2015.

19. Interest-bearing loans and borrowings (Continued)

Senior secured term loan facility

The Nortek Term Loan Facility are repayable in quarterly instalments of \$1.5 million with a balloon payment for the remaining balance due on 30 October 2020. Loans under the Nortek Term Loan Facility bear interest, at the Nortek Group's option, at a rate per annum equal to either (1) a Base Rate (as defined in the credit agreements governing the Nortek Term Loan Facility) or (2) a Eurodollar Rate (as defined in the credit agreements governing the Term Loan Facilities), in each case plus an applicable margin. The interest rate related to both the Nortek Term Loan Facility was approximately 3.50%, 3.75%, 5.25% and 5.25% at 31 December 2015, 2014 and 2013 and 1 January 2013.

The Nortek Term Loan Facility provides that the Nortek Group may request additional tranches of term loans in an aggregate amount not to exceed \$275.0 million, plus additional amounts subject to the secured leverage ratio of 3.5 to 1.0 after giving effect to the incremental term loan. The incremental amendment was executed in reliance on the secured ratio condition. Availability of such additional tranches of term loans will be subject to the absence of any default, a pro forma secured leverage ratio test (in certain cases) and, among other things, the receipt of commitments by existing or additional financial institutions.

The credit agreement governing the Nortek Term Loan Facility requires the Nortek Group to prepay outstanding term loans, subject to certain exceptions, with:

- 50% (subject to reduction to 25% and 0% based upon the Nortek Group's secured leverage ratio) of the Nortek Group's annual excess cash flow, commencing with the fiscal year ended 31 December 2015;
- 100% of the net cash proceeds of certain asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions; and
- 100% of the net cash proceeds of any issuance of debt, other than debt permitted under the Nortek Term Loan Facility.

At 31 December 2015, there were no requirements to prepay outstanding amounts under the Nortek Term Loan Facility as none of the above circumstances existed in 2015. The Nortek Group may voluntarily prepay outstanding loans at any time without premium or penalty other than customary "breakage" costs with respect to Eurodollar Rate loans.

ABL Facility

The ABL Facility consists of a \$280 million U.S. facility (with a \$60 million sublimit for the issuance of U.S. standby letters of credit and a \$20 million sublimit for U.S. swingline loans) and a \$20 million Canadian facility.

There are limitations on the Nortek Group's ability to incur the full \$300 million of commitments under the ABL Facility. Availability is limited to the lesser of the borrowing base under the ABL Facility and \$300 million. The borrowing base at any time will equal the sum (subject to certain reserves and other adjustments) of:

- 85% of the net amount of eligible accounts receivable;
- 85% of the net orderly liquidation value of eligible inventory; and
- available cash subject to certain limitations as specified in the ABL Facility.

As of 31 December 2015, the Nortek Group had approximately \$43 million in outstanding borrowings and approximately \$11.5 million in outstanding letters of credit under the ABL Facility. Based on the December 2015 borrowing base calculations, the Nortek Group had excess availability of approximately \$244 million at 31 December 2015.

The interest rates applicable to loans under the ABL Facility are, at the Nortek Group's option, equal to either an adjusted LIBOR rate for a one, two, three or six month interest period (or such period of 365 days or less, if consented to by the relevant lenders) or an alternate base rate, plus an applicable margin percentage ranging from 1.75% to 2.25% for borrowings based on an adjusted LIBOR or Canadian bankers' acceptance rate, and 0.75% to 1.25% for borrowings based on a base or prime rate, depending on the Nortek Group's Average Excess Availability (as defined in the ABL Facility). The alternate base rate,

19. Interest-bearing loans and borrowings (Continued)

with respect to U.S. Borrowings, will be the greater of (1) the Federal Funds rate plus 0.50%, (2) 1.00% plus the LIBOR rate for a 30 day interest period as determined on such day, or (3) the prime rate. Interest is payable at the end of the selected interest period, but no less frequently than quarterly.

On 3 June 2015, the Nortek Group amended its ABL Facility to reflect a change in the circumstances in which amounts deposited by the Nortek Group in collection accounts maintained by the administrative agent will be used to repay outstanding loans and cash collateralised letters of credit (a “**Cash Dominion Event**”). Under the terms of the amendment, a Cash Dominion Event exists if (i) excess availability (as defined in the ABL Facility) falls below the greater of \$30.0 million or 10.0% of the total amount of the U.S. and Canadian credit facilities (rather than 12.5% of the borrowing base) or (ii) an event of default has occurred and is continuing. The Nortek Group did not incur any fees or expenses in conjunction with amending the ABL Facility. Based on the December 2015 borrowing base calculations, the Nortek Group had approximately \$214.5 million of excess availability before triggering the cash deposit requirements at 31 December 2015. In addition, under the ABL Facility, if (i) excess availability falls below the greater of \$30.0 million or 12.5% of the U.S. and Canadian credit facilities or (ii) an event of default has occurred and is continuing, the Nortek Group will be required to satisfy and maintain a consolidated fixed charge coverage ratio measured on a trailing four quarter basis of not less than 1.0 to 1.0. The ABL Facility and the Term Loan Facility also restrict the Nortek Group’s ability to prepay its other indebtedness, including the 8.5% Notes and, with respect to the ABL Facility, the Term Loan Facility, or designate any other indebtedness as senior debt.

Additional borrowings under the ABL Facility require the Nortek Group and its subsidiaries to make certain customary representations and warranties as of the date of such additional borrowing. In the event that the Nortek Group and its subsidiaries are unable to make such representations and warranties on such borrowing date, then the lenders under the ABL Facility may not honour such request for additional borrowing. The ABL Facility also provides the lenders considerable discretion to impose reserves or availability blocks, which could materially impair the amount of borrowings that would otherwise be available to the Nortek Group and its subsidiaries and may require the Nortek Group to repay certain amounts outstanding under the ABL Facility. There can be no assurance that the lenders under the ABL Facility will not impose such actions during the term of the ABL Facility.

All obligations under the Nortek Group’s Term Loan Facility and ABL Facility are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned domestic (and, in the case of the ABL Facility, Canadian) restricted subsidiaries of the Nortek Group. All obligations under the Nortek Group’s Term Loan Facility and ABL Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the Nortek Group’s assets and the assets of the guarantors, including:

- a second-priority security interest in the case of the Term Loan Facility, and a first-priority security interest in the case of the ABL Facility, in personal property consisting of accounts receivable, inventory, cash, deposit accounts, and certain related assets and proceeds of the foregoing; and
- a first-priority security interest in the case of the Term Loan Facility, and a second-priority interest in the case of the ABL Facility, in, and mortgages on, substantially all of the Nortek Group’s material owned real property and equipment and in the case of the Term Loan Facility, a pledge of the capital stock of any direct subsidiaries held by guarantor (limited for certain foreign subsidiaries to 65% of the voting capital of first-tier foreign subsidiaries).

On 9 May 2016, the Nortek Group entered into an amendment (the “**Amendment**”) to the ABL Facility. Among other changes, the Amendment (i) increases the maximum amount of the ABL Facility (which, following the Amendment, is available solely to the Nortek Group and certain of its U.S. subsidiaries) from \$300.0 million to \$325.0 million, with a right of the Nortek Group to increase the ABL Facility by up to an additional \$125.0 million, subject to the receipt of commitments from the lenders providing such increase and the satisfaction of certain other conditions, (ii) eliminates the portion of the ABL Facility previously available to certain of the Nortek Group’s Canadian subsidiaries (subject to certain rights of the Nortek Group to re-establish such availability with certain limits) and releases all guarantees and collateral security previously provided by such Canadian subsidiaries, (iii) lowers the interest rates payable by the Nortek Group under the ABL Facility (as more fully described below), (iv) extends the maturity date of the ABL Facility from 13 June 2017 to 9 May 2021, and (v) expands certain baskets and permissions available

19. Interest-bearing loans and borrowings (Continued)

to the Nortek Group under certain of the operational covenants with which the Nortek Group must comply and in the calculation of the borrowing base, as more fully set forth in the Amendment. The interest rates applicable to loans under the ABL Facility as amended by the Amendment are, at the Nortek Group's option, equal to either an adjusted LIBOR rate for a one, two, three or six month interest period (or such period of 365 days or less, if consented to by the relevant lenders) or an alternate base rate, plus an applicable margin percentage ranging from 1.25% to 1.75% for borrowings based on the adjusted LIBOR rate, and 0.25% to 0.75% for borrowings based on the alternate base rate, depending on the Nortek Group's Average Excess Availability Percentage (as defined in the amended ABL Facility); provided that, for any fiscal quarter of the Nortek Group commencing with the fiscal quarter ending December 31, 2016, if the Nortek Group's Consolidated Total Leverage Ratio (as defined in the amended ABL Facility) as of the end of the preceding fiscal quarter is less than 4.0 to 1.0, then the applicable margin percentage will be reduced by 0.25% (but in any event not below 1.25% for borrowings based on the adjusted LIBOR rate or 0.25% for borrowings based on the alternate base rate). The alternate base rate will be the greater of (1) the Federal Funds rate plus 0.50%, (2) 1.00% plus the LIBOR rate for a 30 day interest period as determined on such day, or (3) the prime rate. Interest is payable at the end of the selected interest period, but no less frequently than quarterly.

Mortgage Notes

Mortgage notes payable includes various mortgage notes and other related indebtedness. These notes have a weighted average interest rate of approximately 2.7% and are collateralised by certain property and equipment. Mortgage notes were fully repaid in 2015.

Finance Leases

Amounts due under finance leases were as follows:

	31 December			1 January
	2015	2014	2013	2013
	\$m	\$m	\$m	\$m
Amounts payable:				
Within one year	3.9	6.0	3.2	3.2
After one year but within five years	13.5	14.4	4.8	7.5
Over five years	39.3	42.3	—	0.4
Less finance charges allocated to future periods	(25.0)	(27.0)	(1.2)	(2.1)
	<u>31.7</u>	<u>35.7</u>	<u>6.8</u>	<u>9.0</u>

During 2014, the Nortek Group entered into a lease agreement for facilities with fair values of \$24.5 million and \$7.0 million relating to the RCH and CAS segments, respectively. In accordance with IAS 17 Leases, the Nortek Group determined that the leases were to be classified as financing leases as substantially all of the risks and rewards incidental to ownership was transferred to the Nortek Group. In connection with certain restructuring initiatives within the CAS segment during 2015, the CAS segment transferred its Mexico facility to the RCH segment in 2015 as discussed in Note 21. These buildings are being depreciated over a twenty year estimated useful life. The corresponding present values of the liabilities are included in interest-bearing loans and borrowings and are being amortised over twenty years using interest rates of approximately 7.5% and 6.4% for the respective obligations. Annual minimum payments under these agreements are approximately \$2.4 million and \$0.6 million for the respective obligations

Other Indebtedness

Other obligations, of approximately \$3.9 million outstanding at 31 December 2015, include borrowings relating to equipment purchases, notes payable issued for acquisitions and other borrowings bearing interest at rates ranging from approximately 0.5% to 12.2% and maturing at various dates through 2027. Approximately \$2.1 million of such indebtedness is collateralised by property and equipment with an aggregate net book value of approximately \$4.9 million at 31 December 2015.

19. Interest-bearing loans and borrowings (Continued)

Debt Covenant Compliance

The indentures and other agreements governing the Nortek Group's indebtedness and the indebtedness of its subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict, among other things, the Nortek Group's ability and the ability of its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions (all as defined in the indentures and other agreements). As of 31 December 2015, the Nortek Group had the capacity to make certain payments, including dividends, of approximately \$102.9 million.

As of 31 December 2015, the Nortek Group was in compliance with all covenants under the indenture that governs the 8.5% Notes and the credit agreements that govern the ABL Facility and the Term Loan Facility and believes it is reasonably assured it will comply with the covenants for the foreseeable future.

Embedded derivatives

The senior secured term loan facility includes an interest rate floor. The economic characteristics and risks of this floor have been determined to not be clearly and closely related to the host debt contract and the interest rate floor is bifurcated and classified as a derivative financial liability.

This embedded derivative liability is categorised within level 2 of the fair value hierarchy. The fair value of the embedded derivative was estimated using the three-month LIBOR forward rates to 2020 using an option pricing model.

Maturity of financial liabilities

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

	Interest-bearing loans and borrowings	Derivative financial liabilities	Other financial liabilities	Total financial liabilities
	\$m	\$m	\$m	\$m
Within one year	103.4	—	369.5	472.9
Two to three years	243.4	—	—	243.4
Four to five years	768.8	2.0	—	770.8
More than five years	820.6	—	—	820.6
31 December 2015	1,936.2	2.0	369.5	2,307.7
Within one year	116.9	—	390.1	507.0
Two to three years	228.2	—	—	228.2
Four to five years	442.5	3.8	—	446.3
More than five years	1,218.3	—	—	1,218.3
31 December 2014	2,005.9	3.8	390.1	2,399.8
Within one year	99.4	—	312.9	412.3
Two to three years	196.5	—	—	196.5
Four to five years	522.5	—	—	522.5
More than five years	884.4	—	—	884.4
31 December 2013	1,702.8	—	312.9	2,015.7
1 January 2013	1,804.5	—	260.7	2,065.2

20. Financial instruments risk management objectives and policies

Fair values

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

	31 December 2015			
	Fair value measuring using			
	Total	Level 1	Level 2	Level 3
	\$m	\$m	\$m	\$m
<i>Financial assets measured at fair value</i>				
Restricted investments	1.2	1.2	—	—
<i>Financial liabilities measured at fair value</i>				
Contingent consideration	0.2	—	—	0.2
Derivative instrument—interest rate floor	2.0	—	2.0	—
<i>Financial liabilities for which fair value are disclosed</i>				
Interest-bearing loans and borrowings	1,419.2	1,419.2	—	—
	31 December 2014			
	Fair value measuring using			
	Total	Level 1	Level 2	Level 3
	\$m	\$m	\$m	\$m
<i>Financial assets measured at fair value</i>				
Restricted investments	0.9	0.9	—	—
<i>Financial liabilities measured at fair value</i>				
Contingent consideration	—	—	—	—
Derivative instrument—interest rate floor	3.8	—	3.8	—
<i>Financial liabilities for which fair value are disclosed</i>				
Interest-bearing loans and borrowings	1,411.4	1,411.4	—	—
	31 December 2013			
	Fair value measuring using			
	Total	Level 1	Level 2	Level 3
	\$m	\$m	\$m	\$m
<i>Financial assets measured at fair value</i>				
Restricted investments	1.6	1.6	—	—
Pension assets	2.8	—	—	2.8
<i>Financial liabilities measured at fair value</i>				
Warrants	15.8	—	15.8	—
<i>Financial liabilities for which fair value are disclosed</i>				
Interest-bearing loans and borrowings	1,199.3	1,199.3	—	—

20. Financial instruments risk management objectives and policies (Continued)

	1 January 2013			
	Fair value measuring using			
	Total	Level 1	Level 2	Level 3
	\$m	\$m	\$m	\$m
<i>Financial assets measured at fair value</i>				
Restricted investments	1.9	1.9	—	—
Pension assets	14.4	—	—	14.4
<i>Financial liabilities measured at fair value</i>				
Warrants	14.6	—	14.6	—
<i>Financial liabilities for which fair value are disclosed</i>				
Interest-bearing loans and borrowings	1,204.0	1,204.0	—	—

There have been no transfers between levels in the year.

Measured on a recurring basis

Restricted Investments (Level 1)—The fair value of investments is based on quoted market prices. The fair value of investments was not materially different from their cost basis at 31 December 2015, 2014 and 2013 and 1 January 2013.

Derivative instrument—Interest rate floor (Level 2)—The fair value of interest rate floors has been calculated using option-pricing models.

Warrants (Level 2)—The fair value of warrants has been calculated using the Black Scholes model.

The fair value of investments in limited partnerships is determined based upon information received from the partnerships with respect to the underlying investments pension asset—held by the respective partnership.

Contingent Consideration (Level 3)—Contingent consideration liabilities are measured at fair value using projected revenue, discount rates, probabilities of payment and projected payment dates. This Level 3 fair value measurement was determined using an option pricing model. The real option approach methodology applies option pricing theory to a “real” stream, such as revenue. Utilisation of this methodology allows running of a high number of simulations and therefore, the Nortek Group believes that this valuation methodology was most appropriate. Increases or decreases in the fair value of the Nortek Group’s contingent consideration liability are principally driven by changes in the amount or probability weighting of revenue estimates. Projected revenue is based on the Nortek Group’s most recent internal operational budgets. From the date of acquisition through 31 December 2015, the Nortek Group recorded a fair value adjustment totalling approximately \$3.5 million, which was recorded as exceptional operating income, as a result of the reduction of the projected revenues.

20. Financial instruments risk management objectives and policies (Continued)

A reconciliation of Level 3 pension assets and financial liabilities is below:

	<u>Total</u> <u>\$m</u>
Pension Asset	
At 1 January 2013	14.4
Net realised and unrealised gains on investments	0.1
Sale of investments	<u>(11.7)</u>
At 31 December 2013	<u>2.8</u>
Net realised and unrealised gains on investments	—
Sale of investments	<u>(2.8)</u>
At 31 December 2014	<u>—</u>
Financial Liability	
At 1 January 2015	
Contingent consideration recorded at acquisition (Note 6)	3.7
Fair value adjustments (Note 6)	<u>(3.5)</u>
At 31 December 2015	<u>0.2</u>

Measured on a non-recurring basis

The Nortek Group remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets are comprised of long-lived assets, including property and equipment, intangible assets and goodwill. See discussion of significant unobservable Level 3 inputs used for valuing assets acquired and liabilities assumed in business combinations in Note 6.

Financial assets and liabilities not measured at fair value

Management assessed that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Nortek Group determined the fair market value of its 8.5% Notes using available market quotes from published sources (Level 1). For the Nortek Group's remaining outstanding indebtedness (including outstanding borrowings under the ABL Facility and the Term Loan Facility), the Nortek Group assumed that the carrying value of such indebtedness approximated the fair value based upon the variable interest rates associated with certain of these debt obligations and the Nortek Group's estimated credit risk.

Non-Designated Foreign Currency Contracts

All of the Nortek Group's foreign currency hedge contracts to date have been non-designated contracts. The Nortek Group's foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, which are generally one month. They are not designated as cash flow or fair value hedges. These forward contracts are marked-to-market with changes in fair value recorded in the Income Statement. The Nortek Group had non-designated foreign currency hedge contracts outstanding with a notional amount of approximately \$22.9 million as of 31 December 2015 (31 December 2014: \$nil, 31 December 2013: \$nil and 1 January 2013: \$nil). There were no material unrealised gains or losses related to contracts outstanding as of 31 December 2015.

During the second half of 2015, the Nortek Group settled non-designated foreign currency hedge contracts with a notional amount totalling approximately \$53.3 million resulting in a realised loss upon settlement of approximately \$0.6 million. The losses related to non-designated foreign currency hedge contracts are not material, and are included in net operating expenses within the Nortek Group's consolidated statement of operations. The losses related to the non-designated foreign currency hedge contracts are included within operating activities in the Statement of Cash Flows.

20. Financial instruments risk management objectives and policies (Continued)

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

The Nortek Group has classified its derivative assets and liabilities within Level 2 of the fair value hierarchy, because these observable inputs are available for substantially the full term of its derivative instruments. Neither the total derivative assets nor the total derivative liabilities were material as of 31 December 2015, 2014 and 2013 and 1 January 2013.

In February 2016, the Nortek Group entered into multiple foreign currency cash flow hedge contracts to hedge the anticipated cash flows from inventory purchases denominated in the Mexican Peso with a total notional amount of approximately \$6.4 million and with settlement dates through December 2016. All of the contracts are non-designated contracts and therefore, any changes in fair value will be recorded to Income Statement in the Nortek Group's historical financial statements.

Warrants liabilities

In connection with the emergence of bankruptcy in 2009, the Nortek Group issued warrants that were exercisable for a period of five years to purchase 789,474 shares of common stock at an exercise price of \$52.80 per share. During 2012, 2013 and 2014, approximately 96,444, 46,837, and 629,301 warrants, respectively, were exercised for shares of Nortek's common stock primarily through net share settlement as permitted under the warrant agreement. The remaining unexercised warrants expired on 17 December 2014 and there are no outstanding warrants as of 31 December 2014 or 2015.

Warrants were valued at \$14.6 million and \$15.8 million, as of 1 January 2013 and 31 December 2013 and are recorded in Other liabilities. Changes in fair value of the warrants were \$2.4 million in 2013 and \$2.0 million in 2014, the latter net of the impact of the reversal of the liability due to the expiration of the unexercised warrants.

Financial risk management

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

Credit risk

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

The Nortek Group's credit risk on cash and cash equivalents and restricted investment was limited because the counterparties were banks with strong credit ratings assigned by international credit rating agencies. The Nortek Group's credit risk was primarily attributable to its trade receivables and other receivables. The amounts presented in the Balance Sheet were net of allowances for doubtful receivables, estimated by the Nortek Group's management based on prior experience and their assessment of the current economic environment. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Nortek Group's customer base and their dispersion across many different geographical regions. These risks are not significantly dissimilar among the Nortek Group's five reportable segments.

Capital risk

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

20. Financial instruments risk management objectives and policies (Continued)

The capital structure of the Nortek Group as at 31 December 2015 consisted of cash and equity attributable to equity holders of the parent, comprising issued share capital and reserves.

Liquidity risk

The Nortek Group's primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, interest payments, and debt repayments. Nortek's principal sources of liquidity are cash flows from operations, existing unrestricted cash and cash equivalents, and the use of borrowings under its \$300.0 million ABL Facility.

The Nortek Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and finance leases. At 31 December 2015 approximately 0.5% of the Nortek Group's debt will mature in less than one year (2014: 0.6%, 2013: 0.3%) based on the carrying value of borrowings reflected in the historical financial information. The Nortek Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Nortek Group has access to a sufficient variety of sources of funding and debt maturing within twelve months can be rolled over with existing lenders. The Nortek Group believes that its unrestricted cash and cash equivalents as of 31 December 2015, the Nortek Group's estimated cash flows from its subsidiaries, and borrowings available under its ABL Facility will be sufficient to fund the Nortek Group's operations, anticipated capital expenditures, including potential acquisitions, and debt repayment obligations through at least the next twelve months based on the Nortek Group current operating plan. Refer to Note 19 for financial liabilities maturity disclosure.

Interest rate risk

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

The Nortek Group's investing strategy to manage interest rate exposure is to invest in short-term, highly liquid investments and marketable securities. Short-term investments primarily consist of federal agency discount notes, treasury bills and bank issued money market instruments with original maturities of 90 days or less. At 31 December 2015, 2014 and 2013 and 1 January 2013, the fair value of the Nortek Group's unrestricted and restricted investments and marketable securities was not materially different from their cost basis.

The Nortek Group manages borrowing exposure to changes in interest rates by optimising the use of fixed rate debt with extended maturities. At 31 December 2015, 2014, 2013 and 1 January 2013 approximately 52%, 72%, 92% and 92%, respectively, of the carrying value of long-term debt was at fixed interest rates. The remaining portion of long-term debt is at variable interest rates.

Based upon interest rates in effect at 31 December 2015, an overall unfavourable change in interest rates of 100 basis points would result in an additional charge to interest expense of approximately \$6.5 million, \$3.5 million and \$0.9 million in 2015, 2014 and 2013, respectively.

Foreign currency risk

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

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

The Nortek Group manages its exposure to foreign currency exchange risk principally by trying to minimise its net investment in foreign assets, including the use of strategic short and long-term borrowings at the foreign subsidiary level. Consistent with this strategy, short term bank obligations at 31 December 2015 consist primarily of short-term borrowings by certain of Nortek's foreign subsidiaries. At 31 December 2015, 2014 and 2013 and 1 January 2013, the Nortek Group's net investment in foreign assets was approximately \$217.6 million, \$223.2 million, \$180.3 million and \$166.9 million, respectively.

20. Financial instruments risk management objectives and policies (Continued)

During the second half of 2015, the Nortek Group commenced using currency forward contracts as part of its strategy to manage exposure related to foreign currency denominated monetary assets and liabilities. These foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, generally one month.

An overall unfavourable change in foreign exchange rates in effect at 31 December 2015 of 10% would result in a reduction in equity as a result of the impact on the cumulative translation adjustment of approximately \$19.8 million, \$20.3 million and \$16.4 million in 2015, 2014 and 2013, respectively. Additionally, an overall unfavourable change in foreign exchange rates in effect at the reporting date of 10% would not result in a material change in net loss as a result of the impact on the foreign exchange gains and losses in 2015, 2014 and 2013, respectively.

21. Provisions

	Restructuring	Environmental and legal costs	Worker compensation claims and other insurance	Product liability	Warranty related	Total
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 January 2013	12.0	3.2	12.0	54.0	54.7	135.9
Utilised	(8.6)	(0.1)	(34.5)	(8.6)	(30.5)	(82.3)
Net charge to operating profit . .	10.9	—	32.5	4.7	30.8	78.9
Exchange differences	0.3	—	—	(0.6)	(0.2)	(0.5)
Other	(0.1)	1.6	1.1	(1.2)	2.0	3.4
At 31 December 2013	<u>14.5</u>	<u>4.7</u>	<u>11.1</u>	<u>48.3</u>	<u>56.8</u>	<u>135.4</u>
Utilised	(14.3)	(1.7)	(44.2)	(6.9)	(31.5)	(98.6)
Net charge to operating profit . .	7.1	0.1	44.8	0.2	26.6	78.8
Exchange differences	(0.2)	(0.1)	(0.1)	(0.7)	(0.5)	(1.6)
Other	(0.2)	—	(0.6)	0.3	3.4	2.9
At 31 December 2014	<u>6.9</u>	<u>3.0</u>	<u>11.0</u>	<u>41.2</u>	<u>54.8</u>	<u>116.9</u>
Utilised	(14.3)	(1.1)	(46.5)	(6.6)	(27.4)	(95.9)
Net charge to operating profit . .	13.0	1.5	47.5	11.3	24.7	98.0
Exchange differences	(0.1)	—	—	(0.8)	(0.7)	(1.6)
Other	(0.2)	—	(0.6)	(1.2)	(0.4)	(2.4)
At 31 December 2015	<u>5.3</u>	<u>3.4</u>	<u>11.4</u>	<u>43.9</u>	<u>51.0</u>	<u>115.0</u>

The Nortek Group is subject to contingencies, including legal proceedings and claims arising out of its business, that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, product recalls, warranty, and modification, adjustment or replacement of component parts of units sold. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned.

Moreover, the Nortek Group provides for accruals for direct costs, including legal costs, associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued have been estimated based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes. Legal costs for other than probable contingencies are expensed when services are performed.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Nortek Group believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations.

Other provisions relate primarily to costs that will be incurred in respect of restructuring programmes as well as the cost of self-insurance, usually resulting in cash spend within one year.

21. Provisions (Continued)

Restructuring Activities

2015 activities

The Nortek Group has initiated various exit and disposal activities including, but not limited to, the matters described below. Employee separation expenses are comprised of severance, outplacement and retention bonus payments. Other costs include expenses associated with asset write-downs, terminating contractual arrangements, costs to prepare facilities for closure, and costs to move equipment and products to other facilities.

Manufacturing Rationalisation and Relocation Initiatives

Nortek's board of directors approved several initiatives relating to the transfer of product manufacturing and the consolidation of certain manufacturing facilities within the RCH and CAS segments (collectively, the "**Manufacturing Rationalisation & Relocation Initiatives**").

Cash expenditures began in the second quarter of 2013 and have been substantially completed as of the end of 2015. In connection with the Manufacturing Rationalisation & Relocation Initiatives, the Nortek Group has incurred cumulative costs as of approximately \$18.0 million (of which approximately \$16.4 million and \$1.6 million were recorded in the RCH and CAS segments, respectively), approximately \$15.3 million (of which approximately \$14.1 million and \$1.2 million were recorded in the RCH and CAS segments, respectively), and approximately \$8.3 million (of which approximately \$7.9 million and \$0.4 million was recorded in the RHC and CES segments, respectively) for the years ending 31 December 2015, 2014 and 2013, respectively.

Warehousing and Distribution Consolidation

In connection with the Nortek Group's efforts to optimise supply chain performance, Nortek's board of directors approved entry into a five-year agreement with a third party logistics service provider to outsource certain warehousing and distribution activities in the Nortek Group's North American operating segments and facilitate the consolidation of North American warehousing distribution centres (the "**Warehousing & Distribution Consolidation**").

Cumulative costs incurred in connection with the Warehousing & Distribution Consolidation include severance and other costs of approximately \$2.7 million (of which approximately \$1.7 million, \$0.6 million, and \$0.4 million were recorded in the SCS, ERG, and combined AVC segments, respectively) approximately \$3.0 million (of which approximately \$2.0 million, \$0.6 million, and \$0.4 million were recorded in the SCS, ERG, and combined AVC segments, respectively), and approximately \$1.8 million (of which approximately \$1.3 million and \$0.5 million was recorded in the TECH and DMS segments, respectively) for the years ending 31 December 2015, 2014 and 2013, respectively.

In October 2015, it was determined that the Nortek Group would assume control of certain US dedicated distribution centres that had been operated by a third party logistics service provider since 2013.

Subsidiary Combinations

The Nortek Group has combined, or is in the process of combining, the operations of certain subsidiaries in order to improve overall operational efficiencies, reduce costs, and provide potential for greater revenue growth ("**Subsidiary Combinations**").

On 28 July 2015, Nortek's board of directors approved a restructuring plan designed to merge the operations of Gefen into Core Brands, including the exit from certain product lines, which commenced during the third quarter of 2015 (the "additional subsidiary combination"). During 2015, the Nortek Group recorded approximately \$6.1 million of inventory charges, including expected purchase order cancellations of approximately \$1.1 million, and approximately \$1.5 million of severance and other charges associated with this additional subsidiary combination.

The Nortek Group currently expects the estimated total costs related to one time termination benefits and other costs associated with Subsidiary Combinations in 2015, including the restructuring of Gefen into Core Brands, to be approximately \$25.9 million to \$26.9 million.

21. Provisions (Continued)

In connection with Subsidiary Combinations, including the additional subsidiary combination, the Nortek Group has incurred cumulative costs of approximately \$25.5 million, of which approximately \$0.9 million, \$1.3 million and \$23.3 million was recorded in the SCS, RCH, and combined AVC segments, respectively. These costs consist of one time termination benefits of approximately \$6.2 million, approximately \$9.6 million in costs to reduce inventory values for certain products to their expected net realisable amount, and facility exit and other costs of approximately \$9.7 million.

In the event the Nortek Group elects to further consolidate subsidiaries, the Nortek Group may incur additional costs related to severance and other costs.

Best Restructuring

In 2011, management approved a plan to reduce costs and improve production efficiencies at Best, one of the Nortek Group's AQH subsidiaries, including transferring certain operations from Italy to Poland (the "**Best Restructuring**"). In the third quarter of 2015, management approved further restructuring costs for this business (the "**additional restructuring actions**"). Approximately \$1.6 million of severance costs was recorded in the second half of 2015 in connection with the additional restructuring actions. In connection with the Best Restructuring, including the additional restructuring actions, the Nortek Group has incurred cumulative costs of approximately \$19.6 million (consisting of contractual termination benefits of approximately \$19.2 million and other costs of approximately \$0.4 million), approximately \$17.6 million (consisting of contractual termination benefits of approximately \$17.2 million and other costs of approximately \$0.4 million), and approximately \$17.3 million (consisting of contractual termination benefits of approximately \$16.9 million and other costs of approximately \$0.4 million) for the years ending 31 December 2015, 2014 and 2013 respectively. As the Nortek Group continues to evaluate Best, it is possible that the Nortek Group will take future restructuring actions and additional expenses may be incurred.

CAS Segment Consolidation

On 1 May 2015, Nortek's board of directors approved a restructuring plan designed to consolidate production activities in its North American and European operations in the CAS segment, and exit from certain product lines which were determined to have limited strategic importance or to be competitively disadvantaged. The plan anticipated that the production facilities at two North American locations would be discontinued, with the product lines from those facilities transferred to other North American locations, or discontinued. Furthermore, the CAS segment's manufacturing operations in Mexico were ceased and the operation of the manufacturing facility was transferred to the Nortek Group's RCH segment to be used in that segment's production activities. The CAS Segment Consolidation is substantially complete and approximately \$8.3 million was recorded in 2015 comprised principally of employee separation, facility abandonment, and inventory write-offs during the consolidation period.

Other restructuring activities

As noted previously, the Nortek Group has transferred the management of its UK commercial HVAC subsidiary from the CAS segment to the RCH segment. As part of this transfer, Nortek's board of directors approved a restructuring plan related to the UK commercial HVAC subsidiary including a reduction of headcount, the closure of one facility, and the transfer of certain operations to other facilities within the RCH segment. Costs to be incurred in connection with this plan are expected to be in the range of approximately \$5.0 million to \$6.0 million, comprised principally of employee separation and lease obligations. The Nortek Group has recorded severance and other costs in 2015 of approximately \$4.3 million, consisting of severance of approximately \$2.2 million and other costs, including inventory write-offs, of approximately \$2.1 million related to these activities.

During 2015, the Nortek Group also recorded inventory write-offs of approximately \$0.9 million related to the discontinuation of a certain legacy product line at an AVC entity.

21. Provisions (Continued)

2014 activities

Subsidiary Combinations

The Nortek Group has combined, or is in the process of combining, the operations of certain subsidiaries in order to improve overall operational efficiencies, reduce costs, and provide potential for greater revenue growth. The total expected costs related to one time termination benefits and other costs associated with Subsidiary Combinations in 2014 are estimated to be approximately \$17.8 million to \$18.3 million.

In connection with Subsidiary Combinations in 2014, the Nortek Group has incurred cumulative costs of approximately \$17.7 million, of which approximately \$0.9 million, \$1.3 million and \$15.5 million was recorded in the SCS, RCH, and combined AVC segments, respectively. These costs consist of one time termination benefits of approximately \$5.0 million, approximately \$3.5 million in costs to reduce inventory values for certain products to their expected net realisable amount, and facility exit and other costs of approximately \$9.2 million.

2013 activities

Subsidiary Combinations

The Nortek Group has combined, or is in the process of combining, the operations of certain subsidiaries within the SCS segment in order to improve overall operational efficiencies, reduce costs, and provide potential for greater revenue growth. The total expected costs related to one time termination benefits and other costs associated with the combination are estimated to be approximately \$13.3 million to \$13.5 million. In connection with this combination, the Nortek Group has incurred cumulative costs of approximately \$13.3 million, consisting of one time termination benefits of approximately \$3.5 million, approximately \$3.4 million in costs to reduce inventory values for certain products to their expected net realisable amount, and facility exit and other costs of approximately \$6.4 million

22. Pensions and other post-employment benefits plans

Retirement benefit obligations

The Nortek Group has various defined benefit and defined contribution pension plans, supplemental retirement plans for certain officers, 401(k) savings and profit sharing plans and other post-retirement benefit plans requiring contributions to qualified trusts and union administered funds.

Pension, profit sharing, 401(k) match contributions, and other post-retirement health benefit expense charged to operations aggregated approximately \$11.7 million, \$9.1 million and \$8.5 million for the years ended 31 December 2015, 2014 and 2013, respectively.

Defined benefit plans

The Nortek Group's pension plans offer subsidised early retirement and lump sum payments. The Nortek Group's policy is to generally fund currently at least the minimum required annual contribution of its various qualified defined benefit plans. The Nortek Group contributed \$5.8 million (2014: \$6.4 million, 2013: \$3.9 million) to the continuing defined benefit pension plans in the year ended 31 December 2015. At December 31, 2015, the Nortek Group expects to contribute approximately \$6.0 million to its defined benefit pension plans in 2016.

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

The valuation of the US Pension Plan was based on a full actuarial valuation as of 1 January 2015 (2014: 1 January 2014, 2013: 1 January 2013), updated at 31 December 2015 (2014: 31 December 2014, 2013: 31 December 2013) by independent actuaries. The valuation of the UK Pension Plan was based on a full actuarial valuation as of 5 April 2015 (2014 and 2013: 5 April 2012), updated at 31 December 2015 (2014: 31 December 2014, 2013: 31 December 2013) by independent actuaries.

22. Pensions and other post-employment benefits plans (Continued)

Actuarial assumptions

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

	31 December 2015			31 December 2014			31 December 2013		
	UK Pension Plan % p.a.	US Pension Plan % p.a.	US Post-Ret. Health Benefits %p.a.	UK Pension Plan % p.a.	US Pension Plan % p.a.	US Post-Ret. Health Benefits % p.a.	UK Pension Plan % p.a.	US Pension Plan % p.a.	US Post-Ret. Health Benefits % p.a.
Discount rate	3.80%	3.85%	2.00%	3.50%	3.65%	2.00%	4.50%	4.41%	3.00%

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

For purposes of calculating the post-retirement health benefit cost, a medical inflation rate of 5% was assumed for 2015 (2014: 5%, 2013: 6.75%) and it is assumed to stay at 5% (2014: 5%, 2013: gradually decrease to an ultimate rate of 5% by 2014) each year into the future. A one percentage point change in assumed health care cost trends does not have a significant effect on the amount of liabilities recorded in the consolidated balance sheet at 31 December 2015 (2014: 31 December 2014, 2013: 31 December 2013).

Mortality

UK Pension Plan

Mortality assumptions for the UK Pension Plan, as at 31 December 2015 were based on the Self-Administered Pension Scheme ('SAPS') 'S2' (2014 and 2013: 'S1') base tables with a scaling factor of 120%, which reflected the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation ('CMI') improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

The assumptions were that a member currently aged 65 will live on average for a further 20.9 years (2014: 21.1 years, 2013: 21.1 years) if they are male and for a further 23 years (2014: 23.3 years, 2013: 23.3 years) if they are female. For a member who retires in 2035 at age 65, the assumptions were that they will live for a further 22.6 years (2014: 22.9 years, 2013: 22.9 years) after retirement if they are male and for a further 24.8 years (2014: 25.2 years, 2013: 25.2 years) after retirement if they are female.

US Pension Plan

The mortality assumptions adopted as at 31 December 2015 were set to reflect the Nortek Group's best estimate view of life expectancies of members of the pension arrangement. Each assumption reflected the characteristics of the membership of the US Pension Plan.

During 2014, the Society of Actuaries released new mortality tables that reflect increased life expectancy over the previous tables. The Nortek Group incorporated these new tables in the 2014 fair value measurement of its U.S. pension plans which resulted in an increase in the projected benefit obligation as of December 31, 2014. The Nortek Group used the updated mortality tables released by the Society of Actuaries in 2015 for the 2015 fair value measurement of its U.S. pension plans.

The assumptions were that a member currently aged 65 will live on average for a further 20.1 years (2014: 20.5 years, 2013: 19.2 years) if they are male and for a further 22 years (2014: 22.7 years, 2013: 21 years) if they are female. For a member who retires in 2035 at age 65, the assumptions were that they will live for a further 21.8 years (2014: 22.2 years, 2013: 19.2 years) after retirement if they are male and for a further 23.7 years (2014: 24.3 years, 2013: 21 years) after retirement if they are female.

22. Pensions and other post-employment benefits plans (Continued)

Balance Sheet disclosures

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

	Pension			Post-Retirement Health Benefits		
	31 December 2015	31 December 2014	31 December 2013	31 December 2015	31 December 2014	31 December 2013
	\$m	\$m	\$m	\$m	\$m	\$m
Present value of funded defined benefit obligations	(160.4)	(181.5)	(172.4)	n/a	n/a	n/a
Fair value of plan assets	120.1	133.1	134.0	n/a	n/a	n/a
Funded status	(40.3)	(48.4)	(38.4)	n/a	n/a	n/a
Present value of unfunded defined benefit obligations	(4.9)	(5.7)	(5.4)	(1.5)	(1.8)	(1.9)
Net liabilities	<u>(45.2)</u>	<u>(54.1)</u>	<u>(43.8)</u>	<u>(1.5)</u>	<u>(1.8)</u>	<u>(1.9)</u>

The plan liabilities and assets at 31 December 2015 were split by plan as follows:

	UK Pension Plan	US Pension Plan	US Post-Retirement Health Benefits Plan	Total
	\$m	\$m	\$m	\$m
Plan liabilities	(40.5)	(124.8)	(1.5)	(166.8)
Plan assets	29.9	90.2	—	120.1
Net assets/(liabilities)	<u>(10.6)</u>	<u>(34.6)</u>	<u>(1.5)</u>	<u>(46.7)</u>

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

	As at 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Cash and cash equivalents—U.S. plans	1.5	1.2	3.3
Cash and cash equivalents—U.K. plan	0.1	—	—
Corporate debt—U.S. plans	52.3	54.5	50.7
Investment in registered investment companies—U.S. plans	35.8	43.2	44.7
Investments in pooled pension funds—U.K. plan	29.8	32.0	31.8
Investment in limited partnership—U.S. plans	—	—	2.8
Other investments—U.S. plans	0.6	2.2	0.7
Total	120.1	133.1	134.0

The Nortek Group's US qualified defined benefit plans' and UK pension plan's assets are invested to maximise returns without undue exposure to risk. The US plan's investment objectives are to produce a total return exceeding the median of a universe of portfolios with similar average asset allocation and investment style objectives, and to earn a return, net of fees, greater or equal to the long-term rate of return used by the Nortek Group in determining pension expense. The UK plan investment objectives for the fixed income pooled pension fund are to provide capital growth and income primarily through investment in non-government debt securities. The foreign plan investment objectives for the international hedge pooled pension fund are to provide positive investment returns in all market conditions over the medium to long-term and the investment strategies include the use of advanced derivative techniques that result in a highly diversified portfolio. As indicated in the tables above, investment risk for both the domestic and foreign plans are controlled by maintaining a portfolio of assets that is diversified across a variety of asset classes and investment styles in order to minimise exposure with respect to the size of individual securities and industry concentration. The asset allocation policies of the plans are consistent with the established investment objectives and risk tolerances. The asset allocation policies are developed

22. Pensions and other post-employment benefits plans (Continued)

by examining the historical relationships of risk and return among asset classes, and are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk.

The Nortek Group uses a liability-driven investment approach for its U.S. pension assets as part of its defined benefit plan terminal funding strategy in order to minimise the volatility of the plans' funded status. The allocation to equity investments as a percentage of plan assets are diversified across low-cost index funds to capture higher expected long-term returns while minimising cost. The fixed income allocation is invested in a manner such that any changes to the corporate bond yield curve will result in proportional changes to both the fixed income portfolio value and the plans' terminal funding liability. As the funded status of the plans improves (as measured on a termination basis), the Nortek Group will reduce the plans' equity exposure and increase the amount of fixed income investment that is aligned with the plans' expected benefit obligations. This process represents an ongoing reduction in equity return volatility risk that simultaneously reduces interest rate risk associated with both the plans' fixed income portfolio value and terminal funding liability. This approach is expected to significantly reduce the variability of total plan funding costs without increasing the Nortek Group's cumulative contributions. The foreign plan target allocation for 2016 is to split the pension assets broadly into 60% growth investments and 40% bond investments consistent with the 2015 allocation.

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

	Pensions			Post-Retirement Health Benefits		
	For the year ended 31 December			For the year ended 31 December		
	2015	2014	2013	2015	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m
At beginning of year	187.2	177.8	193.0	1.8	1.9	2.2
Current service cost	1.0	0.6	0.5	—	—	—
Interest cost on obligations	6.5	7.5	6.8	—	0.1	—
Remeasurement (gains)/losses—demographic	(6.0)	10.5	(0.1)	(0.2)	(0.3)	(0.1)
Remeasurement (gains)/losses—financial	(4.5)	13.6	(11.2)	—	0.1	(0.1)
Benefits paid out of assets	(12.0)	(12.0)	(11.5)	—	—	—
Benefits paid out of assets due to settlements	(3.6)	(5.8)	—	—	—	—
Benefits paid out of Company assets for unfunded plans . . .	(0.8)	(0.6)	(0.5)	—	—	(0.1)
Settlement (gains)/losses	(0.1)	(1.9)	—	—	—	—
Currency translation differences	(2.4)	(2.5)	0.8	(0.1)	—	—
At end of year	165.3	187.2	177.8	1.5	1.8	1.9

The defined benefit plan liabilities were 11% (2014: 13%, 2013: 11%) in respect of active plan participants, 23% (2014: 29%, 2013: 28%) in respect of deferred plan participants and 66% (2014: 58%, 2013: 61%) in respect of pensioners. The defined benefit liability for the post-retirement health benefits were 100% related to retirees for 31 December 2015, 31 December 2014 and 31 December 2013.

The weighted average duration of the defined benefit plan liabilities at 31 December 2015 was 8.5 years (2014: 10.6 years, 2013: 11 years). The weighted average duration of the post-retirement health benefits liabilities at 31 December 2015 was 6.2 years (2014: 5.7 years, 2013: 6.3 years).

22. Pensions and other post-employment benefits plans (Continued)

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

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
At beginning of year	133.1	134.0	131.7
Interest income on plan assets	4.7	5.8	4.7
Return on plan assets (excluding amounts included in net interest expense)	(4.9)	7.3	5.1
Contributions	5.8	6.4	3.9
Benefits paid	(12.0)	(12.0)	(11.5)
Settlements paid	(3.6)	(5.8)	—
Expenses paid out of plan assets	(1.3)	(0.7)	(0.5)
Currency translation differences	(1.7)	(1.9)	0.6
At end of year	120.1	133.1	134.0

Income Statement disclosures

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

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Included within operating profit:			
—current service costs	0.3	0.1	—
—administrative expenses	0.7	0.5	0.5
—settlement (gain)	(0.1)	(1.9)	—
—total included in operating profit	0.9	(1.3)	0.5
Included within net finance costs:			
—net interest	1.8	1.7	2.1

Statement of Comprehensive Income disclosures

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

	Pensions			Post-Retirement Health Benefits		
	For the year ended 31 December			For the year ended 31 December		
	2015	2014	2013	2015	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m
Return on plan assets, excluding amounts included in net interest expense	(5.4)	7.1	5.1	—	—	—
Actuarial gains/(losses) arising from changes in demographic assumptions	6.0	(10.5)	0.1	0.2	0.3	0.1
Actuarial gains/(losses) arising from changes in financial assumptions	4.5	(13.6)	11.2	—	(0.1)	0.1
Currency translation differences	0.7	0.6	(0.2)	—	—	—
Net remeasurement gain/(loss) on retirement benefit obligations	5.8	(16.4)	16.2	0.2	0.2	0.2

The return on plan assets includes the difference between actual and expected administrative expenses.

22. Pensions and other post-employment benefits plans (Continued)

Risks and sensitivities

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

A sensitivity analysis on the principal assumptions used to measure the plan liabilities at the 2015 year end was as follows:

	Change in assumption	Decrease/ (increase) to plan liabilities
		\$m
Rate of salary increase	Increase by 0.25%	(0.1)
	Decrease by 0.25%	0.1
Discount rate	Decrease by 1.00%	(15.7)
	Increase by 1.00%	14.1
Assumed life expectancy (rate of mortality)	Increase by 1 year	(5.2)
	Decrease by 1 year	5.2

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

The sensitivities were based on the relevant assumptions and membership profile as at 31 December 2015 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.

Other Plans

In conjunction with the acquisition of Reznor, the Nortek Group assumed a liability to fund certain post-retirement benefits of Reznor in Belgium. The assets of the Belgian defined benefit plan are composed of insurance policies. The contributions (or premiums) the Nortek Group pays are used to purchase insurance policies that provide for specific benefit payments to the plan participants. The benefit formula is determined independently by the Nortek Group upon retirement of an individual plan participant, the insurance contracts purchased are converted to provide specific benefits for the participant. As of December 31, 2015, the fair value of these plan assets was approximately \$0.9 million and are considered to be Level 3 financial instruments. The total funded status as of December 31, 2015 was a liability of approximately \$0.3 million.

23. Share-based payments

Incentive Compensation Plan

On 17 December 2009, the Nortek Group established the 2009 Omnibus Incentive Plan (the “**Incentive Plan**”) which allows for grants of options, stock appreciation rights, restricted stock, other share-based awards and performance-based compensation awards. The Incentive Plan is administered by the board of directors of Nortek, the compensation committee of the board of directors, or any other committee designated by the board of directors to administer the Incentive Plan (the “**Committee**”). Participants consist of such employees, directors of Nortek and other individuals providing services to the Nortek Group, or any subsidiary or affiliate, as the Committee in its sole discretion determines and whom the Committee may designate from time to time to receive awards.

Under the Incentive Plan, 2,885,907 shares were authorised for grant through 17 December 2019, of which 1,076,555 may be in the form of incentive stock options. The maximum number of shares for which options and stock appreciation rights may be granted to any participant in any calendar year is 627,990, and the maximum number of shares with respect to other awards denominated in shares in any calendar year is

23. Share-based payments (Continued)

627,990. The maximum value of cash payable with respect to awards denominated in cash or property that may be granted to any participant in any plan year is \$5.0 million, subject to certain adjustments as defined. In the event that any outstanding award expires, is forfeited, cancelled or otherwise terminated without the issuance of shares or is otherwise settled for cash, the shares subject to such award shall again be available for awards. At December 31, 2015, there are 1,024,296 remaining shares available for grant under the Incentive Plan.

The expense (income) recognised for share-based compensation during the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively, is shown in the following table:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Expense arising from equity-settled share-based payment transactions	3.5	4.2	5.8
(Income) expense arising from cash-settled share-based payment transactions	(6.3)	5.3	7.1
Total (income) expense arising from share-based payment transactions	(2.8)	9.5	12.9

There were no significant modifications to the awards in 2015, 2014 or 2013. The credit in 2015 arising from cash-settled share-based payment transactions results from a reduction in the fair value of the liability portion of share-based awards, largely as a result of a reduction in the closing price of Nortek's stock compared to the prior period.

Share options

The Nortek Group has awarded options with time based vesting to certain key employees. These options vest annually, on the anniversary of the date of grant, over three or five years provided the recipient remains employed by the Nortek Group. All options expire on the tenth anniversary of the grant date, unless terminated earlier. There were no significant modifications to the awards in 2015, 2014 or 2013.

The following table illustrates the number and weighted average exercise prices of, and movements in the share options during the year:

	Year ended 31 December					
	2015		2014		2013	
	Number	WAEP (\$)	Number	WAEP (\$)	Number	WAEP(\$)
Outstanding at 1 January	523,778	39.16	630,680	32.31	660,333	25.60
Granted during the year	136,985	80.65	75,780	73.75	85,930	72.42
Exercised during the year	(51,954)	30.71	(131,974)	24.41	(74,430)	20.62
Forfeited during the year	(16,326)	70.65	(50,708)	44.02	(41,153)	29.61
Outstanding at 31 December	592,483	48.63	523,778	39.16	630,680	32.31
Exercisable at 31 December	355,882	35.31	293,231	30.33	275,011	24.93

The weighted average remaining contractual life for the share options outstanding as at 31 December 2015 was 6.8 years (2014: 7.0 years and 2013: 7.5 years).

The range of exercise price for options outstanding at the end of the year was \$17.50 to \$86.81.

23. Share-based payments (Continued)

Fair value assumptions

The estimated fair value of the options granted as described above was measured on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	Year ended 31 December		
	2015	2014	2013
Weighted average fair values at the grant date	\$34.54	\$34.97	\$26.74
Weighted average share price	\$81.98	\$81.12	\$68.54
Expected volatility	40.0%	40.0%	40.0%
Expected life of share options	6.0 years	6.0 years	6.0 years
Risk free interest	1.83%	1.92%	1.34%
Expected dividend yield	—%	—%	—%

The expected life of the share options is derived using the midpoint assumption. The expected volatility assumption is based upon the historical volatility of comparable public companies' stock as well as the implied volatility of outstanding options for the comparable companies that had such options. The dividend yield represents the expected dividends on Nortek's common stock for the expected term of the option.

As the Company net settles awards and pays the corresponding minimum statutory tax withholding liability in cash to the tax authorities, the portion of each award related to the withholding is accounted for as a cash-settled award and classified as a liability. The tax withholding liability related to share options as at 31 December 2015, 31 December 2014, and 31 December 2013 was \$3.4 million, \$8.6 million and \$6.6 million respectively.

Total share-based compensation (income) expense recognised for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively, related to share options was approximately \$(3.0) million, \$4.1 million, and \$4.6 million, respectively.

Restricted Shares

The Nortek Group has awarded performance based restricted shares of common stock to certain key employees. These shares are eligible to become vested in annual instalments and, in some cases cumulatively, based upon the achievement of specified levels of Adjusted EBITDA, as defined, for each year. The shares, if any, are vested as of 31 December of each year. However, as the number of shares vesting is contingent upon the Nortek Group's financial results, determined based upon the issuance of historical financial information, the actual issuance of shares to recipients does not occur until the first quarter of the following year.

The Nortek Group has also awarded time-based restricted shares of common stock to certain key employees. These shares vest annually, on the anniversary of the date of grant, over three or five years provided the recipient remains employed by the Nortek Group.

Restricted stock has the same cash dividend and voting rights as other common stock and, once issued, is considered to be legally issued and outstanding (even when unvested). Recipients of restricted stock are entitled to dividends when and if Nortek pays a cash dividend on its common stock. Such dividends are not payable to the recipient until the vesting of the related restricted shares.

23. Share-based payments (Continued)

The following table illustrates the number and weighted average exercise prices of, and movements in the share options during the year:

Time-Based

	Year ended 31 December					
	2015		2014		2013	
	Number	Weighted Average Grant Date Fair Value (\$)	Number	Weighted Average Grant Date Fair Value (\$)	Number	Weighted Average Grant Date Fair Value (\$)
Outstanding at 1 January	105,666	61.24	119,319	48.50	128,279	34.30
Granted during the year	64,773	80.69	57,954	73.80	51,465	72.45
Vested during the year	(46,408)	57.22	(50,811)	45.18	(43,514)	35.68
Forfeited/Cancelled during the year . .	(10,644)	73.03	(20,796)	62.40	(16,911)	46.64
Outstanding at 31 December	113,387	72.89	105,666	61.24	119,319	48.50

Performance-Based

	Year ended 31 December					
	2015		2014		2013	
	Number	Weighted Average Grant Date Fair Value (\$)	Number	Weighted Average Grant Date Fair Value (\$)	Number	Weighted Average Grant Date Fair Value (\$)
Outstanding at 1 January	240,939	66.80	215,716	60.76	372,499	29.20
Granted during the year	4,303	81.33	99,978	73.86	98,018	72.46
Vested during the year	(21,432)	58.36	(9,616)	50.28	(121,794)	40.75
Forfeited/Cancelled during the year .	(61,910)	60.39	(65,139)	62.46	(133,007)	43.89
Outstanding at 31 December	161,900	70.76	240,939	66.80	215,716	60.76

The cost of the time and performance based restricted stock awards, calculated as the estimated grant date fair value, net of estimated forfeitures, is recognised on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

In 2015, Nortek concluded that certain of its performance-based restricted stock awards were no longer probable of vesting, following a review of financial performance and outlook. At 31 December 2015, the outstanding non-vested restricted stock awards subject to performance-based vesting conditions were not probable of vesting, resulting in a reversal of \$2.4 million of share-based compensation expense recognised in prior periods.

The tax withholding liability related to time based and performance based restricted stock as at 31 December 2015, 31 December 2014 and 31 December 2013 was \$1.2 million, \$4.0 million and \$6.6 million respectively.

The estimated fair value of the grants is based upon the closing price of Nortek's stock on the date of grant. Total compensation (income) expense recognised for the years ended 31 December 2015, 2014 and 2013, respectively, related to time based and performance based restricted stock was approximately \$0.2 million, \$5.4 million and \$8.3 million, respectively.

24. Issued capital and reserves

<u>Share Capital</u>	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>	<u>1 January 2013</u>
	\$m	\$m	\$m	\$m
Authorised common stock				
90,000,000 (31 December 2014:90,000,000, 31 December 2013: 90,000,000, 1 January 2013: 90,000,000) Ordinary Shares of \$0.01 each	—	—	—	—
Ordinary shares issued and fully paid				
17,041,710 (31 December 2014: 16,986,493, 31 December 2013: 16,150,794, 1 January 2013: 16,026,374) Ordinary Shares of \$0.01 each	0.2	0.2	0.2	0.1
Authorised preferred stock				
10,000,000 (31 December 2014:10,000,000, 31 December 2013: 10,000,000 and 1 January); none issued and outstanding	—	—	—	—
	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>

Issued capital

Below is the roll forward of Group issued shares:

	<u>(in thousands)</u>
Balance at 31 December 2012	16,026.4
Issuance of restricted stock	139.3
Forfeitures of unvested restricted stock	(136.2)
Exercise of stock options	74.4
Warrants exercised	46.8
Balance at 31 December 2013	16,150.7
Issuance of restricted stock	157.9
Forfeitures of unvested restricted stock	(83.5)
Exercise of stock options	132.0
Warrants exercised	629.3
Balance at 31 December 2014	16,986.4
Issuance of restricted stock	69.1
Forfeitures of unvested restricted stock	(65.8)
Exercise of stock options	52.0
Warrants exercised	—
Balance at 31 December 2015	17,041.7

Treasury shares

The Nortek Group had the following amount in treasury shares for each of the periods presented:

	<u>(in thousands)</u>
At 1 January 2013	172.7
Repurchased by the Nortek Group	90.4
At 31 December 2013	263.1
Repurchased by the Nortek Group	469.2
At 31 December 2014	732.3
Repurchased by the Nortek Group	50.4
At 31 December 2015	782.7

24. Issued capital and reserves (Continued)

Other stock transactions

In connection with the emergence from bankruptcy in 2009, the Nortek Group issued warrants that were exercisable for a period of five years to purchase 789,474 shares of common stock at an exercise price of \$52.80 per share. During 2014 and 2013, approximately 629,301 and 46,837 warrants, respectively, were exercised for common shares of the Nortek Group, primarily through net share settlements as permitted under the warrant agreement. The remaining unexercised warrants expired in 2014 and there are no warrants outstanding as of 31 December 2015 or 2014 (see Note 20).

Accumulated other comprehensive income

Accumulated other comprehensive income includes translation reserve, which contains exchange differences on the translation of subsidiaries with a functional currency other than US Dollars, and actuarial gains or losses resulting from remeasurement of defined benefit obligation.

Other reserves

Other reserves comprise share-based payments. The share-based payments reserve is used to recognise the value of equity-settled share-based provided to employees, including key management personnel, as part of their remuneration. Refer to Note 23 for further details of these plans.

25. Capital management

For the purpose of the Nortek Group's capital management, capital includes issued capital, share premium and all other equity reserves. The primary objective of the Nortek Group's capital management is to maximise shareholder value.

The Nortek Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, Nortek may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Nortek Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Nortek Group includes within net debt interest bearing loans and borrowings, less cash and cash equivalents and restricted cash.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	\$m	\$m	\$m
Interest-bearing loans and borrowings	1,404.3	1,357.7	1,083.1
Less: Cash and cash equivalent	(24.6)	(58.4)	(80.9)
Less: Restricted cash	(0.3)	(0.6)	(2.9)
Net debt	<u>1,379.4</u>	<u>1,298.7</u>	<u>999.3</u>
Equity	17.2	43.6	86.2
Total capital	<u>17.2</u>	<u>43.6</u>	<u>86.2</u>
Capital and net debt	<u>1,396.6</u>	<u>1,342.3</u>	<u>1,085.5</u>
Gearing ratio	99%	97%	92%

The Nortek Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015, 2014 and 2013.

26. Cash flows from operating activities

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Headline ⁽¹⁾ operating profit	220.1	220.4	184.5
Adjustments for:			
Depreciation of property, plant and equipment	50.4	43.2	40.6
Increase to cost of sales for inventory acquired in business combinations	0.5	2.2	3.3
Non-cash share-based compensation expense	5.4	6.2	10.5
Loss (gain) on sale of assets	(0.7)	(0.3)	0.6
Decrease/(increase) in receivables	(19.4)	(31.7)	10.0
(Increase)/decrease in inventories	(7.2)	(81.5)	(0.5)
Decrease/(increase) in other current assets	0.1	3.3	(6.3)
(Decrease)/Increase in payables	(42.0)	44.6	32.0
Tax paid	(14.0)	(14.4)	(12.2)
Interest paid	(96.2)	(103.6)	(97.3)
Defined benefit contributions paid	(5.8)	(6.4)	(3.9)
Restructuring costs paid and movements in provisions	(27.4)	(42.2)	(12.3)
Non-current assets, liabilities and other, net	(10.1)	(0.7)	(12.2)
	<u>(166.4)</u>	<u>(181.3)</u>	<u>(47.7)</u>
Net cash from operating activities	<u>53.7</u>	<u>39.1</u>	<u>136.8</u>

Note:

(1) As detailed in the consolidated income statement

27. Net debt reconciliation

	1 January 2013	Cash flow	Other non- cash movements	Foreign exchange difference	31 December 2013
	\$m	\$m	\$m	\$m	\$m
Cash	144.7	(62.2)	—	(1.6)	80.9
Restricted cash	0.2	2.7	—	—	2.9
Debt due <1 year	(3.1)	(0.4)	—	—	(3.5)
Debt due > 1 year	(1,082.3)	100.9	(98.2)	—	(1,079.6)
Net (debt)/cash	(940.5)	41.0	(98.2)	(1.6)	(999.3)
	31 December 2013	Cash flow	Other non- cash movements	Foreign exchange difference	31 December 2014
	\$m	\$m	\$m	\$m	\$m
Cash	80.9	(21.5)	—	(1.0)	58.4
Restricted cash	2.9	(2.3)	—	—	0.6
Debt due <1 year	(3.5)	(4.2)	—	—	(7.7)
Debt due > 1 year	(1,079.6)	(142.9)	(127.5)	—	(1,350.0)
Net (debt)/cash	(999.3)	(170.9)	(127.5)	(1.0)	(1,298.7)
	31 December 2014	Cash flow	Other non- cash movements	Foreign exchange difference	31 December 2015
	\$m	\$m	\$m	\$m	\$m
Cash	58.4	(30.0)	—	(3.8)	24.6
Restricted cash	0.6	(0.3)	—	—	0.3
Debt due <1 year	(7.7)	(0.5)	—	—	(8.2)
Debt due > 1 year	(1,350.0)	61.3	(107.4)	—	(1,396.1)
Net (debt)/cash	(1,298.7)	30.5	(107.4)	(3.8)	(1,379.4)

28. Commitments and contingencies

Lease Obligations

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

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
	\$m	\$m	\$m
Amounts payable:			
Within one year	25.1	21.6	20.1
After one year but within five years	62.8	49.9	36.8
Over five years	<u>13.0</u>	<u>16.5</u>	<u>9.8</u>
	<u>100.9</u>	<u>88.0</u>	<u>66.7</u>

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

The Nortek Group is obligated under operating lease agreements for the rental of certain real estate and machinery and equipment to be used in operations. The lease terms of real state range from approximately 1 year to 11 years and for the rental of machinery and equipment used in operations range from approximately 2 years to 6 years in 2015.

Capital commitments

At 31 December 2015, there were commitments of \$2.7 million (2014: \$5.3 million, 2013: \$2.1 million) relating to the acquisition of new plant and machinery.

In 2014, one of the Nortek Group's subsidiaries within its ERG segment entered into an agreement for the construction of an approximately 84,000 square foot building located in China to be used as a warehouse facility. Construction of the facility commenced in the fourth quarter of 2015 and is expected to be completed by the end of 2016. The estimated construction costs to be incurred are approximately \$1.9 million of which the Nortek Group will be responsible to pay approximately \$0.5 million.

Product Liability Contingencies

In an action initiated on 21 May 2014, Nortek Global HVAC LLC ("Nortek Global HVAC"), Nortek's wholly owned subsidiary, was named as a defendant in a putative class action lawsuit in Florida, Harris, et al. v. Nortek Global HVAC, LLC, Case No. 1:14-cv-21884-BB, filed in the United States District Court for the Southern District of Florida. In addition, in an action initiated on 3 October 2014, Nortek, Inc., Nortek Global HVAC LLC and Nortek Global HVAC Latin America, Inc. were named as defendants in a putative class action lawsuit in Tennessee, Bauer, et al. v. Nortek Global HVAC, LLC, et al., Case No. 3:14-cv-01940, filed in the United States District Court for the Middle District of Tennessee. These lawsuits allege that the copper evaporator and condenser coils in Nortek Global HVAC's residential heating and cooling products are susceptible to a type of potential corrosion that can result in coil leaks and eventual failure of the units. The Florida action sought compensatory damages associated with Nortek Global HVAC's alleged wrongdoing, injunctive relief, and attorneys' fees and costs. The Tennessee action seeks damages associated with repairing, retrofitting and/or replacing the allegedly defective products, the loss of value due to the alleged defect, property damages associated with the alleged defect, injunctive relief, punitive damages, and attorneys' fees and costs.

On 29 January 2016, the Court in the Florida action entered an order denying the plaintiffs' motion to certify a class of Florida consumers. Subsequently, the Nortek Group reached a nominal settlement with the two named plaintiffs in the Florida action. In the Tennessee action, no arguments or ruling with respect to class action status have occurred to date. The Nortek Group believes it has meritorious defences against the claims in the Tennessee action. At this time, the Nortek Group believes that the likelihood of a

28. Commitments and contingencies (Continued)

material loss in the Tennessee action is remote and has not recognised a loss or liability in such action; however, it is possible that events could occur that would change the likelihood of a material loss, which could ultimately have a material impact on Nortek's business. The Nortek Group will continue to assess the likelihood of a material loss as the Tennessee action progresses.

FCPA Matters

As part of the Nortek Group's routine internal audit activities, it discovered certain questionable hospitality, gift and payment practices, and other expenses at the Nortek Group's subsidiary, Linear Electronics (Shenzhen) Co. Ltd. ("Linear China"), which are inconsistent with the Nortek Group's policies and raise concerns under the U.S. Foreign Corrupt Practices Act and perhaps under other applicable anti-corruption laws. The Nortek Group conducted an internal investigation into these practices and payments with the assistance of outside counsel.

On 7 January 2015 and 8 January 2015, respectively, the Nortek Group voluntarily contacted the SEC and the United States Department of Justice ("DOJ") to advise both agencies of the Nortek Group's internal investigation. The Nortek Group is in discussions with both agencies and continues to cooperate with the SEC and DOJ investigations into these matters. The Nortek Group takes these matters very seriously and is committed to conducting its business in compliance with all applicable laws.

On 3 June 2016 the DOJ informed the Nortek Group by letter (the "DOJ Letter") that it had closed its investigation into this matter. It stated that it had reached this conclusion, despite the conduct at issue, based on a number of factors, including but not limited to the fact that the Nortek Group's internal audit function identified the misconduct, the Nortek Group's prompt voluntary self-disclosure, the thorough investigation undertaken by the Nortek Group, its fulsome cooperation in this matter, the steps that the Nortek Group has taken to enhance its compliance program and its internal accounting controls, the Nortek Group's full remediation (including terminating the employment of all five individuals involved), and the fact that the Nortek Group will be disgorging to the SEC the full amount of disgorgement as determined by the SEC.

On 7 June 2016, the Nortek Group entered into a non-prosecution agreement ("Non-Prosecution Agreement") with the SEC under which the SEC agreed not to prosecute the Nortek Group for violations of the FCPA relating to improper payments and gifts by Linear China employees to local Chinese officials from 2009 to 2014. The Non-Prosecution Agreement reflects the Nortek Group's self-report, its prompt and thorough internal investigation, its immediate action to end the payments and to implement significant remedial measures, and its comprehensive, organised, and real-time cooperation with the SEC during the investigation. Under the Non-Prosecution Agreement, the Nortek Group has agreed, among other things, to pay to the SEC disgorgement in the amount of \$0.3 million, including prejudgment interest.

For the year ended 31 December 2015 and 2014, approximately \$2.3 million and \$0.8 million, respectively, was recorded for legal and other professional services incurred related to the internal investigation of this matter. The Nortek Group incurred nominal additional costs relating to the investigation of this matter in 2016.

Other Commitments and Contingencies

The Nortek Group is subject to other contingencies, including legal proceedings and claims, arising out of its businesses that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, warranty, and modification and adjustment or replacement of component parts of units sold, which include product recalls. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned. The Nortek Group has used various substances in its products and manufacturing operations which have been or may be deemed to be hazardous or dangerous, and the extent of its potential liability, if any, under environmental, product liability and workers' compensation statutes, rules, regulations and case law is unclear. Furthermore, due to the lack of adequate information and the potential impact of present regulations and any future regulations, there are certain circumstances in which the amount or range of possible losses cannot be reasonably estimated.

28. Commitments and contingencies (Continued)

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, warranty, product liability, environmental liabilities, and product recalls, the Nortek Group believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the Nortek Group's consolidated financial position, results of operations or liquidity. It is possible, however, that results of operations for any particular future period could be materially affected by changes in the Nortek Group's assumptions or strategies related to these contingencies or changes that are not within the Nortek Group's control.

29. Related party disclosures

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

Remuneration of key management personnel

The remuneration of the directors of Nortek, who are the key management personnel of the Nortek Group, is set out below in aggregate for each of the categories.

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Short-term employee benefits	7.5	6.4	7.2
Contribution to defined contribution plans	0.3	0.6	(0.1)
Other long-term benefits	—	—	—
Share-based payments ⁽¹⁾	(5.2)	4.8	7.2
	2.6	11.8	14.3

Note:

- (1) The \$5.2 million credit in 2015 corresponds to a credit of \$6.4 million arising from a reduction in the liability portion of cash-settled share-based payments, net of an expense of \$1.2 million from equity-settled share-based payments.

30. First-time adoption of IFRS

Reconciliations between US GAAP and IFRS

In preparing its Balance Sheet at the transition date, the Nortek Group has adjusted amounts originally reported in its financial statements prepared in accordance with US GAAP.

The reconciliation of shareholders' equity as at 31 December 2015, 2014 and 2013 and 1 January 2013 is as following:

	As at 31 December			At transition date— 1 January 2013
	2015	2014	2013	
	\$m	\$m	\$m	\$m
Shareholders' equity as originally presented under US GAAP	12.3	42.2	99.9	94.2
Inventories	(2.2)	(1.7)	(0.7)	(0.4)
Leases	—	—	0.8	—
Pensions	—	—	—	—
Share-based compensation	(3.1)	(11.3)	(12.3)	(8.5)
Embedded derivatives	2.2	0.5	—	—
Warrants	—	—	(15.8)	(14.6)
Tax	8.0	13.8	14.3	14.0
Shareholders' equity under IFRS	17.2	43.6	86.2	84.7

30. First-time adoption of IFRS (Continued)

The reconciliation of total comprehensive income for the years ended 31 December 2015, 2014 and 2013 is as follows:

	Year ended 31 December		
	2015	2014	2013
	\$m	\$m	\$m
Total comprehensive income (loss) as originally presented under US GAAP	(33.5)	(65.0)	(2.3)
Inventories	(0.5)	(1.0)	(0.2)
Leases	—	(0.8)	0.8
Pensions	—	—	—
Share-based compensation	8.2	(3.3)	(2.5)
Embedded derivatives	1.7	0.5	—
Warrants	—	(2.0)	(2.4)
Tax	(4.8)	0.2	(1.9)
Total comprehensive income (loss) under IFRS	(28.9)	(71.4)	(8.5)

Description of the effects of the transition to IFRS

- *Inventory measurement*

Under US GAAP, the Nortek Group measures a portion of its inventories using ‘last in, first out’ (“LIFO”) method. Under IFRS, the LIFO method is not permitted and consequently, the Nortek Group has instead applied the ‘first in, first out’ (“FIFO”) method. At 31 December 2015, 2014 and 2013 and 1 January 2013, the IFRS inventory values were lower by \$2.2 million, \$1.7 million, \$0.7 million and \$0.4 million, respectively, under the FIFO method.

- *Lease accounting:*

IAS 17: “Leases” does not contemplate the concept of “build-to-suit” leases considered under US GAAP. Specifically, IFRS requires an entity to determine the classification of a lease agreement (or an agreement containing a lease), between a finance and an operating lease, at inception date, when the leased asset is ready for use by the lessee. Under “build-to-suit” lease guidance in US GAAP, a lessee may be deemed the accounting owner of the asset to be leased during its construction phase (typically property assets). IAS 17: “Leases” would not apply during the construction phase of an asset as the property is not available to be used by the lessee. As a result, the lessee would not recognise an asset on its books while the construction is in process. The Nortek Group has therefore reversed the US GAAP entries made as of 31 December 2013 and 2014, resulting in a \$0.8 million reduction in liabilities and expenses as of 31 December 2013 regarding the construction-in-process period for the “build-to-suit” properties relating to the facilities in Mexico and China.

- *Pension and retirement employee benefits:*

Under US GAAP, actuarial (gains)/losses in the income statement are delayed through the use of the corridor approach. The return on asset assumption is used to develop the expected return on asset component of expense and no settlement accounting was triggered due to the lump sum pay-outs in 2014 and 2015. Under IFRS, actuarial (gains)/losses are immediately recognised in other comprehensive income in the period in which they occur. In addition, a discount rate is used to determine the net interest cost component of the expense and any settlement gain for lump sum pay-outs are immediately recognised in the income statement.

- *Share-based compensation:*

Under US GAAP, the Nortek Group recorded share-based compensation expense using a straight line method over the related vesting period for the entire award. Under IFRS, the Nortek Group recognised the share-based compensation expense on a straight line basis over the related vesting period for each separately vesting portion of the award. In addition, under IFRS, as the Nortek Group

30. First-time adoption of IFRS (Continued)

net settles awards and pays the corresponding minimum statutory tax withholding liability in cash to the tax authorities, this portion of the award is accounted for as a cash settled award and classified as a liability, measured at fair value at each reporting date and expensed over the period until the vesting date. Changes in the fair value of the liability are recognised in the income statement. Under US GAAP, these awards are treated as equity settled awards. An increase to liabilities has been recorded in IFRS of \$3.1 million, \$11.3 million, \$12.3 million and \$8.5 million at 31 December 2015, 2014 and 2013 and 1 January 2013 respectively. The impact to total comprehensive income was a credit of \$8.2 million in 2015 and an additional charge of \$3.3 million and \$2.5 million in 2014 and 2013.

- *Embedded derivatives:*

Certain features embedded in the Nortek Group's debt agreements met the definition of derivatives and are not bifurcated and accounted for separately under US GAAP. Under IFRS, those embedded derivatives do not meet the IFRS definition of closely related to the host debt contract and therefore are accounted for as a free-standing derivative, with changes in fair value recognised in the income statement. The changes in the value of the free-standing derivative under IFRS resulted in a reduction in liabilities of \$2.2 million and \$0.5 million as at 31 December 2015 and 31 December 2014 respectively with a corresponding impact on total comprehensive income.

- *Warrant liabilities:*

Under US GAAP, Nortek's warrants were classified as equity instruments. As part of the Nortek Group's adoption of IFRS, the warrants were assessed for classification based on the criteria established by IAS 32 "Financial instruments: presentation". Due to the net share settlement feature, these warrants qualify as a liability whose fair value needs to be adjusted at every reporting period with an impact on the income statement. This resulted in the recording of a liability of \$15.8 million and \$14.6 million as at 31 December 2014 and 2013 respectively.

- *Taxes:*

The significant adjustments related to tax that have had an effect on the Nortek Group are as follows:

- *Share-based compensation*—Under US GAAP, deferred tax on share-based payments is based on the cumulative expense recognised and adjusted upon realisation of the tax benefit. Under IFRS, deferred tax is based on the estimated tax deduction determined at each reporting date. Additionally, under US GAAP, if the tax deduction exceeds the related deferred tax asset (windfall benefit), the excess is credited directly to shareholders' equity. Any shortfall is charged to equity to the extent of prior windfall benefits and any excess is recorded as a tax expense. Under IFRS, if the tax deduction exceeds the cumulative compensation cost, deferred tax based on the excess is credited to equity. If the tax deduction is less than or equal to the cumulative compensation cost, deferred tax is recorded in comprehensive income.
- *Intercompany transactions*—Under US GAAP, any tax impacts to the seller as a result of an intercompany sale or transfer are deferred until the asset is sold to a third party or otherwise recovered. In addition, the buyer does not recognise a deferred tax asset for the difference between the tax basis and book value. Under IFRS, the tax impact of the intercompany transactions are recognised as incurred.
- *Uncertain tax positions*—Under US GAAP, relevant developments affecting uncertain tax positions after the balance sheet date but before issuance of the financial statements (including the discovery of information that was not available as of the balance sheet date) would be considered a non-adjusting subsequent event for which no effect is recorded in the current-period financial statements. Under IFRS, relevant developments affecting provisions for tax exposures occurring after the balance sheet date but before issuance of the financial statements are considered an adjusting event if the new information provides evidence of conditions that existed at the end of the reporting period.
- Tax is also impacted by the IFRS conversion adjustments made to pre-tax total comprehensive income and shareholders' equity.

30. First-time adoption of IFRS (Continued)

- At 31 December 2015, 2014 and 2013 total comprehensive income was increased or (decreased) by \$(4.8) million, \$0.2 million and \$(1.9) million, respectively. Additionally, as of 31 December 2015, 2014, and 2013 and 1 January 2013, shareholders' equity was increased by \$8.0 million, \$13.8 million, \$14.3 million and \$14.0 million, respectively.
- *Presentation adjustments:*
 - *Deferred tax assets and liabilities*—Under US GAAP, deferred tax assets and deferred tax liabilities are presented between current and non-current based on the classification of the underlying tax basis. Under IFRS, deferred tax assets and deferred liabilities are presented as non-current. At 31 December 2015, 2014 and 2013, deferred tax asset balances reclassified from current assets to non-current were \$nil, \$28.1 million and \$29.7 million, respectively, and deferred tax liabilities balances reclassified from current liabilities to non-current were \$nil, \$nil, \$nil and \$nil, respectively.
 - *Debt issuance costs*—Under US GAAP, capitalised debt issuance costs are presented as assets and amortised over the term of the related debt agreement. Under IFRS, debt issuance costs are recorded as a reduction of proceeds from the debt issuance and are amortised as part of the interest expenses calculated using the effective interest rate method. At 31 December 2015, 2014 and 2013 capitalised debt issuance costs reclassified from assets to liabilities were \$13.5 million, \$17.4 million, and \$16.3 million, respectively.
 - *Restructuring activities*—Under US GAAP payments made to employees for ongoing services once a restructuring plan is announced (e.g. retention bonuses) are accrued when deemed probable as part of a restructuring provision. Under IFRS, accruals for ongoing services when a restructuring plan has been formalised, approved and announced cannot be part of a restructuring provision. The Nortek Group has reclassified \$0.7 million and \$0.2 million accrued as at 31 December 2013 and 2014, respectively, from Provisions to Other liabilities as a consequence of this GAAP difference.

Statement of Cash Flows impact—The Nortek Group has prepared its Statement of Cash Flows considering “Headline operating profit”. A reconciliation of Headline operating profit to Net income is summarised in the tables below:

	<u>Year ended 31 December</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
	\$m	\$m	\$m
Net loss	(22.9)	(51.8)	(15.9)
Benefit / (expense) from income taxes	1.1	(19.6)	(1.1)
Net interest expense	115.6	112.1	102.9
Operating profit	93.8	40.7	85.9
Intangible asset amortisation	67.3	60.0	51.3
Impairment of long-lived assets and goodwill	1.6	80.4	4.3
Exceptional operating income	(3.5)	—	—
Exceptional operating costs	60.9	39.3	43.0
Headline⁽¹⁾ operating profit	220.1	220.4	184.5

Note:

(1) As detailed in the consolidated income statement.

31. Events after the reporting period

On 2 May 2016, the Nortek Group completed the acquisition of a 25% interest in MiOS Limited (“MiOS”) for approximately \$4.5 million. MiOS is a global technology group focused on developing and distributing advanced control and monitoring solutions for the home and small enterprise markets. Through a commercial agreement between the parties, MiOS will work with the Nortek Group’s AQH, SCS, and AVC segments to develop lifestyle-driven solutions for the connected-home for various customer bases, including builders, electricians and installing dealers.

On May 9, 2016, the Nortek Group entered into an amendment to the ABL Facility. See details given on Note 19.

On June 7, 2016, the Nortek Group entered into a non-prosecution agreement with the SEC under which the SEC agreed not to prosecute the Nortek Group for violations of the FCPA relating to improper payments and gifts by Linear China employees to local Chinese officials from 2009 to 2014. See details given on Note 28.

32. Group information

Information on subsidiaries

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

<u>Name</u>	<u>Jurisdiction</u>
Best S.p.A.	Italy
Best Deutschland GmbH	Germany
Best Poland S.p.zo.o.	Poland
Broan Building Products-Mexico, S. de R.L. de C.V.	Mexico
Broan-NuTone Canada, ULC	Alberta, Canada
Nortek Air Solutions Canada	Alberta, Canada
Innergy Tech Inc.	Quebec, Canada
Venmar CES, Inc.	Saskatchewan, Canada
Ergotron, Inc.	Minnesota
Dongguan Ergotron Precision Technology Co. Ltd.	China
Ergotron Nederland B.V.	The Netherlands
Broan-NuTone LLC	Delaware
Broan Building Products (Huizhou) Co., Ltd.	China
Broan-NuTone (HK) Limited	Hong Kong
Pacific Zephyr Range Hood, Inc.	California
Zephyr Ventilation, LLC	California
Eaton-Williams Group Limited	United Kingdom
Nortek Security & Control LLC	California
GTO Access Systems, LLC	Florida
Operator Specialty Group, Inc.	Michigan
Core Brands, LLC	California
Linear Electronics (Shenzhen) Co., Ltd.	China
Nortek International Holdings, B.V.	The Netherlands
Nortek Global HVAC, LLC	Delaware

32. Group information (Continued)

<u>Name</u>	<u>Jurisdiction</u>
Nortek Air Solutions, LLC	Delaware
Nortek Global HVAC de Puerto Rico, LLC	Puerto Rico
Nortek Global HVAC Latin America, Inc.	Delaware
Nortek Global HVAC Mexico S.A. de R.L. de C.V.	Mexico
Nordyne Argentina SRL	Argentina
Nordyne do Brasil Distribuidora de Ar Condicionado Ltda.	Brazil
Nortek Air Solutions Quebec	Quebec, Canada
Nortek (Shanghai) Trading Co., Ltd.	China
Ambi-Rad Limited	United Kingdom
Nortek Global HVAC France S.A.S.	France
Nortek Global HVAC Belgium NV	Belgium
Dongguan Ergotron Precision Technology Design Co., Ltd.	China
Ergotron (UK) Limited	United Kingdom
Ergotron Canada Corporation	Nova Scotia, Canada
Ergotron Deutschland GmbH	Germany
Ergotron France Sarl	France
Ergotron Japan KK	Japan
Nortek Distribution Services, LLC	Delaware
Nortek Australia Pty Ltd.	Australia

Section A.2: Report on the historical financial information of the Nortek Group for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013, prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group



**Building a better
working world**

The Directors
Melrose Industries PLC
11th Floor, The Colmore Building
20 Colmore Circus Queensway
Birmingham

6 July 2016

Dear Sirs

Nortek, Inc.

We report on the financial information set out in Part IV for the years ended 31 December 2013, 2014 and 2015 (the “**financial information**”). This financial information has been prepared for inclusion in the Class 1 Circular relating to the acquisition of Nortek, Inc. by Melrose Industries PLC (the “**Company**”) dated 6 July 2016 on the basis of the accounting policies set out in Note 2. This report is required to be included by Listing Rule 13.5.21 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders of the Company as a result of the inclusion of this report in the Class 1 Circular, to any person as and to the extent provided to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Class 1 Circular.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in a form that is consistent with the accounting policies adopted in the Company’s latest annual accounts.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular dated 6 July 2016, a true and fair view of the state of affairs of Nortek Inc. as at the dates stated and of its losses, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorised and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/en/Home/Legal>.

Section B.1: Unaudited quarterly financial statements of the Nortek Group for the first quarters ended 2 April 2016 and 28 March 2015, prepared in accordance with US GAAP

The Nortek historical financial information contained in this Section B.1 has been extracted without material adjustment from the Form 10-Q filed with the SEC by Nortek, which contains the unaudited quarterly report for the first quarters ended 2 April 2016 and 28 March 2015 and which was filed on 12 May 2016. It therefore does not reflect any transactions and events that may have occurred after that date. This Section B.1 has been prepared in accordance with US GAAP.

A reconciliation of certain information contained in this Section B.1 on the basis of Melrose's accounting policies under IFRS is set out in Section B.2 of this Part IV (*Financial Information on Nortek*).

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	<u>2 April 2016</u>	<u>31 December 2015</u>
	<u>\$m</u>	<u>\$m</u>
Assets		
Current Assets:		
Unrestricted cash and cash equivalents	28.5	24.6
Restricted cash	0.2	0.3
Accounts receivable, less allowances of \$3.8 million and \$3.6 million, respectively	337.4	340.0
Inventories:		
Raw materials	118.1	103.9
Work in process	35.4	26.1
Finished goods	245.2	238.1
	<u>398.7</u>	<u>368.1</u>
Prepaid expenses	19.9	19.3
Other current assets	11.3	10.9
Tax refunds receivable	8.1	8.2
Total current assets	<u>804.1</u>	<u>771.4</u>
Property and Equipment, at Cost:		
Land	17.1	16.9
Buildings and improvements	112.9	108.9
Machinery and equipment	349.1	339.5
	<u>479.1</u>	<u>465.3</u>
Less accumulated depreciation	249.2	236.3
Total property and equipment, net	<u>229.9</u>	<u>229.0</u>
Other Assets:		
Goodwill	505.5	505.5
Intangible assets, less accumulated amortisation of \$295.5 million and \$278.4 million, respectively	592.0	609.1
Restricted investments	0.9	0.9
Other assets	17.0	14.5
	<u>1,115.4</u>	<u>1,130.0</u>
Total Assets	<u><u>2,149.4</u></u>	<u><u>2,130.4</u></u>

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	<u>2 April 2016</u>	<u>31 December 2015</u>
	<u>\$m</u>	<u>\$m</u>
Liabilities and Stockholders' Investment		
Current Liabilities:		
Short-term bank obligations	0.3	0.5
Current maturities of long-term debt	7.0	6.9
Accounts payable	265.2	269.2
Accrued expenses, taxes, and deferred revenue	209.4	214.5
Total current liabilities	<u>481.9</u>	<u>491.1</u>
Other Liabilities:		
Deferred income taxes	77.4	76.9
Other	180.7	178.5
	<u>258.1</u>	<u>255.4</u>
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	<u>1,391.0</u>	<u>1,371.6</u>
Commitments and Contingencies (Note G)		
Stockholders' Investment:		
Preferred stock, \$0.01 par value, 10,000,000 authorised shares; none issued and outstanding at 2 April 2016 and 31 December 2015	—	—
Common stock, \$0.01 par value, 90,000,000 authorised shares; 17,101,015 shares and 17,041,710 shares issued at 2 April 2016 and 31 December 2015, respectively	0.2	0.2
Additional paid-in capital	258.9	256.8
Accumulated deficit	(141.2)	(143.8)
Accumulated other comprehensive loss	(40.5)	(42.5)
Less: Treasury stock at cost, 794,411 shares and 782,670 shares at 2 April 2016 and 31 December 2015, respectively	<u>(59.0)</u>	<u>(58.4)</u>
Total stockholders' investment	<u>18.4</u>	<u>12.3</u>
Total Liabilities and Stockholders' Investment	<u><u>2,149.4</u></u>	<u><u>2,130.4</u></u>

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	<u>For the first quarter ended</u>	
	<u>2 April 2016</u>	<u>28 March 2015</u>
	\$m	\$m
Net Sales	613.9	572.7
Costs and Expenses:		
Cost of revenues	426.4	405.9
Selling, general and administrative expense, net	141.5	143.3
Amortisation of intangible assets	17.1	15.8
	<u>585.0</u>	<u>565.0</u>
Operating earnings	28.9	7.7
Net interest expense	(23.7)	(27.2)
Earnings (loss) before provision (benefit) for income taxes	5.2	(19.5)
Provision (benefit) for income taxes	2.6	(5.6)
Net earnings (loss)	<u>2.6</u>	<u>(13.9)</u>
Basic earnings (loss) per share	<u>0.16</u>	<u>(0.87)</u>
Diluted earnings (loss) per share	<u>0.16</u>	<u>(0.87)</u>
Weighted Average Common Shares:		
Basic	15,983,817	15,909,464
Diluted	16,092,298	15,909,464

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (LOSS)

	<u>For the first quarter ended</u>	
	<u>2 April 2016</u>	<u>28 March 2015</u>
	\$m	\$m
Net earnings (loss)	2.6	(13.9)
Other comprehensive income (loss), net of tax:		
Currency translation adjustment	2.2	(6.1)
Pension liability adjustments:		
Currency translation on pension liabilities	(0.2)	(0.1)
Amortisation of cumulative loss	0.3	0.4
Deferred income taxes on pension liability	(0.3)	(0.3)
Total pension liability, net of tax	(0.2)	—
Other comprehensive income (loss)	<u>2.0</u>	<u>(6.1)</u>
Comprehensive income (loss)	<u>4.6</u>	<u>(20.0)</u>

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the first quarter ended	
	2 April 2016	28 March 2015
	\$m	\$m
Cash flows from operating activities:		
Net earnings (loss)	2.6	(13.9)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation expense	11.5	12.4
Amortisation expense, including increase to cost of revenues for inventory acquired in business combinations	17.1	16.3
Change in fair value of contingent consideration liability	0.2	—
Non-cash interest expense, net	0.8	0.6
Non-cash share-based compensation expense	2.3	1.9
Deferred income tax provision (benefit)	0.2	(11.2)
Changes in certain assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	4.6	(25.3)
Inventories	(29.1)	(40.2)
Prepaid and other current assets	(3.6)	(1.2)
Accounts payable	(6.5)	(6.7)
Accrued expenses, taxes, and deferred revenue	(6.3)	19.7
Long-term assets, liabilities and other, net	(2.3)	(7.7)
Total adjustments to net earnings (loss)	(11.1)	(41.4)
Net cash used in operating activities	(8.5)	(55.3)
Cash flows from investing activities:		
Capital expenditures	(7.9)	(10.1)
Net cash paid for businesses acquired and dispositions	—	(51.8)
Proceeds from the sale of property and equipment	2.4	0.1
Other, net	0.2	0.2
Net cash used in investing activities	(5.3)	(61.6)
Cash flows from financing activities:		
Proceeds from ABL and other borrowings	118.6	155.6
Payment of ABL and other borrowings	(100.5)	(51.6)
Net use from equity transactions	(0.4)	(1.8)
Net cash provided by financing activities	17.7	102.2
Net change in unrestricted cash and cash equivalents	3.9	(14.7)
Unrestricted cash and cash equivalents at the beginning of the period	24.6	58.4
Unrestricted cash and cash equivalents at the end of the period	28.5	43.7

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
2 APRIL 2016 AND 28 MARCH 2015

(A) Basis of Presentation

The Nortek Group and all of its wholly owned subsidiaries is a global, diversified company whose many market-leading brands deliver broad capabilities and a wide array of innovative, technology-driven products and solutions for lifestyle improvement at home and at work. Operating within five principal reporting segments (see Note I, “*Segment Information and Concentration of Risk*”), Nortek manufactures and sells, primarily in the United States, Canada and Europe, with additional manufacturing in China and Mexico, a wide variety of products for the remodelling and replacement markets, the residential and commercial new construction markets, and the personal and enterprise computer markets.

The Nortek Group operates on a calendar year, and each interim period is comprised of two 4-week periods and one 5-week period, with each week ending on a Saturday. The Nortek Group’s fiscal year always begins on 1 January and ends on 31 December. As a result, the Nortek Group’s first and fourth quarters may have more or less days included than a traditional 4-4-5 fiscal calendar, which consists of 91 days. The first three months ended 2 April 2016 (“**first quarter of 2016**”) and 28 March 2015 (“**first quarter of 2015**”) included 93 days and 87 days, respectively.

The accompanying unaudited condensed consolidated financial statements reflect the financial position, results of operations, comprehensive income (loss), and cash flows of the Nortek Group after elimination of intercompany accounts and transactions, without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the interim periods presented. Although certain information and disclosures normally included in annual financial statements prepared in accordance with US generally accepted accounting principles (“**US GAAP**”) have been omitted, the Nortek Group believes that the disclosures included are adequate to make the information presented herein not misleading. Operating results for the first quarters of 2016 and 2015 are not necessarily indicative of the results that may be expected for other interim periods or for any fiscal year. Certain amounts in the prior periods’ unaudited condensed consolidated financial statements have been reclassified to conform to the current period presentation.

As a result of certain acquisitions and a disposition as discussed in Note B, “*Acquisitions and Dispositions*”, the operating results of these acquired entities are included in the Nortek Group’s consolidated results of operations from the date of acquisition prospectively and the results of operations from dispositions are excluded commencing on the date of disposition. The Nortek Group has entered into certain arrangements with an independent third party in Mexico related to the Nortek Group’s manufacturing operations in Mexico. The Nortek Group has evaluated the operating entities that were formed under these arrangements and has determined that these entities are variable interest entities in accordance with Accounting Standards Codification (“**ASC**”) 810, “*Consolidation*” (“**ASC 810**”). The Nortek Group has concluded that it is the primary beneficiary of these entities since it has both the power to direct activities that most significantly impact the entities’ economic performance and the obligation to absorb losses that could potentially be significant since the Nortek Group is responsible for all operating decisions and all operating costs of these entities. As a result, the Nortek Group is consolidating the results of these entities in accordance with ASC 810. For the first quarter of 2016 and 2015, the results of operations of these entities included in the Nortek Group’s statement of operations were not material.

These unaudited condensed consolidated financial statements should be read in conjunction with the historical financial information and the related notes included in the Nortek Group’s annual report on Form 10-K for the fiscal year ended 31 December 2015 (“**2015 Form 10-K**”) and Current Reports on Form 8-K as filed with the SEC.

During the second quarter of 2015, the Nortek Group transferred the management of its UK commercial HVAC subsidiary from the CAS segment to the RCH segment. As a result, the Nortek Group has restated prior period segment disclosures to conform to the new segment composition. This UK subsidiary did not have any goodwill or other long-lived assets; as such, the Nortek Group was not required to perform a long-lived asset impairment analysis.

NORTEK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 APRIL 2016 AND 28 MARCH 2015

(A) Basis of Presentation (Continued)

New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 impacts several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in ASU 2016-09 are effective for annual periods beginning after 15 December 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Additionally, an entity that elects early adoption must adopt all of the amendments in the same period. The Nortek Group will adopt ASU 2016-09 in the first quarter of 2017 and is currently evaluating the impact of adoption on its financial position and results from operations.

In March 2016, the FASB issued ASU No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments* (“ASU 2016-06”). ASU 2016-06 clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in ASU 2016-06 is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments in ASU 2016-06 are effective for annual periods beginning after 15 December 2017, and interim periods within those annual periods. The Nortek Group will adopt ASU 2016-06 in the first quarter of 2018 and is currently evaluating the impact of adoption on its financial position and results from operations.

In February 2016, the FASB issued its new leases standard, ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 is aimed at the recognition of most leases on lessees’ balance sheets, but also changes aspects of lessor accounting. ASU 2016-02 is effective for public business entities for annual periods beginning after 15 December 2018 and interim periods within that year and early adoption is permitted. The Nortek Group will adopt this standard effective 1 January 2019. This standard is expected to have a significant impact on the Nortek Group’s current accounting for its lease arrangements, particularly its current operating lease arrangements, as well as, disclosures. The Nortek Group is currently evaluating the impact of adoption on its financial position and results from operations.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330)—Simplifying the Measurement of Inventory* (“ASU 2015-11”), which simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realisable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out (‘LIFO’) and the retail inventory method. The guidance in ASU No. 2015-11 is effective for periods beginning after 15 December 2016 and early adoption is permitted. The Nortek Group will adopt this pronouncement in the first quarter of 2017 and is currently evaluating the impact, if any, adoption will have on its financial position and results of operations.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal Use Software (Subtopic 350-40)—Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* (“ASU 2015-05”), which provides guidance to customers about whether a cloud computing arrangement includes a software licence. If a cloud computing arrangement includes a software licence, then the customer should account for the software licence element of the arrangement consistent with the acquisition of other software licences. If a cloud computing arrangement does not include a software licence, the customer should account for the arrangement as a service contract. Consequently, all software licences within the scope of Subtopic 350-40 will be accounted for consistent with other licences of intangible assets. The Nortek Group was required to adopt ASU 2015-05 effective 1 January 2016. The Nortek Group adopted this pronouncement prospectively in the first quarter of 2016 and the adoption of this standard did not have a material effect on the Nortek Group’s consolidated financial statements.

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2 APRIL 2016 AND 28 MARCH 2015

(A) Basis of Presentation (Continued)

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”), which provides guidance on simplifying the presentation of debt issuance costs on the balance sheet. To simplify presentation of debt issuance costs, the amendments in ASU No. 2015-03 require that debt issuance costs related to a recognised debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs was not affected by the amendments in this update.

In August 2015, the FASB issued ASU No. 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June, 18 2015 EITF Meeting (SEC Update)* (“ASU 2015-15”), to address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Under ASU 2015-15, entities are permitted to defer and present debt issuance costs as an asset and subsequently amortise the deferred debt issuance costs rateably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Nortek Group adopted these pronouncements retrospectively in the first quarter of 2016. As a result of the adoption, the Nortek Group reclassified approximately \$12.6 million and \$13.5 million of unamortised debt issuance costs from other long-term assets to notes, mortgage notes and obligations payable, less current maturities on its condensed consolidated balance sheet at 2 April 2016 and 31 December 2015, respectively. There was no impact to the Nortek Group’s statement of operations or cash flow as a result of the adoption.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* (“ASU 2015-02”). The amendments of ASU No. 2015-02 were issued in an effort to minimise situations under previously existing guidance in which a reporting entity was required to consolidate another legal entity in which that reporting entity did not have: (1) the ability through contractual rights to act primarily on its own behalf; (2) ownership of the majority of the legal entity’s voting rights; or (3) the exposure to a majority of the legal entity’s economic benefits. ASU No. 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to re-evaluation under the revised consolidation model. The guidance in ASU No. 2015-02 was effective for the Nortek Group 1 January 2016. The Nortek Group adopted this pronouncement prospectively in the first quarter of 2016 and the adoption of this standard did not have a material effect on the Nortek Group’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)* (“ASU 2014-15”), which provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in US auditing standards. Specifically, the amendments (1) provide a definition of the term “substantial doubt”, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after 15 December 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Nortek Group will adopt this pronouncement for the year ended 31 December 2016 and does not expect adoption to have a material effect on the Nortek Group’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under US GAAP. The core principle under ASU 2014-09 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers

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(A) Basis of Presentation (Continued)

in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also specifies the accounting for some costs to obtain or fulfil a contract with a customer. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. On 9 July 2015, the FASB decided to defer the effective date for this standard to annual periods beginning after 15 December 2017 and interim periods therein. Early adoption is permitted, but not before 1 January 2017, and an entity may apply the amendments in ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 at the date of initial application. Currently, the Nortek Group is evaluating both the method of adoption and the impact adoption will have on its consolidated financial statements. In evaluating the method of adoption, the Nortek Group is considering a number of factors, including the disclosure requirements and related processes and controls required, as well as the overall industry and peer public company adoption method trends.

(B) Acquisitions and Dispositions

Acquisitions

Anthro Acquisition

On 21 January 2015, one of Nortek's subsidiaries in the ERG segment completed the acquisition of all of the outstanding stock of Anthro Corporation ("Anthro"), a fully integrated business with in-house capability to design/develop, manufacture and market its technology furniture products. Anthro's key products include charging carts (for electronics, including tablets, laptops and other mobile devices) and height adjustable desks and technology carts. Anthro has been integrated into the Nortek Group's ERG segment. The Nortek Group completed the acquisition of Anthro to expand its technology and product offerings of the ERG segment.

The Nortek Group acquired this business for an initial aggregate purchase price of approximately \$51.0 million, of which approximately \$50.8 million was paid in cash and an additional \$0.2 million related to the amount of consideration being paid in excess of the fair value of certain services provided by the former stockholders of Anthro. Approximately \$5.0 million of the purchase price was placed into escrow to cover general business representations and warranties. This amount will be paid 18 months after the closing date of the acquisition of Anthro. During the third quarter of 2015, the Nortek Group received approximately \$0.7 million for working capital and other purchase price adjustments. As a result, the final adjusted purchase price was approximately \$50.3 million. Acquisition-related costs were expensed as incurred within selling, general and administrative expense, net, in the Nortek Group's consolidated statement of operations and were not material.

The results of Anthro have been included in the Nortek Group's consolidated financial statements since the date of acquisition within the ERG segment. *Pro forma* results related to the acquisition of Anthro have not been presented, as the effect is not significant to the Nortek Group's consolidated operating results.

Numera Acquisition

On 30 June 2015, one of Nortek's wholly-owned subsidiaries completed the acquisition of certain assets and liabilities related to the mobile personal emergency response system and telehealth business of Numera, Inc. ("Numera"), a privately held company. The acquired operations have been integrated into the Nortek Group's SCS segment. The Nortek Group completed the acquisition to expand its technology and product offerings of the SCS segment.

The Nortek Group acquired certain assets and liabilities of Numera for an aggregate initial all cash purchase price of approximately \$12.0 million, of which approximately \$1.5 million was deposited into an escrow account with a third party escrow agent.

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(B) Acquisitions and Dispositions (Continued)

In addition to the initial purchase consideration, the Nortek Group could have been required to pay additional purchase consideration of up to \$28.0 million, which was based on the amount by which future sales, as defined under the purchase agreement, exceeded \$12.1 million during the period from 29 March 2015 through 2 April 2016. The fair value of the contingent consideration was determined to be approximately \$3.7 million as of the acquisition date resulting in a total purchase price of approximately \$15.7 million. The Nortek Group recorded its estimate of the fair value of the contingent consideration based on the evaluation of the likelihood of the achievement of the contractual conditions that would result in the payment of the contingent consideration. The Nortek Group's fair value of the contingent consideration was determined using an option pricing model. The real option approach methodology applies option pricing theory to a "real" stream, such as revenue. Utilisation of this methodology allows running a high number of simulations and therefore, the Nortek Group believes that this valuation methodology was most appropriate.

Key Level 3 inputs utilised in determining the fair value were:

Forecasted revenue, including forecasts of 10th and 90th percentiles

- Real option approach methodology simulation inputs, including volatility, risk premiums and betas, which are utilised to derive the total market risk adjustment in the real option approach valuation model simulations
- Comparable company analysis, which is utilised to support and determine the reasonableness of certain of the option simulation inputs
- Discount factor, which is utilised to present value the risk-adjusted expected earn-out payment

During the fourth quarter of 2015, based on consideration of Numera's post acquisition revenues during the earn-out period, as well as forecasts for the remainder of the earn-out period which were impacted by certain short-term delays in customer purchases, the Nortek Group determined that there was a decrease in the fair value of the contingent consideration liability. At 31 December 2015, the Nortek Group determined that the fair value of the contingent consideration liability was approximately \$0.2 million and recorded a benefit to selling, general and administrative expenses, net, of approximately \$3.5 million during the fourth quarter of 2015. During the first quarter of 2016, the Nortek Group recorded a benefit to selling, general and administrative expenses, net, to reduce the fair value of the contingent consideration liability to zero as the earn-out period expired and achievement of the contractual obligations were not met.

Acquisition-related costs were expensed as incurred within selling, general and administrative expenses, net, in the Nortek Group's consolidated statement of operations and were not material.

Due to the fact that the fees Numera receives for hardware sales and related hardware activations were not deemed separate units of accounting, these fees are deferred until such time as the hardware units are activated and then recognised rateably over the estimated period of economic benefit which has been initially determined to be three years for hardware units and two years for activations. In addition, Numera capitalises the direct and incremental costs related to hardware and activation sales and recognises these costs over the same period that the associated revenue is recognised. At 2 April 2016 and 31 December 2015, Numera had approximately \$5.3 million and \$2.8 million, respectively, of deferred revenue.

The results of Numera have been included in the Nortek Group's consolidated financial statements since the date of acquisition within the SCS segment. *Pro forma* results related to the acquisition of Numera have not been presented, as the effect is not significant to the Nortek Group's consolidated operating results.

MiOS

On 2 May 2016, the Nortek Group completed the acquisition of a 25% interest in MiOS Limited ("MiOS") for approximately \$4.5 million. MiOS is a global technology company focused on developing and distributing advanced control and monitoring solutions for the home and small enterprise markets.

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(B) Acquisitions and Dispositions (Continued)

Through a commercial agreement between the parties, MiOS will work with the Nortek Group's AQH, SCS, and AVC segments to develop lifestyle-driven solutions for the connected-home for various customer bases, including builders, electricians and installing dealers.

Dispositions

Sale of TV One Business

In July 2015, the Nortek Group received an unsolicited inquiry regarding the purchase of its TV One businesses ("TV One") that were part of the AVC entities and the Nortek Group commenced an evaluation of the potential sale of TV One. On 28 July 2015, Nortek's board approved the plan to sell the stock of TV One to a consortium of TV One's management on 31 July 2015. Under the terms of the agreement, the Nortek Group has no ongoing involvement or obligations with respect to TV One and the Nortek Group is not obligated to indemnify the purchasers in connection with this transaction. There was no substantial cash consideration received in connection with the transaction. The Nortek Group recorded a loss on sale of assets of approximately \$2.9 million in the third quarter of 2015. The Nortek Group concluded that the sale of TV One did not meet the criteria to be reported as a discontinued operation under ASC 205-20, "Discontinued Operations", due to the fact that its disposition does not represent a strategic shift that has (or will have) a major effect on the Nortek Group's operations and financial results. TV One had net sales and operating losses of approximately \$3.9 million and \$0.6 million, respectively, in the first quarter of 2015.

Asset Held for Sale

During 2015, the Nortek Group committed to a plan to sell one of its RCH segment's warehouse properties and engaged a third party broker to assist the Nortek Group in actively marketing this asset and identifying a buyer. The assets held for sale relate to separately identifiable building and land owned by a subsidiary within the RCH reporting unit. During 2015, the Nortek Group continued to evaluate the realisability of the carrying value of the assets held for sale and recorded impairment charges of approximately \$0.8 million during the year ended 31 December 2015 to reduce the carrying value to the estimated fair value less costs to sell. During January 2016, the Nortek Group completed the sale of this asset resulting in a total sales price, less costs to sell, of approximately \$2.3 million.

(C) Goodwill and Other Intangible Assets

The Nortek Group accounts for acquired goodwill in accordance with ASC 805, "Business Combinations" and ASC 350, "Intangibles—Goodwill and Other" ("ASC 350"), which involves judgment with respect to the determination of the valuation of the assets acquired and liabilities assumed in order to determine the final amount of goodwill recorded in a purchase. Under ASC 350, goodwill is not amortised. Instead, it is evaluated for impairment on an annual basis, or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value, including, for example, a significant adverse change in the business climate. The Nortek Group has set the annual evaluation date as of the first day of its fiscal fourth quarter. The reporting units evaluated for goodwill impairment have been determined to be the same as the Nortek Group's operating segments. With the exception of the CAS reporting unit and the AVC entities, all of the Nortek Group's reporting units have goodwill and, therefore, are required to be evaluated for goodwill impairment.

First Quarter 2016 Interim Goodwill Impairment Considerations

During the third quarter of 2015, as a result of negative operating result trends, principally driven by the RCH and SCS reporting units, the Nortek Group evaluated whether such operating trends indicated that it was more likely than not that the fair value of any of the Nortek Group's reporting units were below their carrying amounts. Based on consideration of a number of qualitative and other factors, including the

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(C) Goodwill and Other Intangible Assets (Continued)

historical excess of fair value over the carrying amount of these reporting units, as well as consideration of the current and forecasted operating results, the Nortek Group determined that it was not more likely than not that the fair values of its reporting units were below their carrying amounts. In order to further corroborate this assertion, the Nortek Group estimated a preliminary range of fair values of its reporting units using the income approach (discounted cash flow method) and the market approach (EBITDA multiple) with a range of preliminary assumptions. This analysis, including consideration of sensitivity of the key fair value assumptions, resulted in a range of estimated fair values that corroborated the Nortek Group's conclusion that it was not more likely than not that the fair value of its reporting units were below their carrying amounts. The Nortek Group notes that based on this analysis, the estimated fair values of its AQH, SCS and ERG reporting units exceeded their respective carrying amounts by more than 50%. However, the estimated values of RCH from the analysis described above only exceeded the carrying value by approximately 20% to 30% as of 26 September 2015.

Given the sensitivity analysis performed in the third quarter of 2015 described above, the Nortek Group concluded that the work performed as of 26 September 2015 was sufficient to constitute an appropriate qualitative assessment to conclude that it was not more likely than not that the fair value of the reporting units were below their carrying amounts in support of the Nortek Group's annual goodwill impairment test, which was as of the first day of the fourth quarter or 27 September 2015.

During the fourth quarter of 2015, the Nortek Group concluded that continued negative operating result trends for certain of its reporting units, as well as the decline in the Nortek Group's overall market capitalisation, represented indicators of potential goodwill impairment. As a result, the Nortek Group completed a quantitative goodwill impairment test as of the end of its fiscal month of November. It was determined that the estimated fair values of the Nortek Group's reporting units were greater than their carrying value. As a result, no Step 2 test for goodwill impairment was required as of 21 November 2015. At 31 December 2015, estimated fair values of the AQH, ERG and SCS reporting units were more than 50% greater than the carrying value of these reporting units, and the RCH reporting unit estimated fair value was approximately 10% greater than the carrying value.

During the first quarter of 2016, based on consideration of a number of qualitative and other factors, including the historical excess of fair value over the carrying amount of the RCH reporting unit, the current and forecasted operating results as compared to the forecasts used in the 21 November 2015 quantitative analysis, overall industry and market trends, including trends and multiples of guideline public companies, and the increase in the Nortek Group's overall enterprise value from 31 December 2015, the Nortek Group determined that it was not more likely than not that the fair value of any of its reporting units was below its carrying amount. However, given the fact that the estimated fair value of its RCH reporting unit was approximately 10% greater than the carrying value of this reporting unit as of 31 December 2015, a continued negative trend of operating results or material changes to forecasted operating results of the RCH reporting unit could result in the requirement for additional interim goodwill impairment tests and the potential of a future goodwill impairment charge, which could be material.

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(C) Goodwill and Other Intangible Assets (Continued)

Goodwill Activity

The following table presents a summary of the activity in goodwill by reporting segment for the first quarter of 2016:

	<u>31 December 2015⁽¹⁾</u>	<u>Acquisitions</u>	<u>2 April 2016⁽¹⁾</u>
	\$m	\$m	\$m
Air Quality and Home Solutions:			
Gross goodwill	156.8	—	156.8
Impairment losses	—	—	—
Net AQH goodwill	<u>156.8</u>	<u>—</u>	<u>156.8</u>
Security and Control Solutions:			
Gross goodwill	85.3	—	85.3
Impairment losses	—	—	—
Net SCS goodwill	<u>85.3</u>	<u>—</u>	<u>85.3</u>
Ergonomic and Productivity Solutions:			
Gross goodwill	157.0	—	157.0
Impairment losses	—	—	—
Net ERG goodwill	<u>157.0</u>	<u>—</u>	<u>157.0</u>
Residential and Commercial HVAC:			
Gross goodwill	106.4	—	106.4
Impairment losses	—	—	—
Net RCH goodwill	<u>106.4</u>	<u>—</u>	<u>106.4</u>
Audio, Video and Control Solutions:			
Gross goodwill	4.4	—	4.4
Impairment losses	(4.4)	—	(4.4)
Net AVC goodwill	<u>—</u>	<u>—</u>	<u>—</u>
Consolidated goodwill:			
Gross goodwill	509.9	—	509.9
Impairment losses	(4.4)	—	(4.4)
Net consolidated goodwill	<u>505.5</u>	<u>—</u>	<u>505.5</u>

(1) The CAS reporting unit did not have goodwill for any periods presented.

(D) Cash Flows

The impact of changes in foreign currency exchange rates on cash was not material and has been included in “Long-term assets, liabilities and other, net” within operating activities in the accompanying unaudited condensed consolidated statement of cash flows.

Interest paid was approximately \$7.0 million and \$1.5 million for the first quarter of 2016 and 2015, respectively. Income tax payments, net of refunds, for the first quarter of 2016 and 2015 were approximately \$4.3 million and \$1.8 million, respectively.

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(E) Notes, Mortgage Notes and Obligations Payable

Senior Secured Asset-Based Revolving Credit Facility (the “ABL Facility”)

As of 2 April 2016, Nortek had approximately \$64.0 million in outstanding borrowings and approximately \$12.3 million in outstanding letters of credit under the ABL Facility. Based on the February 2016 borrowing base calculations, at 2 April 2016, Nortek had excess availability of approximately \$223.7 million and approximately \$193.7 million of excess availability before triggering the cash deposit requirements under the ABL Facility, as in effect on such date.

As of 6 May 2016, Nortek had approximately \$105.0 million in outstanding borrowings and approximately \$12.3 million in outstanding letters of credit under the ABL Facility. Based on the March 2016 borrowing base calculations, at 6 May 2016, Nortek had excess availability of approximately \$182.7 million and approximately \$152.7 million of excess availability before triggering the cash deposit requirements under the ABL Facility, as in effect on such date.

On 9 May 2016, Nortek entered into an amendment (the “**Amendment**”) to the ABL Facility. Among other changes, the Amendment (i) increases the maximum amount of the ABL Facility (which, following the Amendment, is available solely to the Nortek Group and certain of its US subsidiaries) from \$300.0 million to \$325.0 million, with a right of the Nortek Group to increase the ABL Facility by up to an additional \$125.0 million, subject to the receipt of commitments from the lenders providing such increase and the satisfaction of certain other conditions, (ii) eliminates the portion of the ABL Facility previously available to certain of the Nortek Group’s Canadian subsidiaries (subject to certain rights of the Nortek Group to re-establish such availability with certain limits) and releases all guarantees and collateral security previously provided by such Canadian subsidiaries, (iii) lowers the interest rates payable by the Nortek Group under the ABL Facility (as more fully described below), (iv) extends the maturity date of the ABL Facility from 13 June 2017 to 9 May 2021, and (v) expands certain baskets and permissions available to the Nortek Group under certain of the operational covenants with which the Nortek Group must comply and in the calculation of the borrowing base, as more fully set forth in the Amendment.

The interest rates applicable to loans under the ABL Facility as amended by the Amendment are, at the Nortek Group’s option, equal to either an adjusted LIBOR rate for a one, two, three or six month interest period (or such period of 365 days or less, if consented to by the relevant lenders) or an alternate base rate, plus an applicable margin percentage ranging from 1.25% to 1.75% for borrowings based on the adjusted LIBOR rate, and 0.25% to 0.75% for borrowings based on the alternate base rate, depending on the Nortek Group’s Average Excess Availability Percentage (as defined in the amended ABL Facility); provided that, for any fiscal quarter of the Nortek Group commencing with the fiscal quarter ending 31 December 2016, if the Nortek Group’s Consolidated Total Leverage Ratio (as defined in the amended ABL Facility) as of the end of the preceding fiscal quarter is less than 4.0 to 1.0, then the applicable margin percentage will be reduced by 0.25% (but in any event not below 1.25% for borrowings based on the adjusted LIBOR rate or 0.25% for borrowings based on the alternate base rate). The alternate base rate will be the greater of (1) the Federal Funds rate plus 0.50%, (2) 1.00% plus the LIBOR rate for a 30 day interest period as determined on such day, or (3) the prime rate. Interest is payable at the end of the selected interest period, but no less frequently than quarterly.

Debt Covenant Compliance

The indentures and other agreements governing the Nortek Group’s indebtedness and the indebtedness of its subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict, among other things, the Nortek Group’s ability and the ability of its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions (all as defined in the indentures and other agreements). As of 2 April 2016, the Nortek Group had the capacity to make certain payments, including dividends, of approximately \$146.1 million.

As of 2 April 2016, the Nortek Group was in compliance with all covenants under the the Nortek Group Credit Agreements. Additionally, the Nortek Group anticipates compliance with all covenants under the the Nortek Group Credit Agreements for the foreseeable future.

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(F) Exit and Disposal Activities

The Nortek Group has initiated various exit and disposal activities including, but not limited to, the matters described below. Employee separation expenses are comprised of severance, outplacement and retention bonus payments. Other costs include expenses associated with asset write-downs, terminating contractual arrangements, costs to prepare facilities for closure, and costs to move equipment and products to other facilities.

Manufacturing Rationalisation and Relocation Initiatives

Prior to 2016, Nortek’s board approved several initiatives relating to the transfer of product manufacturing and the consolidation of certain manufacturing facilities within the RCH and CAS segments (collectively, the “**Manufacturing Rationalisation & Relocation Initiatives**”). Cash expenditures began in the second quarter of 2013 and were completed as of the end of 2015. In connection with the Manufacturing Rationalisation & Relocation Initiatives, the Nortek Group incurred cumulative costs of approximately \$18.0 million (of which approximately \$16.4 million and \$1.6 million were recorded in the RCH and CAS segments, respectively).

Warehousing and Distribution Consolidation

In connection with the Nortek Group’s efforts to optimise supply chain performance, in 2013 Nortek’s board approved entry into a five-year agreement with a third party logistics service provider to outsource certain warehousing and distribution activities in the Nortek Group’s North American operating segments and facilitate the consolidation of North American warehousing distribution centres (the “**Warehousing & Distribution Consolidation**”). In late 2015, it was determined that the Nortek Group would assume control of certain US dedicated distribution centres that had been operated by this third party logistics service provider since 2013. All activity related to the Warehousing & Distribution Consolidation was completed in 2015. Cumulative costs incurred in connection with the Warehousing & Distribution Consolidation included severance and other costs of approximately \$2.7 million, of which approximately \$1.7 million, \$0.6 million, and \$0.4 million were recorded in the SCS, ERG, and AVC segments, respectively.

Subsidiary Combinations

The Nortek Group has combined, or is in the process of combining, the operations of certain subsidiaries in order to improve overall operational efficiencies, reduce costs, and provide potential for greater revenue growth (“**Subsidiary Combinations**”).

The Nortek Group currently expects the estimated total costs related to one time termination benefits and other costs associated with Subsidiary Combinations to be approximately \$26.5 million to \$27.0 million. Total expected costs by segment are as follows:

	<u>Low</u>	<u>High</u>
	<u>\$m</u>	<u>\$m</u>
SCS	0.9	0.9
RCH	1.3	1.3
AVC	24.3	24.8
	<u>26.5</u>	<u>27.0</u>

In connection with all Subsidiary Combinations, the Nortek Group has incurred cumulative costs of approximately \$26.0 million, of which approximately \$0.9 million, \$1.3 million and \$23.8 million was recorded in the SCS, RCH, and AVC segments, respectively. These costs consist of one time termination benefits of approximately \$6.4 million, approximately \$9.6 million in costs to reduce inventory values for certain products to their expected net realisable amount, and facility exit and other costs of approximately \$10.0 million.

NORTEK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 APRIL 2016 AND 28 MARCH 2015

(F) Exit and Disposal Activities (Continued)

The following table sets forth the changes to the liability for Subsidiary Combinations during the first quarter of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	\$m	\$m	\$m
Balance, 31 December 2015	1.0	1.2	2.2
Provision ⁽¹⁾	0.2	0.3	0.5
Payments	<u>(0.7)</u>	<u>(0.4)</u>	<u>(1.1)</u>
Balance, 2 April 2016	<u>0.5</u>	<u>1.1</u>	<u>1.6</u>

(1) All costs during the first quarter of 2016 were recorded in the AVC segments.

In the event the Nortek Group elects to further consolidate subsidiaries, the Nortek Group may incur additional costs related to severance and other costs.

Best Restructuring

In 2011, management approved a plan to reduce costs and improve production efficiencies at Best, one of the Nortek Group's AQH subsidiaries, including transferring certain operations from Italy to Poland (the "**Best Restructuring**"). In the third quarter of 2015, management approved further restructuring costs for this business (the "**additional restructuring actions**"). In connection with the Best Restructuring, including the additional restructuring actions, the Nortek Group has incurred cumulative costs of approximately \$19.6 million, consisting of contractual termination benefits of approximately \$19.2 million and other costs of approximately \$0.4 million. As the Nortek Group continues to evaluate Best, it is possible that the Nortek Group will take future restructuring actions and additional expenses may be incurred.

The following table sets forth the changes to the liability for the Best Restructuring during the first quarter of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	\$m	\$m	\$m
Balance, 31 December 2015	1.3	—	1.3
Provision	—	—	—
Payments	<u>(0.3)</u>	<u>—</u>	<u>(0.3)</u>
Balance, 2 April 2016	<u>1.0</u>	<u>—</u>	<u>1.0</u>

CAS Segment Consolidation

On 4 May 2015, Nortek's board approved a restructuring plan designed to consolidate production activities in its North American and European operations in the CAS segment, and exit from certain product lines which were determined to have limited strategic importance or to be competitively disadvantaged (the "**CAS Segment Consolidation**"). The plan anticipated that the production facilities at two North American locations would be discontinued, with the product lines from those facilities transferred to other North American locations, or discontinued. Furthermore, the CAS segment's manufacturing operations in Mexico were ceased and the operation of the manufacturing facility was transferred to the Nortek Group's RCH segment to be used in that segment's production activities. The CAS Segment Consolidation is substantially complete and costs of approximately \$8.2 million have been recorded comprised principally of employee separation, facility abandonment, and inventory write-offs during the consolidation period.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(F) Exit and Disposal Activities (Continued)

The following table sets forth the changes to the liability for the CAS Segment Consolidation during the first quarter of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	\$m	\$m	\$m
Balance, 31 December 2015	0.4	—	0.4
Provision	(0.1)	—	(0.1)
Payments	(0.2)	—	(0.2)
Balance, 2 April 2016	<u>0.1</u>	<u>—</u>	<u>0.1</u>

Other Restructuring Activities

As noted previously, the Nortek Group transferred the management of its UK commercial HVAC subsidiary from the CAS segment to the RCH segment. As part of this transfer, in 2015 Nortek's board approved a restructuring plan related to the UK commercial HVAC subsidiary including a reduction of headcount, the closure of one facility, and the transfer of certain operations to other facilities within the RCH segment. Costs to be incurred in connection with this plan are expected to be in the range of approximately \$5.0 million to \$6.0 million, comprised principally of employee separation and lease obligations. The Nortek Group has recorded cumulative severance and other costs relating to this restructuring activity of approximately \$4.3 million, consisting of severance of approximately \$2.2 million and other costs, including inventory write-offs, of approximately \$2.1 million.

The following table sets forth the changes to the liability for other restructuring activities during the first quarter of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	\$m	\$m	\$m
Balance, 31 December 2015	0.4	1.0	1.4
Provision	—	—	—
Payments	(0.5)	(0.1)	(0.6)
Other	0.1	(0.1)	—
Balance, 2 April 2016	<u>—</u>	<u>0.8</u>	<u>0.8</u>

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(F) Exit and Disposal Activities (Continued)

Summary of Exit and Disposal Activities

The following table outlines amounts recorded within the unaudited condensed consolidated statement of operations associated with the Nortek Group's exit and disposal activities for the first quarter of 2016 and 2015:

	For the first quarter of 2016			For the first quarter of 2015		
	SG&A	COGS	Total	SG&A	COGS	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Manufacturing Rationalisation & Relocation Initiatives . . .	—	—	—	—	0.9	0.9
Warehousing & Distribution Consolidation	—	—	—	—	(0.3)	(0.3)
Subsidiary Combinations	0.4	0.1	0.5	0.1	—	0.1
CAS Segment Consolidation	—	(0.1)	(0.1)	—	—	—
Best Restructuring	—	—	—	—	0.2	0.2
Other restructuring activities	—	—	—	0.2	0.4	0.6
Total⁽¹⁾	<u>0.4</u>	<u>—</u>	<u>0.4</u>	<u>0.3</u>	<u>1.2</u>	<u>1.5</u>

(1) During the first quarter of 2016 and 2015, the Nortek Group recorded severance costs of approximately \$0.1 million and \$0.7 million, respectively.

(G) Commitments and Contingencies

The Nortek Group provides accruals for all direct costs, including legal costs, associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued are estimated based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes. Legal costs for other than probable contingencies are expensed when services are performed.

Indemnifications

The Nortek Group has indemnified third parties for certain matters in a number of transactions involving dispositions of former subsidiaries, including certain pension and environmental liabilities. The Nortek Group has recorded liabilities in relation to these indemnifications in the accompanying unaudited condensed consolidated balance sheet as follows:

	2 April 2016	31 December 2015
	\$m	\$m
Accrued expenses	2.4	2.5
Other long-term liabilities	<u>1.0</u>	<u>1.1</u>
	<u>3.4</u>	<u>3.6</u>
Undiscounted future payments	3.6	3.7

Certain of the liabilities recorded by the Nortek Group, which are reflected in the above table, relate to environmental site remediation matters. The amounts recorded represent the Nortek Group's portion of the estimated site remediation costs. Certain of the site remediation matters involve unrelated third parties and each party to the environmental site remediation matters is jointly and severally liable for the applicable remediation costs. As a result, the Nortek Group could become wholly liable for the unrelated third parties' current obligations should any of these unrelated third parties become insolvent. The Nortek Group is not aware of any current information that indicates that the other responsible parties will not be able to fulfil their contractual obligations, and therefore, no incremental liability is deemed probable. As a result, the liabilities recorded by the Nortek Group at 2 April 2016 and 31 December 2015 reflect only the Nortek Group's contractually allocated portion of the estimated site remediation costs.

NORTEK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 APRIL 2016 AND 28 MARCH 2015

(G) Commitments and Contingencies (Continued)

Product Warranty and Recall Reserves

The Nortek Group sells a number of products and offers a number of warranties including, in some instances, extended warranties for which the Nortek Group receives proceeds. The specific terms and conditions of these warranties vary depending on the product sold and the country in which the product is sold. The Nortek Group estimates the costs that may be incurred under its warranties, with the exception of extended warranties, and records a liability for such costs at the time of sale. Warranty costs are included in cost of revenues. Deferred revenue from extended warranties is recorded at estimated fair value and is amortised over the life of the warranty and periodically reviewed to ensure that the amount recorded is equal to or greater than estimated future costs. Factors that affect the Nortek Group's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, cost per claim, and new product introductions. The Nortek Group periodically assesses the adequacy of its recorded warranty claims and adjusts the amounts as necessary.

Changes in the Nortek Group's combined short-term and long-term warranty liabilities during the first quarter of 2016 and 2015 are as follows:

	First Quarter of	
	2016	2015
	\$m	\$m
Balance, beginning of period	51.0	54.8
Warranties provided during period	5.9	6.4
Settlements made during period	(6.6)	(6.1)
Other changes in liability estimate, including expirations and acquisitions	0.2	(0.2)
Balance, end of period	<u>50.5</u>	<u>54.9</u>

The Nortek Group has undertaken several voluntary product recalls and reworks over the past several years and could do so in the future given the nature of the Nortek Group's business. The Nortek Group could be required to conduct a recall where a product contains a defect which (because of the pattern of defect, the number of defective products distributed in commerce, the severity of the risk, or otherwise) creates a substantial risk of injury to the public. Additional product recalls and reworks could result in material future costs. Many of the Nortek Group's products, especially certain models of bath fans, range hoods, and residential furnaces and air conditioners, 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 generally covered by insurance. Recalls or reworks may adversely affect the Nortek Group's reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on its financial condition, results of operations and cash flows.

Product Liability Contingencies

In an action initiated on 21 May 2014, the Nortek Group Global HVAC LLC, the Nortek Group's wholly owned subsidiary, was named as a defendant in a putative class action lawsuit in *Florida, Harris, et al. v. the Nortek Group Global HVAC, LLC*, Case No. 1:14-cv-21884-BB, filed in the United States District Court for the Southern District of Florida. In addition, in an action initiated on 3 October 2014, the Nortek Group, Inc., the Nortek Group Global HVAC LLC and the Nortek Group Global HVAC Latin America, Inc. were named as defendants in a putative class action lawsuit in *Tennessee, Bauer, et al. v. the Nortek Group Global HVAC, LLC, et al.*, Case No. 3:14-cv-01940, filed in the United States District Court for the Middle District of Tennessee. These lawsuits allege that the copper evaporator and condenser coils in the Nortek Group Global HVAC LLC's residential heating and cooling products are susceptible to a type of potential corrosion that can result in coil leaks and eventual failure of the units. The Florida action sought compensatory damages associated with the Nortek Group Global HVAC LLC's alleged wrongdoing, injunctive relief, and attorneys' fees and costs. The Tennessee action seeks damages associated with repairing, retrofitting and/or replacing the allegedly defective products, the loss of value

NORTEK, INC. AND SUBSIDIARIES
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(G) Commitments and Contingencies (Continued)

due to the alleged defect, property damages associated with the alleged defect, injunctive relief, punitive damages, and attorneys' fees and costs. On 29 January 2016, the Court in the Florida action entered an order denying the plaintiffs' motion to certify a class of Florida consumers. Subsequently, the Nortek Group reached a nominal settlement with the two named plaintiffs in the Florida action, and the action was dismissed. On 18 April 2016, the Court in the Tennessee action heard arguments on the Nortek Group's pending motions to dismiss and to strike class allegations. No ruling with respect to such motions has been issued to date. The Nortek Group believes it has meritorious defences against the claims in the Tennessee action. At this time, the Nortek Group believes that the likelihood of a material loss in the Tennessee action is remote and has not recognised a loss or liability in such action; however, it is possible that events could occur that would change the likelihood of a material loss, which could ultimately have a material impact on the Nortek Group's business. The Nortek Group will continue to assess the likelihood of a material loss as the Tennessee action progresses.

FCPA Matters

As previously reported, as part of its routine internal audit activities, the Nortek Group discovered certain questionable hospitality, gift and payment practices, and other expenses at the Nortek Group's subsidiary, Linear Electronics (Shenzhen) Co. Ltd., which were inconsistent with the Nortek Group's policies and raised concerns under the US Foreign Corrupt Practices Act and perhaps under other applicable anti-corruption laws. The Nortek Group conducted an internal investigation into these practices and payments with the assistance of outside counsel.

The Nortek Group voluntarily contacted the SEC and the DOJ in January 2015 to advise both agencies of this matter and since then has continued to cooperate with their respective investigations. The Nortek Group takes these matters very seriously and is committed to conducting its business in compliance with all applicable laws.

Based on information known at this time, the Nortek Group believes that the amount of the questionable expenses and payments is not material with respect to the Nortek Group's consolidated financial condition or results of operations for the periods presented. However, at this time, the Nortek Group is unable to predict what, if any, action may be taken by the DOJ or SEC or any penalties or remedial measures these agencies may seek, but intends to continue its cooperation with both agencies. Any determination that the Nortek Group's operations or activities are not in compliance with existing laws or regulations could result in the imposition of fines, civil and criminal penalties, and equitable remedies, including disgorgement or injunctive relief. The Nortek Group cannot reasonably estimate the potential liability, if any, related to these matters resulting from any proceedings that may be commenced by the SEC, the DOJ or any other governmental authorities. For the first quarter of 2015, approximately \$1.0 million was recorded for legal and other professional services incurred related to the internal investigation of this matter and a nominal amount was recognised in the first quarter of 2016. The Nortek Group expects to incur additional costs relating to the investigation of this matter in 2016.

Other Commitments and Contingencies

In 2014, one of the Nortek Group's subsidiaries within its ERG segment entered into a lease agreement for a building of approximately 84,000 square feet located in China, to be used as a warehouse facility. The Nortek Group is responsible for a significant portion of the construction costs and was deemed, for accounting purposes, to be the owner of the building during the construction period, in accordance with ASC 840, *Leases*, Subsection 40-15-5. Construction of the facility commenced in the fourth quarter of 2015 and the Nortek Group has recorded approximately \$0.7 million and \$0.2 million within buildings and improvements and a corresponding long-term liability within its condensed consolidated balance sheet at 2 April 2016 and 31 December 2015, respectively. Construction is expected to total approximately \$2.0 million and be completed by the end of 2016.

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(G) Commitments and Contingencies (Continued)

The Nortek Group is subject to other contingencies, including legal proceedings and claims, arising out of its businesses that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, warranty, and modification and adjustment or replacement of component parts of units sold, which include product recalls. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned. The Nortek Group has used various substances in its products and manufacturing operations which have been or may be deemed to be hazardous or dangerous, and the extent of its potential liability, if any, under environmental, product liability and workers' compensation statutes, rules, regulations and case law is unclear. Furthermore, due to the lack of adequate information and the potential impact of present regulations and any future regulations, there are certain circumstances in which the amount or range of possible losses cannot be reasonably estimated.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, warranty, product liability, environmental liabilities, and product recalls, the Nortek Group believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the Nortek Group's consolidated financial position, results of operations or liquidity. It is possible, however, that results of operations for any particular future period could be materially affected by changes in the Nortek Group's assumptions or strategies related to these contingencies or changes that are not within the Nortek Group's control.

(H) Income Taxes

The provision for income taxes for the first quarter of 2016 was approximately \$2.6 million and the benefit from income taxes for the first quarter of 2015 was approximately \$5.6 million. The effective income tax rate of approximately 50.0% for the first quarter of 2016 differs from the United States federal statutory rate of 35% principally as a result of losses in certain jurisdictions that cannot be benefited from. The effective income tax rate of a benefit of approximately 28.7% for the first quarter of 2015 differs from the United States federal statutory rate of 35% principally as a result of losses in certain jurisdictions that cannot be benefited from.

At 2 April 2016, the Nortek Group had approximately \$5.1 million of remaining tax benefits related to the excess of tax deductible stock compensation expense over the related book expense. This amount will be recognised as a credit to additional paid in capital when the benefits are realised on a tax return. The Nortek Group accounts for excess share-based compensation deductions on the basis that these are the last tax benefits that are utilised.

As of 1 January 2016, the Nortek Group had a liability of approximately \$18.4 million for unrecognised tax benefits related to various federal, foreign and state income tax matters. As a result of additional provisions during the first quarter of 2016, the liability for uncertain tax positions increased to approximately \$18.7 million at 2 April 2016. The liability for uncertain tax positions is included in other long-term liabilities on the accompanying unaudited condensed consolidated balance sheet. The corresponding amount of gross uncertain tax benefits was approximately \$29.2 million and \$28.7 million at 2 April 2016 and 31 December 2015, respectively. The difference between the total unrecognised tax benefits and the amount of the liability for unrecognised tax benefits represents unrecognised tax benefits that have been netted against deferred tax assets in accordance with ASC 740, "Income Taxes" ("ASC 740").

As of 2 April 2016 and 31 December 2015, the amount of unrecognised tax benefits that, if recognised, would affect the Nortek Group's effective tax rate was approximately \$13.2 million and \$12.8 million, respectively. The difference between the total amount of uncertain tax positions and the amount that would affect the effective tax rate represents the federal tax effect of state tax items, items that offset temporary differences, and items that will result in a reduction of other tax assets.

As of 2 April 2016, the Nortek Group had approximately \$0.4 million in unrecognised benefits relating to various tax issues, for which the statute of limitations is expected to expire in 2016.

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2 APRIL 2016 AND 28 MARCH 2015

(H) Income Taxes (Continued)

As of 2 April 2016 and 31 December 2015, the total amount of accrued interest and penalties related to uncertain tax positions was approximately \$5.0 million and \$4.7 million, respectively. The Nortek Group accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state taxes.

(I) Segment Information and Concentration of Risk

The Nortek Group's principal reporting segments are as follows:

- the AQH segment,
- the SCS segment,
- the ERG segment,
- the RCH segment, and
- the CAS segment.

As noted previously, in the second quarter of 2015, Nortek changed the composition of its RCH and CAS segments (see Note A, "*Basis of Presentation*"). For a description of the activities of Nortek's reporting segments, see "*Segment Information and Concentration of Credit Risk*", in Nortek's 2015 Form 10-K.

The Nortek Group's performance is significantly impacted by the levels of residential remodelling and replacement activity, as well as the levels of new residential and non-residential construction. The level of new construction activity and, to a lesser extent, the level of residential remodelling and replacement activity are affected by seasonality and cyclical factors such as interest rates, inflation, consumer spending, employment levels, and other macroeconomic factors, over which Nortek has no control. Performance in any particular period could be impacted by the timing of sales to certain large customers.

The Nortek Group evaluates segment performance based on operating earnings before allocations of corporate overhead costs and impairment charges. The financial statement impact of all acquisition accounting adjustments, including intangible asset amortisation and goodwill, are reflected in the applicable operating segment, which are Nortek's reporting units.

NORTEK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(I) Segment Information and Concentration of Risk (Continued)

Segment Operating Results

Unaudited net sales and operating earnings for the Nortek Group's reporting segments and the Nortek Group's consolidated earnings (loss) before provision (benefit) for income taxes for the first quarter of 2016 and 2015 were as follows:

	First Quarter of	
	2016	2015
	\$m	\$m
Net sales:		
AQH	151.3	138.3
SCS	110.4	96.5
ERG	82.4	70.8
RCH	147.0	133.3
CAS	96.1	101.3
AVC	26.7	32.5
Consolidated net sales	<u>613.9</u>	<u>572.7</u>
Operating earnings (loss):		
<i>Operating earnings (loss):</i>		
AQH	16.2	13.4
SCS	8.2	4.6
ERG	14.3	8.0
RCH	1.2	(5.7)
CAS	4.9	2.9
AVC	(1.9)	(2.4)
Subtotal	42.9	20.8
Unallocated, net	(14.0)	(13.1)
Consolidated operating earnings	28.9	7.7
Net interest expense	(23.7)	(27.2)
Earnings (loss) before provision (benefit) for income taxes	<u>5.2</u>	<u>(19.5)</u>

Intersegment sales between the Nortek Group's reporting segments totalled approximately \$5.3 million and \$4.5 million for the first quarter of 2016 and 2015, respectively. Intersegment sales between reporting segments were not individually material to any reporting segment for the periods presented.

Concentrations of Risk

No single customer accounted for 10% or more of consolidated net sales for the first quarter of 2016 and 2015 or accounts receivable at 2 April 2016 and 31 December 2015.

For reasons of quality assurance, scarcity or cost effectiveness, certain components and raw materials used in the manufacture of the Nortek Group's products are available only from a limited number of suppliers. In the event that the Nortek Group is unable to obtain sufficient quantities of raw materials or components on commercially reasonable terms or in a timely manner, the Nortek Group's ability to manufacture its products on a timely and cost-competitive basis may be compromised, which may have a material adverse effect on its business, financial condition and results of operations. To date, the Nortek Group has not experienced any material adverse effect on its financial condition or results of operations due to supplier limitations.

NORTEK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(J) Equity Activity

Restricted Stock

During the first quarter of 2016, 145,175 shares of restricted stock were granted and 95,870 shares of restricted stock were forfeited. Additionally, during the first quarter of 2016, 42,942 shares of restricted stock vested, of which 11,741 shares of common stock were delivered to Nortek as payment in lieu of cash to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock.

Stock Options

During the first quarter of 2016, 10,000 stock options were exercised for common stock, none of which were delivered to Nortek as payment in lieu of cash for stock options exercised and related minimum tax withholding obligations. Additionally, during the first quarter of 2016, 331,145 stock options were granted and 7,359 stock options were forfeited.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net earnings (loss), unrealised gains and losses from foreign currency translation, and pension liability adjustments, net of tax attributes. The components of the Nortek Group's comprehensive income (loss) and the effect on earnings for the periods presented are detailed in the accompanying unaudited condensed consolidated statements of comprehensive income (loss).

The balances of each component, net of tax attributes, within accumulated other comprehensive loss for the first quarter of 2016 are as follows:

	First quarter of 2016		
	Foreign Currency Translation	Pension Liability Adjustment	Total Accumulated Other Comprehensive Loss
	\$m	\$m	\$m
Balance, beginning of period	(19.3)	(23.2)	(42.5)
Other comprehensive income (loss) before reclassifications	2.2	(0.5)	1.7
Amounts reclassified from AOCI to SG&A ⁽¹⁾	—	0.3	0.3
Net current-period other comprehensive income (loss)	2.2	(0.2)	2.0
Balance, end of period	<u>(17.1)</u>	<u>(23.4)</u>	<u>(40.5)</u>

(1) For additional information, see Note L, "Pension, Profit Sharing & Other Post-Retirement Benefits".

Foreign Currency Translation

The financial statements of subsidiaries located outside of the United States are generally measured using the foreign subsidiary's local currency as the functional currency. The financial statements of the Nortek Group's international subsidiaries are translated in accordance with ASC 830, "Foreign Currency Matters" ("ASC 830"). The Nortek Group translates the assets and liabilities of its foreign subsidiaries at the exchange rates in effect at year-end. Before translation, the Nortek Group re-measures foreign currency denominated assets and liabilities, including certain inter-company accounts receivable and payable that have been determined to not be of a "long-term investment" nature, as defined by ASC 830, into the functional currency of the respective entity, resulting in unrealised gains or losses recorded in the consolidated statement of operations. Net sales, costs and expenses are translated using average exchange rates in effect during the year. Gains and losses from foreign currency translation are credited or charged to accumulated other comprehensive income (loss) included in stockholders' investment. Transaction gains and losses and the re-measurement of certain intercompany receivables and payables are recorded in SG&A. The Nortek Group has provided long-term intercompany funding to certain of its foreign subsidiaries, principally for acquisitions, that are deemed to be of a long-term investment nature with the

NORTEK, INC. AND SUBSIDIARIES

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2 APRIL 2016 AND 28 MARCH 2015

(J) Equity Activity (Continued)

resulting translation adjustments being recorded as a component of stockholders' investment within accumulated other comprehensive loss. The Nortek Group recorded a translation loss of approximately \$1.5 million and \$4.2 million in the first quarter of 2016 and 2015, respectively, within accumulated other comprehensive loss.

(K) Earnings (Loss) per Share

Basic earnings (loss) per share amounts are computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are computed using the weighted average number of common shares outstanding and dilutive potential common shares outstanding during each period.

The reconciliations between basic and diluted earnings (loss) per share for the first quarter of 2016 and 2015 are as follows:

	First Quarter of	
	2016	2015
	\$m	\$m
Net earnings (loss)	2.6	(13.9)
Weighted average common shares outstanding	15,983,817	15,909,464
Dilutive effect of common share equivalents	108,481	—
Dilutive shares outstanding	16,092,298	15,909,464
Basic earnings (loss) per share (\$)	0.16	(0.87)
Diluted earnings (loss) per share (\$)	0.16	(0.87)

The effect of certain potential common share equivalents, as outlined below, were excluded from the computation of diluted shares outstanding for the first quarter of 2016 and 2015 as their inclusion would have been anti-dilutive. Restricted stock awards which vest based upon achievement of performance targets are excluded from the diluted shares outstanding unless the performance targets had been met as of the end of the applicable reporting period regardless of whether such performance targets are probable of achievement.

In reporting periods in which the Nortek Group reports a net loss, anti-dilutive shares consist of the weighted average common stock equivalents outstanding for the period. In those reporting periods in which the Nortek Group reports net income, anti-dilutive shares consist of those common stock equivalents that have either an exercise price above the average stock price for the period or the common stock equivalents' related average unrecognized stock compensation expense is sufficient to "buy back" the entire amount of shares.

A summary of the weighted average anti-dilutive shares excluded from the first quarter of 2016 and 2015 is as follows:

	First Quarter of	
	2016	2015
Restricted stock	189,715	345,691
Stock options	459,866	560,557
Total	649,581	906,248

NORTEK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 APRIL 2016 AND 28 MARCH 2015

(L) Pension, Profit Sharing & Other Post-Retirement Benefits

The Nortek Group and its subsidiaries have various pension plans, supplemental retirement plans for certain officers, profit sharing, and other post-retirement benefit plans requiring contributions to qualified trusts and union administered funds.

Pension, profit sharing and other post-retirement health benefit expense charged to operations aggregated approximately \$3.0 million and \$3.1 million for the first quarter of 2016 and 2015, respectively.

The Nortek Group's policy is to generally fund currently at least the minimum required annual contribution of its various qualified defined benefit plans. At 2 April 2016, the Nortek Group estimated that approximately \$6.0 million would be contributed to the Nortek Group's defined benefit pension plans in 2016, of which approximately \$1.2 million was contributed through the first quarter of 2016.

The Nortek Group's net periodic benefit cost for its defined benefit plans for the first quarter of 2016 and 2015 consists of the following components:

	First Quarter of	
	2016	2016
	\$m	\$m
Service cost	0.3	0.2
Interest cost	1.5	1.6
Expected return on plan assets	(1.7)	(1.8)
Net amortisation of actuarial loss	0.3	0.4
Net periodic benefit cost	0.4	0.4

There were no periodic benefit costs for the Nortek Group's post-retirement health benefit plan for the first quarter of 2016 or 2015.

(M) Derivatives and Fair Value

The Nortek Group manufactures, markets and sells its products globally and a portion of the Nortek Group's sales are generated outside the United States in local currencies. The Nortek Group also incurs certain manufacturing, marketing and selling costs in international markets in local currency.

Accordingly, the Nortek Group's earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the US dollar, the Nortek Group's reporting currency. During the third quarter of 2015, the Nortek Group began to enhance its program to mitigate exposure to changes in foreign currency exchange rates by entering into foreign currency forward contracts to minimise, for a period of time, the impact on its financial results from changes in foreign exchange rates, primarily the British pound sterling, Canadian dollar and the Chinese yuan renminbi. Additionally, the Nortek Group entered into certain foreign currency forward contracts to hedge the anticipated cash flows from transactions denominated in foreign currencies, primarily the Mexican peso. This does not eliminate the impact of the volatility of foreign exchange rates.

Non-Designated Foreign Currency Contracts

All of the Nortek Group's foreign currency hedge contracts to date have been non-designated contracts. The Nortek Group manages its exposure to changes in foreign currency on a consolidated basis to take advantage of offsetting transactions and balances. These foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, which are generally one month. They are not designated as cash flow or fair value hedges under ASC 815, "Derivatives and Hedging" ("ASC 815"). These forward contracts are marked-to-market with changes in fair value recorded in the condensed consolidated statement of operations. The Nortek Group had non-designated foreign currency hedge contracts under ASC 815 outstanding with a notional amount of approximately \$23.9 million at 2 April 2016. During the first quarter of 2016, the Nortek Group recorded approximately \$0.3 million of

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(M) Derivatives and Fair Value (Continued)

unrealised gains related to contracts outstanding at 2 April 2016. During the first quarter of 2016, the Nortek Group settled non-designated foreign currency hedge contracts with a notional amount totalling approximately \$44.2 million resulting in a realised gain upon settlement of approximately \$0.5 million. The gains related to non-designated foreign currency hedge contracts are not material, and are included as a component of selling, general and administrative expenses (“**SG&A**”) within the Nortek Group’s consolidated statement of operations. The gains related to the non-designated foreign currency hedge contracts are included within operating activities in the consolidated statement of cash flows.

ASC 815 requires all derivative instruments to be recognised at their fair value as either assets or liabilities on the balance sheet. The Nortek Group has determined the fair value of its derivative instruments using the framework prescribed by ASC 820, “*Fair Value Measurements*” (“**ASC 820**”), by considering the estimated amount it would receive or pay to sell or transfer these instruments at the reporting date and by taking into account currency exchange rates, the creditworthiness of the counterparty for assets, and the Nortek Group’s creditworthiness for liabilities. Generally, the Nortek Group uses inputs that include quoted prices for similar assets or liabilities in active markets. At 2 April 2016, the Nortek Group has classified its derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by ASC 820, as discussed further below, because these observable inputs are available for substantially the full term of its derivative instruments. Neither the total derivative assets nor the total derivative liabilities were material at 2 April 2016 and 31 December 2015.

Other Fair Value Measurements and Disclosures

The Nortek Group’s assets and liabilities recorded at fair value have been categorised based upon a fair value hierarchy in accordance with ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with US GAAP, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The categorisation of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The levels of the fair value hierarchy are described below:

- Level 1 inputs utilise quoted prices (unadjusted) in active markets for identical assets and liabilities that the Nortek Group has the ability to access at the measurement date.
- Level 2 inputs utilise inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, allowing for situations where there is little, if any, market activity for the asset or liability.

On a recurring basis, the Nortek Group measures certain financial assets and financial liabilities at fair value, including its restricted investments, foreign currency hedge contracts, and contingent consideration. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Nortek Group bases fair value upon quoted market prices, where available. Where quoted market prices or other observable inputs are not available, the Nortek Group applies valuation techniques to estimate fair value.

NORTEK, INC. AND SUBSIDIARIES
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2 APRIL 2016 AND 28 MARCH 2015

(M) Derivatives and Fair Value (Continued)

Measured on a Recurring Basis

Financial assets and financial liabilities measured at fair value on a recurring basis consist of the following at 2 April 2016 and 31 December 2015:

		Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		\$m	\$m	\$m	\$m
Assets:					
Restricted Investments	2 April 2016	1.1	—	—	1.1
Restricted Investments	31 December 2015	1.2	—	—	1.2
Liabilities					
Contingent Consideration	2 April 2016	—	—	—	—
Contingent Consideration	31 December 2015	—	—	0.2	0.2

Restricted Investments (Level 1)—The fair value of investments is based on quoted market prices. The fair value of investments was not materially different from their cost basis at 2 April 2016 or 31 December 2015.

Contingent Consideration (Level 3)—Contingent consideration liabilities are measured at fair value using projected revenue, discount rates, probabilities of payment and projected payment dates. This Level 3 fair value measurement was determined using an option pricing model. The real option approach methodology applies option pricing theory to a “real” stream, such as revenue. Utilisation of this methodology allows running a high number of simulations and therefore, the Nortek Group believes that this valuation methodology was most appropriate. Increases or decreases in the fair value of the Nortek Group’s contingent consideration liability are principally driven by changes in the amount or probability weighting of revenue estimates. Projected revenue is based on the Nortek Group’s most recent internal operational budgets. See Note B, “*Acquisitions and Dispositions*” for further discussion.

Measured on a Non-Recurring Basis

The Nortek Group re-measures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets are comprised of long-lived assets, including property and equipment, intangible assets and goodwill. There were no material impairments during the first quarter of 2016 or 2015.

Financial Instruments Not Recorded at Fair Value

The carrying value and fair values of financial instruments not recorded at fair value in the unaudited condensed consolidated balance sheets at 2 April 2016 and 31 December 2015 were as follows:

Cash and Trade Receivables—Cash and trade receivables are carried at their cost which approximates fair value (Level 1) because of their short-term nature.

Long-Term Debt—At 2 April 2016, the fair value of the Nortek Group’s long-term indebtedness was approximately \$32.2 million higher than the amount on the Nortek Group’s accompanying unaudited condensed consolidated balance sheet, before approximately \$3.1 million of unamortised debt premium, approximately \$4.7 million of unamortised debt discount, and approximately \$12.6 million of unamortised debt issuance costs. At 31 December 2015, the fair value of the Nortek Group’s long-term indebtedness was approximately \$25.7 million higher than the amount on the Nortek Group’s consolidated balance sheet, before approximately \$3.4 million of unamortised debt premium, approximately \$4.9 million of unamortised debt discount, and approximately \$13.5 million of unamortised debt issuance costs. The Nortek Group determined the fair market value of its 8.5% Notes using available market quotes (Level 1).

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(M) Derivatives and Fair Value (Continued)

For the Nortek Group's remaining outstanding indebtedness (including outstanding borrowings under the ABL Facility and the the Nortek Group Term Loan Facility), the Nortek Group believes that the carrying value of such indebtedness approximated the fair value based upon the variable interest rates associated with certain of these debt obligations and the Nortek Group's estimated credit risk.

(N) Guarantor Financial Statements

The Nortek Group's 8.5% Notes are guaranteed by each of the Nortek Group's current and future domestic subsidiaries that guarantee the Nortek Group's obligations under its senior secured credit facilities (the "Guarantors"). The Guarantors are wholly owned, either directly or indirectly, by the Nortek Group and jointly and severally guarantee the Nortek Group's obligation under the 8.5% Notes. None of the Nortek Group's foreign subsidiaries guarantee the 8.5% Notes.

Consolidating balance sheets related to the Nortek Group, the Guarantors and non-Guarantor subsidiaries as of 2 April 2016 and 31 December 2015, the related consolidating statements of operations and comprehensive income (loss) for the first quarter of 2016 and 2015, and the related cash flows for the first quarter of 2016 and 2015 are reflected below in order to comply with the reporting requirements for guarantor subsidiaries.

Condensed Consolidating Balance Sheet as of 2 April 2016

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Nortek Consolidated
	\$m	\$m	\$m	\$m	\$m
ASSETS:					
Current Assets:					
Unrestricted cash and cash equivalents	4.3	1.4	22.8	—	28.5
Restricted cash	0.1	0.1	—	—	0.2
Accounts receivable, less allowances	—	273.3	64.1	—	337.4
Intercompany receivables	2.8	—	95.8	(98.6)	—
Inventories, net	—	313.8	93.0	(8.1)	398.7
Prepaid expenses	4.4	10.7	4.8	—	19.9
Other current assets	0.1	9.0	10.3	—	19.4
Total current assets	<u>11.7</u>	<u>608.3</u>	<u>290.8</u>	<u>(106.7)</u>	<u>804.1</u>
Property and Equipment, at Cost:					
Total property and equipment, net	<u>10.7</u>	<u>162.2</u>	<u>57.0</u>	<u>—</u>	<u>229.9</u>
Other Long-term Assets:					
Investment in subsidiaries and long-term receivable from (to) subsidiaries	1,451.7	68.8	—	(1,520.5)	—
Goodwill	—	464.5	41.0	—	505.5
Intangible assets, less accumulated amortisation	—	552.7	47.9	(8.6)	592.0
Deferred tax asset	39.3	—	0.7	(40.0)	—
Other assets	1.7	14.6	0.9	0.7	17.9
Total other long-term assets	<u>1,492.7</u>	<u>1,100.6</u>	<u>90.5</u>	<u>(1,568.4)</u>	<u>1,115.4</u>
Total Assets	<u>1,515.1</u>	<u>1,871.1</u>	<u>438.3</u>	<u>(1,675.1)</u>	<u>2,149.4</u>
LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT):					
Current Liabilities:					
Short-term bank obligations	—	—	0.3	—	0.3
Current maturities of long-term debt	6.2	0.8	—	—	7.0
Accounts payable	1.8	132.8	130.6	—	265.2
Accrued expenses, taxes, and deferred revenue	53.5	115.5	40.4	—	209.4
Intercompany payables	—	98.6	—	(98.6)	—
Total current liabilities	<u>61.5</u>	<u>347.7</u>	<u>171.3</u>	<u>(98.6)</u>	<u>481.9</u>
Other Liabilities:					
Deferred income taxes	—	107.2	12.6	(42.4)	77.4
Other long-term liabilities	49.6	109.5	21.6	—	180.7
Long-term intercompany payables	—	—	115.7	(115.7)	—
	<u>49.6</u>	<u>216.7</u>	<u>149.9</u>	<u>(158.1)</u>	<u>258.1</u>
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	<u>1,385.6</u>	<u>3.6</u>	<u>1.8</u>	<u>—</u>	<u>1,391.0</u>
Stockholders' investment (deficit)	<u>18.4</u>	<u>1,303.1</u>	<u>115.3</u>	<u>(1,418.4)</u>	<u>18.4</u>
Total Liabilities and Stockholders' Investment (Deficit)	<u>1,515.1</u>	<u>1,871.1</u>	<u>438.3</u>	<u>(1,675.1)</u>	<u>2,149.4</u>

Condensed Consolidating Balance Sheet as of 31 December 2015

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Nortek Consolidated
	\$m	\$m	\$m	\$m	\$m
ASSETS:					
Current Assets:					
Unrestricted cash and cash equivalents	0.7	1.1	22.8	—	24.6
Restricted cash	0.1	0.2	—	—	0.3
Accounts receivable, less allowances	—	273.8	66.2	—	340.0
Intercompany receivables	4.9	—	89.8	(94.7)	—
Inventories, net	—	294.9	80.7	(7.5)	368.1
Prepaid expenses	2.7	11.2	5.4	—	19.3
Other current assets	0.1	8.7	10.3	—	19.1
Total current assets	<u>8.5</u>	<u>589.9</u>	<u>275.2</u>	<u>(102.2)</u>	<u>771.4</u>
Property and Equipment, at Cost:					
Total property and equipment, net	<u>17.0</u>	<u>157.1</u>	<u>54.9</u>	<u>—</u>	<u>229.0</u>
Other Long-term Assets:					
Investment in subsidiaries and long-term receivable from (to) subsidiaries	1,409.9	82.7	—	(1,492.6)	—
Goodwill	—	464.5	41.0	—	505.5
Intangible assets, less accumulated amortisation	—	568.2	49.7	(8.8)	609.1
Deferred tax asset	38.0	—	0.6	(38.6)	—
Other assets	1.7	12.3	0.8	0.6	15.4
Total other long-term assets	<u>1,449.6</u>	<u>1,127.7</u>	<u>92.1</u>	<u>(1,539.4)</u>	<u>1,130.0</u>
Total Assets	<u>1,475.1</u>	<u>1,874.7</u>	<u>422.2</u>	<u>(1,641.6)</u>	<u>2,130.4</u>
LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT):					
Current Liabilities:					
Short-term bank obligations	—	—	0.5	—	0.5
Current maturities of long-term debt	6.1	0.8	—	—	6.9
Accounts payable	2.4	142.2	124.6	—	269.2
Accrued expenses, taxes, and deferred revenue	38.1	131.8	44.6	—	214.5
Intercompany payables	—	94.7	—	(94.7)	—
Total current liabilities	<u>46.6</u>	<u>369.5</u>	<u>169.7</u>	<u>(94.7)</u>	<u>491.1</u>
Other Liabilities:					
Deferred income taxes	—	105.4	12.3	(40.8)	76.9
Other long-term liabilities	49.9	107.8	20.8	—	178.5
Long-term intercompany payables	—	—	110.0	(110.0)	—
	<u>49.9</u>	<u>213.2</u>	<u>143.1</u>	<u>(150.8)</u>	<u>255.4</u>
Notes, Mortgage Notes and Obligations					
Payable, Less Current Maturities	<u>1,366.3</u>	<u>3.5</u>	<u>1.8</u>	<u>—</u>	<u>1,371.6</u>
Stockholders' investment (deficit)	<u>12.3</u>	<u>1,288.5</u>	<u>107.6</u>	<u>(1,396.1)</u>	<u>12.3</u>
Total Liabilities and Stockholders' Investment (Deficit)	<u>1,475.1</u>	<u>1,874.7</u>	<u>422.2</u>	<u>(1,641.6)</u>	<u>2,130.4</u>

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the first quarter ended 2 April 2016

	<u>Nortek</u>	<u>Guarantor</u>	<u>Non-</u> <u>Guarantor</u>	<u>Eliminations</u>	<u>Nortek</u>
	<u>\$m</u>	<u>Subsidiaries</u>	<u>Subsidiaries</u>	<u>\$m</u>	<u>Consolidated</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Net Sales	—	526.3	195.1	(107.5)	613.9
Cost and Expenses:					
Cost of revenues	—	371.1	162.2	(106.9)	426.4
Selling, general and administrative expense, net	13.8	106.5	21.2	—	141.5
Amortisation of intangible assets	—	15.5	1.8	(0.2)	17.1
	<u>13.8</u>	<u>493.1</u>	<u>185.2</u>	<u>(107.1)</u>	<u>585.0</u>
Operating (loss) earnings	(13.8)	33.2	9.9	(0.4)	28.9
Net interest expense	(23.1)	(0.6)	—	—	(23.7)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	(36.9)	32.6	9.9	(0.4)	5.2
Charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	42.1	(13.3)	(0.2)	(28.6)	—
Earnings (loss) before provision (benefit) for income taxes	5.2	19.3	9.7	(29.0)	5.2
Provision (benefit) for income taxes	2.6	7.1	3.9	(11.0)	2.6
Net earnings (loss)	2.6	12.2	5.8	(18.0)	2.6
Other comprehensive income (loss), net of tax:					
Currency translation adjustment	2.2	—	1.8	(1.8)	2.2
Total pension liability adjustments, net of tax	(0.2)	—	0.1	(0.1)	(0.2)
Other comprehensive income (loss)	2.0	—	1.9	(1.9)	2.0
Comprehensive income (loss)	4.6	12.2	7.7	(19.9)	4.6

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the first quarter ended 28 March 2015

	<u>Nortek</u>	<u>Guarantor</u>	<u>Non-</u> <u>Guarantor</u>	<u>Eliminations</u>	<u>Nortek</u>
	<u>\$m</u>	<u>Subsidiaries</u>	<u>Subsidiaries</u>	<u>\$m</u>	<u>Consolidated</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Net Sales	—	482.8	187.7	(97.8)	572.7
Cost and Expenses:					
Cost of revenues	—	348.1	156.3	(98.5)	405.9
Selling, general and administrative expense, net	12.8	106.6	23.9	—	143.3
Amortisation of intangible assets	—	14.7	1.3	(0.2)	15.8
	<u>12.8</u>	<u>469.4</u>	<u>181.5</u>	<u>(98.7)</u>	<u>565.0</u>
Operating (loss) earnings	(12.8)	13.4	6.2	0.9	7.7
Net interest expense	(26.3)	(0.9)	—	—	(27.2)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	(39.1)	12.5	6.2	0.9	(19.5)
Charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	19.6	(11.9)	(0.2)	(7.5)	—
(Loss) earnings before (benefit) provision for income taxes	(19.5)	0.6	6.0	(6.6)	(19.5)
(Benefit) provision for income taxes	(5.6)	1.4	2.6	(4.0)	(5.6)
Net (loss) earnings	(13.9)	(0.8)	3.4	(2.6)	(13.9)
Other comprehensive (loss) income, net of tax:					
Currency translation adjustment	(6.1)	—	(5.2)	5.2	(6.1)
Other comprehensive (loss) income	(6.1)	—	(5.2)	5.2	(6.1)
Comprehensive (loss) income	<u>(20.0)</u>	<u>(0.8)</u>	<u>(1.8)</u>	<u>2.6</u>	<u>(20.0)</u>

Condensed Consolidating Cash Flow Statement
For the first quarter ended 2 April 2016

	<u>Nortek</u> \$m	<u>Guarantor</u> <u>Subsidiaries</u> \$m	<u>Non-</u> <u>Guarantor</u> <u>Subsidiaries</u> \$m	<u>Nortek</u> <u>Consolidated</u> \$m
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	(35.1)	26.7	(0.1)	(8.5)
Cash Flows from investing activities:				
Capital expenditures	(0.2)	(5.8)	(1.9)	(7.9)
Proceeds from the sale of property and equipment	—	2.3	0.1	2.4
Other, net	—	0.2	—	0.2
Net cash used in investing activities	(0.2)	(3.3)	(1.8)	(5.3)
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	118.0	—	0.6	118.6
Payment of ABL and other borrowings	(99.5)	(0.2)	(0.8)	(100.5)
Net use from equity transactions	(0.4)	—	—	(0.4)
Long-term intercompany advances and loans	20.8	(22.9)	2.1	—
Net cash provided by (used in) financing activities	38.9	(23.1)	1.9	17.7
Net change in unrestricted cash and cash equivalents . .	3.6	0.3	—	3.9
Unrestricted cash and cash equivalents at the beginning of the period	0.7	1.1	22.8	24.6
Unrestricted cash and cash equivalents at the end of the period	<u>4.3</u>	<u>1.4</u>	<u>22.8</u>	<u>28.5</u>

Condensed Consolidating Cash Flow Statement
For the first quarter ended 28 March 2015

	<u>Nortek</u>	<u>Guarantor</u>	<u>Non-</u>	<u>Nortek</u>
	\$m	Subsidiaries	Guarantor	Consolidated
	\$m	\$m	Subsidiaries	\$m
	\$m	\$m	\$m	\$m
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	(20.7)	(39.5)	4.9	(55.3)
Cash Flows from investing activities:				
Capital expenditures	(0.6)	(7.9)	(1.6)	(10.1)
Net cash paid for businesses acquired	—	(51.8)	—	(51.8)
Intercompany contributions	(0.8)	—	0.8	—
Proceeds from the sale of property and equipment	—	0.1	—	0.1
Other, net	—	(0.1)	0.3	0.2
Net cash used in investing activities	(1.4)	(59.7)	(0.5)	(61.6)
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	155.0	—	0.6	155.6
Payment of ABL and other borrowings	(50.1)	(0.8)	(0.7)	(51.6)
Net use from equity transactions	(1.8)	—	—	(1.8)
Long-term intercompany advances and loans	(95.9)	95.9	—	—
Net cash provided by (used in) financing activities	7.2	95.1	(0.1)	102.2
Net change in unrestricted cash and cash equivalents . .	(14.9)	(4.1)	4.3	(14.7)
Unrestricted cash and cash equivalents at the beginning of the period	17.5	5.1	35.8	58.4
Unrestricted cash and cash equivalents at the end of the period	2.6	1.0	40.1	43.7

Section B.2: Unaudited reconciliation of quarterly financial statements of the Nortek Group for the first quarter ended 2 April 2016 to IFRS as applied by Melrose

The quarterly financial statements of the Nortek Group for the first quarters ended 2 April 2016 and 28 March 2015 have been prepared in accordance with US GAAP, which differs in certain material respects from the IFRS accounting policies applied by Melrose in the preparation of its financial statements for the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

The impact on net income and equity of the differences between US GAAP and the IFRS accounting policies applied by Melrose are quantified and described below. The Melrose Directors confirm that the adjustments made are consistent with the IFRS accounting policies applied by Melrose in the preparation of its financial statements for the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

Reconciliation of shareholders' equity for the period ended 2 April 2016 and for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013

	As at 2 April 2016	As at 31 December			At transition date— 1 January 2013
	\$m	2015	2014	2013	\$m
	Unaudited				
Shareholders' equity as originally presented under US GAAP	18.4	12.3	42.2	99.9	94.2
<i>Adjustments</i>					
A Inventories	(4.0)	(2.2)	(1.7)	(0.7)	(0.4)
B Leases	—	—	—	0.8	—
C Pensions	—	—	—	—	—
D Share-based compensation	(3.3)	(3.1)	(11.3)	(12.3)	(8.5)
E Embedded derivatives	0.3	2.2	0.5	—	—
F Warrants	—	—	—	(15.8)	(14.6)
G Tax	9.4	8.0	13.8	14.3	14.0
Shareholders' equity under IFRS	20.8	17.2	43.6	86.2	84.7

Reconciliation of comprehensive income for the period ended 2 April 2016 and for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013

	First quarter ended 2 April 2016	Year ended 31 December		
	\$m	2015	2014	2013
	Unaudited			
Comprehensive income / (loss) as originally presented under US GAAP	4.6	(33.5)	(65.0)	(2.3)
<i>Adjustments</i>				
A Inventories	(1.8)	(0.5)	(1.0)	(0.2)
B Leases	—	—	(0.8)	0.8
C Pensions	—	—	—	—
D Share-based compensation	(0.6)	8.2	(3.3)	(2.5)
E Embedded derivatives	(1.9)	1.7	0.5	—
F Warrants	—	—	(2.0)	(2.4)
G Tax	1.4	(4.8)	(0.2)	(1.9)
Comprehensive income / (loss) under IFRS	1.7	(28.9)	(71.4)	(8.5)

Adjustments

A. Inventory measurement:

Under US GAAP, the Nortek Group measures a portion of its inventories using 'last in, first out' ("LIFO") method. Under IFRS, the LIFO method is not permitted and consequently, the Nortek Group has instead applied the 'first in, first out' ("FIFO") method. At 2 April 2016, 31 December 2015, 2014 and 2013 and

1 January 2013, the IFRS inventory values were lower by \$4.0 million, \$2.2 million, \$1.7 million, \$0.7 million and \$0.4 million, respectively, under the FIFO method.

B. Lease accounting:

IAS 17: “Leases” does not contemplate the concept of “build-to-suit” leases considered under US GAAP. Specifically, IFRS requires an entity to determine the classification of a lease agreement (or an agreement containing a lease), between a finance and an operating lease, at inception date, when the leased asset is ready for use by the lessee. Under “build-to-suit” lease guidance in US GAAP, a lessee may be deemed the accounting owner of the asset to be leased during its construction phase (typically property assets). IAS 17: “Leases” would not apply during the construction phase of an asset as the property is not available to be used by the lessee. As a result, the lessee would not recognise an asset on its books while the construction is in process. The Nortek Group has therefore reversed the US GAAP entries made as of 31 December 2013 and 2014, resulting in a \$0.8 million reduction in liabilities and expenses as of 31 December 2013 regarding the construction-in-process period for the “build-to-suit” properties relating to the facilities in Mexico and China. No entries were necessary for 2 April 2016.

C. Pensions and retirement employee benefits:

Under US GAAP, actuarial (gains)/losses in the income statement are delayed through the use of the corridor approach. The return on asset assumption is used to develop the expected return on asset component of expense and no settlement accounting was triggered due to the lump sum pay-outs in 2014 and 2015.

Under IFRS, actuarial (gains)/losses are immediately recognised in other comprehensive income in the period in which they occur. In addition, a discount rate is used to determine the net interest cost component of the expense and any settlement gain for lump sum pay-outs are immediately recognised in the income statement.

D. Share-based compensation:

Under US GAAP, the Nortek Group recorded share-based compensation expense using a straight line method over the related vesting period for the entire award. Under IFRS, the Nortek Group recognised the share-based compensation expense on a straight line basis over the related vesting period for each separately vesting portion of the award. In addition, under IFRS, as the Nortek Group net settles awards and pays the corresponding minimum statutory tax withholding liability in cash to the tax authorities, this portion of the award is accounted for as a cash settled award and classified as a liability, measured at fair value at each reporting date and expensed over the period until the vesting date. Changes in the fair value of the liability are recognised in the income statement. Under US GAAP, these awards are treated as equity settled awards. An increase to liabilities has been recorded in IFRS of \$3.3 million, \$3.1 million, \$11.3 million, \$12.3 million and \$8.5 million at 2 April 2016, 31 December 2015, 2014 and 2013 and 1 January 2013 respectively. The impact to total comprehensive income was a credit of \$2.5 million for the quarter ended 2 April 2016 and an additional charge of \$8.2 million, \$0.6 million and \$3.3 million for the years ended 31 December 2015, 31 December 2014 and 2013.

E. Embedded derivatives:

Certain features embedded in the Nortek Group’s debt agreements met the definition of derivatives and are not bifurcated and accounted for separately under US GAAP. Under IFRS, those embedded derivatives do not meet the IFRS definition of closely related to the host debt contract and therefore are accounted for as a free-standing derivative, with changes in fair value recognised in the income statement. The changes in the value of the free-standing derivative under IFRS resulted in a reduction in liabilities of \$0.3 million, \$2.2 million and \$0.5 million as at 2 April 2016, 31 December 2015 and 31 December 2014 respectively with a corresponding impact on total comprehensive income.

F. Warrant liabilities:

Under US GAAP, the Nortek Group’s warrants were classified as equity instruments. As part of the Nortek Group’s adoption of IFRS, the warrants were assessed for classification based on the criteria established by IAS 32 “Financial instruments: presentation”. Due to the net share settlement feature, these warrants qualify as a liability whose fair value needs to be adjusted at every reporting period with an impact

on the income statement. This resulted in the recording of a liability of \$15.8 million and \$14.6 million as at 31 December 2014 and 2013 respectively. No warrants are outstanding at 2 April 2016.

G. Taxes:

The significant adjustments related to tax that have had an effect on the Nortek Group are as follows:

- *Share-based compensation*—Under US GAAP, deferred tax on share-based payments is based on the cumulative expense recognised and adjusted upon realisation of the tax benefit. Under IFRS, deferred tax is based on the estimated tax deduction determined at each reporting date. Additionally, under US GAAP, if the tax deduction exceeds the related deferred tax asset (windfall benefit), the excess is credited directly to shareholders' equity. Any shortfall is charged to equity to the extent of prior windfall benefits and any excess is recorded as a tax expense. Under IFRS, if the tax deduction exceeds the cumulative compensation cost, deferred tax based on the excess is credited to equity. If the tax deduction is less than or equal to the cumulative compensation cost, deferred tax is recorded in comprehensive income.
- *Intercompany transactions*—Under US GAAP, any tax impacts to the seller as a result of an intercompany sale or transfer are deferred until the asset is sold to a third-party or otherwise recovered. In addition, the buyer does not recognise a deferred tax asset for the difference between the tax basis and book value. Under IFRS, the tax impact of the intercompany transactions are recognised as incurred.
- *Uncertain tax positions*—Under US GAAP, relevant developments affecting uncertain tax positions after the balance sheet date but before issuance of the financial statements (including the discovery of information that was not available as of the balance sheet date) would be considered a non-adjusting subsequent event for which no effect is recorded in the current-period financial statements. Under IFRS, relevant developments affecting provisions for tax exposures occurring after the balance sheet date but before issuance of the financial statements are considered an adjusting event if the new information provides evidence of conditions that existed at the end of the reporting period.
- Tax is also impacted by the IFRS conversion adjustments made to pre-tax total comprehensive income and shareholders' equity.
- At 2 April 2016, 31 December 2015, 2014 and 2013 total comprehensive income was increased or (decreased) by \$1.4 million, \$(4.8) million, \$0.2 million and \$(1.9) million, respectively. Additionally, as of 2 April 2016, 31 December 2015, 2014 and 2013 and 1 January 2013, shareholders' equity was increased by \$9.4 million, \$8.0 million, \$13.8 million, \$14.3 million and \$14.0 million, respectively.

H. Presentation adjustments:

- *Deferred tax assets and liabilities*—Under US GAAP, deferred tax assets and deferred tax liabilities are presented between current and non-current based on the classification of the underlying tax basis. Under IFRS, deferred tax assets and deferred liabilities are presented as non-current. At 2 April 2016, 31 December 2015, 2014 and 2013, deferred tax asset balances reclassified from current assets to non-current were \$nil, \$nil, \$28.1 million, and \$29.7 million, respectively, and deferred tax liabilities balances reclassified from current liabilities to non-current were \$nil, \$nil, \$nil and \$nil, respectively.
- *Debt issuance costs*—Under US GAAP, capitalised debt issuance costs are presented as assets and amortised over the term of the related debt agreement. Under IFRS, debt issuance costs are recorded as a reduction of proceeds from the debt issuance and are amortised as part of the interest expenses calculated using the effective interest rate method. At 2 April, 31 December 2015, 2014 and 2013 capitalised debt issuance costs reclassified from assets to liabilities were \$nil million, \$13.5 million, \$17.4 million, and \$16.3 million, respectively.
- *Restructuring activities*—Under US GAAP payments made to employees for ongoing services once a restructuring plan is announced (e.g. retention bonuses) are accrued when deemed probable as part of a restructuring provision. Under IFRS, accruals for ongoing services when a restructuring plan has been formalised, approved and announced cannot be part of a restructuring provision. The Nortek Group has reclassified \$0.7 million and \$0.2 million accrued as at 31 December 2013 and 2014, respectively, from Provisions to Other liabilities as a consequence of this GAAP difference.

PART V
UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The unaudited *pro forma* statement of net assets and *pro forma* income statement of the Enlarged Group set out below (together the “**Unaudited Pro forma Financial Information**”) have been prepared on the basis of the notes set out below to illustrate the effect of the Return of Capital, the Acquisition, the Rights Issue and the repayment of Nortek’s existing debt and borrowings pursuant to the New Facilities Agreement on the net assets of the Melrose Group as if they had each completed on 31 December 2015 and the effect of the Acquisition, costs related to the Acquisition and disposal of the Elster Group on the income statement as if they had completed on 1 January 2015.

The Unaudited Pro forma Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulation, as applied by Listing Rule 13.3.3 R, and in a manner consistent with the accounting policies adopted by the Melrose Group in preparing its consolidated financial statements for the year ended 31 December 2015.

The Unaudited Pro forma Financial Information has been prepared for illustrative purposes only and due to its nature, it addresses a hypothetical situation and, therefore, does not represent the Melrose Group’s actual financial position or results following Completion.

Deloitte LLP’s report on the Unaudited Pro forma Financial Information is set out below.

Unaudited *pro forma* statement of net assets as at 31 December 2015

	Melrose Group	Nortek Group	Adjustments				Unaudited <i>pro forma</i> of the Enlarged Group
			Return of Capital	Rights Issue	Acquisition	Refinancing	
			£m Note 3	£m Note 4	£m Note 5	£m Note 6	
	£m Note 1	£m Note 2					£m
Non-current assets							
Goodwill and other intangible assets	273.0	756.5			1,089.1		2,118.6
Property, plant and equipment	112.9	155.4					268.3
Interests in joint ventures	—	3.9					3.9
Deferred tax assets	25.7	—					25.7
Trade and other receivables	1.1	6.5					7.6
	412.7	922.3	—	—	1,089.1	—	2,424.1
Current assets							
Inventories	55.6	248.3					303.9
Trade and other receivables	67.9	256.0					323.9
Derivative financial assets	1.2	—					1.2
Cash and cash equivalents	2,451.4	16.9	(2,388.5)	1,610.7	(1,119.8)	(490.7)	80.0
	2,576.1	521.2	(2,388.5)	1,610.7	(1,119.8)	(490.7)	709.0
Total assets	2,988.8	1,443.5	(2,388.5)	1,610.7	(30.7)	(490.7)	3,133.1
Current liabilities							
Trade and other payables	(71.2)	(296.5)					(367.7)
Interest-bearing loans and borrowings	—	(5.6)				5.6	—
Derivative financial liabilities	(1.5)	—					(1.5)
Current tax liabilities	(3.3)	(15.7)					(19.0)
Provisions	(12.0)	(32.2)					(44.2)
	(88.0)	(350.0)	—	—	—	5.6	(432.4)
Net current assets	2,488.1	171.2	(2,388.5)	1,610.7	(1,119.8)	(485.1)	276.6
Non-current liabilities							
Interest-bearing loans and borrowings	—	(947.5)				485.1	(462.4)
Deferred tax liabilities	(20.2)	(45.9)					(66.1)
Trade and other payables	—	(11.0)					(11.0)
Retirement benefit obligations	(17.2)	(31.7)					(48.9)
Provisions	(18.0)	(45.8)					(63.8)
	(55.4)	(1,081.9)	—	—	—	485.1	(652.2)
Total liabilities	(143.4)	(1,431.9)	—	—	—	490.7	(1,084.6)
Net assets	2,845.4	11.6	(2,388.5)	1,610.7	(30.7)	—	2,048.5

Notes:

The unaudited *pro forma* statement of net assets as at 31 December 2015 has been compiled on the following basis:

- (1) The net assets of the Melrose Group have been extracted without material adjustment from the audited consolidated financial statements of the Melrose Group for the year ended 31 December 2015, prepared in accordance with IFRS and which are incorporated into this Circular by reference.
- (2) The net assets of Nortek are extracted without adjustment from the consolidated balance sheet of the Nortek Group as at 31 December 2015, prepared under IFRS using policies which are consistent with those used in preparing the audited consolidated financial statements of the Melrose Group and covered by the accountant's report thereon, which is set out in Part B (*Historical Financial Information relating to Nortek*) of Part IV (*Financial Information on Nortek*) of this Circular, and are converted into pounds sterling using the year-end exchange rate for 2015 of \$1:£0.68.
- (3) This adjustment reflects the Return of Capital of £2,388.5 million which took effect on 27 January 2016 following the disposal of the Elster Group on 29 December 2015.
- (4) This adjustment reflects the net proceeds to be raised from the Rights Issue of £1,610.7 million (gross proceeds of £1,654.5 million less expenses of £43.8 million) as described in paragraph 4 (*Financing of the Acquisition*) of Part I (*Letter from the Chairman of Melrose*) of this Circular.

- (5) The adjustment of £1,119.8 million to cash represents gross cash consideration of £1,100.7 million (\$1,436.2 million⁽¹⁵⁾) based on the assumption that 100% of Nortek Shares are acquired for consideration of \$86 per share, plus estimated acquisition expenses of £19.1 million, as described in paragraphs 2 (*Summary of the Key Terms of the Acquisition*) and 5 (*Use of Proceeds*) of Part I (*Letter from the Chairman of Melrose*) of this Circular. IFRS 3 (revised) requires that acquisition expenses are written off and therefore the adjustment to reflect goodwill has been calculated as the difference between gross cash consideration of £1,100.7 million and the net assets acquired of £11.6 million. No fair value adjustments have been made as these are unknown at the date of this Circular.
- (6) These adjustments reflect the net effect of repaying the existing Nortek debt of £953.1 million and drawdown of the facilities under the New Facilities Agreement of £462.4 million inclusive of banking fees. To the extent that any existing Nortek debt is not repaid, the level of drawdown of the facilities under the New Facilities Agreement will be similarly reduced.

No adjustments have been made to reflect the trading or other transactions of the Melrose Group or the Nortek Group since 31 December 2015. The unaudited *pro forma* statement of net assets does not constitute statutory accounts within the meaning of section 434 of the Companies Act.

⁽¹⁵⁾ Converted into pounds sterling at the exchange rate as at the Latest Practicable Date, being \$1:£0.77.

Unaudited *pro forma* income statement for the year ended 31 December 2015

	Melrose Group	Nortek Group	Discontinued operations	Acquisition costs	Unaudited <i>pro forma</i> of the Enlarged Group
	£m Note 1	£m Note 2	£m Note 3	£m Note 4	£m
Continuing operations					
Revenue	261.1	1,652.8			1,913.9
Cost of sales	(179.0)	(1,158.0)			(1,337.0)
Gross profit	82.1	494.8	—	—	576.9
Headline ⁽⁵⁾ operating expenses	(61.6)	(351.7)			(413.3)
Share of headline ⁽⁵⁾ results of joint ventures	0.3	0.9			1.2
Intangible asset amortisation	(8.1)	(45.0)			(53.1)
Exceptional operating costs	(7.9)	(39.8)		(19.1)	(66.8)
Exceptional operating income	—	2.3			2.3
Total net operating expenses	(77.3)	(433.3)		(19.1)	(529.7)
Operating profit	4.8	61.5		(19.1)	47.2
Headline⁽⁵⁾ operating profit	20.8	144.0	—	—	164.8
Finance costs	(45.6)	(75.6)			(121.2)
Finance income	10.1	—			10.1
(Loss)/profit before tax	(30.7)	(14.1)		(19.1)	(63.9)
Tax	14.4	(0.7)			13.7
(Loss)/profit for the year from continuing operations	(16.3)	(14.8)		(19.1)	(50.2)
Discontinued operations					
Profit for the year from discontinued operations	1,424.3	—	(1,424.3)	—	—
Profit for the year	1,408.0	(14.8)	(1,424.3)	(19.1)	(50.2)

Notes:

The unaudited *pro forma* income statement for the year ended 31 December 2015 has been compiled on the following basis:

- (1) The income statement of the Melrose Group has been extracted without adjustment from the audited consolidated financial statements of the Melrose Group for the year ended 31 December 2015, prepared in accordance with IFRS and which are incorporated by reference into this Circular.
- (2) The income statement of the Nortek Group has been extracted without adjustment from the consolidated income statement of the Nortek Group for the year ended 31 December 2015, prepared under IFRS using policies which are consistent with those used in preparing the audited consolidated financial statements of the Melrose Group and covered by the accountant's report thereon, which is set out in Part B (*Historical Financial Information Relating to Nortek*) of Part IV (*Financial Information on Nortek*) of this Circular, and is converted into pounds sterling using the average exchange rate for the year ended 31 December 2015 of \$1:£0.65.
- (3) This adjustment removes the profits of the Elster Group in 2015, as the disposal of the Elster Group completed on 29 December 2015. Following the disposal, the profits of the Elster Group no longer form part of the income of the Melrose Group, or following Completion, the Enlarged Group.
- (4) This adjustment reflects the estimated acquisition expenses of £19.1 million which are required by IFRS 3 (revised) to be charged to the income statement.
- (5) Before exceptional costs, exceptional income and intangible asset amortisation.

No adjustments have been made to reflect the trading or other transactions of the Melrose Group or the Nortek Group since 31 December 2015. The unaudited *pro forma* income statement does not constitute statutory accounts within the meaning of section 434 of the Companies Act.

Deloitte.

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

Investec Bank plc
2 Gresham Street
London EC2V 7QP

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

6 July 2016

Dear Sirs,

Melrose Industries PLC (the “Company”)

We report on the *pro forma* financial information (the “**Pro forma financial information**”) set out in Part V (*Unaudited Pro Forma Financial Information on the Enlarged Group*) of the Class 1 Circular dated 6 July 2016 (the “**Circular**”), which has been prepared on the basis described in the notes thereto, for illustrative purposes only, to provide information about how the disposal of the Elster Group, the Return of Capital, the Rights Issue, the Acquisition, the costs related to the Acquisition, borrowings pursuant to the New Facilities Agreement and the repayment of Nortek’s existing debt (each as defined in the Circular) might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2015. This report is required by the Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”) as applied by Listing Rule 13.3.3 R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “**Directors**”) to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3 R.

It is our responsibility to form an opinion as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3 R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1 R (6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this

report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

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

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte LLP
Chartered Accountants

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

PART VI
ADDITIONAL INFORMATION

1. Responsibility and provision of accurate information

The Company and the Melrose Directors, whose names appear at on page 4 of this Circular, accept responsibility for the information contained in this Circular. To the best of the knowledge of the Company and the Directors (having taken all reasonable care to ensure that such is the case), the information contained in this Circular is in accordance with the facts and contains no omission that is likely to affect its import.

2. Working Capital Statement

The Company is of the opinion that, taking into account the New Facilities Agreement and the net proceeds of the Rights Issue, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this Circular.

3. Significant Change

- 3.1 There has been no significant change in the financial or trading position of the Melrose Group since 31 December 2015, being the latest date to which the last audited consolidated annual accounts of the Melrose Group were prepared, save for the Return of Capital (as described in paragraph 3.1(e) and (f) of Part XII (*Additional Information*) of the Prospectus).
- 3.2 There has been no significant change in the financial or trading position of the Nortek Group since 31 December 2015, being the latest date to which the historical financial information for Nortek set out in Part B (*Historical Financial Information relating to Nortek*) of Part IV (*Financial Information on Nortek*) of this Circular was prepared.

4. Forecasts and projections

Nortek Financial Projections

- 4.1 The following financial projections for Nortek's profitability for the financial year ending 31 December 2016 have been disclosed by Nortek in: (i) its unaudited quarterly report for the first quarter ended 2 April 2016, published on 12 May 2016; and (ii) the accompanying announcement for the unaudited quarterly report for the first quarter ended 2 April 2016, published on 12 May 2016, respectively:
- (i) *“For the remainder of 2016, our expectation is that market demand for residential building products will be higher than the levels experienced in 2015. We also anticipate that residential and non-residential construction activity in the United States will continue to improve with increased activity in 2016 as compared to 2015. Excluding the potential continued negative impact from unfavorable changes in foreign currency exchange rates, we expect to deliver overall net sales growth in 2016 despite planned lower sales resulting from certain restructuring actions initiated in 2015. We expect the overall increase in sales volume and the benefits from restructuring actions to contribute growth in operating earnings in 2016. We anticipate that a portion of this growth will be offset by normal increases in operating expenses as well as investments in the areas of product development and marketing.”*
 - (ii) *“Over the past few years, we have made significant investments to improve our operations and reposition the business for long-term, sustainable growth. The benefits from these investments are showing up and we're feeling really good about our start to the year and momentum across the business. With an improved cost structure, a favorable outlook for our major end markets, and a number of innovative products hitting the market, we are well positioned to deliver solid growth in both reported and adjusted operating earnings, as well as cash flow, in 2016. While we face some top-line headwinds, mainly related to exiting unprofitable product lines, we also expect to deliver overall growth in net sales, at constant currency, in 2016.”*
- (together, the “**Nortek Financial Projections**”)
- 4.2 The Nortek Financial Projections do not reflect the Melrose Directors' view of Nortek's prospects and financial performance nor the prospects and financial performance of the Enlarged Group. As such,

the Melrose Directors believe that the Nortek Financial Projections cease to be valid under Melrose's ownership, in particular as a result of:

- (i) changes of strategic direction and changes to the financial and operational management of Nortek under Melrose's ownership (such as cost efficiencies as a result of the delisting of Nortek, investment in operations, further technology improvements, further emphasis on product development, the potential disposal of underperforming businesses and pursuit of new business development opportunities); and
- (ii) the fact that, as part of the Enlarged Group, Nortek will report under IFRS, rather than US GAAP, as previously, which is specifically expected to affect, among others, impairment of goodwill and long-lived assets, the method for calculating tax benefits for uncertain tax positions and deferred tax on undistributed earnings, pension accounting, restructuring and warranty provisions, accounting for share-based payments, research and development cost recognition, accounting for business combinations, lease accounting and inventory valuation policies.

4.3 Neither Melrose nor any Melrose Director was involved in the preparation or review of the Nortek Financial Projections. The Nortek Financial Projections were not intended for publication by Melrose and should not be regarded as forecasts of profits by Melrose or any of the Melrose Directors and accordingly have not been prepared to the standard required in producing a profit forecast in the context of the Acquisition. Melrose Shareholders should not rely upon any of the Nortek Financial Projections in making any decision about New Melrose Shares, the Rights Issue or the Acquisition.

4.4 Furthermore, the Melrose Directors do not consider forecasts of Nortek's standalone performance to represent information necessary for Melrose Shareholders to make an informed decision as to how to vote at the Melrose General Meeting as, given the proposed changes in strategic direction and management, it would not be possible to accurately predict future performance of the Nortek business within the Melrose Group. Consequently, any reassessed forecast of the Nortek Financial Projections would not represent reliable information upon which Melrose Shareholders could rely in their decision as to how to vote at the Melrose General Meeting.

4.5 None of Melrose, the Melrose Directors or their respective advisers accept responsibility for the accuracy, reasonableness, validity or completeness of the Nortek Financial Projections or the estimates and assumptions that underlie them.

5. New Melrose Shares

- 5.1 The New Melrose Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Melrose Shares, including the right to receive in full all dividends and other distributions (if any) declared, made or paid after, or by reference to a record date after their date of issue. The New Melrose Shares will be registered and may be held in either certificated or uncertificated form.
- 5.2 Other than in connection with the Rights Issue, the Melrose Board has no present intention of issuing any further Melrose Shares. No Melrose Shares are currently held in treasury.

6. Related Party Transactions

- 6.1 Save as disclosed in note 28 to each of the financial statements of the Company for the financial year ended 31 December 2015 and Old Melrose for the financial years ended 31 December 2014 and 31 December 2013, which are incorporated by reference into this Circular, none of the Company or the Melrose Group entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation (EC) No 1606/2002) during the period covered by the historical financial information and up to the date of this Circular.
- 6.2 Save as disclosed in note 30 to the historical financial information of the Nortek Group for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013, prepared under IFRS using policies which are consistent with those used in preparing the latest audited consolidated financial statements of the Melrose Group, which is set out in Part B (*Historical Financial Information Relating to Nortek*) of Part IV (*Financial Information On Nortek*) of this Circular, the Nortek Group has not entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation (EC) No 1606/2002) during the period covered by the historical financial information and up to the date of this Circular.

7. Litigation

Melrose Group

7.1 There are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings which are pending or threatened) during the last twelve months prior to the date of this Circular which may have, or during the last twelve months prior the date of this Circular have had, a significant effect on the Company and/or any member of the Melrose Group's financial position or profitability.

Nortek Group

7.2 Save as set out below, there are no, nor have there been any, governmental, legal or arbitration proceedings (nor is the Company aware of any such proceedings which are pending or threatened) during the last twelve months prior to the date of this Circular which may have, or during the last twelve months prior the date of this Circular have had, a significant effect on Nortek and/or any member of the Nortek Group's financial position or profitability.

7.3 In 2014, Nortek discovered questionable hospitality, gift and payment practices, and other expenses at Linear Electronics (Shenzhen) Co. Ltd. ("**Linear**") which appeared inconsistent with Nortek's policies and raised concerns under the FCPA and perhaps under other applicable anti-corruption laws. Nortek conducted an internal investigation into the practices and payments with the assistance of external counsel.

7.4 On 7 January 2015 and 8 January 2015, respectively, Nortek voluntarily contacted the SEC and the DOJ to advise both agencies of the internal investigation.

7.5 On 3 June 2016, the DOJ confirmed that it had closed its investigation into the matter, having considered, among things, Nortek's identification of, and thorough investigation into, the misconduct, the prompt voluntary disclosure and cooperation, and the steps taken by Nortek to remediate the issue (including the termination of employment of all five individuals involved) and to enhance its compliance programmes and internal accounting controls. On 7 June 2016, Nortek entered into a non-prosecution agreement with the SEC, pursuant to which the SEC agreed not to prosecute Nortek for violations of the FCPA in relation to questionable hospitality, gift and payment practices by Linear employees to local Chinese officials from 2009 to 2014, in consideration for, among other things, Nortek paying to the SEC a sum of \$291,410, together with interest thereon of \$30,655, in relation to profits received by Nortek as a consequence of the alleged misconduct, such sums being payable within 15 days of the date of the agreement and which have since been paid by Nortek.

8. Documents incorporated by reference

8.1 Your attention is drawn to the following disclosures relating to the Company and Nortek which are incorporated by reference into this Circular:

<u>Information</u>	<u>Information incorporated by reference into this Circular</u>	<u>Page number(s) in reference document</u>
<i>Information on Melrose</i>		
Risk factors relating to the Melrose Group	Part A of the section of the Prospectus headed "Risk Factors"	19-22
Financial Information relating to Melrose	Melrose's annual report and accounts for 2015 including and the Melrose Group's financial statements for the year ended 31 December 2015, the notes and the auditors' report thereon and the Finance Director's review.	1-11, 18-26, 28-35, 37-44, 50-53, 64-81, 84-137
	Old Melrose's annual report and accounts for 2014 including Old Melrose's financial statements for the year ended 31 December 2014, the notes and the auditors' report thereon and the Finance Director's review.	3-14, 24-25, 28-35, 42-49, 51-57, 64-67, 85, 98-150

<u>Information</u>	<u>Information incorporated by reference into this Circular</u>	<u>Page number(s) in reference document</u>
	Old Melrose's annual report and accounts for 2013 including Old Melrose's financial statements for the year ended 31 December 2013, the notes and the auditors' report thereon and the Finance Director's review.	1-33, 40-47, 60-61, 74-75, 87-140
Details of service contracts and letters of appointment of the Melrose Directors	Paragraph 2.1 (<i>Directors' Service Agreements and Letters of Appointment</i>) of Part IX (<i>Directors, Corporate Governance and Employees</i>) of the Prospectus	118-119
Details of the Melrose Directors' interests in Melrose Shares	Paragraph 1.2 (<i>Interests of the Directors</i>) of Part IX (<i>Directors, Corporate Governance and Employees</i>) of the Prospectus	117
Major Melrose Shareholders	Paragraph 5 (<i>Major Interests in Shares</i>) of Part XII (<i>Additional Information</i>) of the Prospectus	174
Details of material contracts	Paragraph 14.1 (<i>Material Contracts</i>) of Part XII (<i>Additional Information</i>) of the Prospectus	180-182
<i>Information on Nortek</i>		
Details of material contracts	Paragraph 14.2 (<i>Material Contracts</i>) of Part XII (<i>Additional Information</i>) of the Prospectus	182-183
Details of key individuals in Nortek's business	Paragraph 2 (<i>Details of Executive Officers</i>) of Part III (<i>Information on Nortek</i>) of the Prospectus	65-66
<i>Information on the Enlarged Group</i>		
Undertakings that will become part of the Enlarged Group	Paragraph 7 (<i>Melrose Subsidiaries</i>) and paragraph 9 (<i>Nortek Subsidiaries</i>) of Part XII (<i>Additional Information</i>) of the Prospectus	176 and 178
Trend information relating to the Enlarged Group	Paragraph 5 (<i>Current trading, trends and prospects</i>) of Part II (<i>Information on Melrose</i>) of the Prospectus	63-64
	Paragraph 5 (<i>Current trading, trends and prospects</i>) of Part III (<i>Information on Nortek</i>) of the Prospectus	69
<i>Information on Melrose</i>		
Sources and bases of selected financial information	Paragraph 18 (<i>Sources and Bases of Selected Financial Information</i>) of Part XII (<i>Additional Information</i>) of the Prospectus	186

8.2 Where certain parts only of a document have been incorporated by reference into this Circular, the other parts of those documents which have not been expressly stated to be incorporated are either not relevant to Melrose Shareholders in deciding whether to vote in favour of the Resolutions or are covered elsewhere in this Circular.

9. Consents

- 9.1 Deloitte LLP has given and has not withdrawn its written consent to the inclusion of its report in this Circular on *pro forma* financial information set out in Part V (*Unaudited Pro Forma Financial Information on the Enlarged Group*), and the references to its report in the form and context in which they are included for the purposes of Listing Rule 13.4.1(6).
- 9.2 Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this Circular of its report set out in Part B (*Historical Financial Information relating to Nortek*) of Part IV (*Financial Information on Nortek*), and the references to its report in the form and context in which they are included for the purposes of Listing Rule 13.4.1(6).
- 9.3 Investec Bank plc has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.
- 9.4 J.P. Morgan Cazenove has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.
- 9.5 J.P. Morgan Limited has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.
- 9.6 BofA Merrill Lynch has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.
- 9.7 Nomura International PLC has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.
- 9.8 Evercore Partners International LLP has given and has not withdrawn its written consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.

10. Documents available for inspection

- 10.1 Copies of the following documents will be available for inspection at: (i) the registered office of the Company, 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT; and (ii) the offices of Simpson Thacher & Bartlett LLP, CityPoint, One Ropemaker Street, London EC2Y 9HU, in each case during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Circular up to and including the date of Re-admission:
 - (a) the Articles;
 - (b) the report by Ernst & Young LLP set out in Section B (*Historical Financial Information relating to Nortek*) of Part IV (*Financial Information on Nortek*) of this Circular;
 - (c) the report by Deloitte LLP set out in Part V (*Unaudited Pro Forma Financial Information on the Enlarged Group*) of this Circular;
 - (d) the audited consolidated accounts of the Melrose Group for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013;
 - (e) the historical financial information for the Nortek Group for the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013 and the unaudited financial information of the Nortek Group for the first quarters ended 2 April 2016 and 28 March 2015;
 - (f) this Circular and the Form of Proxy;
 - (g) the Merger Agreement;
 - (h) the Tender and Support Agreements;
 - (i) the consent letters referred to in paragraph 9 above; and
 - (j) the Prospectus.
- 10.2 These documents will also be available for inspection for at least 15 minutes before and during the Melrose General Meeting. The Prospectus and this Circular and the information incorporated by reference into both may also be viewed via the National Storage Mechanism.

Dated 6 July 2016

**PART VII
DEFINITIONS**

In this Circular, the following expressions have the following meanings, unless the context requires otherwise:

2012 Incentive Plan	the long term incentive plan for executive Directors and senior management of the Company, approved by Melrose Shareholders on 11 April 2012 and scheduled to crystallise in 2017
2016 AGM	the annual general meeting of the Company held on 11 May 2016
2017 AGM	the annual general meeting of the Company to take place in 2017
8.5% Notes	8.5% senior unsecured notes due 2021 issued by Nortek pursuant to the indenture dated 26 April 2011 between Nortek Inc. and U.S. Bank N.A. as trustee
ABL Facility	the \$325 million senior secured asset-based revolving credit facility which expires in 2021, available to the Nortek Group pursuant to the ABL Facility Agreement
ABL Facility Agreement	the credit agreement dated 17 December 2010, as amended and/or amended and restated from time to time, between, amongst others, Nortek Inc. as borrower and Bank of America, N.A. as agent
Acquisition	the proposed acquisition of the entire issued share capital of Nortek by the Melrose Group, by way of the Tender Offer and the Merger, pursuant to the Merger Agreement
Admission	the proposed admission of the New Melrose Shares to the premium segment of the Official List and to trading nil paid on the main market for listed securities of the London Stock Exchange
Anchorage Capital	Anchorage Capital Master Offshore, Ltd.
Announcement	the announcement made by the Company on 6 July 2016 in relation to the Acquisition and the Rights Issue
Anti-trust Clearance	the anti-trust clearance under the HSR Act in the US required in connection with the Acquisition
Anthro	Anthro Corporation
AQH segment	the Air Quality and Home Solutions segment of the Nortek Group
Ares Management	Ares Corporate Opportunities Fund II L.P. and Ares Corporate Opportunities Fund III L.P.
Articles	the articles of association of Melrose summarised at paragraph 4 of Part XII (<i>Additional Information</i>) of the Prospectus as amended from time to time
Australia	the Commonwealth of Australia and its dependent territories
AVC segment	the audio, video and control entities of the Nortek Group
Board(s)	the Melrose Board and/or the Nortek Board (as the case may be)
BofA Merrill Lynch	Merrill Lynch International

Brush or Brush Group	the Brush business which comprises Brush Holdings Limited together with its direct and indirect subsidiaries and subsidiary undertakings
Business Day	a day (other than a Saturday or Sunday or public holiday) on which banks are open for business in London, other than solely for trading and settlement in Euro
Canada	Canada, its provinces and territories and all areas subject to its jurisdiction or any political subdivision thereof
CAS segment	the Custom and Commercial Air Solutions segment of the Nortek Group
certificated or in certificated form	in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security as being held in certificated form (that is, not in CREST)
Circular	this Melrose Shareholder circular dated 6 July 2016
Closing Price	the closing, middle market quotation in pounds sterling of a Melrose Share, as published in the Daily Official List
Companies Act	the Companies Act 2006, as amended, modified or re-enacted from time to time
Company or Melrose	Melrose Industries PLC, a public limited company incorporated in England and Wales with registered number 9800044
Completion	completion of the Acquisition
Court	the High Court of Justice of England and Wales
CREST	the electronic transfer and settlement system for the paperless settlement of trades in listed securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear
CREST Manual	the manual, as amended from time to time, produced by Euroclear describing the CREST system and supplied by Euroclear to users and participants thereof
CREST Proxy Instruction	has the meaning given to it in note 8 to the Notice of General Meeting
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended
CREST sponsor	a CREST participant admitted to CREST as a CREST sponsor
CREST sponsored member	a CREST member admitted to CREST as a sponsored member
Daily Official List	the daily official list of the London Stock Exchange
Director(s) or Melrose Director(s)	the directors of the Company whose names are set out on page 4 of this Circular
Disclosure Requirements	articles 17, 18 and 19 of the Market Abuse Regulation
DOJ	United States Department of Justice
EBITDA	earnings before interest, tax, depreciation and amortisation
EEA	the European Economic Area
EEA States	the member states of the EEA
Elster or Elster Group	the Elster business which comprised, prior to its disposal by the Melrose Group, Teaford GmbH, together with its direct and indirect subsidiaries and subsidiary undertakings

Enlarged Group	the Melrose Group following the acquisition of the Nortek Group
Enlarged Share Capital	the share capital of Melrose immediately following the completion of the Rights Issue and the issue of the New Melrose Shares
ERG segment	the Ergonomic and Productivity Solutions segment of the Nortek Group
EU	the European Union
EUR, € and Euro	the lawful currency of the member states of the EU that have adopted the Euro as their common currency and sole legal tender
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Excluded Territories	Australia, Japan and South Africa and any other jurisdictions where the extension and availability of the Rights Issue would breach any applicable law
Existing Facility Agreement	the multi-currency revolving credit facility agreement dated 29 June 2012, as amended and/or amended and restated from time to time (including pursuant to an amendment and restatement agreement dated 30 September 2015) between, among others, Melrose PLC as borrower and Lloyds Bank PLC as agent
Existing Melrose Shares	the ordinary shares of 48/7 pence each in the capital of the Company in issue at the Record Date
ex-rights date	the time and date on which the holders of Existing Melrose Shares cease to have a right to participate in the Rights Issue (expected to be 8.00 a.m. on 9 August 2016)
FCA	the UK Financial Conduct Authority
Form 10-K	the annual report of Nortek pursuant to section 13 or 15(d) of the US Exchange Act
Form of Proxy	the form of proxy for use at the Melrose General Meeting
FSMA	the Financial Services and Markets Act 2000, as amended, modified or re-enacted from time to time
Fully Paid Rights	the rights to acquire New Melrose Shares, fully paid
Gates Capital Management	ECF Value Fund, L.P., ECF Value Fund II L.P. and ECF Value Fund International Ltd.
General Meeting	the general meeting of the Company to be held at the offices of Investec Bank plc at 2 Gresham Street, London EC2V 7QP at 11.00 a.m. on 25 July 2016 to vote on the Resolutions
headline	before exceptional costs, exceptional income and intangible asset amortisation
HSR Act	the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder
HVAC	heating, ventilation and air conditioning
IFRS	International Financial Reporting Standards, as issued by the International Accounting Standards Board and endorsed by the EU
Joint Bookrunners	Investec Bank plc, J.P. Morgan Cazenove and BofA Merrill Lynch

Joint Global Co-ordinators	Investec Bank plc and J.P. Morgan Cazenove
J.P. Morgan Cazenove	J.P. Morgan Securities plc, which conducts its investment banking activities as J.P. Morgan Cazenove
Latest Practicable Date	5 July 2016 (being the latest practicable date prior to the publication of this Circular)
LIBOR	the daily London Interbank Offered Rate
Listing Rules or LR	the listing rules made by the FCA under section 73A FSMA
London Gazette	the official newspaper of the Crown
London Stock Exchange	the London Stock Exchange plc or its successor(s)
Market Abuse Regulation	Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse
Melrose Board	the board of directors of the Company
Melrose Group	(i) for the period from and including 19 November 2015, the Company, its subsidiaries and subsidiary undertakings from time to time; or (ii) for the period prior to 19 November 2015, Old Melrose, its subsidiaries and subsidiary undertakings from time to time
Melrose PLC	Melrose PLC, a public limited company incorporated in England and Wales, with registered number 04763064
Melrose Shareholder(s)	holder(s) of Melrose Shares
Melrose Shares or Ordinary Shares	the ordinary shares of 48/7 pence each in the capital of Melrose
MergerCo	a wholly-owned subsidiary of the Company, incorporated for the purposes of implementing the Acquisition
Merger	the merger of MergerCo with and into Nortek pursuant to the Merger Agreement
Merger Agreement	the agreement and plan of merger between Melrose, MergerCo and Nortek dated 6 July 2016 relating to the Acquisition
NASDAQ	the NASDAQ Global Market, a US stock exchange based in New York
National Storage Mechanism	the document publication facility made available by the FCA at www.morningstar.co.uk/uk/nsm
New Facilities Agreement	the senior term and revolving facilities agreement dated 6 July 2016 entered into between Melrose PLC and MergerCo as initial borrowers, the parties named therein as original lenders and Lloyds Bank plc as agent
New Melrose Shares	the ordinary shares of 48/7 pence each in the capital of the Company proposed to be issued by the Company pursuant to the Rights Issue
Nil Paid Rights	New Melrose Shares, in nil paid form provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue
Nortek	Nortek, Inc., a corporation organised under the laws of the State of Delaware
Nortek Board	the administrative board of Nortek
Nortek Credit Agreements	the ABL Facility Agreement, the Nortek Term Loan Facility Agreement and the indenture dated 26 April 2011 between Nortek Inc. and U.S. Bank N.A. as trustee in relation to the 8.5% Notes

Nortek Financial Projections	has the meaning given to such term in paragraph 4.1 (<i>Forecasts and projections</i>) of Part VI (<i>Additional Information</i>)
Nortek Group	Nortek, its subsidiaries and subsidiary undertakings from time to time
Nortek Shareholders	holders of Nortek Shares
Nortek Shares	the entire issued ordinary share capital of Nortek
Nortek Term Loan Facility	the \$615 million term loan facility due 2020, available to the Nortek Group pursuant to the Nortek Term Loan Facility Agreement
Nortek Term Loan Facility Agreement	the term loan facility agreement entered into on 30 April 2014, as amended and/or amended and restated from time to time, between, among others, Nortek Inc. as borrower and Wells Fargo, N.A. as agent
Notice of General Meeting	the notice of Melrose General Meeting, as set out in Part VIII (<i>Notice of Melrose General Meeting</i>) of this Circular
Official List	the official list maintained by the UKLA for the purposes of Part V of FSMA
Old Melrose	Melrose Holdings Limited, a private company limited by shares incorporated in England and Wales, with registered number 08243706
Overseas Shareholders	Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom
pence, £, GBP and pounds sterling . .	the lawful currency of the United Kingdom
PRA	the United Kingdom Prudential Regulation Authority and includes, where applicable, any successor body or bodies carrying the functions currently carried out by the Prudential Regulation Authority
Premium Listing	a premium listing under Chapter 6 of the Listing Rules
Prospectus	the document dated on or around the date of this Circular comprising a prospectus relating to the Company, Admission and Re-admission (together with any supplements or amendments thereto)
Prospectus Directive	Directive 2003/71/EC (as amended from time to time, including by Directive 2010/73/EC (the “ PD Amending Directive ”) to the extent implemented in the relevant EEA State) and includes any relevant implementing measures in each EEA State that has implemented Directive 2003/71/EC
Prospectus Directive Regulation	Commission Regulation (EC) No 809/2004
Prospectus Rules	the rules for the purposes of Part VI of FSMA in relation to offers of securities to the public and the admission of securities to trading on a regulated market
Provisional Allotment Letter	the renounceable provisional allotment letters relating to the Rights Issue to be issued to Qualifying Non-CREST Shareholders other than certain Overseas Shareholders as described in Part XI (<i>Terms and Conditions of the Rights Issue</i>) of the Prospectus
Qualifying CREST Shareholders	Qualifying Shareholders whose Existing Melrose Shares are in uncertificated form

Qualifying Non-CREST Shareholders	Qualifying Shareholders whose Existing Melrose Shares are in certificated form
Qualifying Shareholders	Melrose Shareholders on the Register at the Record Date
RCH segment	the Residential and Commercial HVAC segment of the Nortek Group
Re-admission	the proposed re-admission of the Melrose Shares to the standard segment of the Official List and to the main market for listed securities of the London Stock Exchange
Receiving Agent	Equiniti Limited, Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Record Date	the close of business in London on 4 August 2016
Register	the Company's statutory register of members
Registrar	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Regulatory Information Service or RIS	one of the regulatory information services authorised by the UKLA to receive, process and disseminate regulatory information from listed companies
Resolutions	the resolutions to be proposed at the Melrose General Meeting as set out in the Notice of General Meeting, with any permitted amendments thereto
Return of Capital	the Court-confirmed return of approximately £2,388.5 million of capital by Melrose to Melrose Shareholders by way of cancellation of B shares which took effect on 27 January 2016, as described in paragraph 3.1(e) and (f) of Part XII (<i>Additional Information</i>) of the Prospectus
Rights Issue	the proposed issue of the New Melrose Shares to Qualifying Shareholders by way of rights on the terms and conditions set out in the Prospectus and in the case of Qualifying Non-CREST Shareholders only, the Provisional Allotment Letters
Rights Issue Price	95 pence per New Melrose Share
Schedule 14D-9	a tender offer recommendation statement on Schedule 14D-9 (together with all amendments, supplements and exhibits thereto), which will be filed with the SEC and mailed to Nortek Shareholders on the Tender Offer Commencement Date
SCS segment	the Security and Control Solutions segment of the Nortek Group
SEC	the US Securities and Exchange Commission

Shareholder Helpline	the helpline set up for Melrose Shareholders which will advise Melrose Shareholders how to complete the Provisional Allotment Letter (if they are Qualifying Non-CREST Shareholders) and answer certain questions about the Rights Issue, available between 8.30 a.m. and 5.30 p.m. Monday to Friday (except public holidays in England and Wales) on 0333 207 6392 (from within the UK) and + 44 121 415 0966 (from outside the UK). Network providers' costs may vary. Calls to the Shareholder Helpline from outside the UK will be charged at the applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, the Shareholder Helpline will be unable to give advice on the merits of the Rights Issue or to provide financial, tax or investment advice
Sponsors	together, Investec Bank plc and J.P. Morgan Cazenove
Standard Listing	a standard listing under Chapter 14 of the Listing Rules
subsidiary and subsidiary undertaking	have the meaning given to them in sections 1159 and 1162 of the Companies Act respectively
Superior Proposal	has the meaning given to it in paragraph 1 (<i>The Tender Offer and Merger</i>) of Part III (<i>Terms and Conditions of the Acquisition and its Financing</i>)
Superior Proposal Termination Event	has the meaning given to it in paragraph 1 (<i>The Tender Offer and Merger</i>) of Part III (<i>Terms and Conditions of the Acquisition and its Financing</i>)
Tender and Support Agreements	the tender and support agreements entered into on or about the date of this Circular between Melrose, MergerCo and each of Ares Management, Gates Capital Management and Anchorage Capital in relation to the Tender Offer and the Merger
Tender Offer	the offer by MergerCo to purchase all of the issued and outstanding Nortek Shares as at the Tender Offer Expiration Date at the Tender Offer Price
Tender Offer Commencement Date	the date the Tender Offer Document is filed with the SEC and mailed to Nortek Shareholders, expected to be no later than 11 July 2016
Tender Offer Conditions	has the meaning given to it in paragraph 1 (<i>The Tender Offer and Merger</i>) of Part III (<i>Terms and Conditions of the Acquisition and its Financing</i>)
Tender Offer Document	a tender offer statement on Schedule TO and the related letter of transmittal, which will be filed with the SEC and mailed to Nortek Shareholders on the Tender Offer Commencement Date containing and setting out the terms and conditions of the Tender Offer
Tender Offer Expiration Date	2.00 a.m. (New York time) on 31 August 2016 (or such subsequent date to which the expiration of the Tender Offer is extended pursuant to and in accordance with the terms of the Tender Offer Document)
Tender Offer Price	\$86 per Nortek Share, net, in cash without interest

Transaction Resolutions	the resolutions to be proposed at the Melrose General Meeting to approve the Acquisition, the Rights Issue and Re-admission, being resolution 1, resolution 2 and resolution 4 as set out in the Notice of General Meeting, with any permitted amendments thereto
Transparency Rules	the transparency rules and corporate governance rules made by the FCA under Part VI of FSMA
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UKLA	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
Unaudited Pro forma Financial Information	has the meaning given to it in Part V (<i>Unaudited Pro Forma Financial Information on the Enlarged Group</i>) of this Circular
uncertificated or in uncertificated form	a share or other security title to which is recorded in the relevant register of the share or security as being held in uncertificated form, in CREST, and title to which, by virtue of the CREST Regulations may be transferred by means of CREST
Underwriters	Investec Bank plc, J.P. Morgan Cazenove and BofA Merrill Lynch
Underwriting Agreement	the underwriting agreement dated 6 July 2016 between Melrose and the Underwriters pursuant to which the Underwriters have conditionally agreed to underwrite the Rights Issue, a summary of which is contained in Part III (<i>Terms and conditions of the Acquisition</i>) of this Circular
US or United States or United States of America	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction
US Exchange Act	the US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
US\$, US dollars, USD or \$	the lawful currency of the United States
US GAAP	generally accepted accounting principles in the United States
US Securities Act	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
VAT	(i) within the EU, any tax imposed by any member state in conformity with the directive of the council of the EU on the common system of value added tax (2006/112/EC), and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition
Window Shop Deadline	has the meaning given to it in paragraph 1 (<i>The Tender Offer and Merger</i>) of Part III (<i>Terms and Conditions of the Acquisition and its Financing</i>)

All times referred to are London times unless otherwise stated.

All references to legislation in this Circular are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

PART VIII NOTICE OF MELROSE GENERAL MEETING

Melrose Industries PLC
(Incorporated in England and Wales with registered number 9800044)

NOTICE OF GENERAL MEETING

NOTICE IS GIVEN that a general meeting of Melrose Industries PLC (“**Melrose**” or the “**Company**”) will be held at the offices of Investec Bank plc at 2 Gresham Street, London EC2V 7QP on 25 July 2016 at 11.00 a.m., for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed, in the case of resolutions 1, 2 and 3, as ordinary resolutions and, in the case of resolutions 4, 5, 6 and 7 as special resolutions (the “**General Meeting**”):

ORDINARY RESOLUTIONS

Resolution 1

THAT the proposed acquisition by the Company (or a wholly owned subsidiary of the Company) of all or any part of the issued share capital of Nortek (“**Nortek**”) (the “**Acquisition**”), on the terms and subject to the conditions set out in the circular sent to shareholders of the Company (the “**Circular**”) dated 6 July 2016, be and is approved and the directors of the Company (the “**Directors**”) (or any duly constituted committee thereof) be authorised, as they may in their absolute discretion think fit: (1) to take all such steps as may be necessary or desirable in connection with, or to implement, the Acquisition, including for the avoidance of doubt, the waiver of any condition thereto; and (2) to agree such modifications, variations, revisions, extensions, waivers or amendments to the terms and conditions of the Acquisition, and to any documents relating thereto, provided such modifications, variations, revisions, extensions, waivers or amendments are not material.

Resolution 2

THAT subject to and conditional on the passing of resolution 1, in addition and without prejudice to all existing authorities conferred on the Directors, the Directors be and are generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “**Companies Act**”) to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (“**Rights**”) up to an aggregate nominal amount of £119,424,839.04, such authority to expire at the close of business on 31 December 2016, but, in each case, so that the Company may make offers or agreements before the authority expires which would or might require shares to be allotted or rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired;

Resolution 3

THAT subject to and conditional on Admission, in addition to the authority granted pursuant to resolution 2 but in substitution for the authority granted pursuant to resolution 14 passed at the 2016 AGM, the Directors be and are generally and unconditionally authorised in accordance with section 551 of the Companies Act to allot shares in the Company or grant Rights:

- (a) up to an aggregate nominal amount of £43,125,636; and
- (b) comprising equity securities (as defined in section 560 of the Companies Act) up to an aggregate nominal amount of £86,251,272, such amount to be reduced by the aggregate nominal amount of any allotments or grants made under paragraph ((a) of this resolution) in connection with an offer by way of a rights issue:
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary, and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authority to expire at the conclusion of the Company’s next annual general meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2017, but, in each case, so that the

Company may make offers or agreements before the authority expires which would or might require shares to be allotted or rights to be granted after the authority expires, and so that the Directors may allot shares or grant Rights in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

SPECIAL RESOLUTIONS

Resolution 4

THAT subject to and conditional on the passing of resolution 1:

- (i) the proposed transfer of the Company's category of equity share listing on the official list maintained by the UKLA (the "**Official List**") from the premium segment to the standard segment of the Official List (the "**Transfer**"); and
- (ii) in the event that completion of the Acquisition takes place prior to the Transfer, the cancellation of the listing of the Melrose Shares on the premium segment of the Official List and the re-admission of the Melrose Shares to the standard segment of the Official List and to trading on the London Stock Exchange's main market for listed securities ("**Re-admission**")

be and are approved and, in each case, the Directors (or any duly constituted committee thereof) be authorised, as they may in their absolute discretion think fit, to take all such steps and enter into all agreements and arrangements as may be necessary or desirable in connection with, or to implement, Re-admission or the Transfer, as applicable.

Resolution 5

THAT subject to and conditional on Admission and the passing of resolution 3, in substitution for the power granted pursuant to resolution 15 passed at the 2016 AGM, the Directors be and are generally empowered to allot equity securities (as defined in section 560 of the Companies Act) for cash pursuant to the authorities granted by resolution 3 and/or to sell ordinary shares held by the Company as treasury shares for cash, in each case as if section 561 of the Companies Act did not apply to any such allotment or sale, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted under paragraph (b) of resolution 3, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- (b) to the allotment (otherwise than in the circumstances set out in paragraph (a) of this resolution) of equity securities pursuant to the authority granted by paragraph (a) of resolution 3 or sale of treasury shares up to a nominal amount of £6,468,845,

such powers to expire at the conclusion of the Company's next annual general meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2017, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares to be sold) after the power expires, and so that the Directors may allot equity securities (and/or to sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 6

THAT subject to and conditional on Admission and the passing of resolution 3, in substitution for the power granted pursuant to resolution 15 passed at the 2016 AGM and in addition to any power granted under resolution 5, the Directors be and are generally empowered to allot equity securities (as defined in

section 560 of the Companies Act) for cash pursuant to the authorities granted by resolution 3 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, provided that this power shall be:

- (a) limited to the allotment of equity securities pursuant to the authority granted by sub paragraph (a) of resolution 3 or sale of treasury shares up to a nominal amount of £6,468,845; and
- (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of the notice of the Melrose General Meeting,

such powers to expire at the conclusion of the Company's next annual general meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2017, but, in each case, so that the Company may make offers or agreements before the power expires which would or might require equity securities to be allotted (and/or treasury shares to be sold) after the power expires, and so that the Directors may allot equity securities (and/or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 7

THAT, subject to and conditional on Admission, in substitution for the authority granted pursuant to resolution 16 at the 2016 AGM, the Company be and is generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693 of the Companies Act) of ordinary shares provided that:

- (a) the maximum aggregate number of ordinary shares authorised to be purchased is 188,674,658;
- (b) the minimum price which may be paid for an ordinary share shall not be less than the nominal value of an ordinary share at the time of such purchase;
- (c) the maximum price which may be paid for an ordinary share is not more than the higher of:
 - (i) 105% of the average of the middle market quotation for an ordinary share as derived from the Official List of the London Stock Exchange for the five Business Days immediately preceding the day on which the ordinary share is purchased; and
 - (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,in each case, exclusive of expenses;
- (d) this authority shall expire at the conclusion of the Company's next annual general meeting after this resolution is passed or, if earlier, at the close of business on 30 June 2017;
- (e) the Company may make a contract for the purchase of ordinary shares under this authority which would or might be executed wholly or partly after the expiry of this authority, and may make a purchase of ordinary shares in pursuance of any such contract; and
- (f) any ordinary shares purchased pursuant to this authority may either be held as treasury shares or cancelled by the Company, depending on which course of action is considered by the Directors to be in the best interests of shareholders at the time.

Registered office:

11th Floor, The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT

By order of the Board

Adam Westley
Company Secretary
6 July 2016

Notes:

1. Capitalised terms used in this notice but otherwise defined herein shall have the meaning ascribed to them in the Circular.
2. The holders of ordinary shares in the capital of the Company are entitled to attend and vote at the Melrose General Meeting. A member entitled to attend and vote at the Melrose General Meeting is also entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote instead of him or her, including in respect of voting (or abstaining from voting) on any amendment or other matter which is put before the Melrose General Meeting. Such a member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.
3. A form of proxy is enclosed with this notice. To be effective, a form of proxy must be completed and returned, together with any power of attorney or authority under which it is completed or a certified copy of such power or authority, so that it is received by the Company's registrars at the address specified on the form of proxy not less than 48 hours (excluding any part of a day that is not a working day) before the time for holding the meeting (or, in the event of an adjournment, not less than 48 hours before the stated time of the adjourned meeting (excluding any part of a day that is not a working day)). Returning a completed form of proxy will not preclude a member from attending the meeting and voting in person.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act to enjoy information rights (a "**Nominated Person**") may, under an agreement between him and the shareholder by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Melrose General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in paragraphs 1 and 2 can only be exercised by shareholders of the Company.
5. To be entitled to attend and vote at the Melrose General Meeting (and for the purposes of the determination by Melrose of the number of votes they may cast), members must be entered on the Company's register of members by 6.30 p.m. on 21 July 2016 (or, in the event of an adjournment, on the date which is two days, excluding any part of a day that is not a working day, before the time of the adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. As at 5 July 2016 (being the last Business Day prior to the publication of this notice) the Company's issued share capital consists of 145,134,353 ordinary shares of 48/7 pence each, carrying one vote each.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00 a.m. on 21 July 2016. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from

which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
12. Any member holding ordinary shares attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of Melrose or the good order of the meeting that the question be answered.
13. A copy of this notice, and other information required by section 311A of the Companies Act, can be found at: *www.Melroseplc.net*.
14. You may not use an electronic address provided in either this Notice of General Meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
15. You may register your vote online by visiting the Registrar's website at *www.sharevote.co.uk*. In order to register your vote online, you will need to enter the Voting ID, Task ID and your Shareholder Reference Number which are set out on the enclosed form of proxy. The return of the form of proxy by post or registering your vote online will not prevent you from attending the Melrose General Meeting and voting in person, should you so wish. Alternatively, shareholders who have already registered with the Registrar's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at *www.shareview.co.uk* and then clicking on the link to vote under their Melrose Industries PLC holding details. The on-screen instructions give details on how to complete the appointment process. A proxy appointment made electronically will not be valid if sent to any address other than those provided or if received after 11.00 a.m. on 21 July 2016.

